

Options for the Budget in 2014/15
Report by Director of Operations and Head of Finance

Summary:

This report sets out a series of options for navigation income and expenditure for 2014/15 for the Committee to consider. The Authority is mindful of the present economic climate and therefore two options are presented:

- (i) The first, based on a 1.4% increase in navigation income, would maintain the current level of service and make provision for the necessary replacement of vehicles, vessels and equipment but would not address the underlying backlog in the maintenance of the Authority's network of 24 hour moorings.
- (ii) The second, a 2.8%, increase in navigation income, would start to take steps towards a prudent financial provision for future capital and maintenance needs of the network of 24hr moorings.

Members' views are sought.

1 Context

- 1.1 The Committee will have seen and given its views on the Authority's Asset Management Plan, which has been developed in detail over the last year. The Register of the Authority's assets was compiled between 2010 and 2012 following a requirement from our auditors to map both the assets we hold and the liabilities which attach to them. This work has demonstrated that the Authority has a number of ongoing liabilities – some of them quite considerable, but long-term – which spring from the Register. In addition to this, a number of new mooring projects have been identified as aspirations and the Committee has also identified its ambition to increase the amount of dredging work carried out by the Authority. Our approach to the setting of the Authority's operational budget, therefore, should follow consideration of how we can continue to meet the needs identified in the Asset Management Strategy, as well as the ongoing operational needs to manage the Broads system.
- 1.2 In our approach to setting our annual budget, comparisons are sometimes made between the costs of maintaining the Broads and those of other inland waterways. There are significant differences: other waterways, such as the Thames, have many structures to maintain, such as locks, but on the other hand may not need dredging. This makes direct comparisons of costs and resulting charges difficult. Boat owners, however, can make these comparisons and it is probable that comparative costs do matter to them and

will be one factor in a decision to relocate a boat. The Broads hire boat industry is in a competitive market and the level of overheads, including the level of navigation charges, is relevant in the pricing of a holiday. The detailed work on asset management covered in the report earlier on this agenda (item 7b) shows that while the Broads only has one lock to maintain it has over 7km of 24 hour moorings to keep in good condition as well as other assets which require regular repair and upkeep.

- 1.3 So far as we understand the approach being adopted by other Inland Waterway bodies for 2014/15, the Environment Agency, which is responsible for a number of inland navigations and is the most comparable to the Broads, is proposing to raise its charges for private vessels by 2% above the Consumer Price Index of 2.8% (i.e. 4.8%) but is continuing to hold commercial charges at 2011 prices which will mean that their multiplier for hired vessels will fall further to 1.6 compared to the current 2.65 for the Broads. The Canals and Rivers Trust is raising all of its prices in line with the CPI figure of 2.8%.

2 Budgetary Options

Option 1 - based on an assumed 1.4% increase in Navigation Income

- 2.1 In recognition of the current economic climate, and the pressure on toll payers from the rising cost of living, the first option developed by officers has reviewed the current operational budgets and reduced proposed expenditure to the base levels required to maintain current services. This means that only previously agreed contributions to reserves and the contribution for replacement of essential vehicles and vessels are included.
- 2.2 Additionally, within the Construction and Maintenance area of the budget:
- the dredging budget has been reduced so there is no flexibility to use contractors;
 - the Breydon Water budget has been removed although slight increases have been added in to Navigation Works (within the Practical Maintenance budget) to allow for necessary channel marker / gauge board replacement if required;
 - the electric charging point budget has been reduced to annual maintenance only; and
 - Moorings maintenance and repair has been increased to the minimum recommended annual repair costs and makes an allowance for 100m re piling per year. It also includes a £15,000 provision for the previously approved demasting mooring at Acle.
- 2.3 In other operational areas of the budget the following has also been proposed:
- To reduce the running costs of Rangers and the launches budgets by reducing the annual launch refit work completed, retendering the contract and taking a proportion of the maintenance in house.

Other budget lines have also had smaller reductions to restrict expenditure as far as possible.

- 2.4 Within both budget options presented, provision has been made for the proposed boat owners' survey agreed at the last meeting of the Committee in the Project Funding budget line of Planning and Resources.

Option 2 – based on an assumed 2.8% increase in Navigation Income

- 2.5 In this option navigation income has been assumed to be increased by 2.8% in line with the CPI figure proposed by the Environment Agency and the Canals and Rivers Trust. The practical maintenance budgets have then been increased with the extra income generated, to take account of the recommendations from the Asset Management Plan in respect of 24hr moorings (Agenda item 7b). This then allows for an enhancement to the annual maintenance programme for replacement and renewal of piling where the Broads Authority is responsible for the structure, and the refurbishment of moorings by a further £26,495. This would mean that the budget provision would then stand at approximately half of the recommended amount for asset management.
- 2.6 Further, the capital programme for expansion of electric charging points is reinstated and an increase to the ICT budget has been included to allow for the purchase of hand held computers to improve the recording of surveys and inspections of Broads Authority assets by Rangers.

Full Provision – over 12% increase would be required

- 2.7 Information has also been prepared about the cost of delivering full provision for the requirements of the Asset Management Plan as recommended by the District Auditor. This is included to provide members with an insight into the scale of the investment which will be required in future years and to provide a context for member discussions.
- 2.8 The full provision scenario includes the amounts that would be necessary to make all contributions to navigation reserves to support a managed programme of asset maintenance and replacement and restore the navigation reserve to 10% of net expenditure. However, delivering this level of expenditure would require a significant increase in overall toll income and it is recognised that this is not feasible at this time, and therefore deferring some expenditure and aspirations may be seen as preferable until significant external funding can be secured / generated to progress such projects. It is also recognised that if the full provision position were to be reached, there would be scope to review the level of the navigation reserve in subsequent years as major liabilities would be provided for within the earmarked reserve balances at that point.

Additional projects

- 2.9 Suggestions for further project work which have been previously identified in various surveys and discussions have been captured below, but have not been included within the options above:
- Re piling the quayside at Mutford Lock to allow the Free Quay to be reinstated, which could be funded by the Mutford Lock reserve;
 - Additional budget within the Boathouses and Billets line to allow a new boatshed at the Dockyard to be built as per the planning approval, possibly freeing up the western end of the yard for potential redevelopment;
 - Contribution to the projects pot for navigation projects recommended by the Integrated Access Strategy / Mooring Strategy.

3 Draft indicative budget

- 3.1 In order to help set the context for members' deliberations, an indicative summary forecast budget for the two options and the full provision scenario has been developed, which also identifies the minimum income required in order to achieve a balanced budget and reinstate the Navigation reserve as set out below and in Appendix 1.
- 3.2 Based on the forecast outturn as at 31 August, (set out in the Income and Expenditure Report, agenda item 7a), navigation reserves are projected to be approximately £270,000 at the end of March 2014, which is below the recommended minimum of 10% of expenditure in the current year (2013/14). Both of the budgetary options set out above and detailed in Appendix 1 have been prepared in order to deliver a small surplus in the 2014/15 budget (£22,168 and £25,816 respectively), which would enable navigation reserves to be recovered to 10% of net expenditure by the end of 2014/15.

National Park budgets

- 3.3 The indicative budgets in Appendix 1 also include preliminary figures for the national park expenditure, although it must be emphasised that these are draft figures only at this stage and await amendment following an announcement by the Government on next year's NPG allocation. The current national park figures indicate a significant deficit under all scenarios, which is not sustainable in the medium to long term. As a result the national park figures will be subject to significant change before the final draft budget is produced.

Cost apportionment

- 3.4 Following the work of the Resources Allocation Working Group, whose membership included the Chairman of this Committee and whose work received the support of this Committee, the Broads Authority agreed the apportionment of the shared costs and the principles upon which these were calculated in March 2011. The indicative budget options for 2014/15 shown here have used the same allocations as previously agreed. For clarity, the apportionments applied to the Option 1 indicative budgets have been shown

in Appendix 1. The apportionments do not change under any of the different budget options with the exception that:

- the proportion of total income adjusts based on the proposed % toll increase applied; and
- the Practical Maintenance navigation apportionment increases under each of the options as additional 100% navigation funded moorings works are added.

3.5 The apportionment of shared central / support costs does not change under the different options and is consistent with those produced by the Resource Allocation Working Group.

Budget structure and assumptions

3.6 The structure of the budget for 2014/15 has been slightly amended to show the budgets for Yare House, Office Expenses and Pool Vehicles group within the Planning and Resources directorate and to transfer Operational Property (Dockyard, Ludham Fieldbase, Beccles and Horning) budgets to the Operations directorate. This aligns the budgets more appropriately with the organisational structure and the relevant Budget Holders but has no impact on the respective national park / navigation apportionments applied.

3.7 In addition to the Operations adjustments identified in section 2, the following overall considerations and assumptions have been applied to the indicative budget options presented:

- An increase has been budgeted to make provision for an assumed 2% national pay award in 2014/15;
- Salary figures have otherwise been calculated based on the latest updated estimates taking account of current staffing levels;
- Planning and Resources (and particularly central and support) costs have been prepared based on the current Financial Strategy. These will be further reviewed prior to the preparation of the final draft budget and updated financial strategy to be presented to this Committee in December;
- There is no provision for navigation funding of tourism activity;
- Adjustments have been made to the property budget (Dockyard and Yare House) based on rateable value adjustments notified in 2013/14;
- The 2014/15 budget does not include a full year of Yare House rent due to the remaining impact of the 18 month rent free period;
- On a prudent basis, an assumption has been made that the Ludham Fieldbase remains mothballed in 2014/15, although work to identify a tenant is currently on-going.

4 Conclusion

4.1 From the figures provided it is apparent that whilst Option 1 is affordable and results in achieving the minimum reserves recommended by the Financial Strategy, in terms of maintaining the navigation mooring infrastructure, this would be a very short term strategy. This option would quickly lead to a

backlog of maintenance works being required in the system and therefore does not represent a prudent approach. Potential shortfalls would need to be made up in subsequent years and this option would lead to a boom and bust cycle which is unlikely to be sustainable or appropriate.

- 4.2 Option 2 would allow the Authority to adopt the recommended course of action in respect of the Asset Management Plan for both a capital replacement programme and make a start to keep pace with the necessary maintenance of the navigation area, although this also needs building on in future years, possibly increasing over a five year period to achieve the full recommended figures from the Asset Management Plan. However, this approach again does not enable the Authority to further its ambitions to provide improved services or facilities for boaters, as it funds maintenance only to a proportion of the current facilities.
- 4.3 The third scenario illustrates the impact of making full provision for the requirements of the Asset Management Plan as recommended by the District Auditor and is included to provide a context for members' discussion. However, it is recognised that this is beyond what is feasible to commit at this time, and therefore deferring some expenditure and aspirations may be seen as preferable unless external funding can be secured / generated to progress projects.
- 4.4 The views of the Committee on the two options are sought. Once a preferred option is identified and following the setting of the 2014/15 tolls in November, a detailed consolidated budget will be developed for review at the next meeting of the Committee, prior to its adoption by the Broads Authority in January.

Background papers:	Asset Management Plan, Agenda item 7b
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Broads Plan Objectives:	None
Appendices:	Appendix 1 – Indicative 2014/15 Budget Options

Indicative toll increase:

OPTION 1
1.40%OPTION 2
2.80%FULL PROVISION
12.32%

Apportionment at 1.4%

Row Labels	Indicative NPG 2014/15 - Tolls 1.4%	Indicative Navigation 2014/15 - Tolls 1.4 %	Indicative Consolidated 2014/15 - Tolls 1.4%	Indicative NPG 2014/15 - Tolls 2.8%	Indicative Navigation 2014/15 - Tolls 2.8%	Indicative Consolidated 2014/15 - Tolls 2.8%	Indicative NPG 2014/15 - Tolls 12.32%	Indicative Navigation 2014/15 - Tolls 12.32%	Indicative Consolidated 2014/15 - Tolls 12.32%	National Park	Navigation
Income											
Income											
National Park Grant	(3,320,095)	0	(3,320,095)	(3,320,095)	0	(3,320,095)	(3,320,095)	0	(3,320,095)	100%	0%
Hire Craft Tolls	0	(1,099,351)	(1,099,351)	0	(1,114,529)	(1,114,529)	0	(1,217,770)	(1,217,770)	0%	100%
Private Craft Tolls	0	(1,769,474)	(1,769,474)	0	(1,793,904)	(1,793,904)	0	(1,960,078)	(1,960,078)	0%	100%
Short Visit Tolls	0	(37,208)	(37,208)	0	(37,721)	(37,721)	0	(41,216)	(41,216)	0%	100%
Other Toll Income	0	(18,750)	(18,750)	0	(18,750)	(18,750)	0	(18,750)	(18,750)	0%	100%
Interest	(22,500)	(22,500)	(45,000)	(22,500)	(22,500)	(45,000)	(22,500)	(22,500)	(45,000)	50%	50%
Income Total	(3,342,595)	(2,947,282)	(6,289,877)	(3,342,595)	(2,987,405)	(6,330,000)	(3,342,595)	(3,260,314)	(6,602,909)	53%	47%
Income Total	(3,342,595)	(2,947,282)	(6,289,877)	(3,342,595)	(2,987,405)	(6,330,000)	(3,342,595)	(3,260,314)	(6,602,909)	53%	47%
Net Expenditure											
Operations											
Construction and Maintenance Salaries	499,292	576,118	1,075,410	499,292	576,118	1,075,410	499,292	576,118	1,075,410	46%	54%
Equipment, Vehicles and Vessels	108,891	296,109	405,000	108,891	296,109	405,000	108,891	296,109	405,000	27%	73%
Water Management	5,000	62,500	67,500	5,000	62,500	67,500	5,000	62,500	67,500	7%	93%
Land Management	(38,000)	0	(38,000)	(38,000)	0	(38,000)	(38,000)	0	(38,000)	100%	0%
Practical Maintenance	23,000	275,540	298,540	23,000	310,035	333,035	23,000	543,434	566,434	8%	92%
Ranger Services	228,004	449,506	677,510	228,004	449,506	677,510	237,804	464,206	702,010	34%	66%
Safety	20,262	49,638	69,900	20,262	49,638	69,900	20,262	49,638	69,900	29%	71%
Asset Management	35,420	69,230	104,650	35,420	69,230	104,650	35,420	69,230	104,650	34%	66%
Volunteers	43,134	18,486	61,620	43,134	18,486	61,620	43,134	18,486	61,620	70%	30%
PRISMA	0	0	0	0	0	0	0	0	0	0%	100%
Operational Property	96,425	96,745	193,170	96,425	96,745	193,170	96,425	96,745	193,170	50%	50%
Operations Management and Admin	55,431	70,549	125,980	55,431	70,549	125,980	55,431	70,549	125,980	44%	56%
Operations Total	1,076,860	1,964,421	3,041,280	1,076,860	1,998,916	3,075,775	1,086,660	2,247,014	3,333,674	35%	65%
Planning and Resources											
Development Management	199,910	0	199,910	199,910	0	199,910	199,910	0	199,910	100%	0%
Strategy and Projects Salaries	315,737	71,853	387,590	315,737	71,853	387,590	315,737	71,853	387,590	81%	19%
Biodiversity Strategy	50,000	0	50,000	50,000	0	50,000	50,000	0	50,000	100%	0%
Strategy and Projects	31,500	0	31,500	31,500	0	31,500	31,500	0	31,500	100%	0%
Waterways and Recreation Strategy	6,000	9,000	15,000	6,000	9,000	15,000	6,000	9,000	15,000	40%	60%
Project Funding	110,000	10,000	120,000	110,000	10,000	120,000	110,000	10,000	120,000	92%	8%
Sustainable Development Fund	150,000	0	150,000	150,000	0	150,000	150,000	0	150,000	100%	0%
Finance and Insurance	178,776	157,295	336,070	178,776	157,295	336,070	178,776	157,295	336,070	53%	47%
Communications	263,862	87,398	351,260	263,862	87,398	351,260	263,862	87,398	351,260	75%	25%
Visitor Centres and Yacht Stations	204,463	53,528	257,990	204,463	53,528	257,990	204,463	53,528	257,990	79%	21%
Collection of Tolls	0	114,800	114,800	0	114,800	114,800	0	114,800	114,800	0%	100%
ICT	200,598	98,802	299,400	204,618	100,782	305,400	204,618	100,782	305,400	67%	33%
Legal	84,000	21,000	105,000	84,000	21,000	105,000	84,000	21,000	105,000	80%	20%
Head Office, Office Expenses and Pool Vehicles	228,958	98,442	327,400	228,958	98,442	327,400	228,958	98,442	327,400	70%	30%
Planning and Resources Management and Admin	138,257	50,763	189,020	138,257	50,763	189,020	138,257	50,763	189,020	73%	27%
Planning and Resources Total	2,162,060	772,880	2,934,940	2,166,080	774,860	2,940,940	2,166,080	774,860	2,940,940	74%	26%
Chief Executive											
Human Resources	76,701	55,589	132,290	76,701	55,589	132,290	76,701	55,589	132,290	58%	42%
Governance	115,454	56,866	172,320	115,454	56,866	172,320	115,454	56,866	172,320	67%	33%
Chief Executive	61,331	40,159	101,490	61,331	40,159	101,490	61,331	40,159	101,490	60%	40%
Chief Executive Total	253,486	152,614	406,100	253,486	152,614	406,100	253,486	152,614	406,100	62%	38%
Corporate Items											
Corporate Items	52,800	35,200	88,000	52,800	35,200	88,000	52,800	35,200	88,000	60%	40%
Corporate Items Total	52,800	35,200	88,000	52,800	35,200	88,000	52,800	35,200	88,000	60%	40%
Net Expenditure Total	3,545,206	2,925,114	6,470,320	3,549,226	2,961,589	6,510,815	3,559,026	3,209,688	6,768,714	55%	45%
Grand Total	202,611	(22,168)	180,443	206,631	(25,816)	180,815	216,431	(50,626)	165,805		
Forecast Navigation Reserve 31 March 2014		(270,000)			(270,000)			(270,000)			
(Surplus) / Deficit		(22,168)			(25,816)			(50,626)			
Forecast Navigation Reserve 31 March 2015		(292,168)			(295,816)			(320,626)			