Broads Authority
22 March 2019
Agenda Item No 8

Financial Performance and Direction

Report by Chief Financial Officer

Summary:	This report provides a strategic overview of current key financial issues and items for decision.
Recommendation:	**Section 2-6** (i) That the income and expenditure figures be noted. **Section 7** (ii) That the Capital, Treasury & Investment Strategy be adopted.

1. Introduction

1.1 This report covers two items, the Consolidated Income and Expenditure from 1 April 2018 – 31 January 2019 and the Annual Treasury and Investment Strategy for 2019/20.

2. Overview of Actual Income and Expenditure

Table 1 – Actual Consolidated I&E by Directorate to 31 January 2019

	Profiled Latest Available Budget	Actual Income and Expenditure	Actual Variance
Income	(6,688,926)	(6,714,137)	+ 25,211
Operations	2,948,799	2,875,919	+ 72,880
Strategic Services	1,805,581	1,702,373	+ 103,208
Chief Executive	982,251	949,581	+ 32,670
Projects, Corporate Items and Contributions from Earmarked Reserves	38,500	43,873	- 5,373
Net (Surplus) / Deficit	**(913,795)**	**(1,142,391)**	**+ 228,596**

2.1 Core navigation income is above the profiled budget at the end of month ten. The overall position as at 31 January 2019 is a favourable variance of £228,596 or 25.02% difference from the profiled LAB. This is principally due to:

- An overall favourable variance of £25,211 within income:
  - Hire Craft Tolls is £10,558 above the profiled budget.
  - Private Craft Tolls is £9,269 above the profiled budget.
  - Other Toll Income is £5,418 below the profiled budget.
  - Interest Income is £10,774 above the profiled budget.

- A favourable variance within Operations budgets relating to:
    - Construction and Maintenance Salaries is under the profiled budget by £16,017 due to a vacancy which was filled in January.
    - Equipment, Vehicles and Vessels is over the profiled budget by £14,688 due to a number of repairs being completed ahead of profile.
    - Land Management is over the profiled budget by £15,520 due to timing differences on the receipt of income from the Rural Payments Agency.
    - Practical Maintenance is under the profiled budget by £14,522 due to timing differences on contractor work at Hoveton viaduct.
    - Ranger Services is under the profiled budget by £24,951 due to timing differences on the profile originally set for launch repairs.
    - Safety is under the profiled budget by £34,329 due to timing differences on the invoicing of the two new pool vehicles.
- A favourable variance within Strategic Services budgets relating to:
    - Development Management is under profiled budget by £50,017 due to additional income from the increased fees and salary savings. The forecast has been adjusted for the income and the salary savings.
    - Strategy and Projects Salaries is over profiled budget by £28,899 due to a salary being funded from the Catchment reserve.
    - Human Resources is under profiled budget by £17,082 due to a reimbursement of staff training following an individual leaving the Authority and salary savings following a vacancy which has now been filled. The forecast has been adjusted for the income.
    - Project Funding is under profiled budget by £43,972 due to timing differences.
- A favourable variance within Chief Executive budgets relating to:
    - Legal Services is under profiled budget by £13,213 due to timing differences and salary savings. The forecast has been adjusted for the salary savings.
    - Asset Management is under budget by £24,344 due to timing differences.

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 was being monitored against the latest available budget (LAB) in 2018/19. 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 2018/19 – deficit	Item 1 26/01/18 (BA)	72,430
Approved budget carry-forwards	Item 12 18/05/18 (BA)	1,558

LAB at 31 January 2019 – deficit		**73,988**

4. Overview of Forecast Outturn 2018/19

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	**73,988**
Adjustments reported 11/12/18	(40,745)
Increase to Private Craft Income	(10,238)
Increase to Investment Income	(5,000)
Decrease to Construction and Maintenance Salaries following vacancy	(11,000)
Increase to Equipment, Vehicles and Vessels Expenditure	7,700
Increase to Premises Dockyard Expenditure	3,300
Decrease to Operations Management & Admin Expenditure to reflect actuals	(1,500)
Increase to Planning Fees	(14,000)
Decrease to Planning Salaries following delays to recruitment	(20,500)
Increase to Legal Income	(2,000)
Decrease to Legal Salaries to reflect new working arrangement	(13,228)
Forecast outturn surplus as at 31 January 2019	**(33,223)**

4.2 This represents a favourable variance of £107,211 between the forecast outturn and the LAB. This is a result of additional income and savings within expenditure.

5. Reserves

Table 4 – Consolidated Earmarked Reserves

	Balance at 1 April 2018	**In-year movements**	**Current reserve balance**
	£	**£**	**£**
Property	(479,194)	(68,962)	(548,156)
Plant, Vessels and Equipment	(202,154)	(85,000)	(287,154)
Premises	(148,424)	(44,743)	(193,167)
Planning Delivery Grant	(227,176)	0	(227,176)
Upper Thurne Enhancement	(100,175)	(18,264)	(118,439)
Section 106	(102,250)	0	(102,250)

Heritage Lottery Fund	(113,519)	122,365	8,846
Catchment Partnership	(99,481)	29,130	(70,351)
CANAPE	(72,259)	4,510	(67,749)
Computer Software	(40,307)	3,243	(37,064)
Total	**(1,584,939)**	**(57,721)**	**(1,642,660)**

5.1 £730,332 of the current reserve balance relates to navigation reserve.

6. Summary

6.1 The current forecast outturn position for the year suggests a surplus of £8,916 for the national park side and a surplus of £24,307 on navigation resulting in an overall surplus of £33,223 within the consolidated budget, which would indicate a general fund reserve balance of approximately £1,067,000 and a navigation reserve balance of approximately £392,000 at the end of 2018/19 before any transfers for interest. This will mean that the navigation reserve will be above the recommended level of 10% of net expenditure during 2018/19.

7. Annual Capital, 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 Treasury Strategy. This strategy must be approved, before the start of each financial year, by the full Authority.

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

7.3 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.

7.4 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.

7.5 The Annual Capital, Treasury and Investment Strategy for 2019/20 is attached at Appendix 3, for Members' consideration. A draft has also been reviewed by Audit and Risk Committee on 5 March 2019.

7.6 This year sees the inclusion of the Capital Strategy following an update to the CIPFA Prudential Code. Previously the investment strategy focused on Capital Financing (borrowing), however following the update it now includes capital expenditure funded from other sources (such as revenue and earmarked reserves). This can be found on pages one to three in Appendix 3.

7.7 The Strategy is intended to provide a high-level overview of how capital expenditure, capital financing and treasury management contribute to the provision of services and how the risks of these activities is managed and what impact it may have for future financial sustainability. As this is closely linked to the Authority's Treasury and Investment Strategy it has been combined into one document.

7.8 The annual investment strategy has been updated to reflect current holdings in paragraph 4.2. The estimate of capital expenditure for 2018/19 has been updated in the table within paragraph 5.1 to reflect the additional items funded through the Heritage Lottery Fund and the Authority's project pot. Paragraph 5.2 highlights the impact that the introduction of IFRS 16 Leases will have on the Authority. Where leases are included under the adoption of IFRS 16 it will increase the Authority's assets as well as its other long-term liabilities (borrowings). As a result, the authorised level of debt may need to increase for years beyond 2020/21.

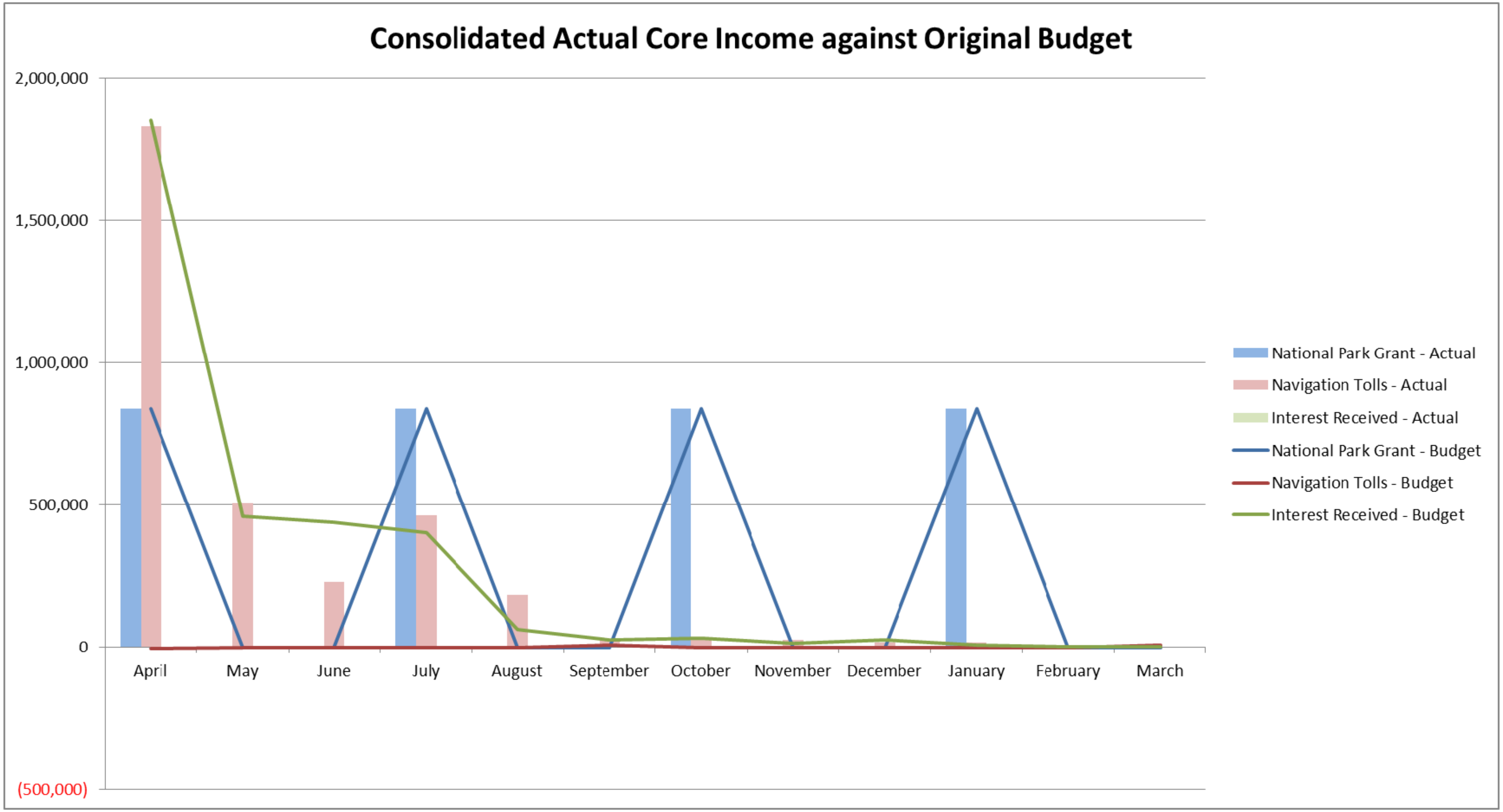
Capital Financing

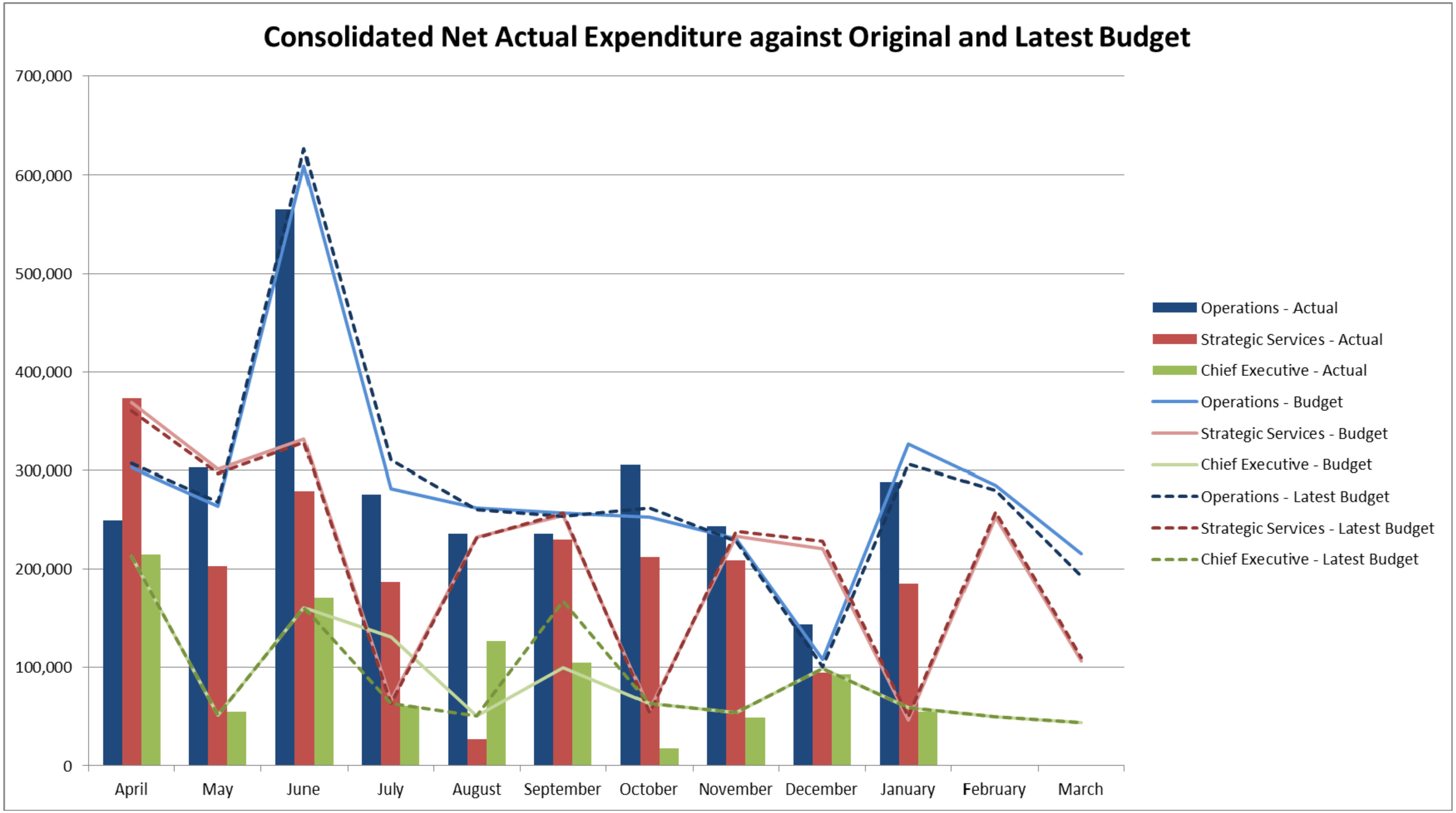
7.9 Capital borrowing powers are reviewed on an annual basis as part of the budgeting process. However, in practice long term borrowing is limited to the acquisition of the dredging operation from May Gurney.

Financial Implications

7.10 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:	7 March 2019
Broads Plan Objectives:	None
Appendices:	APPENDIX 1 – Consolidated Actual Income and Expenditure Charts to 31 January 2019 APPENDIX 2 – Financial Monitor: Consolidated Income and Expenditure 2018/19 APPENDIX 3 – Treasury and Annual Investment Strategy


Consolidated Actual Core Income against Original Budget
2,000,000
1,500,000
1,000,000
500,000
0
(500,000)
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


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
Strategic Services - Actual
Chief Executive - Actual
Operations - Budget
Strategic Services - Budget
Chief Executive - Budget
Operations - Latest Budget
Strategic Services - Latest Budget
Chief Executive - Latest Budget

To 31 January 2019

Budget Holder	(All)

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Income	(6,702,148)		(6,702,148)	(6,739,946)	37,798
National Park Grant	(3,356,348)		(3,356,348)	(3,356,348)	0
Income	(3,356,348)		(3,356,348)	(3,356,348)	0
Hire Craft Tolls	(1,149,300)		(1,149,300)	(1,159,229)	9,929
Income	(1,149,300)		(1,149,300)	(1,159,229)	9,929
Private Craft Tolls	(2,121,800)		(2,121,800)	(2,129,669)	7,869
Income	(2,121,800)		(2,121,800)	(2,129,669)	7,869
Short Visit Tolls	(40,900)		(40,900)	(40,900)	0
Income	(40,900)		(40,900)	(40,900)	0
Other Toll Income	(18,800)		(18,800)	(18,800)	0
Income	(18,800)		(18,800)	(18,800)	0
Interest	(15,000)		(15,000)	(35,000)	20,000
Income	(15,000)		(15,000)	(35,000)	20,000
Operations	3,501,440	24,200	3,525,640	3,521,210	4,430
Construction and Maintenance Salaries	1,184,010	0	1,184,010	1,170,080	13,930
Income	(4,530)		(4,530)	(7,460)	2,930
Salaries	1,188,540	0	1,188,540	1,177,540	11,000
Expenditure			0		0
Equipment, Vehicles & Vessels	451,500	12,000	463,500	470,500	-7,000
Income			0		0
Expenditure	451,500	12,000	463,500	470,500	-7,000
Water Management	103,000		103,000	103,000	0
Income			0		0
Expenditure	103,000		103,000	103,000	0
Land Management	(36,000)		(36,000)	(36,000)	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Income	(90,000)		(90,000)	(90,000)	0
Expenditure	54,000		54,000	54,000	0
Practical Maintenance	493,700		493,700	493,700	0
Income	(10,500)		(10,500)	(10,500)	0
Expenditure	504,200		504,200	504,200	0
Ranger Services	739,060		739,060	739,060	0
Income	(131,020)		(131,020)	(131,020)	0
Salaries	674,180		674,180	674,180	0
Expenditure	195,900		195,900	195,900	0
Pension Payments			0		0
Safety	160,390		160,390	160,390	0
Income	(2,000)		(2,000)	(2,000)	0
Salaries	61,290		61,290	61,290	0
Expenditure	101,100		101,100	101,100	0
Volunteers	75,350		75,350	75,350	0
Income	(1,000)		(1,000)	(1,000)	0
Salaries	50,450		50,450	50,450	0
Expenditure	25,900		25,900	25,900	0
Premises	208,170	12,200	220,370	224,370	-4,000
Income			0		0
Expenditure	208,170	12,200	220,370	224,370	-4,000
Operations Management and Administration	122,260		122,260	120,760	1,500
Income	(2,360)		(2,360)	(2,360)	0
Salaries	112,120		112,120	112,120	0
Expenditure	12,500		12,500	11,000	1,500
Strategic Services	2,207,620	1,558	2,209,178	2,202,915	6,263
Development Management	402,805	0	402,805	357,305	45,500
Income	(80,000)		(80,000)	(105,000)	25,000
Salaries	368,880	(20,000)	348,880	328,380	20,500
Expenditure	113,925	20,000	133,925	133,925	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Pension Payments			0		0
Strategy and Projects Salaries	296,440		296,440	309,900	-13,460
Income	(31,460)		(31,460)	(31,460)	0
Salaries	259,400		259,400	259,400	0
Expenditure	68,500		68,500	81,960	-13,460
Biodiversity Strategy	10,000		10,000	10,000	0
Income			0		0
Expenditure	10,000		10,000	10,000	0
Human Resources	134,710	1,558	136,268	131,018	5,250
Income	0		0	(5,250)	5,250
Salaries	75,210		75,210	75,210	0
Expenditure	59,500	1,558	61,058	61,058	0
Waterways and Recreation Strategy	87,480		87,480	87,480	0
Income			0		0
Salaries	77,980		77,980	77,980	0
Expenditure	9,500		9,500	9,500	0
Project Funding	105,500		105,500	105,500	0
Expenditure	105,500		105,500	105,500	0
Pension Payments			0		0
Communications	302,030		302,030	302,030	0
Income	(6,150)		(6,150)	(6,150)	0
Salaries	233,680		233,680	233,680	0
Expenditure	74,500		74,500	74,500	0
Visitor Centres and Yacht Stations	208,710		208,710	208,710	0
Income	(237,500)		(237,500)	(237,500)	0
Salaries	314,210		314,210	314,210	0
Expenditure	132,000		132,000	132,000	0
Collection of Tolls	134,180		134,180	124,900	9,280
Salaries	121,480		121,480	112,200	9,280
Expenditure	12,700		12,700	12,700	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
ICT	308,890		308,890	349,197	-40,307
Salaries	188,440		188,440	188,440	0
Expenditure	120,450		120,450	160,757	-40,307
Strategic Services Management and Administration	216,875		216,875	216,875	0
Income	(730)		(730)	(730)	0
Salaries	142,740		142,740	142,740	0
Expenditure	74,865		74,865	74,865	0
Chief Executive	1,076,443		1,076,443	1,071,490	4,953
Legal	108,670		108,670	93,442	15,228
Income	(510)		(510)	(2,510)	2,000
Salaries	49,180		49,180	35,952	13,228
Expenditure	60,000		60,000	60,000	0
Governance	124,750		124,750	124,750	0
Salaries	72,850		72,850	72,850	0
Expenditure	51,900		51,900	51,900	0
Chief Executive	112,090		112,090	112,090	0
Salaries	112,090		112,090	112,090	0
Expenditure			0		0
Asset Management	115,080		115,080	113,055	2,025
Income	(22,000)		(22,000)	(22,000)	0
Salaries	47,330		47,330	47,330	0
Expenditure	89,750		89,750	87,725	2,025
Finance and Insurance	362,160		362,160	374,460	-12,300
Income	(5,930)		(5,930)	(5,930)	0
Salaries	154,090		154,090	154,090	0
Expenditure	214,000		214,000	226,300	-12,300
Premises - Head Office	253,693		253,693	253,693	0
Income			0		0
Expenditure	253,693		253,693	253,693	0
Projects and Corporate Items	216,707		216,707	216,707	0

Row Labels	Original Budget (Consolidated)	Budget Adjustments (Consolidated)	Latest Available Budget (Consolidated)	Forecast Outturn (Consolidated)	Forecast Outturn Variance (Consolidated)
Partnerships / HLF	138,207		138,207	138,207	0
Income	(1,182,118)		(1,182,118)	(1,182,118)	0
Salaries	169,940		169,940	169,940	0
Expenditure	1,150,385		1,150,385	1,150,385	0
Corporate Items	78,500		78,500	78,500	0
Expenditure	2,500		2,500	2,500	0
Pension Payments	76,000		76,000	76,000	0
Contributions from Earmarked Reserves	(227,632)	(24,200)	(251,832)	(305,599)	53,767
Earmarked Reserves	(227,632)	(24,200)	(251,832)	(305,599)	53,767
Expenditure	(227,632)	(24,200)	(251,832)	(305,599)	53,767
Grand Total	**72,430**	**1,558**	**73,988**	**(33,223)**	**107,211**

Capital Strategy

1. Introduction

1.1. The update of CIPFA's Prudential Code in December 2017 and Capital Finance guidance notes in September 2018 introduced the need for Local Authorities to have a Capital Strategy from 2019/20. It is intended to provide a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of services and how the risks of these activities is managed and what impact it may have for future financial sustainability.

1.2. The Capital Strategy will be renewed annually. Monitoring and approval of the strategy will remain with the Authority.

1.3. The Capital Strategy provides a link between The Broads Plan, Strategic Priorities, the Asset Management Strategy and the Financial Strategy.

1.4. The current Broads Plan covers the period of 2017-2022. It is a partnership strategy for the whole of the Broads and sets out guiding actions not just for the Authority but all partners. Its success very much depends on a common vision, strong partnership working and the best use of shared resources. The plan is available on the website including a six monthly newsletter which provides updates on progress.

1.5. The Authority's Strategic priorities are set annually by the members in line with objectives in the Broads Plan. Progress against the Strategic priorities is reported regularly to the Full Authority and details can also be found on the website.

1.6. The Asset Management Strategy sets out the Authority's practices and procedures which have been established to ensure that the Authority's land, property and other assets are managed and maintained as effectively as possible. It also sets out a series of key principles which will be adhered to in the management of the asset base and guidance on the procurement and disposal of land and property. A copy is also available on the website.

1.7. The annual Budget and Financial Strategy includes capital expenditure for the forthcoming year and the following two financial years. The earmarked reserves appendix identifies what capital expenditure will be funded in each year. Although the later years are based on the replacement programmes the last two financial years should be seen as estimates. These estimates maybe updated as a result of refining the costings during budget setting for those years.

2. Core Principles

2.1. All capital expenditure and investment decisions will be affordable, prudent and sustainable.

2.2. Decisions to invest or dispose of capital items will comply with the Authority's delegated powers, standing orders and financial regulations.

2.3. Capital expenditure will reflect the aspirations set out in the Broads Plan and the Strategic Priorities.

2.4. New areas of major capital expenditure (£250,000 plus) will be supported by a fully costed appraisal over the lifetime of the scheme and incorporated into the annual budget. Risks will be fully considered, not just during initiation but over the lifetime of the asset including its potential disposal.

3. Capital Expenditure

3.1. Whilst other Local Authorities have large capital expenditure programmes to fund housing and regeneration projects the Authority's expenditure remains modest and focuses on operational need. Items of major capital expenditure are identified through the Asset Management Strategy replacement programme and as part of the budget setting process. Items of expenditure over £5,000 that have a useful economic life of more than one financial year are classified as capital expenditure.

3.2. Capital Expenditure can be funded via a number of methods. These include revenue budgets, earmarked reserves, finance leases, long term borrowing and capital receipts. All capital expenditure on physical assets is held on the Balance Sheet under Property, Plant and Equipment. At the end of 2017/18 the value of these items was £4.75m, of which £254k was funded by finance leases.

3.3. Traditionally revenue budgets tend to fund the smaller items such as tools and equipment. However larger Navigation items can be funded through revenue as a result of tolls setting. For 2018/19 the level of tolls was increased to facilitate the purchase of Tree Shears. In 2017/18 the moorings maintenance programme was rescheduled to enable the purchase of Acle Bridge moorings from revenue. The ongoing maintenance of assets is funded by revenue budgets and is not capitalised. Cost estimates are made on the basis of forecast maintenance required to keep assets in operational use.

3.4. Through identification of the Asset Management Strategy annual contributions are made from the revenue budget to the earmarked reserves to cover the cost of future replacements. Balances are built up and then drawn down in future years. Replacement costs are regularly monitored to ensure that the contributions remain appropriate to the earmarked reserves. Where adjustments are required this will be forward to the Authority as part of the annual budget setting process.

3.5. Although long term borrowing remains an option to the Authority it is not regularly utilised for capital expenditure. At the end of 2017/18 the balance sheet contained one long term loan which had an outstanding balance of £123k. Further details can be found in the Treasury Management Policy Statement on borrowing principles (section 2.2.2).

3.6. The Authority currently holds one capital receipt following the disposal of Ludham Fieldbase in August 2018. Capital receipts can be used to fund new capital expenditure or the repayment of debt. It is currently being held on the balance sheet and it is not anticipated to be used in 2019/20.

4. Short, Medium and Long term capital priorities

4.1. <u>Short and Medium Term Priorities (1-3 Years)</u>

4.1.1. The Authority's short to medium term priorities is delivering the asset replacements detailed within the Asset Management Strategy and Earmarked reserves. The focus is on continued operations but with the potential to remain flexible as new opportunities for efficient working arise or if urgent items arise. Replacement items to be funded over the next three years include vehicles, excavators, wherries and Ranger launches. All of which will be funded from the Earmarked reserves.

4.1.2. It is expected that during the short to medium term that the potential redevelopment of Acle Bridge site will be further explored following the business case received by members in September 2018. The key issue remains initial funding which is being explored through potential funding bids and partnership. As this progresses papers highlighting risks will be taken to the Authority for members to make the final decision.

4.1.3. The use of reserves other than earmarked reserves will require approval from the Authority. The impact of loss of investment income will need to be offset by the benefits of such a capital project.

4.2. <u>Long Term Priorities (4 years plus)</u>

4.2.1. The Authority's long term priorities will be shaped by future funding agreements received from DEFRA in the form of National Park Grant and potential toll increases. Reductions to either forms of income could impact the potential to replace assets as they near the end of their useful lives and ongoing maintenance programmes. Long term priorities, such as Acle Bridge, will need to ensure that they will generate income to fund their upkeep and any reduction in investment income.

4.2.2. Larger items of equipment such as the wherries and launches can be operational anywhere between 20 and 50 years. It is essential that their ongoing maintenance is incorporated into the revenue budget and the contributions to the earmarked reserves continue.

4.2.3. The moorings refurbishment programme remains a key area of maintenance to ensure that moorings remain safe to use by the public. Where the Authority is responsible for future piling and upkeep it will seek to own sites or minimise rental payments in recognition for this ongoing responsibility.

5. Risk Appetite

5.1. The Authority's risk appetite towards capital expenditure remains low and will be based around the core principles. Funding of capital items will continue mainly through existing resources but on occasion finance leases or other borrowing maybe appropriate. Borrowing principles are set out in the Treasury Strategy (section 2.2) and the forecast of capital expenditure and borrowing limits is in the Investment Strategy (section 5).

5.2. The Authority recognises the importance of ensuring that all staff involved in the capital strategy 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).

5.3. It is recognised decisions surrounding land and buildings carry a higher degree of risk. Where opportunities arise of acquisition or disposal the Authority will make use of its property consultants and legal advisers to ensure these risks are fully understood.

<u>Treasury Strategy</u>

1. Introduction

1.1. Both CIPFA's Treasury Management Code of Practice (2017 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, the Doosan excavator and the concrete pump. 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. <u>Risk Management</u>

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 Audit and Risk 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. *Inflation*

The Authority will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole Authority's inflation exposures.

2.4.1.3.6. *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.

2.4.1.3.7. *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.

2.4.1.3.8. *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.

2.4.1.3.9. *Price*

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 itself from such fluctuations.

2.4.2. <u>Performance Measurement</u>

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 Audit and Risk 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. <u>Decision making and analysis</u>

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 Audit and Risk Committee. Such duties are detailed in the Finance department's job descriptions and are reviewed annually.

2.4.5.2. The Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer. 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 Chief Financial Officer 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 Audit and Risk 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 Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer will ensure that the Audit and Risk 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 Chief Financial Officer will monitor and report upon the effectiveness of these arrangements.

2.5. **Management Practices for Non-Treasury Investments**

2.5.1. The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

2.5.2. The Authority will ensure that all investments are covered in the investment strategy, and will set out, where relevant, the Authority's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. A schedule of these types of investments will be included.

Annual Investment Strategy 2019/20

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 £3.5m and £6m.

   4.2. Current Holdings as at 28/02/19

Counterparty	Holding/Investment	Interest Rate	Investment Date	Maturity Date
Lloyds Fixed Term	1,000,000	1.1%	04/03/19	03/03/20
Lloyds Fixed Term	1,000,000	1%	05/09/18	04/09/19
Barclays Notice Account	1,500,000	Base rate +	95 days notice	

		0.25%	
Barclays Premium Account	864,000	0.65%	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	**2018/19 (capital estimate revised only)**	**2019/20**	**2020/21**	**2021/22**
Estimate of capital expenditure	£265,000	£150,000	£200,000	£260,000
Authorised limit for external debt	£500,000	£500,000	£500,000	£500,000
Operational Boundary	£400,000	£400,000	£400,000	£400,000

5.2. Although the Authority's forecast level of debt is set to reduce over the next 3 years it is considered prudent to maintain the existing limits due to the introduction of IFRS 16. This new accounting standard is likely to be adopted from 2020/21 and will impact on leases held by the Authority. Currently only Finance Lease liabilities (where the risk and reward are transferred to the Authority) are held on the balance sheet. Operating leases (where the risk and reward does not transfer to the Authority) are currently not included. The introduction of IFRS 16 removes the distinction between the two and is based on right of use. The most significant Operating Lease for the Authority is Yare House.

5.3. 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	**2019/20**	**2020/21**	**2021/22**
General and Navigation Reserves	£1,351,000	£1,341,000	£1,328,000
Earmarked Reserves	£1,973,000	£2,234,000	£2,335,000
Capital Receipts Reserve	£405,000	£405,000	£405,000
Total Investments 31 March	£3,729,000	£3,980,000	£4,068,000

5.4. Affordability

5.4.1. The prudential code indicator for affordability asks the Authority to estimate the ratio of financing costs to net revenue stream. The Authority's current borrowing consists of the Public Works Loan Board (PWLB) loan and Finance leases. The PWLB Loan 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. Finance lease repayments are also charged directly to the revenue budget. Whilst both of these remain less than 0.25% of National Park Grant and Navigation income it is felt that this indicator is not appropriate for use by the Authority in this instance. Any increases to debt will require this indicator to be reviewed.

5.5. External Debt

5.5.1. 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.

5.5.2. 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.

5.6. Authorised limit

5.6.1. 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.

5.7. Operational Boundary

5.7.1. 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.

5.8. Capital expenditure

5.8.1. 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.

5.9. Treasury Management

5.9.1. 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 5.4.1, 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.

5.9.2. 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.

5.10. Maturity structure of borrowing

5.10.1. 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. Non-Treasury Investments

6.1. Previously the Authority held one non-treasury investment in the form of an Investment Property (Ludham Fieldbase). This was disposed of in August 2018, the proceeds of which are currently held in the Capital Receipts Reserve. There are currently no plans for additional non-treasury investments.

7. End of Year Investment and Capital Financing Report

7.1. 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.