

<b>Committee/Panel:</b>	Thames Basin Heaths Joint Strategic Partnership Board
<b>Date:</b>	22 <sup>nd</sup> June 2022
<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 actual financial position at 31<sup>st</sup> March 2022 and the projected financial position for the three years to 31<sup>st</sup> March 2025.

### **Recommendations**

3. That the financial position for the year ended 31<sup>st</sup> March 2022, as shown in Appendix 1, is agreed.
4. That the transfer from the Maintenance Fund to the Endowment 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 31<sup>st</sup> March 2025 is noted.
6. That the balance held within the Endowment Fund at 31<sup>st</sup> March 2022 of £14.793m, held as £7.932m as investments and £6.862m cash (with £5.7m investments pending) is noted.

### **Executive Summary**

7. The final outturn for the year ended 31<sup>st</sup> March 2022 is net income after project expenditure of £2.094m, which has been added to the Endowment Fund balance.
8. Dividend and interest income for the 2021/22 financial year was sufficient to fund 93% of the project expenditure, and although future income projections are by their nature subject to a degree of uncertainty, it is anticipated that the dividend and interest income will be sufficient to fully fund the project expenditure from the 2023/24 financial year, and therefore also anticipated that the current and projected balances within the Endowment Fund will provide sufficient income for the SAMM to be maintained in perpetuity.
9. As at 31<sup>st</sup> March 2022 the balance held in the Endowment Fund was £14.793m, of which £7.932m was held in investments and £6.862m was held as a cash balance by the Administrative Body. Of the £6.862m held as cash, £5.7m has already been approved for investment by the Board, with investments due to be completed imminently. A further £1.5m was held as a cash balance in the Maintenance Fund to pay for project expenditure.
10. It is projected that a further £2.558m will be added to the Endowment Fund in the 2022/23 financial year from tariff and dividend income, which (after taking into account pending investments) will give an anticipated total of £3.720m held as a cash balance and available to be invested.
11. Based on current projections of income and expenditure, the balance on the Endowment Fund would increase to £22.726m by 31<sup>st</sup> March 2025, of which £9.095m is projected to be held as a cash balance by the Administrative Body.
12. As per the current investment strategy, the balance on the maintenance fund is being maintained at £1.5m, with any balances above or below that level transferred to or from the Endowment Fund.

## **Financial Position for the Year Ended 31 March 2021**

13. The financial position at 31<sup>st</sup> March 2022 is summarised in the table in Appendix 1, and shows total net income after project expenditure of £2.094m was received for the 2021/22 financial year.
14. Total income received by the Administrative Body for the year was £2.602m, consisting of £2.130m tariff income collected by the Local Planning Authorities (LPAs), £459,626 dividend income and £12,767 interest on cash balances held. Actual tariff income for the

year was £973,000 lower than the projection reported to the JSPB in the November 2021 meeting, however this is offset by an increase in the projected income for future years.

15. Costs of £508,251 were incurred in the 2021/22 financial year, a £26,364 increase on the projected position mainly due to Natural England recruiting to the warden vacancies.

### **Projected Financial Position for the 2022/23 to 2024/25 Financial Years**

16. A summary of the projected financial position for the three years to 31st March 2025 is shown in Appendix 2.

17. These projections are based upon the tariff income forecasts provided by partner LPAs and expenditure forecasts provided by Natural England. Interest is assumed on cash balances at the current rate and dividends are projected at an annual rate of 5% of investment market values.

18. Across these three years, further total net income is projected of £7.933m, consisting of £7.697m tariff income, £1.760m dividend income and £0.252m interest, offset by £1.776m 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**

19. 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.

20. Since the commencement in April 2011, to date a total of £20.927m in tariff income has been received. Based on information provided by each of the partners, it is projected that £2.7m tariff income will be received in the 2022/23 financial year, with further projected tariff income of £2.5m in each of the 2023/24 and 2024/25 financial years, taking the projected total tariff income to March 2025 to £28.623m.

21. Current projections for future years would potentially increase the total tariff income receivable by a further £6.535m to £35.158m 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.

22. In addition to the tariff income, to date £1.371m has been received in dividend income and interest on the cash balances, with £0.466m dividend income and interest projected for the 2022/23 financial year, rising to a projected annual total of £0.781m by the 2024/25 financial year.
23. Significantly the dividend income and interest in the 2021/22 financial year was sufficient to fund 93% of expenditure for the year, and it is projected that dividend income and interest will be sufficient to fully fund expenditure from the 2023/24 financial year onwards. These projections are on the basis that the pending investments will be made and assumes a 5% dividend return.
24. 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 £573,212 for 2022/23, rising to £609,713 by 2024/25, based on current approved staffing and activity levels. After a delayed start, expenditure projections are now broadly in line with the original business plan.

### **Endowment Fund and Maintenance Funds**

25. As at 31<sup>st</sup> March 2021, £1.5m was held in the Maintenance Fund and a total of £14.793m was held in the Endowment Fund - £7.932m as investments and £6.862m as a cash balance, as shown in Appendix 3.
26. The 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.
27. The JSPB has 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. 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.

29. To date total investments of £10.2m have been made. An additional £4.7m has been specifically approved by the Board for investment with those investments due to be completely imminently, and a further amount for investment of up to £3m depending on the final outturn for the 2021/22 financial year was also approved by the Board. Based on the final outturn, an additional £1m will be invested, giving total pending investments of £5.7m.
30. The value of the investments held decreased by £2.170m (21%) between 31 March 2021 and 31 March 2022. However, this should be seen in the context of the long term investment approach agreed by the Board with a focus on income rather than capital growth. A full review of the performance of the investments is considered separately on the agenda, in the presentation by Arlingclose.
31. Based on the current projections of income and expenditure, it is expected that a further £2.558m from tariff income, dividend income and bank interest will be added to the Endowment Fund in the 2022/23 financial year, which after the pending investments would give a total of £3.720m held as a cash balance available to be invested.
32. Over the next three financial years the Endowment Fund held as a cash balance is expected to increase to £9.095m by March 2025. This is on the assumption that the balance within the Maintenance Fund will be maintained at £1.5m.
33. Cash fund balances are held by the Administrative Body, currently receiving interest at an assumed rate of 0.75%. 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 1% since 5<sup>th</sup> of May 2022.

## Conclusions

34. At £2.094m the net income received by the Administrative Body on behalf of the JSPB for the year ended 31 March 2022 was £1.032m less than the £3.126m projected position presented at the previous JSPB meeting on 19<sup>th</sup> November 2021, however, this is offset by higher projected future income receivable, with the precise timings of receipts difficult to predict and therefore the reduction for the year does not warrant concern.
35. The overall tariff income receivable is projected to potentially exceed the original SAMM business plan, and significantly the dividend income and interest receivable is anticipated to be sufficient to fund the on-going maintenance costs of the SAMM in perpetuity, achieving the financial aims of the partnership.

36. The cash balance within the Maintenance Fund is being kept at a level sufficient to fund annual maintenance for several years should there be an unexpected downturn in income, which is a very prudent approach.
37. The investments held within the Endowment Fund have decreased in value quite significantly over the year, however this should be viewed in the context of the JSPB's agreed long term investment approach with the focus on annual income, with dividend and interest income still funding 93% of the project expenditure for the year.
38. 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 - Financial Summary to 31 March 2022

Income	Cumulative to 2019/20 £	2020/21 £	2021/22 £	Total £
Bracknell Forest BC	2,902,544	335,981	246,427	3,484,952
Elmbridge BC	482,744	138,133	31,103	651,980
Guildford BC	2,101,320	194,857	292,185	2,588,362
Hart BC	2,677,055	192,285	427,834	3,297,174
Runnymede BC	634,852	11,340	168,103	814,295
Rushmoor BC	1,501,102	259,076	136,771	1,896,949
Surrey Heath BC	1,315,161	250,973	280,752	1,846,886
Waverley BC	576,256	33,243	104,923	714,422
Windsor & Maidenhead RB	166,568	0	238,098	404,666
Woking BC	1,566,050	152,182	86,701	1,804,933
Wokingham BC	3,106,885	197,975	117,047	3,421,907
<b>Total Tariff Income</b>	<b>17,030,537</b>	<b>1,766,045</b>	<b>2,129,944</b>	<b>20,926,526</b>
Interest	160,455	7,807	12,767	181,029
Dividend Income	419,182	310,800	459,626	1,189,608
<b>Investment Income</b>	<b>579,637</b>	<b>318,607</b>	<b>472,393</b>	<b>1,370,637</b>
<b>Total Income</b>	<b>17,610,174</b>	<b>2,084,652</b>	<b>2,602,337</b>	<b>22,297,163</b>
<b>Expenditure</b>				
Project costs Natural England	2,488,692	404,598	463,600	3,356,890
Administration fee Natural England	101,980	12,363	12,383	126,726
Financial Administration HCC	175,400	20,502	21,015	216,917
Investment advice	13,383	10,180	11,253	34,816
<b>Total Expenditure</b>	<b>2,779,455</b>	<b>447,643</b>	<b>508,251</b>	<b>3,735,349</b>
<b>Net Income/(Expenditure)</b>	<b>14,830,719</b>	<b>1,637,009</b>	<b>2,094,086</b>	<b>18,561,814</b>

## Appendix 2 – Projected Income and Expenditure 2021/22 to 2024/25

	Previous years	Projected 2022/23	Projected 2023/24	Projected 2024/25
Income	£	£	£	£
Bracknell Forest BC	3,484,952	250,000	250,000	250,000
Elmbridge BC	651,980	86,000	86,000	86,000
Guildford BC	2,588,362	500,000	500,000	-
Hart BC	3,297,174	441,510	307,623	296,206
Runnymede BC	814,295	200,372	364,181	801,065
Rushmoor BC	1,896,949	583,640	451,454	643,259
Surrey Heath BC	1,846,886	120,000	120,000	120,000
Waverley BC	714,422	99,510	19,910	2,230
Windsor & Maidenhead RB	404,666	56,595	56,595	19,320
Woking BC	1,804,933	248,492	248,492	248,492
Wokingham BC	3,421,907	80,005	80,005	80,005
<b>Total Tariff Income</b>	<b>20,926,526</b>	<b>2,666,124</b>	<b>2,484,260</b>	<b>2,546,577</b>
Interest on cash balances	181,029	69,000	84,000	117,000
Dividend Income	1,189,608	396,580	681,580	681,580
<b>Investment Income</b>	<b>1,370,637</b>	<b>466,580</b>	<b>765,580</b>	<b>780,580</b>
<b>Total Income</b>	<b>22,297,163</b>	<b>3,131,704</b>	<b>3,249,840</b>	<b>3,327,157</b>
<b>Total Expenditure</b>	<b>3,735,349</b>	<b>573,212</b>	<b>593,024</b>	<b>609,713</b>
<b>Net Income/(Expenditure)</b>	<b>18,561,814</b>	<b>2,558,492</b>	<b>2,656,816</b>	<b>2,717,444</b>



### Appendix 3 – Projected Endowment Fund Balance

	2021/22 Actuals £	2022/23 Projected £	2023/24 Projected £	2024/25 Projected £
Tariff Income and interest	2,142,711	2,735,124	2,568,260	2,645,577
70% to Endowment Fund	1,500,809	1,914,587	1,797,782	1,851,904
30% to Maintenance Fund	641,904	820,537	770,478	793,673
Expenditure	508,251	573,212	593,024	609,713
<b>Maintenance Fund:</b>				
Balance brought forward	1,500,000	1,500,000	1,500,000	1,500,000
Transfer (from)/to income	133,654	247,325	177,454	183,960
Transfer (to)/from endowment fund	(133,654)	(247,325)	(177,454)	(183,960)
<b>Balance carried forward</b>	<b>1,500,000</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	4,767,728	6,861,817	3,720,308	6,377,124
Transfer (from)/to income	1,500,809	1,914,587	1,797,782	1,851,904
Investment	0	(5,700,000)	0	0
Transfer (to)/from maintenance fund	133,654	247,325	177,454	183,960
<b>Balance carried forward</b>	<b>6,402,191</b>	<b>3,323,728</b>	<b>5,695,544</b>	<b>8,412,988</b>
Dividend income to be reinvested*	459,626	396,580	681,580	681,580
<b>Total balance carried forward</b>	<b>6,861,817</b>	<b>3,720,308</b>	<b>6,377,124</b>	<b>9,094,568</b>
<i>Held in investments</i>				
Balance brought forward	10,101,130	7,931,600	13,631,600	13,631,600
Investment made	0	5,700,000	0	0
Profit/(Loss) on investment **	(2,169,529)	0	0	0
<b>Balance carried forward</b>	<b>7,931,600</b>	<b>13,631,600</b>	<b>13,631,600</b>	<b>13,631,600</b>
<b>TOTAL ENDOWMENT FUND</b>	<b>14,793,417</b>	<b>17,351,909</b>	<b>20,008,725</b>	<b>22,726,169</b>

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

\*\* Based on market value at 31<sup>st</sup> March 2022 and excluding any exit costs