

Committee/Panel:	Thames Basin Heaths Joint Strategic Partnership Board
Date:	17 th June 2021
Title:	Thames Basin Heaths Financial Statement
Report From:	Administrative Body

Contact name: Jenny Wadham, Principal Accountant, Hampshire County Council

Tel: 03707 798929

Email: Jennifer.wadham@hants.gov.uk

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 2021 and the projected financial position for the three years to 31st March 2024.

Recommendations

3. That the financial position for the year ended 31 March 2021, as shown in Appendix 1, is agreed.
4. That the transfer from the Endowment Fund to the Maintenance Fund to maintain a balance of £1.5m in the Maintenance Fund is noted.
5. That the projected financial position for the three financial years to 31st March 2024 is noted.
6. That the actual cash balance held within the Endowment Fund as at 31st March 2021 of £4.768m, with a £3.2m investment pending, and the projected balance of £8.324m by 31st March 2024 is noted.

Executive Summary

7. As at 31st March 2021 the balance in the Endowment Fund was £14.869m, of which £10.101m is held in investments, £730,000 is dividend income to be reinvested, with the remaining £4.038m arising from tariff income and bank interest held as a cash balance by the Administrative Body. Of the total £4.768m held as cash, £3.2m has been approved for investment by the Board, with that investment due to be completed imminently. A further £1.5m was held as a cash balance in the Maintenance Fund as at 31st March 2021, to pay for project expenditure.

8. It is projected that a further £2.681m will be added to the Endowment Fund in the 2021/22 financial year from tariff and dividend income, which after taking into account the £3.2m pending investment, will give an anticipated total of £4.754m 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 £21.625m by 31st March 2024, of which £8.324m 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 £1.5m, with any balances above or below that level transferred to or from the Endowment Fund.
11. Based on the tariff income projections provided by the partners, the income from the investments will need to be used to start supplementing the 30% of the tariff income receipts used to fund the annual expenditure from 2023/24 onwards.

Financial Position for the Year Ended 31 March 2021

12. The financial position as at 31st March 2021 is summarised in the table in Appendix 1, and shows net income for the 2020/21 financial year of £1.326m. In addition, investment income of £310,800 was accrued. The balances in the Endowment Fund and Maintenance Fund as at 31st March 2021 are £14.869m and £1.5m respectively, as shown in Appendix 5.
13. This Endowment Fund balance includes £10.101m held in investments (which consists of the £6m originally invested, £4.2m invested in January 2021, plus or minus any unrealised profit or loss on the value of the investments), with the remaining £4.768m held as a cash balance by the Administrative Body (including £3.2m pending investment agreed by the Board at the November 2020 meeting).
14. A further £1.5m was held in the Maintenance Fund at 31st March 2021, to pay for project expenditure.
15. Actual tariff income and bank interest received by the Administrative Body for the 2020/21 financial year totalled £1.774m, a £0.623m decrease on the £2.397m projection reported to the JSPB in the November 2020 meeting, with reductions in tariff income across most localities particularly Hart and Runnymede.
16. This takes the total tariff income and bank interest received for all years to 31 March 2021 to £18.965m. This income is split between the Endowment and Maintenance Funds on a 70%:30% basis, in accordance with the SAMM agreement (section 3.2). In addition, £310,800 was accrued as dividend income on the investments held.

17. The value of the investments held had decreased by £98,870 (1%) since the investments were made as at 31 March 2021. 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. A full review of the performance of the investments is considered separately on the agenda, in the presentation by Arlingclose.
18. Costs of £447,643 were incurred in the 2020/21 financial year, a £109,982 decrease on the projected position, taking total costs incurred to £3.227m up to 31 March 2021. The reduction in costs is largely due to Covid-19 limiting activity and delaying the start of seasonal warden contracts, as well as part year vacancies.
19. The income for the financial year of £1.774m meant the 30% allocated to the Maintenance Fund more than covered the expenditure for the year. However, in order to increase the balance retained in the Maintenance Fund from £1m to £1.5m, as per the current investment strategy agreed at the previous JSPB meeting on 19th November 2020, a further £416,784 was transferred from the Endowment Fund to the Maintenance Fund.

Projected Financial Position for the 2021/22 to 2023/24 Financial Years

20. The projected financial position for the current financial year to 31st March 2022 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 2024 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 £18.965m has been received. Based on information provided by each of the partners, it is projected that £3.2m tariff income will be received in the 2021/22 financial year, with further projected tariff income for the 2022/23 and 2023/24 financial years of £1.9m and £1.5m respectively, taking the projected total income to March 2024 to £25.606m.

24. Current projections for future years would potentially increase the total income receivable by a further £4.699m to £30.305m 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 £565,000 for 2021/22, rising to £583,000 by 2023/24, based on current approved staffing and activity levels.
26. The projections are based on the existing Natural England staffing structure for the project and are therefore subject to change should the approved staffing structure be changed as a result of the other papers being taken to this meeting. A reduction in travel and subsistence costs is expected for the initial months of 2021/22, 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 £2.681m from tariff income and bank interest will be added to the Endowment Fund in the 2021/22 financial year. In addition, dividend income available to be reinvested of £505,000 is estimated as 5% of the investment value. This will give a total of £4.754m held as a cash balance available to be invested.
29. Over the next three financial years the Endowment Fund held as a cash balance including estimated dividends for reinvestment is expected to increase to £8.324m by March 2024, as shown in Appendix 5. This is on the assumption that the balance within the Maintenance Fund will be maintained at £1.5m.

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. In November 2020, the Board approved further investments of £7.4m, £4.2m of which has been made with the remaining £3.2m investment imminent. The performance of these investments 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 19th March 2020.

Conclusions

34. The net tariff income and bank interest received by the Administrative Body on behalf of the JSPB for the year ended 31 March 2021 totalled £1.326m, a deterioration on the projected position presented at the previous JSPB meeting on 19th November 2020. However, overall tariff income receivable is still projected to be broadly in line with the original SAMM business plan.
35. Of the £7.4m investment agreed at the previous JSPB meeting, £4.2m has been invested with the remaining £3.2m investment in progress.
36. The cash balance held within the Endowment Fund (including dividends received) is £1.568m (after factoring in the pending £3.2m investment) as at 31 March 2021, with this cash balance projected to increase to £4.754m by 31 March 2022.
37. 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 2021

Income	Cumulative to	2019/20	2020/21	Total
	2018/19			
	£	£	£	£
Bracknell Forest BC	2,573,700	328,844	335,981	3,238,525
Elmbridge BC	397,133	85,612	138,133	620,878
Guildford BC	1,259,626	841,694	194,857	2,296,177
Hart BC	2,677,055	0	192,285	2,869,340
Runnymede BC	443,255	191,597	11,340	646,192
Rushmoor BC	1,010,716	490,386	259,076	1,760,178
Surrey Heath BC	1,271,529	43,632	250,973	1,566,134
Waverley BC	372,025	204,231	33,243	609,499
Windsor & Maidenhead RB	166,568	0	0	166,568
Woking BC	1,213,747	352,303	152,182	1,718,232
Wokingham BC	2,457,574	649,310	197,975	3,304,859
Interest	118,036	42,419	7,807	168,262
Total Income	13,960,964	3,230,028	1,773,852	18,964,844
Expenditure				
Project costs Natural England	2,073,486	415,206	404,598	2,893,290
Administration fee Natural England	83,888	18,093	12,363	114,344
Financial Administration HCC	155,000	20,400	20,502	195,902
Investment advice	3,333	10,050	10,180	23,563
Total Expenditure	2,315,707	463,749	447,643	3,227,099
Net Income/(Expenditure)	11,645,257	2,766,279	1,326,209	15,737,745
Investment income**	84,744	334,438	310,800	729,982

** 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 2022

2021/22	Budget	Actuals to date	Outturn Forecast	Variance to Budget
Income	£	£	£	£
Bracknell Forest BC	190,799	(1,681)	190,799	0
Elmbridge BC	86,000	0	86,000	0
Guildford BC	0	0	0	0
Hart DC	311,400	0	311,400	0
Runnymede BC	797,000	0	797,000	0
Rushmoor BC	318,615	0	318,615	0
Surrey Heath BC	120,000	1,576	120,000	0
Waverley BC	176,238	0	176,238	0
Windsor & Maidenhead RB	56,595	0	56,595	0
Woking BC	237,849	0	237,849	0
Wokingham BC	946,674	(9,626)	946,674	0
Interest*	5,000	0	5,000	0
Total Income	3,246,170	(9,731)	3,246,170	0
Expenditure				
Natural England Staff Costs	488,681	0	488,681	0
Natural England Project Costs	24,658	0	24,658	0
Natural England Admin Fee	20,775	0	20,775	0
HCC Admin Fee	20,605	0	20,605	0
Investment Advice Cost	10,293	0	10,293	0
Total Expenditure	565,012	0	565,012	0
Net Income/(Expenditure)	2,681,158	(9,731)	2,681,158	0
Investment income**	541,556	0	541,556	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

	2021/22						
	Previous years	Budget	Actuals to date	Notified contributions	Forecast for remaining months	Projected total	Variance
	£	£	£	£	£	£	£
INCOME							
Bracknell Forest BC	3,238,525	190,799	(1,681)	1,681	190,799	190,799	0
Elmbridge BC	620,878	86,000	0	0	86,000	86,000	0
Guildford BC	2,296,177	0	0	0	0	0	0
Hart DC	2,869,340	311,400	0	0	311,400	311,400	0
Runnymede BC	646,192	797,000	0	0	797,000	797,000	0
Rushmoor BC	1,760,178	318,615	0	0	318,615	318,615	0
Surrey Heath BC	1,566,134	120,000	1,576	0	118,424	120,000	0
Waverley BC	609,499	176,238	0	1,733	174,505	176,238	0
Windsor & Maidenhead RB	166,568	56,595	0	0	56,595	56,595	0
Woking BC	1,718,232	237,849	0	0	237,849	237,849	0
Wokingham BC	3,304,860	946,674	(9,626)	9,626	946,674	946,674	0
Interest	168,263	5,000	0	0	5,000	5,000	0
Total Income	18,964,846	3,246,170	(9,731)	13,040	3,242,861	3,246,170	0
Maintenance Fund	5,860,267	973,851	(2,919)	3,912	972,858	973,851	
Endowment Fund	13,104,578	2,272,319	(6,812)	9,128	2,270,003	2,272,319	

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

Appendix 4 – Projected Income and Expenditure 2021/22 to 2023/24

	Previous years	Projected 2021/22	Projected 2022/23	Projected 2023/24
Income	£	£	£	£
Bracknell Forest BC	3,238,525	190,799	0	0
Elmbridge BC	620,878	86,000	86,000	86,000
Guildford BC	2,296,177	0	0	0
Hart BC	2,869,340	311,400	0	0
Runnymede BC	646,192	797,000	768,000	603,000
Rushmoor BC	1,760,178	318,615	493,146	356,959
Surrey Heath BC	1,566,134	120,000	0	0
Waverley BC	609,499	176,238	166,263	73,821
Windsor & Maidenhead RB	166,568	56,595	56,595	56,595
Woking BC	1,718,232	237,849	237,849	237,849
Wokingham BC	3,304,859	946,674	80,005	80,005
Interest on cash balances	168,262	5,000	6,000	7,000
Total Income	18,964,844	3,246,170	1,893,858	1,501,229
Total Expenditure	3,227,099	565,012	572,004	583,029
Net Income/(Expenditure)	15,737,745	2,681,158	1,321,854	918,200
Investment Income *	729,982	541,556	728,633	765,065

* 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

	2020/21 Actuals £	2021/22 Projected £	2022/23 Projected £	2023/24 Projected £
Income	1,773,852	3,246,170	1,893,858	1,501,229
70% to Endowment Fund	1,242,993	2,272,319	1,325,701	1,050,860
30% to Maintenance Fund	530,859	973,851	568,157	450,369
Expenditure	447,643	565,012	572,004	583,029
Maintenance Fund:				
Balance brought forward	1,000,000	1,500,000	1,500,000	1,500,000
Transfer (from)/to income	83,216	408,839	(3,847)	(132,660)
Transfer (to)/from endowment fund	416,784	(408,839)	3,847	132,660
Balance carried forward	1,500,000	1,500,000	1,500,000	1,500,000
Endowment Fund:				
<i>Held as cash balances by Administrative Body</i>				
Balance brought forward	7,411,537	4,767,728	4,753,942	6,740,852
Transfer (from)/to income	1,242,993	2,272,319	1,325,701	1,050,860
Investment	(4,200,000)	(3,200,000)	0	0
Transfer (to)/from maintenance fund	(416,784)	408,839	(3,847)	(132,660)
Balance carried forward	4,037,746	4,248,886	6,075,796	7,659,052
Dividend income to be reinvested*	310,800	505,056	665,056	665,056
Previous years' dividend income*	419,182	0	0	0
Total balance carried forward	4,767,728	4,753,942	6,740,852	8,324,108
<i>Held in investments</i>				
Balance brought forward	5,694,356	10,101,130	13,301,130	13,301,130
Investment made	4,200,000	3,200,000	0	0
Previous years' dividend income	(419,182)	0	0	0
Profit/(Loss) on investment **	625,955	0	0	0
Balance carried forward	10,101,130	13,301,130	13,301,130	13,301,130
TOTAL ENDOWMENT FUND	14,868,858	18,055,072	20,041,982	21,625,238

* The investment income to be reinvested has been estimated at 5%

** Based on market value at 31st March 2021 and excluding any exit costs