

Committee/Panel:	Thames Basin Heaths Joint Strategic Partnership Board
Date:	5 July 2023
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 31st March 2023 and the projected financial position for the three years to 31st March 2026.

Recommendations

3. That the financial position for the year ended 31st March 2023, 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 31st March 2026 is noted.
6. That the balance held within the Endowment Fund at 31st March 2023 of £18.848m, held as £13.537m in investments and £5.311m cash is noted.

Executive Summary

7. The final outturn for the year ended 31st March 2023 is net income after project expenditure of £3.249m, which has been added to the Endowment Fund balance.
8. Dividend and interest income for the 2022/23 financial year was sufficient to fully fund 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 in perpetuity. However, this is on the assumption that income continues to increase to cover the impact of inflation on expenditure and that expenditure is carefully managed.
9. As at 31st March 2023 the balance held in the Endowment Fund was £18.848m, of which £13.537m was held in investments and £5.311m was held as a cash balance by the Administrative Body. Of the £5.311m held as cash, £4m has already been approved for investment by the Board. A further £1.5m was held as a cash balance in the Maintenance Fund to pay for project expenditure.
10. It is projected that £2.896m will be added to the Endowment Fund in the 2023/24 financial year from tariff and dividend income, which (before taking into account the £4m pending investment) will give an anticipated total of £8.207m 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 £26.957m by 31st March 2026, of which £13.42m 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 2023

13. The financial position at 31st March 2023 is summarised in the table in Appendix 1, and shows total net income after project expenditure of £3.249m was received for the 2022/23 financial year.
14. Total income received by the Administrative Body for the year was £3.820m, consisting of £3.069m tariff income collected by the Local Planning Authorities (LPAs), £562,075 dividend income and £188,868 interest on cash balances held. Actual tariff income for

the year was £402,515 higher than the projection reported to the JSPB in the November 2022 meeting.

15. Costs of £570,124 were incurred in the 2022/23 financial year, a £5,644 decrease on the projected position due to various small fluctuations.

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

16. A summary of the projected financial position for the three years to 31st March 2026 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. With interest rates at a 15-year high, interest has been assumed at the current rate of 4.5% for 2023/24, but a prudent on-going rate of 2%. Dividends have been projected at an annual rate of 5% of investment market values for 2023/24 and a more conservative 4% for future years.
18. Across these three years, further total net income is projected of £8.109m, consisting of £7.289m tariff income, £1.760m dividend income and £0.904m interest, offset by £1.844m 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 £23.955m in tariff income 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 2023/24 financial year, with further projected tariff income of £2.5m in 2024/25 and £2.3m 2025/26 financial years, taking the projected total tariff income to March 2026 to £31.284m.
21. Current projections for future years would potentially increase the total tariff income receivable by a further £4.158m to £35.442m 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 £2.122m has been received in dividend income and interest on the cash balances, with £1.066m dividend income and interest projected for the 2023/24 financial year, reducing to a projected annual total of £0.823m by the 2025/26 financial year, reflecting the anticipated reduction in interest rates from the current high levels.
23. Significantly the dividend income and interest in the 2022/23 financial year was sufficient to fund 132% of expenditure for the year, and it is projected that dividend income and interest will continue to be sufficient to fully fund expenditure. These projections assume a 5% return for 2023/24 and 4% return thereafter.
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 £598,354 for 2023/24, rising to £628,956 by 2025/26, 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. At 31st March 2023, £1.5m was held in the Maintenance Fund and a total of £18.848m was held in the Endowment Fund - £13.537m in investments and £5.311m 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 £15m have been made. A further amount for investment of up to £4m depending on the final outturn for the 2022/23 financial year was previously approved by the Board at the November 2022 meeting. Based on the final outturn, an additional £4m will be invested.
30. The value of the investments held increased by £0.805m (10%) between 31 March 2022 and 31 March 2023, although there is still a cumulative loss to 31 March 2023 of £1.463m. 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 £2.896m from tariff income, dividend income and bank interest will be added to the Endowment Fund in the 2023/24 financial year, which before factoring in the pending £4m investment would give a total of £8.207m 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 £13.42m by March 2026. 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. 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 4.5% since 11th of May 2023. For the 2022/23 financial year the average rate of interest received was 2.29%.

Conclusions

34. At £3.249m the net income received by the Administrative Body on behalf of the JSPB for the year ended 31 March 2023 was £0.763m more than the £2.486m projected position presented at the previous JSPB meeting on 16th November 2022, partly due to increased tariff income and partly due to higher interest rates. As has been reported previously, the precise timings of tariff income receipts are difficult to predict and therefore the change in the year does not warrant concern.
35. The overall tariff income receivable is projected to 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. However, this is on the assumption that income will continue to rise to cover inflation on expenditure, and expenditure will continue to be carefully managed.

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 increased in value over the year but have not yet recovered the losses accumulated from prior years. However, this should be viewed in the context of the JSPB's agreed long term investment approach with the focus on annual income rather than capital growth.
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 2023

Income	Cumulative to 2020/21 £	2021/22 £	2022/23 £	Total £
Bracknell Forest BC	3,238,525	246,427	384,612	3,869,564
Elmbridge BC	620,878	31,103	43,916	695,897
Guildford BC	2,296,177	292,185	457,996	3,046,358
Hart BC	2,869,340	427,834	340,746	3,637,920
Runnymede BC	646,192	168,103	(21,541)	792,754
Rushmoor BC	1,760,178	136,771	277,913	2,174,862
Surrey Heath BC	1,566,134	280,752	142,012	1,988,898
Waverley BC	609,499	104,923	52,649	767,071
Windsor & Maidenhead RB	166,568	238,098	18,177	422,843
Woking BC	1,718,232	86,701	154,108	1,959,041
Wokingham BC	3,304,860	117,047	1,218,051	4,639,958
Total Tariff Income	18,796,583	2,129,944	3,068,639	23,995,166
Interest	168,263	12,767	188,868	369,898
Dividend Income	729,982	459,626	562,075	1,751,683
Investment Income	898,245	472,393	750,943	2,121,581
Total Income	19,694,828	2,602,337	3,819,582	26,116,747
Expenditure				
Project costs Natural England	2,893,290	463,600	525,238	3,882,128
Administration fee Natural England	114,343	12,383	12,383	139,109
Financial Administration HCC	195,902	21,015	21,015	237,932
Investment advice	23,564	11,253	11,488	46,305
Total Expenditure	3,227,099	508,251	570,124	4,305,474
Net Income/(Expenditure)	16,467,729	2,094,086	3,249,458	21,811,273

Appendix 2 – 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	250,000	250,000	250,000
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	364,181	801,065	818,448
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	19,910	2,230	649
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
Total Tariff Income	23,995,167	2,428,148	2,552,349	2,308,521
Interest on cash balances	369,897	389,000	233,000	282,000
Dividend Income	1,751,683	676,840	541,472	541,472
Investment Income	2,121,580	1,065,840	774,472	823,472
Total Income	26,116,747	3,493,988	3,326,821	3,131,993
Total Expenditure	4,305,473	598,354	616,624	628,956
Net Income/(Expenditure)	21,811,274	2,895,634	2,710,197	2,503,037

Appendix 3 – Projected Endowment Fund Balance

	2022/23 Actuals £	2023/24 Projected £	2024/25 Projected £	2025/26 Projected £
Income	3,257,506	2,817,148	2,785,349	2,590,521
70% to Endowment Fund	2,280,633	1,972,004	1,949,744	1,813,365
30% to Maintenance Fund	976,873	845,144	835,605	777,156
Expenditure	570,124	598,354	616,624	628,956
Maintenance Fund:				
Balance brought forward	1,500,000	1,500,000	1,500,000	1,500,000
Transfer (from)/to income	406,749	246,790	218,981	148,200
Transfer (to)/from endowment fund	(406,749)	(246,790)	(218,981)	(148,200)
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	6,861,817	5,311,274	8,208,193	10,918,876
Transfer (from)/to income	2,280,633	1,972,004	1,949,744	1,813,365
Investment	(4,800,000)	0	0	0
Transfer (to)/from maintenance fund	406,749	246,790	218,981	148,200
Balance carried forward	4,749,199	7,530,068	10,375,634	12,878,670
Dividend income to be reinvested *	562,075	676,840	541,472	541,472
Total balance carried forward	5,311,274	8,206,908	10,917,106	13,420,142
<i>Held in investments</i>				
Balance brought forward	7,931,600	13,536,805	13,536,805	13,536,805
Investment made	4,800,000	0	0	0
Profit/(Loss) on investments **	805,205	0	0	0
Balance carried forward	13,536,805	13,536,805	13,536,805	13,536,805
TOTAL ENDOWMENT FUND	18,848,079	21,743,713	24,453,911	26,956,947

* The investment income to be reinvested has been estimated at 5% for 2023/24 and 4% thereafter.

** Based on market value at 31st March 2023 and excluding any exit costs