

# Broads Authority

22 May 2020

Agenda item number 9

## Response to the COVID-19 emergency and the financial position of the Broads Authority and local businesses

Report by Chief Executive, Chief Financial Officer and Collector of Tolls

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### Purpose

This report updates Members on the Broads Authority's response to the COVID-19 emergency, setting out our financial position, actions to date to address the probable deficit in navigation income, and the latest on negotiations with Defra officials for financial support to the Broads Authority and the hire boat industry.

### Recommended decision

To endorse the actions taken to date to:

- i. Protect the health and safety of staff and volunteers while maintaining service delivery and the maintenance of the Broads and its waterways;
  - ii. Seek financial support for local tourism businesses, particularly the hire boat industry;
  - iii. Request that the Government underwrites the Authority's deficit on its navigation income;
  - iv. Note the year end position for 31 March 2020 and agree the carry forwards;
  - v. Note the use of Urgent Action to approve the Capital, Treasury and Investment Strategy that should have been approved before 1 April;
  - vi. Ask officers to prepare an emergency budget, taking account of any decision by the Government on financial support, to bring navigation income and expenditure into balance; consult the Navigation Committee on the implications (June 11); and bring back recommendations to the next meeting of the Authority when it is hoped there will be greater certainty about the medium-term implications of the emergency.
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## 1. Introduction

- 1.1. Members will know from regular briefings that the Broads Authority's priorities in responding to the COVID-19 crisis have been to:
- Protect staff and volunteers, while continuing as far as possible to deliver the Authority's services and maintain the Broads and the waterways so they are ready for use when the current lockdown restrictions are eased;
  - Support the local tourism industry, in particular the future of the hire boat companies, who play a vital role in providing the public with a Broads experience; and
  - Ask Defra Ministers to underwrite the potential losses of navigation income this financial year as a result of the crisis.
- 1.2. This report considers each of these priorities and provides an update on the current situation.

## 2. Maintaining our service delivery

- 2.1. The Authority's position since the lockdown started in March has clearly not been 'business as usual'. We have had to re-prioritise our practical work to make it safe for our field staff to continue working within the guidelines set out for the construction industry. Other staff have adjusted to working from home and holding remote meetings, and social distancing measures are in place for the few members of staff still working from Yare House and the Dockyard.

- 2.2. By taking these measures, we have been able to maintain most of the Authority's practical work and services. Our Business Continuity Plan is working well and our IT systems have helped us adapt smoothly to new ways of working.
- 2.3. We continue to be mindful of the safety of our staff and have started planning for how social distancing will be maintained as the restrictions are gradually eased.

### **3. Supporting the Broads Hire Boat Industry**

- 3.1. The Authority recognised the crisis faced by the hire boat companies when the travel restrictions were introduced. The companies quickly lost many of their bookings and face a bleak outlook. We immediately set up a conference call with our main contacts at British Marine, the UK industry body for the hire boat sector, and the Chairman of the Broads Hire Boat Federation.
- 3.2. Two actions flowed from this meeting: a statement indicating that the Broads Authority's legislation has a provision that means that, while the hire boats are effectively laid up in their yards, the companies are not required to pay a toll; and agreement that the Broads Authority would be a co-signatory with British Marine and the Canals and River Trust to a letter to the Secretary of State seeking financial support for the industry.
- 3.3. A further joint letter was sent in response to correspondence from Rebecca Pow MP. This was followed by a flurry of urgent enquiries from officials to help them in their briefing of Ministers. Further contact was made with the Broads Hire Boat Federation and advice sought directly from local companies on a very short timescale. Appendix 1 is a copy of one of these responses, sent on 2 May.
- 3.4. At the time of writing this report, we are still in discussion with Defra officials.

### **4. Acknowledging the concerns of our Private Boat Owners**

- 4.1. The lockdown restrictions on travel in place before 13 May meant that our private boat owners (PBOs) were unable to use their vessels. However, the message to boaters during that time was that, if their boat was moored in the Broads waterways, there was still a statutory requirement to pay a charge to the Broads Authority. This has been a difficult message to impart, and our frontline staff have done an excellent job in explaining that without the boaters' tolls, we would be unable to continue the essential maintenance and safety work that would allow the waterways to be used again as soon as the restrictions were lifted. This has proved to be the case, as boaters were able to get back onto the water immediately following the easing of restrictions from 13 May.

### **5. Financial implications and Government support**

- 5.1. The Authority has two main sources of income: A share of the National Park Grant (NPG) made available by Defra to the 9 English National Park Authorities and the Broads Authority, and navigation charges levied on private and hired boats. For the year

2020/21, the Authority had budgeted for a combined income of £6.9 million from these two sources (£3.4 million NPG, £3.5 million Navigation).

- 5.2. Expenditure is also accounted under the two separate headings of NPG and Navigation. Some services are fully funded from the NPG budget (for example, planning), some are fully funded from the Navigation budget (for example, tolls), and some are partly funded from NPG and Navigation.
- 5.3. NPG income is secure and Defra has forward funded £3.4 million (35%) to the Authority. Officers estimate there could be a loss of £150,000 in income to National Park services, principally Visitor Services, and this can be covered by the Authority's General Reserves. This means that the provision of these services, such as planning, nature conservation and tourist promotion, is secure.
- 5.4. However, navigation income is far short of the budgeted figure of £3.5 million. To date, we have received £1.24 million of the budgeted £2.2 million from private boat owners and next to zero income from hire boat operators.
- 5.5. As Members will be aware, the Authority maintains general reserves (Navigation and National Park), and earmarked reserves to fund major capital purchases and ring fenced externally funded projects. These form part of the useable reserves found in the Authority's balance sheet (Appendix 2 highlights the Authority's reserves as of 31 March 2020).
- 5.6. The Authority's consolidated financial position as at the end of 2019/20 demonstrated a surplus compared to the forecast deficit of £22,725 last reported to the Authority in January. Surplus or deficit go into or out of the general reserves at the end of the financial year. A contributing factor to the surplus was contractor works being delayed following restrictions arising from COVID-19.

**Table 1**

Actual Income and Expenditure by Directorate to 31 March 2020

Directorate	Latest Available Budget £	Actual Income and Expenditure £	Actual Variance £
Income	(6,869,078)	(6,898,276)	+ 29,198
Operations	4,002,972	3,805,018	+ 197,954
Strategic Services	1,638,058	1,626,887	+ 11,171
Chief Executive	1,450,888	1,363,907	+ 86,981
Projects, Corporate Items and Contributions from Earmarked Reserves	(112,365)	(94,188)	- 18,177
<b>Net (Surplus)/Deficit</b>	<b>110,475</b>	<b>(196,652)</b>	<b>+ 307,127</b>

5.7. The surplus for Navigation was £136,028 compared to a forecast surplus of £17,547 and a budgeted deficit of £32,289.

5.8. As a result of the COVID-19 crisis, this year has seen an increase to the number of carry forward requests submitted. These have been reviewed by Management Team and are shown in Table 2.

**Table 2**

Summary of 2019/20 carry forward requests

<b>Budget Line</b>	<b>National Park £</b>	<b>Navigation £</b>	<b>Consolidated £</b>	<b>Reason for carry forward request</b>
Practical Maintenance	0	62,438	62,438	Long-term high water delayed work in Jan and most of Feb. The COVID-19 lockdown put work on hold in late March as contractors paused work (still paused as at 6 May).
Practical Maintenance	0	7,500	7,500	Acle Bridge - installation of electric posts work cannot start until the piling and mooring work is completed.
Communications	6,000	0	6,000	Unavoidable delay with Broads Trust wherry educational project due to contractor commitments. Considerable work arising from project and budget would help progress the history and science elements of Broads Curriculum in 2020-21.
Dredging	0	3,000	3,000	Consultants were contracted to deliver water vole licensing actions on Peto's Marsh to support BA dredging re-use of the site. This work was due to be completed in March 2020 but the site was shut down owing to COVID-19 and the works were only partially completed. Licensing will still be required but this will be deferred until Feb/March 2021.

<b>Budget Line</b>	<b>National Park £</b>	<b>Navigation £</b>	<b>Consolidated £</b>	<b>Reason for carry forward request</b>
Communications	8,911	3,819	12,730	As part of rolling out the Broads National Park branding, Norwich Forum and Lowestoft train station signage was about to be produced. These projects will be prioritised as soon as COVID-19 restrictions are lifted.
Communications	4,045	1,734	5,779	Broadcaster could not be distributed by the BA in March because of Covid-19. Distribution is part of our arrangement with the publishers who manage the financing of the publication through advertisements.
Strategy and Projects	4,534	0	4,534	The budget was intended for use to commission a carbon emission baseline for the Broads, in partnership with the other English National Parks. It was ready to go in March, just before the COVID-19 lockdown.
<b>Total</b>	<b>23,490</b>	<b>88,491</b>	<b>111,981</b>	<b>n/a</b>

5.9. If Members approve the carry forwards, the surplus from 2019/20 will be used to fund these items in 2020/21 via the National Park and Navigation Reserves.

5.10. The Authority's National Park and Navigation Reserves allow for a working balance to help cushion uneven cash flows and a contingency to help cushion the impact of unexpected events. The Authority's earmarked reserves are mainly for the purchase and replacement of major items of capital equipment, etc. They are used as a means to build up funds to meet known or predicted requirements. They also contain ring fenced funds from partnerships and section 106 agreements that do not belong to the Authority. Unlike the National Park Authorities, the Authority is unique in the scale of its operational activity and the need to purchase, operate, maintain and replace large items of capital equipment such as mud wherries, 360-degree excavators and patrol vessels.

- 5.11. Organisations are expected to have sufficient earmarked reserves to fund their capital acquisitions and general reserves to provide for uneven cash flow and unexpected events. For the Authority, the total depletion of reserves would not be sustainable and would have serious implications for the future and more immediately for the audit, scheduled to begin on 18 May. The auditors will be reviewing the status of the Authority as a going concern and may issue a qualified opinion if there is no security over future levels of income 12 months from the date of the audit report. With the current level of activity, National Park reserves will be able to cover the losses of National Park income, but depending on when the COVID-19 restrictions are lifted and without financial support from Defra, for navigation the non-earmarked reserves will be exhausted by the end of September 2020.
- 5.12. The Authority has previously agreed minimum levels for the general reserves of 10% of Expenditure +£100,000 for the National Park side and 10% of Expenditure for Navigation. In the 2020/21 financial year, this amounts to £455k for National Park and £358k for Navigation, taking account of the latest pay deal negotiations announced on 16 April (the budget had originally been prepared on a 2% pay increase but latest negotiations are looking for 2.75%, which will be back dated to 1 April 2020). The available reserves are as shown in Table 3.

**Table 3**

Broads Authority reserves - summary

<b>Reserves</b>	<b>National Park</b>	<b>Navigation</b>
Opening Reserves 20/21	£1,114,460	£ 543,200
Minimum Levels 20/21	£ 455,000	£358,000
Carry forward requests (if approved)	£23,490	£88,491
Available	£635,970	£96,709

### **Analysis of current position**

- 5.13. Officers have worked with the English Chief Executives, and particularly the Chief Executive of the Lake District National Park Authority, to put a case to Government for financial support. [Note: The Lake District NPA has been very successful in generating commercial income, which accounts for 53% of its income. These operations have been halted by the Government’s restrictions and consequently the Authority has a significant deficit in its budget.]
- 5.14. Submissions from the National Park Authorities and the Broads Authority have informed briefings for Ministers in Defra and The Treasury. We understand that

Ministers are sympathetic to the position and we are awaiting further information from officials as to what support might be available to the Broads Authority. Members will be updated at today's meeting.

## 6. Risk implications

- 6.1. The Authority's role in maintaining the waterways is under threat if navigation income fails to improve and the Government is unwilling to underwrite the lost income in 2020/21.
- 6.2. Looking beyond the current financial year, the Authority forecasts impacts from C-19 restrictions on local businesses for the 2021 tourist season and consequently on the Authority's income. For example, hire boat companies have taken and used deposits for holidays this year for bookings that will now take place next year. Without Government support, there are risks that the Authority will not emerge in a fit and financially stable position to be able to help the Broads and its important tourism industry.

## 7. Conclusion

- 7.1. Until the Government's response to our request for financial assistance is known, it is very difficult to plan for the future. It is proposed that, as soon as clarity is provided by Government officials, Authority officers prepare a revised budget balancing navigation income and expenditure and consult the Navigation Committee on the options before providing a report to the Authority.
- 7.2. It is hoped we can report to the Navigation Committee on 11 June. We propose that an additional meeting of the Broads Authority is held on 24 or 25 June to consider the Navigation Committee's views.

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Date of report: 13 May 2020

Appendix 1 – Submission to Defra on the boating industry

Appendix 2 – Earmarked Reserves closing balances 31 March 2020

## **Broads Authority Response to Questions from Defra**

I have quickly canvassed the views of a number of the boatyards of various sizes on the Broads and the general answer to your two questions is that the general Job Retention Scheme is very much appreciated and proving a critical lifeline today. However, neither of the measures cited in your questions will be very helpful to the front line tourism businesses, and in particular the hire boat operators. This is because there are extremely limited numbers of sole trader self-employed persons involved in the industry and, secondly, most are very reluctant to increase their debt at a time when there is no understanding of the length of time that this crisis will go on, nor do we currently have visibility of the Government's thinking or intentions in respect of tourism for the rest of 2020.

I have given an example response below but I think the key points to highlight are:

1. There is a symbiotic relationship between the Broads Authority and the hire boat companies. Our ability to maintain one of Britain's most precious landscapes and enable its enjoyment by millions of people depends on a viable hire boat industry – many of the wonders of our environment can only be seen from the water. Also without their contribution through tolls we would be unable to maintain the waterways without a very substantial increase in private boat tolls. This would likely lead to a drop off in private boat numbers and income, and sadly make the Broads only accessible to the privileged few. UK holiday and relaxation destinations are going to be a vital part of the recovery of our nation and now more than ever we have to ensure that we are ready to receive and welcome visitors in the coming years;
2. Boat Hire is a highly seasonal operation in respect of the income, but a year round operation in respect of the maintenance and upkeep of the hire fleets. Consequently although their income is highly seasonal, some costs – rent, insurance, utilities and staffing are 12 month costs. The business plans of these companies are highly dependent on the reserves that are built up during the summer season. If the summer season is shortened the cash reserves required to survive the winter will not exist. Therefore, the current business support whilst vital now, will not enable the survival of these businesses through the coming winter when hopefully the rest of the economy will be returning to normal;
3. As with many businesses people account for the majority of the costs. The current fear is that as the country eases movement restrictions over the coming months there will be an expectation that the Job Retention Scheme will cease. Without an extension of this scheme or something similar the hire boat businesses will face the unenviable choices of going bust or laying people off in the hope that their former members of staff will still be unemployed and available next summer. In a normal winter the hire boat operators would directly employ 400 Full Time Equivalent people;

4. Greater certainty would help. If it was known now that there was no prospect of the visitor economy starting before the 1st September then the most economical way to preserve these businesses could be to mothball their operations and reduce costs to the absolute minimum to try and survive through to next spring.

**A.** Hence the Broads Authority's request is that **Defra underwrites the potential £2.5 million loss of toll income** so that it can continue its essential work to support the waterway industry in the National Park.

**B.** Following detailed discussions with the local hire boat yards the Broads Authority is now asking for **£3.6 million local Broads Waterways Fund** to support our boating businesses to help see them through the winter. This would be on the following basis:

Winter employment support for 400 key staff for 25 weeks @ 40 hours per week on £9 per hour (less than their normal pay) = £3.6 million.

Without this we will see a catastrophic decline in the key part of a tourism industry worth +£600 million to the local economy and providing for 7,000 jobs.

Below is a response from one of the smaller family run boatyards which sums up the situation:

*In reply to your e-mail Self Employed staff does not affect our business as all employees are PAYE.*

*The Government Loan Scheme is not of much help as it is a loan, when you have no income a loan still has to be repaid at some stage. Our biggest worry is that we have already lost the start of the season when finances are at the lowest, we have just had a 7 month period with no income but suppliers to pay for winter refurbishment work and the investment of a new 35' cruiser for the 2020 season with another mould now sitting on the car park paid for and a kit ready to start building.*

*Even if we are allowed to operate for part of the season there will not be sufficient income to avoid redundancies this autumn/winter.*

*We currently employ 9 full time and 3 part time staff for 12 months of the year and a further 15 seasonal staff, it will be very difficult for us to survive without further assistance from the government.*

## Appendix 2 - Earmarked Reserves closing balances 31 March 2020

Reserve Name	Sub Reserve Name	Balance 31/03/2020	Reason for holding
Property	Asset Management (100% NP)	270	Created following an audit when it was considered we were not adequately planning for future asset replacement of countryside sites.
	Dredging disposal/moorings/piling (100% Nav)	20	No contributions being made given affordability pressures in previous years. To help with cost of piling £1k per meter and funding new sites.
	Mutford Lock endowment (100% Nav)	373	Funds passed over as part of an endowment. To help cover the cost of any future failure/repairs of the lock.
Plant, Vessels and Equipment	Fen Management Equipment (100% NPG)	6	Fen Harvester cost approx. £97k. Will need replacing in the next 10 – 15 years.
	Dockyard Vessels and Equipment (30% NPG/70% NAV)	148	Wherries cost £120k, currently 6 on fleet, next due replacement 2022/23. Excavators historically funded through finance leases but cost £125k, 4 in fleet.
	Vessel replacement (100% NAV)	67	Ranger launches cost £120k, currently 8 in fleet, Next replacement due 2021/22.
	Vehicle replacement (60% NPG/40% NAV)	128	Desire to move to electric fleet, which will be more

Reserve Name	Sub Reserve Name	Balance 31/03/2020	Reason for holding
			expensive. 35 vehicles currently in operation.
Premises	Office Accommodation (100% NPG)	83	To fund relocation costs if head office becomes unavailable.
	Other depot's, boathouses, TICs and yacht stations (72% NPG/28% NAV)	90	Maintenance and repairs of sites. Liability of repairs assessed at £1.3m over 10 years from 2017-2027 (BA report 27/01/17).
	Dockyard (30% NPG/NAV)	74	Ongoing development of site.
Planning Delivery Grant (100% NPG)	n/a	220	Grants awarded for the planning service, most recently grants from MHCLG on registers. Helps fund the cost of Local Plan examination.
Upper Thurne Enhancement (100% NPG)	n/a	146	Ring-fenced Environment Agency funding for enhancement works in the Upper Thurne.
Catchment Partnership (100% NPG)	n/a	75	Ring-fenced income from various partners within the Broadland Catchment Partnership. Not available for BA to use, as not BA funds.
Section 106 (100% NPG)	n/a	44	Ring-fenced developers' contributions relating to planning application conditions. Not available for BA to use, as not BA funds.
Computer software (67% NPG/33% NAV)	n/a	22	To fund the ongoing replacement of Authority's computer

Reserve Name	Sub Reserve Name	Balance 31/03/2020	Reason for holding
			software. No additional provision being made to cover replacement of tolls system, which cost £86k in 2015. Replacement scheduled for consideration in 2020/21.
HLF (100% NPG)	n/a	12	Fund established for the Landscape Partnership project funded by the Heritage Lottery Fund. Helps with timing differences between claim and reimbursement.
CANAPE (50% NPG/50% NAV)	n/a	312	European grant part funded project relating to the CANAPE project. Helps with timing differences between claim and reimbursement.
UK NP Communications	n/a	28	Ring-fenced contributions from all 15 Parks to fund joint communications work.
<b>Total</b>		<b>2,118</b>	