

Financial Strategy 2013/14 – 2015/16
Report by Director of Change Management and Resources

Summary: This report seeks the views of the Navigation Committee on the Authority's Financial Strategy for the period 2013/14 to 2015/16, and in particular on the proposals for navigation expenditure and their financial implications.

1 Introduction

1.1 The Authority's current Financial Strategy was approved by the Broads Authority at its meeting on 24 June 2011 and is set out in the Business Plan for 2011/12 – 2014/15. It is based on:

- the announcement in December 2010 that National Park Grant would be reduced in cash terms by 21.5% over the period 2011/12 to 2014/15;
- an assumption that toll income would continue to hold up well and that an increase in tolls of 4% per annum over this period would provide the necessary income; and
- the Authority's policy to maintain general and navigation reserves at a minimum of 10% of net expenditure and that income and expenditure should be in balance by not later than 2014/15.

1.2 The Table below summarises the key figures from the current Business Plan.

Table 1: Current Business Plan

	2011/12 £000		2012/13 £000		2013/14 £000		2014/15 £000	
	Nat Park	Nav	Nat Park	Nav	Nat Park	Nav	Nat Park	Nav
Income	£4,015	£2,714	£3,790	£2,824	£3,565	£2,938	£3,340	£3,057
Expenditure	£4,221	£2,928	£3,817	£2,976	£3,611	£3,021	£3,432	£3,055
Balance	-£207	-£214	-£27	-£152	-£46	-£82	-£92	+£2
Reserves	£513	£568	£487	£416	£441	£334	£349	£336

1.3 Since the Business Plan was approved there have been some very significant changes which will impact on the Authority's finances. These are:

- a surplus on the 2011/12 consolidated budget of around £380,000 rather than the deficit budget that had been programmed, largely due to less

expenditure on Operations than had been expected but also because of additional and unbudgeted income;

- anticipated large savings on accommodation expenditure over the next two years resulting from the Authority's premises strategy;
- investment in a new workshop at the Dockyard;
- additional maintenance commitments as a result of the transfer of responsibility for Breydon Water and the Lower Bure;
- savings in salary costs as a result of the continued local government pay freeze; and
- significant cost and efficiency savings which have been achieved as a result of the 2011 restructuring and since – an example being the acquisition of 12 new vehicles, mostly for the Construction and Maintenance/Ranger Teams, which will achieve savings in future leasing costs.

- 1.4 The net result of these changes is that the sizeable deficits which were originally projected in both general and navigation expenditure did not materialise during 2011/12, and that reserves are now very much higher than was predicted, to a figure in excess of £900,000 on both lines of expenditure.
- 1.5 Officers are currently in the process of updating the Financial Strategy to have regard to the current situation and future commitments, and a draft revised Strategy for the period 2013/14 to 2015/16 will be considered by the Broads Authority at its meeting on 21 September 2012. This report sets out the current proposals, and provides an opportunity for this Committee to comment on the proposals which relate to navigation expenditure and in particular on their financial implications.
- 1.6 The outcome is considered to be a very positive one, given the extent of the work which is proposed at a lower toll increase than is set out in the current Financial Strategy.

2 Consultation

- 2.1 As a precursor to the preparation of this Strategy advice was sought on the merits of potential projects from this Committee at its meeting on 7 June, from members of the Broads Authority at a dedicated workshop on 12 July and from the Broads Forum at its meeting on 19 July. A variety of ideas were canvassed, and whilst there was no consistent response a number of the themes were well supported.
- 2.2 At its meeting on 7 June this Committee received a list of potential priorities for future navigation expenditure, including those relating to Breydon Water. Whilst the Committee considered that a case could be made for all the items on the list, there was particular support for new moorings, the retention of two additional seasonal Rangers, a quay heading for an offloading point, and the acquisition of a new launch for Breydon Water.
- 2.3 At the member workshop on 12 July a number of views were expressed, with particular support for 'flagship project(s)', subject to the availability of funding,

and match funding which maximises external funding bids to make the Authority's limited resources go further.

3 Proposals for Future Expenditure

- 3.1 At its meeting on 11 July this Committee supported the development of a new workshop at the Dockyard, at a total cost of £681,571 plus a 10% contingency sum. Having taken into account the contributions from PRISMA and from Land and Water, and the £70,000 design costs already expended (and not included in the above figure), the maximum sum outstanding from Navigation funds is £335,943. The majority of this will be payable during the 2012/13 financial year, with the contingency sum and retention fee likely to be held back to 2013/14. In addition there will be a contribution to the costs which will be payable during 2012/13 towards the implementation of the Authority's premises strategy.
- 3.2 At its meeting on 13 July 2012 the Broads Authority received a report setting out the position with regard to the transfer of Breydon Water and the associated management implications. Having regard to the views expressed by this Committee at its June meeting, the Authority approved the following actions:
- the development of a tender and award of a contract for the hydraulic/sediment modelling of Breydon Water, to enable the role of Turntide Jetty in particular to be assessed, at a cost of £60,000;
 - the purchase of a more appropriate vessel for patrolling Breydon Water and the Lower Bure, at a cost of £100,000 to 120,000, of which £50,000 will be funded from the Vessel Replacement Fund; and
 - the installation of lay-by moorings either side of Breydon Bridge, at a cost of £50,000.
- 3.3 These costs are offset by the contribution of £50,000 received from the Great Yarmouth Port Company towards the transfer of responsibility for Breydon Water and the Lower Bure.
- 3.4 The expenditure as set out in paragraphs 3.1 and 3.2 will result in a significant draw down of expenditure during the current financial year, over and above the deficit of £188,000 predicted in the original budget, and will reduce Navigation reserves to below 10% of net expenditure. However in addition to the Navigation general reserves the Authority has a number reserve accounts which make provision for known future liabilities and earmarked expenditure. These reserve accounts stood at a combined sum of £839,585 as at 31 March 2012, and could be called upon in the event of an emergency. Members have indicated that they would wish to see a draw down on both the general reserves and the specific reserves over the next few years, and this will go some way to achieving that. Further details of the earmarked reserves are set out in paragraph 4.
- 3.5 The delivery and continuation of the Authority's work programme is entirely dependent on its staff resource. A second, smaller round of staff cuts has

been identified for April 2013 which includes the loss of the sustainable tourism post, the loss of a further post from the Communications Team, and smaller reductions in the ICT and HR Teams.

- 3.6 In response to member support, provision for a continuation of funding for tourism has been included in the draft Strategy. A separate report to the Broads Authority will set out proposals for how this support could most usefully be provided. There was also support from this Committee for the continuation of two additional Seasonal Rangers, and this has also been built into the Strategy. There is a large work programme for the ICT Team, and it is proposed to strengthen this team for a temporary period to speed up the delivery of new systems. The structure of the Communications, HR and Finance Teams are being reviewed, to identify how service provision can be maintained as efficiently as possible.

4 Earmarked Reserve Accounts

- 4.1 As indicated above the general Navigation reserves are bolstered by a number of earmarked accounts. Details of these are set out below, together with predicted movements during the current financial year and anticipated outcome as at 31 March 2013.

Table 2: Specific Reserve Funds

Name of Fund	Balance @ 31/3/12 £	Movements In £	Movements Out £	Balance @ 31/3/13 £
Dockyard Site Maintenance	71,836	30,000	30,000 – PRISMA 15,000 – Replacement cesspit	56,836
Dockyard Vessels and Equipment	164,056	Nil	60,000 – PRISMA 15,000 – Second hand weed harvester	89,056
Dredging Disposal Sites	182,950	Nil	60,000 - PRISMA	122,950
Launch Replacement Fund	150,369	22,500	120,000 – New launch 50,000 – Breydon launch (part)	2,869
Mutford Lock Endowment Fund	270,374	25,000 2,000 - Rent	5,000	292,374
Total	839,585	79,500	355,000	564,085

- 4.2 Members will be aware that the Dockyard is now used for all the Authority's operational activities, and that expenditure is being allocated on a 60% Navigation/ 40% National Park Grant basis. Future contributions to the Dockyard Site Maintenance Reserve Account should therefore be made in accordance with this allocation. In order to separate out 100% Navigation income, it is proposed that the remaining balance on this account be transferred to the Dockyard Vessels and Equipment Account, once the

contribution has been made to the PRISMA Fund, and that the Authority effectively 'starts again' in building up the Dockyard Site Maintenance Fund from 2012/13 onwards.

5 Strategy for Future Income and Expenditure

- 5.1 Although the current Financial Strategy is based on an assumed toll increase of 4% per annum, it is suggested that the proposals as set out in this report could be afforded on the basis of a 3% increase over the period 2013/14 to 2015/16. This would result in total navigation income rising to an estimated £3,133,000 by 2015/16. The projected income figures for 2013/14 and 2014/15 would then be very close (within £20,000) to those set out in the existing Financial Strategy.
- 5.2 The major projects proposed for this year, including the one off costs relating to the Premises Strategy and the maintenance works and acquisition of a new launch for Breydon Water, mean that expenditure is predicted to exceed income in 2012/13 and reduce the Navigation reserves to below the recommended minimum level of 10% of net expenditure. This will continue into 2013/14 when a further deficit budget is predicted.
- 5.3 However once these one off costs have been met, the savings which will be achieved as a result of the premises strategy will result in a surplus from 2014/15 onwards, which will enable reserves to be built up to their recommended minimum level.
- 5.4 Table 3 sets out indicative income and expenditure patterns for the period up to 2015/16. These represent 'work in progress' and should not be considered to be the final version at this stage, as a number of detailed issues are still being considered by the Management Team. However they do give an indication of the likely direction of travel based on current assumptions.
- 5.5 The figures are based on the following assumptions:
- boat numbers will remain broadly static over the three year period;
 - toll income will increase by 3% per annum;
 - existing levels of operational activity will be maintained going forward;
 - salary increases will be 1% in 2013/14 and 2% in the two following years;
 - inflation of 3% has been allowed for non-project expenditure (offices, ICT, stationery, etc) up to 2014/15;
 - no inflation increases have been built in for project work; and
 - the relocation from the Field Base will be delayed to April 2014.

Table 3: Revised Projections for Navigation Income and Expenditure

	<i>2011/12 £000 Actual Outturn</i>	<i>2012/13 £000 Forecast Outturn</i>	<i>2013/14 £000</i>	<i>2014/15 £000</i>	<i>2015/16 £000</i>
Total Income	2,785	2,867	2,954	3,044	3,133
Operations	1,635	2,256	2,018	1,959	1,982
Planning and Strategy	101	103	970	1,003	1,005
Resources	891	816			
Premises Strategy	-	363	81	-	-
Total Expenditure	2,627	3,538	3,069	2,962	2,987
Balance	158	671	115	82	146
Reserves	940	269	154	236	382

6 Summary

- 6.1 The figures which have been prepared confirm that the one-off costs needed to implement the premises strategy, together with those agreed by the Broads Authority for the maintenance works and new launch for Breydon Water, are affordable, although they would involve a draw down of expenditure which would leave reserves below 10% of net expenditure for two years.
- 6.2 However this is not considered to constitute a significant risk given the level of funding which is being held in the Navigation earmarked reserves and which could be drawn upon in the event of an emergency. Furthermore the savings which will be achieved as a result of the premises strategy will enable the reserves to be built up to their recommended minimum level from 2014/15 onwards.
- 6.3 The views of the Navigation Committee are sought on the proposals as set out in this report, and will be reported to the Broads Authority when it considers the draft Financial Strategy at its meeting on 21 September.
- 6.4 It should be noted that although the Strategy sets out an indicative annual toll increase for the purposes of assessing income, the Navigation Committee will of course continue to be consulted each year on the annual budget and toll increase, commencing with the 2013/14 toll increase which will be the subject of a report to the next meeting.

Background Papers: None

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Broads Plan Objectives: None

Appendices: None