

Committee/Panel:	Thames Basin Heaths Joint Strategic Partnership Board
Date:	16 th November 2022
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 projected financial position for the three years to 31st March 2025.

Recommendations

3. That the projected financial position for the three financial years to 31st March 2025 is noted.
4. That the projected balance held within the Endowment Fund at 31st March 2023 of £17.279m, consisting of £13.632m held as investments and £3.647m as cash, and the projected cash balance of £8.678m before any further investment by 31st March 2025 is noted.

Executive Summary

5. The projected outturn for the year ended 31st March 2023 is net income after project expenditure of £2.486m, which will be added to the Endowment Fund balance. Across the three years up to and including 2024/25, total net income is projected of £7.516m.

6. Projected dividend and interest income for the 2022/23 financial year is expected to fund 69% of the project expenditure, with the balance being met from tariff income. Although future income projections are by their nature subject to a degree of uncertainty, dividend and interest income is expected to fully fund project expenditure at the current levels from the 2023/24 financial year.
7. Tariff income is forecast to continue for several years, increasing the Endowment Fund balance and enabling further investment to provide the income necessary to offset the expected growth in future annual expenditure and fund these costs in perpetuity, thereby achieving the financial aims of the partnership.
8. The projected balance in the Endowment Fund as at 31st March 2023 is £17.279m, of which £3.647m is anticipated to be held as a cash balance by the Administrative Body, available to be invested.
9. Based on current projections of income and expenditure, the balance on the Endowment Fund would increase to £22.309m by 31st March 2025, of which £8.678m 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 is being maintained at £1.5m, with any balances above or below that level transferred to or from the Endowment Fund.

Projected Financial Position for the Year Ended 31 March 2022

11. The projected financial position at 31st March 2023, as shown in Appendix 1, is net income after project expenditure of £2.486m.
12. Total income expected to be received by the Administrative Body for the year is £3.061m, consisting of £2.666m forecast tariff income collected by the Local Planning Authorities (LPAs), £317,264 forecast dividend income and £78,000 forecast interest on cash balances held. To date (end of September), £1.365m tariff income has actually been received in the financial year, equating to just over half the full year forecast.
13. Expenditure of £575,768 is forecast for the year, being slightly over budget due to the impact of rising inflation on fees paid which are index linked.

14. The expenditure for the current year is expected to be funded 69% from investment income (dividends and interest on cash balances) and 31% from tariff income, based on an assumed 4% dividend return.

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

15. A summary of the projected financial position for the three years to 31st March 2025 is shown in Appendix 3.

16. 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 4% of investment market values.

17. Across these three years, total net income is projected of £7.516m, consisting of £7.697m tariff income, £1.408m dividend income and £0.2m interest, offset by £1.792m 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

18. 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.

19. Since the commencement in April 2011, to the end of March 2022 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.

20. 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.

21. In addition to the tariff income, to the end of March 2022 £1.371m has been received in dividend income and interest on the cash balances, with £0.395m dividend income and

interest projected for the 2022/23 financial year, rising to a projected annual total of £0.617m by the 2024/ 25 financial year.

22. Although the dividend income and interest is currently projected to fund only 69% of expenditure in the current financial year, a dip on the 93% for the previous year, it is still 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 pending investments will be made; assumes a 4% dividend return; and assumes that further tariff income will be received and invested to generate the additional income required to cover future costs including inflation.

23. 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 £575,768 for 2022/23, rising to £617,761 by 2024/25, based on current approved staffing and activity levels. Although the current rate of inflation is significantly higher than the long-term average included within the modelling, this is expected to be only temporary and therefore taking a long-term view, expenditure projections remain broadly in line with the original business plan.

Endowment Fund and Maintenance Funds

24. As at 31st March 2022, £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 4.

25. 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.

26. Based on the current projections of income and expenditure, it is expected that a further £2.486m will be added to the Endowment Fund in the 2022/23 financial year, which (after the pending investments) would give a total of £3.647m held as a cash balance.

27. Over the next three financial years the Endowment Fund held as a cash balance is expected to increase to £8.678m by March 2025. This is on the assumption that the balance within the Maintenance Fund will be maintained at £1.5m.

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 £11.7m have been made, with an additional £4.2m approved by the Board and pending investment. A full review of the performance of the investments is considered separately on the agenda, in the presentation by Arlingclose.
30. 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.
31. Given the significant fluctuations in the base rate this year, an assumed rate of 0.75% has been used for the current financial year for the purposes of this report, being the Bank of England base rate at the start of the year. However, an average rate will be applied at year end, which is likely to be higher than this.

Conclusions

32. 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 potentially exceed the original SAMM business plan.
33. The project has not yet reached the point where investment income is sufficient to fully fund current annual expenditure, but this point is expected to be reached from the next financial year. Tariff income is expected to continue for several years beyond this point, 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 to achieve the financial aims of the partnership.
34. 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 several years should there be an unexpected downturn in income.

35. 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 2023

2022/23	Budget	Actuals to date	Outturn Forecast	Variance to Budget
Income	£	£	£	£
Bracknell Forest BC	250,000	21,303	250,000	0
Elmbridge BC	86,000	4,628	86,000	0
Guildford BC	500,000	51,227	500,000	0
Hart DC	441,510	247,859	441,510	0
Runnymede BC	200,372	(49,986)	200,372	0
Rushmoor BC	583,640	76,822	583,640	0
Surrey Heath BC	120,000	16,344	120,000	0
Waverley BC	99,510	0	99,510	0
Windsor & Maidenhead RB	56,595	2,251	56,595	0
Woking BC	248,492	0	248,492	0
Wokingham BC	80,005	994,819	80,005	0
Total tariff income	2,666,124	1,365,267	2,666,124	0
Interest on Cash Balances	78,000	0	78,000	0
Dividend Income	317,264	0	317,264	0
Investment Income	395,264	0	395,264	0
Total Income	3,061,388	1,365,267	3,061,388	0
Expenditure				
Natural England Staff Costs	495,009	138,088	495,009	0
Natural England Project Costs	24,947	2,691	24,947	0
Natural England Admin Fee	20,894	0	20,894	0
HCC Admin Fee	21,648	0	23,500	1,852
Investment Advice Cost	11,243	7,312	11,418	175
Total Expenditure	573,741	148,091	575,768	2,027
Net Income/(Expenditure)	2,487,647	1,217,176	2,485,620	(2,027)

Appendix 2 – Detailed Income Summary

	2022/23						
	Previous years	Budget	Actuals to date	Notified contributions	Forecast for remaining months	Projected total	Variance
	£	£	£	£	£	£	£
INCOME							
Bracknell Forest BC	3,484,952	250,000	21,303	0	228,697	250,000	0
Elmbridge BC	651,981	86,000	4,628	(2,583)	83,955	86,000	0
Guildford BC	2,588,362	500,000	51,227	0	448,773	500,000	0
Hart DC	3,297,174	441,510	247,859	(3)	193,654	441,510	0
Runnymede BC	814,295	200,372	(49,986)	0	250,358	200,372	0
Rushmoor BC	1,896,949	583,640	76,822	0	506,818	583,640	0
Surrey Heath BC	1,846,886	120,000	16,344	0	103,656	120,000	0
Waverley BC	714,423	99,510	0	24,475	75,035	99,510	0
Windsor & Maidenhead RB	404,666	56,595	2,251	0	54,344	56,595	0
Woking BC	1,804,933	248,492	0	0	248,492	248,492	0
Wokingham BC*	3,421,907	80,005	994,819	(25,061)	(889,753)	80,005	0
Interest	181,030	78,000	0	0	78,000	78,000	0
Dividends	1,189,608	317,264	0	0	317,264	317,264	0
Total Income	22,297,166	3,061,388	1,365,267	(3,172)	1,699,293	3,061,388	0

*actuals received significantly higher than forecast provided, for prudence overall forecasts have not been amended.

Appendix 3 – Projected Income and Expenditure 2022/23 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	651,981	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	714,423	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
Total Tariff Income	20,926,528	2,666,124	2,484,260	2,546,577
Interest on cash balances	181,030	78,000	53,000	72,000
Dividend Income	1,189,608	317,264	545,264	545,264
Investment Income	1,370,637	395,264	598,264	617,264
Total Income	22,297,166	3,061,388	3,082,524	3,163,841
Total Expenditure	3,735,349	575,768	598,175	617,761
Net Income/(Expenditure)	18,561,817	2,485,620	2,484,349	2,546,080

Appendix 4 – Projected Endowment Fund Balance

	2022/23 Projected £	2023/24 Projected £	2024/25 Projected £
Net Income/(Expenditure)	2,485,620	2,484,349	2,546,080
Maintenance Fund:			
Balance brought forward	1,500,000	1,500,000	1,500,000
Transfer (from)/to income	0	0	0
Transfer (to)/from endowment fund	0	0	0
Balance carried forward	1,500,000	1,500,000	1,500,000
Endowment Fund:			
Balance brought forward	6,861,817	3,647,437	6,131,786
Transfer (from)/to income	2,485,620	2,484,349	2,546,080
Investment	(5,700,000)	0	0
Transfer (to)/from maintenance fund	0	0	0
Balance carried forward	3,647,437	6,131,786	8,677,866
<i>Held in investments</i>			
Balance brought forward	7,931,600	13,631,600	13,631,600
Investment made	5,700,000	0	0
Profit/(Loss) on investment	0	0	0
Balance carried forward	13,631,600	13,631,600	13,631,600
TOTAL ENDOWMENT FUND	17,279,037	19,763,386	22,309,466