

<b>Committee/Panel:</b>	Thames Basin Heaths Joint Strategic Partnership Board
<b>Date:</b>	6 <sup>th</sup> December 2023
<b>Title:</b>	Thames Basin Heaths Financial Statement
<b>Report From:</b>	Administrative Body

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## Purpose of the Report

1. The purpose of this report is to present an update to the Joint Strategic Partnership Board (JSPB) on the financial position of the Thames Basin Heaths Strategic Access Management and Monitoring (SAMM).
2. The report includes the projected financial position for the three years to 31<sup>st</sup> March 2026.

## Recommendations

3. That the projected financial position for the three financial years to 31<sup>st</sup> March 2026 is noted.
4. That the projected balance held within the Endowment Fund at 31<sup>st</sup> March 2024 of £21.262m, consisting of £13.537m held as investments and £7.725m as cash, and the projected cash balance of £12.044m before any further investment by 31<sup>st</sup> March 2026 is noted.
5. That the revised financial outlook updated with the latest forecast costs from Natural England is noted.

## Executive Summary

6. The projected outturn for the year ended 31<sup>st</sup> March 2024 is net income after project expenditure of £2.413m. Across the three years up to and including 2025/26, total net income is projected of £6.732m.
7. Assisted by the current high interest rates, projected dividend and interest income for the 2023/24 financial year is expected to fully fund project expenditure. However, on the assumption that interest rates will fall in subsequent years to a more “normal” level, and that Natural England spend is incurred at the increased levels previously approved by the JSPB (and for which confirmation is sought separately on the agenda), dividend and interest income is expected to fund 98% of project expenditure for the 2024/25 and 2025/26 financial years with the balance being met from tariff income.
8. This reflects a very slight downturn in the progress of ensuring the project is financially sustainable in perpetuity and reflects the impact of currently high inflation on costs and the planned increase in Natural England project costs.
9. Tariff income is forecast to continue for several years, longer than originally envisaged, increasing the Endowment Fund balance and enabling further investment to be made. However, due to rising costs, it is currently projected that the income and investments will fall just short of funding the project in perpetuity, although it should be recognised that there is significant uncertainty surrounding projections over such a long period of time.
10. The projected balance in the Endowment Fund as at 31<sup>st</sup> March 2024 is £21.262m, of which £7.725m is anticipated to be held as a cash balance by the Administrative Body, available to be invested.
11. Based on current projections of income and expenditure, the balance on the Endowment Fund would increase to £25.580m by 31<sup>st</sup> March 2026, of which £12.044m is projected to be held as a cash balance by the Administrative Body.
12. Although it is recommended later on the agenda to increase the balance on the Maintenance Fund, the balance on this Fund is currently being maintained at £1.5m in line with the existing investment strategy, with any balances above or below that level transferred to or from the Endowment Fund.

## **Projected Financial Position for the Year Ended 31 March 2024**

13. The projected financial position at 31<sup>st</sup> March 2024, as shown in Appendix 1, is net income after project expenditure of £2.413m.

14. Total income expected to be received by the Administrative Body for the year is £3.131m, consisting of £2.181m forecast tariff income collected by the Local Planning Authorities (LPAs), £541,472 forecast dividend income and £408,000 forecast interest on cash balances held. To date (end of October), £1.036m tariff income has actually been received in the financial year, equating to just under half the full year forecast.

15. Expenditure of £717,197 is forecast for the year, an increase on the previously reported figure, following revised forecasts from Natural England.

16. The expenditure for the current year is expected to be funded 100% from investment income (dividends and interest on cash balances), based on an assumed 4% dividend return.

### **Projected Financial Position for the 2023/24 to 2025/26 Financial Years**

17. A summary of the projected financial position for the three years to 31<sup>st</sup> March 2026 is shown in Appendix 3.

18. These projections are based upon the tariff income forecasts provided by partner LPAs and expenditure forecasts provided by Natural England. Interest receivable has been assumed at current rates of 5.03% for this year, reducing to a more typical 2% going forwards. Dividends are projected at an annual rate of 4% of investment market values.

19. Across these three years, total net income is projected at £6.732m, consisting of £6.529m tariff income, £1.624m dividend income and £0.868m interest, offset by £2.290m expenditure. However, these future projections should be viewed with caution given the relatively high degree of uncertainty in relation to future income.

### **Future Financial Sustainability of the SAMM**

20. The original SAMM business plan and tariff income calculations considered that a total of approximately £30m in tariff income would be needed (over an assumed period of 17 years in which developments would be built) to provide a capital sum sufficient to generate income to fund the anticipated annual expenditure in perpetuity.

21. Since the commencement in April 2011, to the end of March 2023 a total of £23.995m in tariff income has been received. Based on information provided by each of the

partners, it is projected that £2.18m tariff income will be received in the 2023/24 financial year, with further projected tariff income of £2.12m in 2024/25 and £2.23m in 2025/26 financial years, taking the projected total tariff income to March 2026 to £30.525m.

22. Current projections for future years would potentially increase the total tariff income receivable by a further £3.836m to £34.361m by 2028/29, with no further tariff income receipts expected after that date. However, again an element of caution is required when viewing these income projections over future years.
23. In addition to the tariff income, to the end of March 2023 £2.122m has been received in dividend income and interest on the cash balances, with £0.949m dividend income and interest projected for the 2023/24 financial year, reducing to a projected annual total of £0.793m by the 2025/26 financial year.
24. Dividend income and interest is expected to fully fund expenditure in the current financial year, as it did last year, assisted by the particularly high interest rates seen over this period. However, with interest rates expected to fall, it is currently predicted that dividend and interest will cover 98% of expenditure in the 2024/25 and 2025/26 financial years, with the gap being met from tariff income. These projections assume 4% dividend return and interest rates of 5.03% (the year to date average) in 2023/24 and 2% from 2024/25 onwards, with zero capital growth.
25. The SAMM business plan also allowed for expenditure of approximately £500,000 per annum on an ongoing basis, increasing with inflation each year. The latest expenditure forecasts show ongoing expenditure to be £717,197 for 2023/24, rising to £807,727 by 2025/26, and have been updated to reflect recent updates from Natural England on staffing and activity levels. The recent pro-longed high inflation has accelerated the increase in costs, and whilst inflation is falling and expected to return to more normal levels over time, this will only reduce the level of increase in expenditure, not the total expenditure itself, which is unlikely to fall back to the values expected previously.

## **Endowment Fund and Maintenance Funds**

26. As at 31<sup>st</sup> March 2023, £1.5m was held in the Maintenance Fund and a total of £18.848m was held in the Endowment Fund - £13.537m as investments and £5.311m as a cash balance, as shown in Appendix 4.
27. The original SAMM agreement provided for the income to be divided 30% to the Maintenance Fund to pay for project expenditure, and 70% to the Endowment Fund to

accumulate sufficient balances to fund future project expenditure and the cost of long-term maintenance and protection of the SPA. However, the JSPB subsequently agreed that the Maintenance Fund should be kept at £1.5m (being equivalent to approximately three years of annual expenditure) with any balance above or below that level transferred to or from the Endowment Fund.

28. Based on the current projections of income and expenditure, it is expected that a further £2.413m will be added to the Endowment Fund in the 2023/24 financial year, which would give a total of £7.725m held as a cash balance.
29. Over the next three financial years the Endowment Fund held as a cash balance is expected to increase to £12.044m by March 2026. This is on the assumption that the balance within the Maintenance Fund is maintained at £1.5m.
30. Under section 5.3 of the SAMM agreement, the JSPB is responsible for reviewing the value and performance of the Endowment Fund on a regular basis. The agreement envisaged that the management of the balance in the Endowment Fund would be undertaken by an Independent Financial Advisor, and under the direction of the JSPB, Arlingclose were appointed as the Independent Financial Advisors from 1st December 2018 on a rolling annual contract.
31. To date total investments of £15m have been made. A full review of the performance of the investments is considered separately on the agenda, in the presentation by Arlingclose.
32. Cash fund balances are held by the Administrative Body and receive interest under the terms of the SAMM agreement at not less than 0.25% below the Bank of England base rate, although interest has actually been paid at the base rate.
33. Given the significant fluctuations in the base rate this year, an assumed rate of 5.03% has been used for the current financial year for the purposes of this report, being the average of Bank of England base rate year-to-date.

## **Conclusions**

34. The project is still in the phase of adding significant sums to the Endowment Fund each year, to enable the funding of future expenditure, and this is expected to continue for the next five years or so, with overall tariff income receivable projected to exceed the original SAMM business plan.

35. The project is very close to the point where investment income is sufficient to fully fund current annual expenditure, with high interest rates and high inflation having an impact. Tariff income is expected to continue for several years, allowing the Endowment Fund balance to grow further, which will be required to provide increased investment year on year to offset the expected growth in future annual expenditure and fund these costs in perpetuity. Whilst the project is near to achieving the financial aims of the partnership, investment income, annual expenditure and the value of investments is still finely balanced and not yet at the point where this can be assured.
36. A prudent approach has been taken towards the cash balance within the Maintenance Fund, which is being kept at a level sufficient to fund annual maintenance for approximately two years should there be an unexpected downturn in income.
37. The cash balance held within the Endowment Fund is kept under review by the JSPB and investments are being made periodically under advice from Arlingclose as independent financial advisors and under instruction from the JSPB, to adhere to the principle of maximising the return within investment guidelines set by the JSPB as envisaged by the SAMM agreement.

## Appendix 1 – Projected Financial Summary for the year to 31 March 2024

2023/24	Budget	Actuals to date	Outturn Forecast	Variance to Budget
Income	£	£	£	£
Bracknell Forest BC	250,000	102,708	100,000	(150,000)
Elmbridge BC	86,000	5,154	86,000	0
Guildford BC	500,000	291,311	500,000	0
Hart BC	251,511	105,452	251,511	0
Runnymede BC	364,181	292,453	250,042	(114,139)
Rushmoor BC	451,454	24,518	451,454	0
Surrey Heath BC	120,000	6,304	120,000	0
Waverley BC	19,910	17,468	37,122	17,212
Windsor & Maidenhead RB	56,595	0	56,595	0
Woking BC	248,492	59,303	248,492	0
Wokingham BC	80,005	131,211	80,005	0
<b>Total Tariff Income</b>	<b>2,428,148</b>	<b>1,035,883</b>	<b>2,181,221</b>	<b>(246,927)</b>
Interest	467,000	0	408,000	(59,000)
Dividend Income	676,840	0	541,472	(135,368)
<b>Investment Income</b>	<b>1,143,840</b>	<b>0</b>	<b>949,472</b>	<b>(194,368)</b>
<b>Total Income</b>	<b>3,571,988</b>	<b>1,035,883</b>	<b>3,130,693</b>	<b>(441,295)</b>
<b>Expenditure</b>				
Project costs Natural England	538,506	151,191	667,940	129,434
Administration fee Natural England	21,207	0	13,634	(7,573)
Financial Administration HCC	25,639	0	22,843	(2,796)
Investment advice	13,111	8,351	12,781	(330)
<b>Total Expenditure</b>	<b>598,462</b>	<b>159,542</b>	<b>717,197</b>	<b>118,735</b>
<b>Net Income/(Expenditure)</b>	<b>2,973,526</b>	<b>876,341</b>	<b>2,413,496</b>	<b>(560,029)</b>

## Appendix 2 – Detailed Income Summary

	2023/24						
	Previous years	Budget	Actuals to date	Notified contributions**	Forecast for remaining months	Projected total	Variance
	£	£	£	£	£	£	£
<b>INCOME</b>							
Bracknell Forest BC	3,869,563	250,000	102,708	(100,262)	97,554	100,000	(150,000)
Elmbridge BC	695,897	86,000	5,154	0	80,846	86,000	0
Guildford BC	3,046,358	500,000	291,311	0	208,689	500,000	0
Hart DC	3,637,921	251,511	105,452	0	146,059	251,511	0
Runnymede BC*	792,754	364,181	292,453	133,841	(176,252)	250,042	(114,139)
Rushmoor BC	2,174,862	451,454	24,518	0	426,936	451,454	0
Surrey Heath BC	1,988,898	120,000	6,304	(4,022)	117,718	120,000	0
Waverley BC	767,072	19,910	17,468	2,161	17,494	37,122	17,212
Windsor & Maidenhead RB	422,843	56,595	0	22,127	34,468	56,595	0
Woking BC	1,959,041	248,492	59,303	0	189,189	248,492	0
Wokingham BC*	4,639,959	80,005	131,211	5,125	(56,331)	80,005	0
Interest	369,897	467,000	0	0	408,000	408,000	(59,000)
Dividend	1,751,683	676,840	0	0	541,472	541,472	(135,368)
<b>Total Income</b>	<b>26,116,747</b>	<b>3,571,988</b>	<b>1,035,883</b>	<b>58,970</b>	<b>2,035,841</b>	<b>3,130,693</b>	<b>(441,295)</b>

\*actuals received from some planning authorities are significantly higher than forecasts provided, for prudence the overall forecasts have not been amended.

\*\*notified contributions figure is the value from returns less actuals received (negative balances arise where cash has been received but no quarterly return)



### Appendix 3 – Projected Income and Expenditure 2023/24 to 2025/26

	Previous years	Projected 2023/24	Projected 2024/25	Projected 2025/26
Income	£	£	£	£
Bracknell Forest BC	3,869,563	100,000	60,000	60,000
Elmbridge BC	695,897	86,000	86,000	86,000
Guildford BC	3,046,358	500,000	-	-
Hart BC	3,637,921	251,511	301,978	289,568
Runnymede BC	792,754	250,042	553,178	844,063
Rushmoor BC	2,174,862	451,454	643,259	396,039
Surrey Heath BC	1,988,898	120,000	120,000	120,000
Waverley BC	767,072	37,122	8,540	83,912
Windsor & Maidenhead RB	422,843	56,595	19,320	19,320
Woking BC	1,959,041	248,492	248,492	248,492
Wokingham BC	4,639,959	80,005	80,005	80,005
<b>Total Tariff Income</b>	<b>23,995,167</b>	<b>2,181,221</b>	<b>2,120,772</b>	<b>2,227,399</b>
Interest on cash balances	369,897	408,000	208,000	252,000
Dividend Income	1,751,683	541,472	541,472	541,472
<b>Investment Income</b>	<b>2,121,580</b>	<b>949,472</b>	<b>749,472</b>	<b>793,472</b>
<b>Total Income</b>	<b>26,116,747</b>	<b>3,130,693</b>	<b>2,870,244</b>	<b>3,020,871</b>
<b>Total Expenditure</b>	<b>4,465,015</b>	<b>717,197</b>	<b>764,598</b>	<b>807,727</b>
<b>Net Income/(Expenditure)</b>	<b>21,651,732</b>	<b>2,413,496</b>	<b>2,105,646</b>	<b>2,213,144</b>

## Appendix 4 – Projected Endowment Fund Balance

	2023/24 Projected £	2024/25 Projected £	2025/26 Projected £
<b>Net Income/(Expenditure)</b>	2,413,496	2,105,646	2,213,144
<b>Maintenance Fund:</b>			
Balance brought forward	1,500,000	1,500,000	1,500,000
Transfer (from)/to income			
Transfer (to)/from endowment fund			
<b>Balance carried forward</b>	<b>1,500,000</b>	<b>1,500,000</b>	<b>1,500,000</b>
<b>Endowment Fund:</b>			
<i>Held as cash balances by Administrative Body</i>			
Balance brought forward	5,311,274	7,724,770	9,830,415
Transfer (from)/to income	2,413,496	2,105,646	2,213,144
Investment	0	0	0
Transfer (to)/from maintenance fund	0	0	0
<b>Balance carried forward</b>	<b>7,724,770</b>	<b>9,830,415</b>	<b>12,043,560</b>
<i>Held in investments</i>			
Balance brought forward	13,536,805	13,536,805	13,536,805
Investment made	0	0	0
Profit/(Loss) on investment	0	0	0
<b>Balance carried forward</b>	<b>13,536,805</b>	<b>13,536,805</b>	<b>13,536,805</b>
<b>TOTAL ENDOWMENT FUND</b>	<b>21,261,575</b>	<b>23,367,220</b>	<b>25,580,365</b>