

Committee/Panel:	Thames Basin Heaths Joint Strategic Partnership Board
Date:	19 th November 2020
Title:	Thames Basin Heaths Financial Statement
Report From:	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 actual financial position at the 31st March 2020 and the projected financial position for the three years to 31st March 2023.

Recommendations

3. That the financial position for the year ended 31 March 2020, as shown in Appendix 1, is agreed.
4. That the transfer from the Maintenance Fund to the Endowment Fund to maintain a balance of £1m in the Maintenance Fund is approved.
5. That the projected financial position for the three financial years to 31st March 2023 is noted.
6. That the actual cash balance held within the Endowment Fund as at 31st March 2020 of £7.412m and the projected balance of £13.272m by 31st March 2023 is noted.

Executive Summary

7. As at 31st March 2020 the balance in the Endowment Fund was £13.021m, of which £5.610m is held in investments, with the remaining £7.412m held as a cash balance by the Administrative Body. A further £1.0m was held as a cash balance in the Maintenance Fund as at 31st March 2020, to pay for project expenditure.
8. It is projected that a further £1.840m will be added to Endowment Fund in the 2020/21 financial year, giving an anticipated total of £9.251m held as a cash balance and available to be invested.
9. Based on current projections of income and expenditure, the balance on the Endowment Fund would increase to £19.765m by 31st March 2023, of which £13.272m is projected to be held as a cash balance by the Administrative Body.
10. As per the current investment strategy, the balance on the maintenance fund will be maintained at no more than £1m in the same period, with any balances above that level transferred to the Endowment Fund.

Financial Position for the Year Ended 31 March 2020

11. The financial position as at 31st March 2020 is summarised in the table in Appendix 1, and shows net income for the 2019/20 financial year of £2.766m. The balances in the Endowment Fund and Maintenance Fund as at 31st March 2020 are £13.021m and £1.0m respectively, as shown in Appendix 5.
12. This Endowment Fund balance includes £5.610m held in investments (which consists of the £6m originally invested, dividends reinvested, plus or minus any unrealised profit or loss on the value of the investments), with the remaining £7.412m held as a cash balance by the Administrative Body.
13. A further £1.0m was held in the Maintenance Fund at 31st March 2020, to pay for project expenditure.
14. Actual income received by the Administrative Body for the 2019/20 financial year totalled £3.230m, a £1.445m increase on the £1.785m projection reported to the JSPB in the September 2019 meeting.

15. This takes the total income received for all years to 31 March 2020 to £17.191m. This income is split between the Endowment and Maintenance Funds on a 70%:30% basis, in accordance with the SAMM agreement (section 3.2).
16. In addition, £334,438 was accrued as dividend income on the investments held, representing a 5.50% annual return on the £6.085m investment made. The JSPB has previously agreed that the dividend income on the investments should be reinvested, rather than drawn as income.
17. The value of the investments held had decreased by £809,569 (13%) as at 31 March 2020, however it should be noted that Arlingclose had advised before the investments were made that as the CCLA fund is a property fund, high transaction costs mean an initial reduction in value is to be expected, and a long term investment approach was being taken. This accounts for part of this reduction in value, however, a full review of the performance of the investments is considered separately on the agenda, in the presentation by Arlingclose.
18. Costs of £463,749 were incurred in the 2019/20 financial year, a £44,135 decrease on the projection position, taking total costs incurred to £2.779m costs up to 31 March 2020. The reduction in costs is largely due to held vacancies in staffing (£31,000) and reductions in spend on running costs such as training (£10,000).
19. The net income for the financial year of £2.766m has allowed a further transfer to be made from the Maintenance Fund to the Endowment Fund at the end of March 2020, to maintain the balance in the Maintenance Fund at £1m as per the current investment strategy.

Projected Financial Position for the 2020/21 to 2022/23 Financial Years

20. The projected financial position for the current financial year to 31st March 2021 is shown in Appendix 2, with a more detailed analysis of the projected income for the year shown in Appendix 3. A summary of the projected financial position for the three years to 31st March 2023 is shown in Appendix 4.
21. These projections of income and expenditure are used to inform the financial modelling on future cash flows and provide an indication of the rate of return that would be required to fund the SAMM activity on an in-perpetuity basis, to assist the Board in making decisions on the potential investments. A summary of this financial modelling is included within the Investment Working Group update considered later on the agenda.

22. 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) in order to generate a capital sum that would be sufficient to generate an income that would fund the anticipated annual expenditure in perpetuity.
23. To date, since the commencement in April 2011 £17.191m has been received. Based on information provided by each of the partners, it is projected that £2.4m tariff income will be received in the 2020/21 financial year, with further projected tariff income for the 2021/22 and 2022/23 financial years of £3.3m and £1.9m respectively, taking the projected total income to March 2023 to £24.744m.
24. Current projections for future years would potentially increase the total income receivable by a further £6.157m to £30.901m by 2027/28, with no further tariff income receipts expected after that date. However, it should be noted that as the timescale of the projections increases, the certainty decreases.
25. The SAMM business plan also allowed for expenditure of approximately £500,000 per annum on an ongoing basis, increasing with inflation each year. Actual ongoing expenditure (with inflation) is expected to be £557,000 for 2020/21, rising to £572,000 by 2022/23, based on current approved staffing and activity levels.
26. The projections are based on the existing Natural England staffing structure for the project including a recently appointed Data Analyst and temporary promotions within the team to cover staff absences. The appointment of the Data Analyst has allowed data analysis to be done in house, reducing outsourcing costs. A reduction in travel and subsistence costs is expected for 2020/21 reflecting the impact of Covid 19.
27. In previous years, actual annual expenditure has not reached these levels, primarily because fewer wardens have been recruited than initially planned. The project is currently forecast at full approved staffing levels of five full time and seven seasonal wardens, a communication officer, a data analyst, an education officer, a project manager and a team leader.
28. Based on the current projections of income and expenditure, it is expected that a further £1.840m will be added to the Endowment Fund in the 2020/21 financial year, giving a total of £9.251m held as a cash balance available to be invested.

29. Over the next three financial years the Endowment Fund held as a cash balance is expected to increase to £13.272m by March 2023, as shown in Appendix 5. This is on the assumption that the balance within the Maintenance Fund will be maintained at a maximum of £1m.

Investment of the cash balance held in the Endowment Fund

30. Tariff income is collected by LPAs and passed to the Administrative Body. This tariff income is used to fund current project expenditure (the Maintenance Fund) and to accumulate sufficient balances to fund future project expenditure and the cost of long term maintenance and protection of the SPA (the Endowment Fund).
31. Under the terms of the SAMM agreement (section 5.3) the JSPB is given responsibility to review the value and performance of the Endowment Fund on a regular basis and provide direction as to when, how and from whom the services of an Independent Financial Advisor are to be procured, with the agreement envisaging that the management of the balance in the Endowment Fund would be undertaken by an Independent Financial Advisor, to maximise the return achieved within the investment guidelines set by the JSPB.
32. Under the direction of the JSPB, Arlingclose were appointed as the Independent Financial Advisors from 1st December 2018 on a rolling annual contract, and initial investments totalling £6.0m were made. The performance of these investments and future investment recommendations are considered in the presentation by Arlingclose, elsewhere on the agenda.
33. Cash fund balances are currently held by the Administrative Body, receiving interest at an assumed rate of 0.1%. Under the terms of the SAMM agreement, the Administrative Body is required to pay interest at not less than 0.25% below the Bank of England base rate, with that base rate currently standing at 0.1% since 23rd March 2020.

Conclusions

34. The net income received by the Administrative Body on behalf of the JSPB for the year ended 31 March 2020 totaled £2.766m, an improvement on the projected position presented at the previous JSPB meeting on 19th September 2019.

35. This has increased the cash balance held within the Endowment Fund to £7.412m as at 31 March 2020, with this balance projected to increase to £13.272m by 31 March 2023.
36. The value of the investments held and consideration of the investments to ensure the financial sustainability of the partnership in perpetuity are considered elsewhere on the agenda.

Appendix 1 - Financial Summary to 31 March 2020

Income	Cumulative to 2017/18 £	2018/19 £	2019/20 £	Total £
Bracknell Forest BC	1,630,537	943,163	328,844	2,902,544
Elmbridge BC	306,450	90,683	85,612	482,745
Guildford BC	973,231	286,395	841,694	2,101,320
Hart BC	1,939,541	737,515	0	2,677,056
Runnymede BC	392,855	50,400	191,597	634,852
Rushmoor BC	678,539	332,177	490,386	1,501,102
Surrey Heath BC	953,667	317,862	43,632	1,315,161
Waverley BC	336,027	35,998	204,231	576,256
Windsor & Maidenhead RB	145,044	21,524	0	166,568
Woking BC	1,135,214	78,533	352,303	1,566,050
Wokingham BC	1,888,076	569,499	649,310	3,106,885
Interest	65,887	52,150	42,419	160,456
Total Income	10,445,068	3,515,899	3,230,028	17,190,995
Expenditure				
Project costs Natural England	1,643,344	430,142	415,206	2,488,692
Administration fee Natural England	71,061	12,827	18,093	101,981
Financial Administration HCC	135,000	20,000	20,400	175,400
Investment advice		3,333	10,050	13,383
Total Expenditure	1,849,405	466,302	463,749	2,779,456
Net Income/(Expenditure)	8,595,663	3,049,597	2,766,279	14,411,539
Investment income**	0	84,744	334,438	419,182

* Investment income is the projected dividend income receivable on the investments with Arlingclose, which it has been agreed will be reinvested and is therefore shown separately.

Appendix 2 – Projected Financial Summary for the year to 31 March 2021

2020/21	Budget	Actuals to date	Outturn Forecast	Variance to Budget
Income	£	£	£	£
Bracknell Forest BC	242,520	112,212	242,520	0
Elmbridge BC	86,000	3,131	86,000	0
Guildford BC	17,475	17,475	17,475	0
Hart DC	460,053	148,653	460,053	0
Runnymede BC	308,000	5,040	308,000	0
Rushmoor BC	229,956	122,539	229,956	0
Surrey Heath BC	372,936	105,278	372,936	0
Waverley BC	234,098	33,243	234,098	0
Windsor & Maidenhead RB	56,595	0	56,595	0
Woking BC	237,849	79,973	237,849	0
Wokingham BC	141,963	39,570	141,963	0
Interest*	10,000	0	10,000	0
Total Income	2,397,445	667,114	2,397,445	0
Expenditure				
Natural England Staff Costs	475,240	223,606	475,240	0
Natural England Project Costs	24,376	1,162	24,376	0
Natural England Admin Fee	27,283	0	27,283	0
HCC Admin Fee	20,502	0	20,502	0
Investment Advice Cost	10,224	0	10,224	0
Total Expenditure	557,625	224,768	557,625	0
Net Income/(Expenditure)	1,839,820	442,346	1,839,820	0
Investment income**	280,481	0	280,481	0

* Interest on cash balances is the projected interest receivable on balances held by the Administrative Body.

** Investment income is the projected dividend income receivable on the investments with Arlingclose, which it has been agreed will be reinvested and is therefore shown separately.

Appendix 3 – Detailed Income Summary

	2020/21						
	Previous years	Budget	Actuals to date	Notified contributions	Forecast for remaining months	Projected total	Variance
	£	£	£	£	£	£	£
INCOME							
Bracknell Forest BC	2,902,544	242,520	112,212	79,236	51,072	242,520	0
Elmbridge BC	482,744	86,000	3,131	28,456	54,413	86,000	0
Guildford BC	2,101,320	17,475	17,475	0	0	17,475	0
Hart DC	2,677,055	460,053	148,653	0	311,400	460,053	0
Runnymede BC	634,852	308,000	5,040	0	302,960	308,000	0
Rushmoor BC	1,501,102	229,956	122,539	0	107,417	229,956	0
Surrey Heath BC	1,315,161	372,936	105,278	127,658	140,000	372,936	0
Waverley BC	576,256	234,098	33,243	0	200,855	234,098	0
Windsor & Maidenhead RB	166,568	56,595	0	0	56,595	56,595	0
Woking BC	1,566,050	237,849	79,973	12,107	145,769	237,849	0
Wokingham BC	3,106,885	141,963	39,570	71,784	30,609	141,963	0
Interest	160,455	10,000	0	0	10,000	10,000	0
Total Income	17,190,992	2,397,445	667,114	319,241	1,411,090	2,397,445	0
Maintenance Fund	5,329,407	719,233	200,134	95,772	423,327	719,233	
Endowment Fund	11,861,585	1,678,212	466,980	223,469	987,763	1,678,212	

NB the above income relates to income received by the Administrative Body only and excludes dividend income.

Appendix 4 – Projected Income and Expenditure 2020/21 to 2022/23

	Previous years	Projected 2020/21	Projected 2021/22	Projected 2022/23
Income	£	£	£	£
Bracknell Forest BC	2,902,544	242,520	190,799	-
Elmbridge BC	482,745	86,000	86,000	86,000
Guildford BC	2,101,320	17,475	-	-
Hart BC	2,677,056	460,053	311,400	-
Runnymede BC	634,852	308,000	797,000	768,000
Rushmoor BC	1,501,102	229,956	318,615	493,146
Surrey Heath BC	1,315,161	372,936	120,000	-
Waverley BC	576,256	234,098	176,238	166,263
Windsor & Maidenhead RB	166,568	56,595	56,595	56,595
Woking BC	1,566,050	237,849	237,849	237,849
Wokingham BC	3,106,885	141,963	946,674	80,005
Interest on cash balances	160,456	10,000	13,000	14,000
Total Income	17,190,995	2,397,445	3,254,170	1,901,858
Total Expenditure	2,779,456	557,625	565,167	572,237
Net Income/(Expenditure)	14,411,539	1,839,820	2,689,003	1,329,621
Investment Income	419,182	280,481	294,505	309,230

* Investment income is the projected dividend income receivable on the investments with Arlingclose, which it has been agreed will be reinvested and is therefore shown separately.

Appendix 5 – Projected Endowment Fund Balance

	2019/20 Actuals £	2020/21 Projected £	2021/22 Projected £	2022/23 Projected £
Income	3,230,028	2,397,445	3,254,170	1,901,858
70% to Endowment Fund	2,266,543	1,678,212	2,277,919	1,331,301
30% to Maintenance Fund	963,485	719,233	976,251	570,557
Expenditure	463,749	557,625	565,167	572,237
Maintenance Fund:				
Balance brought forward	1,000,000	1,000,000	1,000,000	1,000,000
Transfer (from)/to income	499,736	161,609	411,084	(1,680)
Transfer to endowment fund	(499,736)	(161,609)	(411,084)	0
Balance carried forward	1,000,000	1,000,000	1,000,000	998,320
Endowment Fund:				
<i>Held as cash balances by Administrative Body</i>				
Balance brought forward	4,645,257	7,411,536	9,251,357	11,940,360
Transfer (from)/to income	2,266,543	1,678,212	2,277,919	1,331,301
Investment	0	0	0	0
Transfer from maintenance fund	499,736	161,609	411,084	0
Balance carried forward	7,411,536	9,251,357	11,940,360	13,271,661
<i>Held in investments</i>				
Balance brought forward	5,952,417	5,609,613	5,890,094	6,184,599
Investment made	0	0	0	0
Investment income reinvested *	334,438	280,481	294,505	309,230
Profit/(Loss) on investment**	(677,242)	0	0	0
Balance carried forward	5,609,613	5,890,094	6,184,599	6,493,829
TOTAL ENDOWMENT FUND	13,021,149	15,141,451	18,124,959	19,765,490

* the investment income reinvested has been estimated at 5%

** Based on market value at 31st March 2020 and excluding any exit costs