Broads Authority
24 March 2017
Agenda Item No 15

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.
Recommendation:	
	Section 2-6 (i) The income and expenditure figures be noted.
	Section 7 (ii) The Treasury and Investment Strategy be adopted.

1. Introduction

1.1 This report covers two items, the Consolidated Income and Expenditure from 1 April 2016 – 31 January 2017 and the Annual Treasury and Investment Strategy for 2017/18.

2. Overview of Actual Income and Expenditure

Table 1 – Actual Consolidated I&E by Directorate to 31 January 2017

	Profiled Latest Available Budget	Actual Income and Expenditure	Actual Variance
Income	(6,358,989)	(6,339,895)	- 19,094
Operations	2,955,462	2,824,767	+ 130,695
Planning and Resources	2,427,047	2,233,922	+ 193,125
Chief Executive	376,816	377,890	- 1,074
Projects, Corporate Items and Contributions from Earmarked Reserves	(239,014)	(221,101)	- 17,913
Net (Surplus) / Deficit	**(838,678)**	**(1,124,417)**	**+ 285,739**

2.1 Core navigation income is behind of the profiled budget at the end of month ten. The overall position as at 31 January 2017 is a favourable variance of £285,739 or 34.07% difference from the profiled LAB. This is principally due to:

- An overall adverse variance of £21,514 within toll income:
    - Hire Craft Tolls £25,158 below the profiled budget.

    - Private Craft Tolls £3,702 above the profiled budget.
- A favourable variance within Operations budgets relating to:
    - Equipment, vehicle and vessels is under profiled budget by £12,482 due to timing differences on the reserve expenditure on the small tools replacement and new vehicle.
    - Water Management is under profiled budget by £19,318 due to timing differences on the Hickling project.
    - Land Management is over profiled budget by £44,314 due to timing differences on the invoicing of income.
    - Practical Maintenance is under the profiled budget by £86,007 due to timing differences on the Cockshoot re-piling.
    - Safety is under the profiled budget by £10,315 due to delays in a vehicle replacement.
    - Asset Management is under profiled budget by £22,521 due to additional income being received and timing differences on the Property Consultancy invoicing.
    - Premises is under profiled budget by £16,030 due to timing differences.
- A favourable variance within Planning and Resources budgets relating to:
    - Strategy and Projects is under profiled budget by £93,876 due to timing differences on the Local Plan and the Landscape Architect. Additional income from the Catchment Partnership and Tesco has also been received. This will be transferred to an earmarked reserve at year end to allow spending in future years.
    - Project Funding is under profiled budget by £49,296 due to the difficulties of profiling the project pot budget because of the uncertain nature of when projects will be submitted and spent.
    - Heritage Lottery Fund (Landscape Partnership) is above profiled budget by £11,466 due to income being slightly behind profile. This has been offset by lower expenditure.
    - Communications is under profiled budget by £18,430 due to additional income being received following the Tesco Bags of Help and a small number of timing differences within several budgets.
    - ICT is under profiled budget by £18,551 due to savings on the photocopier leases and timing differences.
    - Planning and Resources Management and Administration is under profiled budget by £15,536 due to the new franking machine contract which has come in cheaper and other small scale savings. Additional income has also been received for staff recharges.

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 2016/17. 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 2016/17 – deficit	Item 12 18/03/16 (BA)	10,347
Approved budget carry-forwards	Item 13 13/05/16 (BA)	26,031
LAB at 31 January 2017 – deficit		**36,378**

3.2 Taking account of the budget adjustments, the LAB therefore provides for a consolidated deficit of £36,378 in 2016/17 as at 31 January 2017.

4 Overview of Forecast Outturn 2016/17

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. A summary of these adjustments are given in the table below.

Table 3 – Adjustments to Forecast Outturn

Item	£
Forecast outturn deficit per LAB	**36,378**
Previously reported adjustments 27/01/17	(42,500)
Increase to Hire Craft Income	(1,383)
Increase to Short Visit Toll Income	(1,930)
Increase to Other Toll Income	(1,599)
Increase to Vessel & Equipment Income to reflect actual	(170)
Increase to Water Management Income for staff recharges	(3,000)
Increase to Strategy & Projects Income for staff recharges	(5,000)
Decrease to Collection of Tolls Expenditure for refund of faulty toll plaques and staff savings	(8,500)
Increase to Planning & Resources income for staff recharges	(5,000)
Forecast outturn surplus as at 31 January 2017	**(32,704)**

4.2 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 2016	In-year movements	Current reserve balance
	£	£	£
Property	(360,603)	(77,500)	(438,103)
Plant, Vessels and Equipment	(302,225)	14,070	(288,155)
Premises	(201,675)	(4,839)	(206,514)
Planning Delivery Grant	(290,865)	140,577	(150,288)
Upper Thurne Enhancement	(56,552)	(20,787)	(77,338)
Section 106	(76,469)	(31,972)	(108,440)
Heritage Lottery Fund	(55,956)	12,551	(43,404)
Total	**(1,344,343)**	**32,101**	**(1,312,242)**

5.1 £686,077 of the current reserve balance relates to navigation reserves.

6. Summary

The current forecast outturn position for the year suggests a surplus of £36,475 for the national park side and a deficit of £3,771 on navigation resulting in an overall surplus of £32,704 within the consolidated budget, which would indicate a general fund reserve balance of approximately £1,081,000 and a navigation reserve balance of approximately £329,000 at the end of 2016/17 before any transfers for interest. This will mean that the navigation reserve will be just at above the recommended level of 10% of net expenditure during 2016/17.

7. Annual Treasury and Investment Strategy

Overview

7.1. The Prudential Code for capital finance in local authorities 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 Authority.

7.2. Following the decision to no longer outsource the Section 17 and Treasury function from April 2017 the strategy has been updated to reflect this now being carried out in-house. This new strategy also incorporates guidance from CIPFA's Treasury Management Code of Practice and its guidance for Smaller Public Service Organisations.

7.3 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 Treasury, Investment and Capital Financing Strategy needs to take account of the prudential indicators required by the Prudential Code.

7.4. The Prudential Code aims to ensure that the capital investment plans are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice.

7.5. The Annual Treasury, 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 May each year.

Annual Treasury, Investment and Capital Financing Strategy

7.6. The Annual Treasury, Investment and Capital Financing Strategy for 2017/18 is attached at Appendix 3, for Members' consideration.

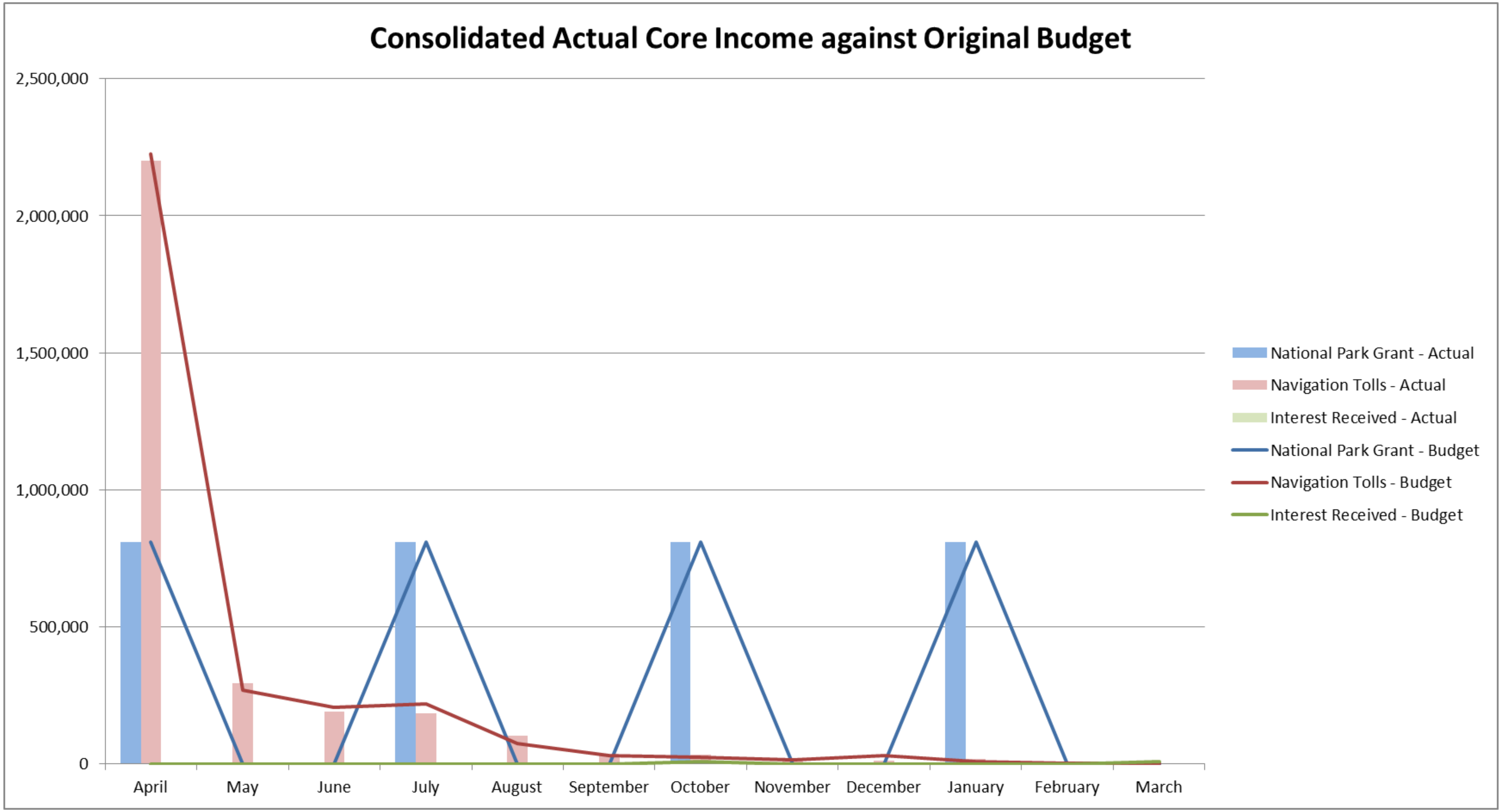
Capital Financing

7.7. 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.

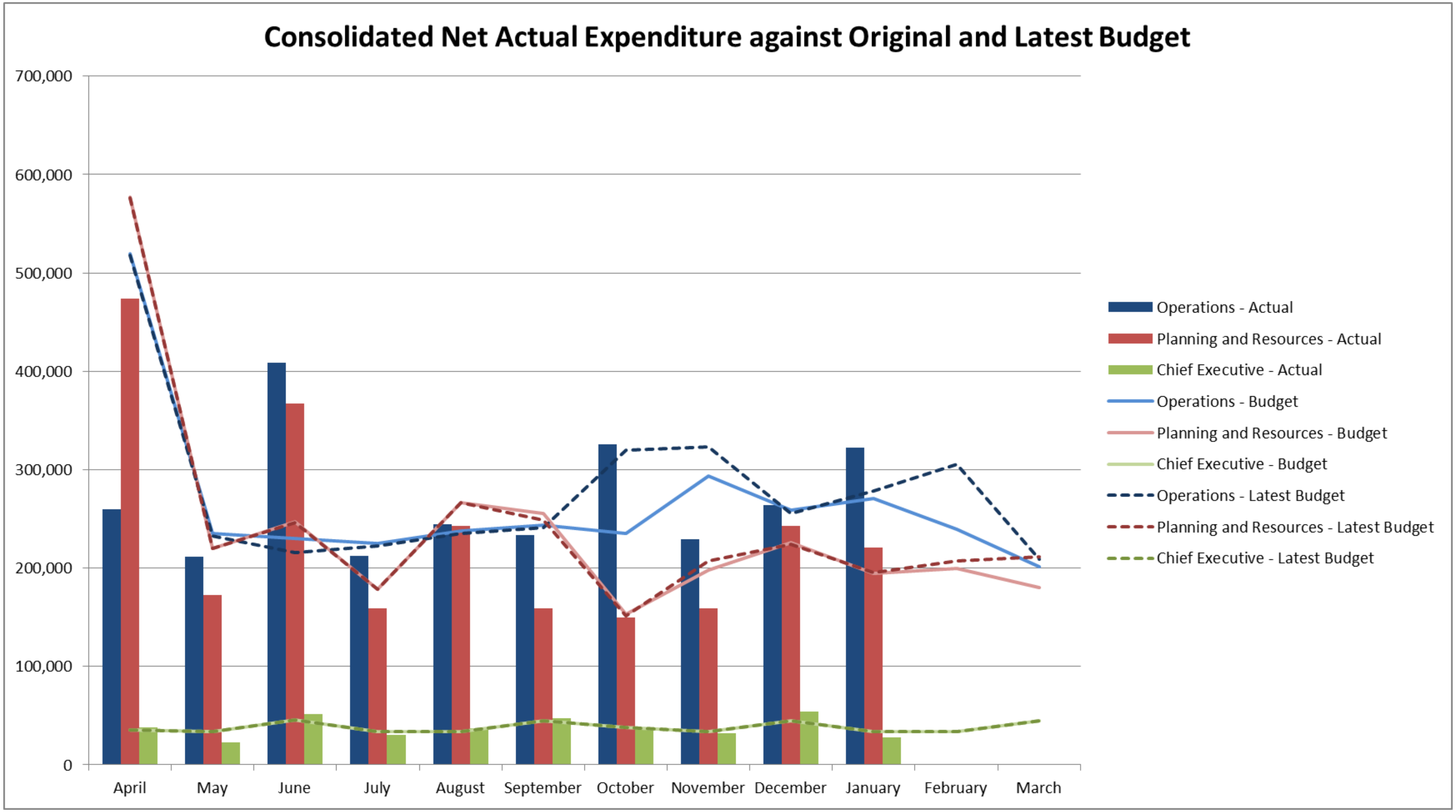
Financial Implications

7.8. 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
Author:	Emma Krelle
Date of report:	3 March 2017
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Consolidated Actual Income and Expenditure Charts to 31 January 2017 APPENDIX 2: Financial Monitor: Consolidated Income and Expenditure 2016/17 APPENDIX 3: Annual Treasury and Investment Strategy 2017/18


Consolidated Actual Core Income against Original Budget
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
April
May
June
July
August
September
October
November
December
January
February
March
National Park Grant - Actual
Navigation Tolls - Actual
Interest Received - Actual
National Park Grant - Budget
Navigation Tolls - Budget
Interest Received - Budget

APPENDIX 1


Consolidated Net Actual Expenditure against Original and Latest Budget
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
April
May
June
July
August
September
October
November
December
January
February
March
Operations - Actual
Planning and Resources - Actual
Chief Executive - Actual
Operations - Budget
Planning and Resources - Budget
Chief Executive - Budget
Operations - Latest Budget
Planning and Resources - Latest Budget
Chief Executive - Latest Budget

To 31 January 2017

Budget Holder	(All)

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
	Values				
Income	(6,373,641)		(6,373,641)	(6,351,018)	-22,623
National Park Grant	(3,243,802)		(3,243,802)	(3,243,802)	0
Income	(3,243,802)		(3,243,802)	(3,243,802)	0
Hire Craft Tolls	(1,079,000)		(1,079,000)	(1,053,842)	-25,158
Income	(1,079,000)		(1,079,000)	(1,053,842)	-25,158
Private Craft Tolls	(1,972,000)		(1,972,000)	(1,976,006)	4,006
Income	(1,972,000)		(1,972,000)	(1,976,006)	4,006
Short Visit Tolls	(40,089)		(40,089)	(42,019)	1,930
Income	(40,089)		(40,089)	(42,019)	1,930
Other Toll Income	(18,750)		(18,750)	(20,349)	1,599
Income	(18,750)		(18,750)	(20,349)	1,599
Interest	(20,000)		(20,000)	(15,000)	-5,000
Income	(20,000)		(20,000)	(15,000)	-5,000
Operations	3,347,498	163,430	3,510,928	3,473,283	37,645
Construction and Maintenance Salaries	1,122,050	0	1,122,050	1,122,050	0
Salaries	1,122,050	0	1,122,050	1,122,050	0
Expenditure			0		0
Equipment, Vehicles & Vessels	419,833	166,000	585,833	564,418	21,415
Income	0		0	(670)	670
Expenditure	419,833	166,000	585,833	565,088	20,745
Water Management	147,500		147,500	138,000	9,500
Income	0		0	(19,500)	19,500
Expenditure	147,500		147,500	157,500	-10,000
Land Management	(38,000)		(38,000)	(38,000)	0
Income	(95,000)		(95,000)	(95,000)	0
Expenditure	57,000		57,000	57,000	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Practical Maintenance	419,200	0	419,200	419,900	-700
Income	(9,000)		(9,000)	(10,500)	1,500
Expenditure	428,200	0	428,200	430,400	-2,200
Ranger Services	721,315		721,315	721,315	0
Income	(47,000)		(47,000)	(47,000)	0
Salaries	596,860		596,860	596,860	0
Expenditure	171,455		171,455	171,455	0
Pension Payments			0		0
Safety	125,600		125,600	123,650	1,950
Income	(9,000)		(9,000)	(1,000)	-8,000
Salaries	59,600		59,600	62,000	-2,400
Expenditure	75,000		75,000	62,650	12,350
Asset Management	151,280	2,880	154,160	150,680	3,480
Income	(1,000)		(1,000)	(8,100)	7,100
Salaries	41,530	2,880	44,410	48,030	-3,620
Expenditure	110,750		110,750	110,750	0
Premises	152,170		152,170	152,170	0
Income	(20,000)		(20,000)	(20,000)	0
Expenditure	172,170		172,170	172,170	0
Operations Management and Administration	126,550	(5,450)	121,100	119,100	2,000
Income	0		0	(2,000)	2,000
Salaries	114,050	(5,450)	108,600	108,600	0
Expenditure	12,500		12,500	12,500	0
Planning and Resources	2,738,835	38,159	2,776,995	2,731,040	45,955
Development Management	249,550	6,710	256,260	259,610	-3,350
Income	(60,000)		(60,000)	(80,000)	20,000
Salaries	284,550	6,710	291,260	291,260	0
Expenditure	25,000		25,000	48,350	-23,350
Pension Payments			0		0
Strategy and Projects Salaries	286,990	(4,140)	282,850	282,850	0
Income	(3,500)		(3,500)	(3,500)	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Salaries	202,490	(4,140)	198,350	198,350	0
Expenditure	88,000		88,000	88,000	0
Biodiversity Strategy	10,000	600	10,600	10,600	0
Income			0		0
Expenditure	10,000	600	10,600	10,600	0
Strategy and Projects	113,030	24,989	138,019	133,019	5,000
Income	0		0	(5,000)	5,000
Salaries	76,530		76,530	76,530	0
Expenditure	36,500	24,989	61,489	61,489	0
Waterways and Recreation Strategy	144,460		144,460	144,460	0
Salaries	69,960		69,960	69,960	0
Expenditure	74,500		74,500	74,500	0
Project Funding	105,500		105,500	100,000	5,500
Income	(19,000)		(19,000)	(19,000)	0
Expenditure	124,500		124,500	119,000	5,500
Pension Payments			0		0
Partnerships / HLF	50,000		50,000	50,000	0
Income	(231,846)		(231,846)	(231,846)	0
Salaries	48,960		48,960	48,960	0
Expenditure	232,886		232,886	232,886	0
Volunteers	66,620		66,620	66,620	0
Income	(1,000)		(1,000)	(1,000)	0
Salaries	47,620		47,620	47,620	0
Expenditure	20,000		20,000	20,000	0
Finance and Insurance	337,750		337,750	348,500	-10,750
Income			0		0
Salaries	137,750		137,750	139,500	-1,750
Expenditure	200,000		200,000	209,000	-9,000
Communications	268,250	23,700	291,950	291,950	0
Income			0		0
Salaries	188,750		188,750	188,750	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Expenditure	79,500	23,700	103,200	103,200	0
Visitor Centres and Yacht Stations	214,930		214,930	214,930	0
Income	(232,500)		(232,500)	(232,500)	0
Salaries	315,430		315,430	315,430	0
Expenditure	132,000		132,000	132,000	0
Collection of Tolls	122,230		122,230	113,730	8,500
Salaries	109,530		109,530	105,030	4,500
Expenditure	12,700		12,700	8,700	4,000
ICT	300,117	(13,700)	286,417	278,217	8,200
Salaries	143,730		143,730	143,730	0
Expenditure	156,387	(13,700)	142,687	134,487	8,200
Premises - Head Office	254,548		254,548	241,693	12,855
Expenditure	254,548		254,548	241,693	12,855
Planning and Resources Management and Administration	214,860		214,860	194,860	20,000
Income	0		0	(12,000)	12,000
Salaries	133,660		133,660	133,660	0
Expenditure	81,200		81,200	73,200	8,000
Chief Executive	454,630	442	455,072	458,572	-3,500
Human Resources	117,730	442	118,172	119,542	-1,370
Income			0		0
Salaries	58,230		58,230	59,600	-1,370
Expenditure	59,500	442	59,942	59,942	0
Legal	109,970		109,970	114,400	-4,430
Income	0		0	(2,500)	2,500
Salaries	49,970		49,970	36,900	13,070
Expenditure	60,000		60,000	80,000	-20,000
Governance	123,290		123,290	120,990	2,300
Salaries	69,090		69,090	69,090	0
Expenditure	54,200		54,200	51,900	2,300
Chief Executive	103,640		103,640	103,640	0
Salaries	103,640		103,640	103,640	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Expenditure			0		0
Projects and Corporate Items	137,000		137,000	137,000	0
Corporate Items	137,000		137,000	137,000	0
Pension Payments	137,000		137,000	137,000	0
Contributions from Earmarked Reserves	(293,975)	(176,000)	(469,975)	(481,580)	11,605
Earmarked Reserves	(293,975)	(176,000)	(469,975)	(481,580)	11,605
Expenditure	(293,975)	(176,000)	(469,975)	(481,580)	11,605
Grand Total	**10,347**	**26,031**	**36,378**	**(32,704)**	**69,082**

APPENDIX 3

Treasury Strategy

1. Introduction

1.1. Both CIPFA's Treasury Management Code of Practice (2011 Edition) and the Prudential Code requires the Authority to produce a strategy which explains the Authority's borrowing and investment activities and the effective management and control of those risks. This strategy seeks to incorporate the best practice recommendations from this guidance whilst also bearing in mind the Guidance for Smaller Public Service Organisations (2014 Edition).

2. Treasury Management Policy Statement

2.1. The Authority defines its treasury management activities as:

2.1.1. The Management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; the pursuit of optimum performance consistent with those risks and any financial instruments entered into to manage these risks.

2.1.2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

2.1.3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its strategic objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

2.2. Borrowing Principles

2.2.1. The Authority intends to fund all of its capital expenditure from either its earmarked reserves, capital receipts or from its revenue accounts. However if any of those accounts hold insufficient funds borrowing maybe considered.

2.2.2. The Authority currently has one long term loan from the Public Works Loan Board that was utilised to purchase the dredging operation from May Gurney in November 2007 for £290,000. This is to be paid over a 20 year period at a fixed interest rate of 4.82%. Repayments are incorporated into the revenue budget.

2.2.3. The Authority also has the option to enter into finance leases to purchase capital items. Typically this has included the purchase of large pieces of equipment such as the JCB and the Doosan excavator. International Financial Reporting Standards include these types of leases as borrowing due to the risk and reward of the asset transferring to the Authority.

2.2.4. If additional borrowing was deemed necessary following committee consultation then the Authority would need to minimise the costs to the revenue budgets including future year repayments and undertake new borrowing at the cheapest cost.

2.3. Investment Principles

2.3.1. The Authority's main objective is the prudent investment of its treasury balances. The main priorities are the security of capital and the liquidity of its investments. It will be only after these have been satisfied that it will aim to achieve optimum return on its investments. The Authority will not engage in borrowing purely to invest or to on-lend to make a return. Such activity is considered unlawful.

2.4. **Treasury Management Practices**

2.4.1. Risk Management

2.4.1.1. The Authority adopts a low risk appetite to its treasury management but is not totally risk averse. It will invest with other institutions with appropriate credit ratings rather than just making use of government deposits. If additional borrowing should be required it will seek to borrow on a fixed rate basis to build in assurance for future year liabilities.

2.4.1.2. As part of the Authority's strategic risk register risks are monitored and managed on a regular basis. This includes investment risks. These are reported at least twice a year to the Financial Scrutiny and Audit Committee. Responsible Officers review these throughout the year and are discussed at Management Forum.

2.4.1.3. Risks specific to treasury management include:

2.4.1.3.1. *Credit and Counterparty*

The main objective of the Authority is to secure the principal sum it invests and therefore takes a prudent approach as to whom it invests funds with. This is limited to organisations who meet minimum criteria and is covered in more detail within the investment strategy. The Authority also faces this risk through the default of its debtors. Payment terms are limited to 30 days or where appropriate payment is asked for in advance. Corrective action is taken as required to secure outstanding debts. Bad debts are kept to a minimum.

2.4.1.3.2. *Liquidity*

The Authority will maintain adequate cash balances and borrowing arrangements to enable it to achieve its strategic objectives. The Authority will only borrow in advance of need where there is a clear business case to do so and will only do so for the current capital programme. Debt repayments are included in the annual revenue budget.

2.4.1.3.3. *Interest rate*

The Authority will manage its exposure to fluctuations to interest rate risks in line with its budgets. It will achieve this through the prudent use of its approved instruments, methods and techniques to create stability and certainty of costs and revenues, whilst remaining sufficient flexibility to take advantage of unexpected changes to interest rates. The Authority will limit fixed term deposits to a period of no longer than one year to limit risks to liquidity.

2.4.1.3.4. *Exchange rate*

The Authority will manage its exposure to fluctuations in exchange rates to minimise any impact on its budgeted income/expenditure levels. External advice will be sought to manage this in the most appropriate way as it could have a significant impact; this is particularly important in regards to EU grants.

2.4.1.3.5. *Re-financing*

If the Authority was in a position to re-finance its borrowing it will ensure that such arrangements are negotiated, structured and documented and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or re-financing. These will be competitive and as favourable to the organisation that can be reasonably achieved in the light of market conditions at the time. It will manage its relationships with its counterparties to secure this objective and will avoid the over reliance on any one source of funding if this might jeopardise achievement of the above.

2.4.1.3.6. *Legal and regulatory*

The Authority will ensure all of its treasury management activities comply with its statutory powers and regulatory requirements. The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as reasonable to do so, will seek to minimise any adverse risks.

2.4.1.3.7. *Fraud, error and corruption, and contingency management*

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error or corruption. It will employ suitable systems and procedures to ensure segregation of duties, and will maintain effective contingency management arrangements to do so. In addition the Authority holds Fidelity Guarantee Insurance with Zurich Municipal as part of its overall insurance management arrangements.

2.4.1.3.8. *Market*

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect it self from such fluctuations.

2.4.2. Performance Measurement

2.4.2.1. Treasury management will be subject to regular review of its value for money and if other alternative methods of delivery will become more appropriate. The Financial Scrutiny and Audit Committee will receive reports twice a year detailing performance. It will also review the Treasury Strategy prior to the Authority meeting which remains responsible for its adoption. Further details of those performance measures are included within the Investment Strategy.

2.4.3. Decision making and analysis

2.4.3.1. The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps have been taken to ensure that all issues relevant to those decisions were taken into account at that time.

2.4.4. Approved Instruments, methods and techniques

2.4.4.1. The Authority will undertake its treasury management activities by employing instruments, methods and techniques as detailed in the Investment Strategy.

2.4.5. Organisation, clarity & segregation of responsibilities, and dealing arrangements

2.4.5.1. In order for there to be effective control and risk management it is essential that there is clear segregation of duties. This will be subject to regular review by Internal Audit as part of its key control test. If at any time there is a lack of resources that does not allow this, it will be reported to the Financial Scrutiny and Audit Committee. Such duties are detailed in the Finance department's job descriptions and are reviewed annually.

2.4.5.2. The Head of Finance is responsible for the development of the strategy, whilst cash flow monitoring is undertaken by the Senior Finance Assistant and reviewed by the Financial Accountant. The Head of Finance will remain responsible for identifying appropriate counter parties in line with agreed criteria. Funds to be transferred will be carried out by the Senior Finance Assistant and Financial Accountant following approval by the Head of Finance. All funds will be automatically transferred back into the Authority's main bank account.

2.4.6. Reporting requirements and management information

2.4.6.1. The Head of Finance will prepare regular reports for consideration on the implementation of its policies, decisions taken and transactions executed. The reports will also consider the impact of any changes on the budget or other regulatory, economic and market factors.

2.4.6.2. The Full Authority will receive an annual report on the strategy and the plan for the coming year. The Financial Scrutiny and Audit Committee will review this strategy and receive a mid year review and an annual report on activity over the last year. Any impact on investment income will be reported throughout the year to the Full Authority as part of its Finance Performance and Direction reports.

2.4.7. Budgeting, accounting and audit arrangements

2.4.7.1. The Head of Finance will prepare the annual budget which will include the costs of the treasury function as well as the investment income as deemed by statute and regulation. The Head of Finance will be responsible for exercising control over these items and will report any changes as required as detailed above.

2.4.8. Cash and cash flow management

2.4.8.1. The Head of Finance will be responsible for all monies in the hands of the Authority and will be reviewed for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis to ensure that liquidity risk is monitored. This will be undertaken on a weekly basis by the Senior Finance Assistant and reviewed by the Financial Accountant. This weekly forecast will also look at predictions for the current month. Annual cash flow predictions will be prepared by the Head of Finance following preparation of the annual budget.

2.4.9. Money laundering

2.4.9.1. The Authority is aware that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Further details can be found in the

Authority's Counter Fraud, Bribery and Corruption policy and its Financial Regulations. Copies are available to all staff on the Intranet.

2.4.10. Training and qualifications

2.4.10.1. The Authority recognises the importance of ensuring that all staff involved in the treasury management are equipped to undertake the duties and responsibilities allocated to them. Recruitment of vacant posts will reflect this position and training opportunities will be identified through the annual Individual Performance Review (IPR).

2.4.10.2. The Head of Finance will ensure that the Financial Scrutiny and Audit Committee who have treasury management/scrutiny responsibilities have access to training relevant to their needs and responsibilities.

2.4.11. Use of External providers

2.4.11.1. The Authority recognises that responsibility for treasury management decisions remain with the Authority at all times. It recognises that there may be value in employing external providers in order to access specialist skills and resources. However the use of external providers is not currently used based on the Authority's limited amount of surplus funds and the costs associated. If this position changed it would ensure a full evaluation had been undertaken as to the costs and benefits through the Authority's Standing Orders.

2.4.12. Corporate Governance

2.4.12.1. Treasury Management activities will be undertaken with openness and transparency, honesty, integrity and accountability. This together with the other arrangements detailed in the Investment Strategy are considered vital to the achievement of proper corporate governance in treasury management. The Head of Finance will monitor and report upon the effectiveness of these arrangements.

Annual Investment Strategy 2017/18

1. This strategy builds on those principles and practices as laid out in the Treasury Management Strategy. It continues to give priority to the security of capital and liquidity before returns are considered.

   1.1. The Authority will continue to invest in Sterling.

2. Specified Investment

   2.1. These investments are made in Sterling and have a duration of 1 year or less. Typically these are low risk investments due to being made with high credit rating bodies, examples include:

   - UK government or local authorities;
   - UK/European banks and building societies
   - Money Market funds (AAA rated by credit rating agency)
   - Debt Management Agency deposit facility

   2.1.1. This list is not exhaustive but highlights where the Authority is most likely to place its funds.

   2.1.2. To mitigate against the risks of credit and counterparty the Authority will only seek investments with bodies that have at least a short term rating of F-1 as stated by Fitch credit ratings.

   2.1.3. The Authority will monitor these ratings monthly through online credit watches and use these to determine any new investments. This may mean those failing to meet the criteria will be removed from the list, whilst those new counterparties who do may be added. Other market information including the financial press will be monitored.

3. Non Specified Investments

   3.1. These investments tend to be any other type of permitted investment which have durations of more than a year. This also includes equity-type investments. At this point the Authority does not consider these types of investments as appropriate but may do so in the future if surplus funds permit.

   3.2. Longer term investments will only be considered with those institutions that have a Fitch credit rating of A (+/-).

   3.3. The Authority will seek proper advice and will consider that advice when entering into arrangements on derivatives to ensure that it fully understands those products.

4. Liquidity

   4.1. The Authority will seek to spread its investments to avoid over reliance on one institution. This is currently split between the Authority's current account provider (Barclays) and fixed term deposits with Lloyds. Funds held at Barclays are automatically swept each day into its Business Premium Account that pays a small amount of interest. This facility is instant access. Based on its cash flow forecasts the Authority anticipates that it's cash balances will range between £2.5m and £4m.

   4.2. Current Holdings as at 03/03/17

Counterparty	Holding/Investment	Interest Rate	Investment Date	Maturity Date
Lloyds Fixed Term	1,000,000	1%	01/03/17	28/02/18

Lloyds Fixed Term	1,000,000	0.6%	01/03/17	31/08/17
Barclays Premium Account	1,622,000	0.15%	Instant access	

5. **Capital Financing (Borrowing) Principles**

5.1. The following table shows the current forecast for capital expenditure for the next three years. Commentary is also provided below.

Prudential indicator	2017/18	2018/19	2019/20
Estimate of capital expenditure	£200,000	£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. The use of reserves to finance capital expenditure will have an impact on level of investments. However budgeted contributions to earmarked reserves should mitigate this as well as the sale of assets. The table below shows estimates of year end balances for each resource.

Estimated Year-End reserves	2017/18	2018/19	2019/20
General and Navigation Reserves	£1,327,000	£1,293,000	£1,243,000
Earmarked reserves	£1,263,000	£1,540,000	£1,737,000
Total Investments 31 March	£2,590,000	£2,833,000	£2,980,000

5.3. Affordability

5.3.1. 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.

5.4. External Debt

5.4.1. 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.

5.4.2. 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.

5.5. Authorised limit

5.5.1. 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.

5.6. Operational Boundary

5.6.1. 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.

5.7. Capital expenditure

5.7.1. 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.

5.8. Treasury Management

5.8.1. The Prudential Code requires authorities to set upper limits for it exposure to the effects of changes in interest rates. However, as explained above under paragraph 5.3.1, the current borrowing costs will be 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.

5.8.2. There remains a small risk to the Authority in using fixed term deposits that interest rates may increase in the short term. However given the historic low interest rates on offer following the financial crisis any increase in rates is likely to be slow. By minimising fixed term deposits to a minimum of 1 year and staggering them it will allow the Authority to take advantage of any increase as funds become available for re-investment. Funds in instant access will be able to take advantage of any increase in rates.

5.9. Maturity structure of borrowing

5.9.1. 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.