

Salcombe Harbour Board, 4 October 2005**FINANCIAL FORECAST****Report of the Salcombe Harbour Master**

Statutory Powers: Local Government Act 1972, Section 151; The Pier and Harbour Order (Salcombe) Confirmation Act 1954

Financial Implications: The identification of a funding gap after unavoidable budget pressures of £7,050. Further proposals for additional expenditure of £39,350, to be financed by increases in income levels.

Purpose

The financial forecast identifies issues facing the Harbour and shows the financial impact these have on the trading position and Harbour charges. This information will help members decide future levels of service provision and set the 2006/2007 budget and charges.

The report also updates members on the trading position in 2005/2006. Budget considerations are directly linked to corporate priority six – ‘the improvement of core services in a cost effective way’.

Recommendations**That the Board RESOLVES that:**

1. **the current year’s financial position be noted.**
2. **members consider the service pressures and ways of addressing the funding gap set out within paragraphs 5 to 17 and recommend those items they wish to incorporate within the 2006/2007 budget.**
3. **the proposals for financing the pontoons replacement, as set out in paragraphs 8 to 11 be agreed and approval for the loan of £150,000 to be sought from the Council.**

Introduction

1. **Appendix A** forecasts the Harbour’s financial position next year before any increase in charges. It is based on an assessment of unavoidable pressures. The rest of this report sets out the current year’s financial position, explains the unavoidable pressures facing the board next year, and identifies a need for additional expenditure. Ways of reducing the funding gap are put forward for consideration.

The Current Year 2005/2006

2. Current projections indicate that a surplus of around £33,700 is anticipated. Table 1 explains the position:

Table 1: Items contributing to the budgeted surplus:

Variations from budget 2005/2006	Cost / (Saving) £
i. Employee costs savings	(11,600)
ii. Additional rent payable to the Duchy of Cornwall. This is linked to the additional income generated	5,700
iv Reduction in rateable value	(5,500)
Iv Additional income volumes	(22,300)
Anticipated trading surplus – as at mid September 2003	(33,700)

3. If a surplus is generated it can be used to strengthen reserves, fund items of a one-off nature and to provide for contingencies. Anticipated Harbour balances at the year-end are reported in **Appendix B**.

Forecast 2006/2007

4. **Appendix A** shows the impact of unavoidable service pressures on the Harbour's trading position in 2006/2007. The next paragraphs explore pressures further. Members are aware that the lease with the Duchy of Cornwall is being re-negotiated. The Duchy of Cornwall has agreed to a holding period in order to await the recommendations from the Municipal Ports Review and to enable the Duchy to take a broad look at all leases in terms of income generation. The outcome of the re-negotiation will not influence next year's financial situation. Members are reminded that costs may rise in the future as a result of these negotiations.

Budget Pressures

Unavoidable items

5. The unavoidable budget pressures set out below have been incorporated within the financial forecast.
 - a) **Inflation (£9,600):** The retail price index is currently running at 2.95%. The forecast allows for minimal inflation only – for example, the estimated cost of nationally agreed pay increases.

- b) **Insurances (£4,900):** The cost of cover has increased as the profitability of underwriting has declined. The profitability of insurance business has been affected by investment performance and claims experience generally.
- c) **Savings £7,450:** These budget pressures have been offset by savings found elsewhere within the harbour budget.

Capital Renewals

- 6. Each year contributions are set aside within the renewals reserve so that vessels, plant and machinery can be replaced and the Harbour's operating capacity maintained. This contribution is designed to smooth out lumpy expenditure and the balance on the reserve is fully committed.
- 7. The Harbour Master has identified a requirement to replace the Resident, Whitestrand and Visitors' pontoons as a matter of priority, subject to Board approval. The total cost of this work is estimated at £393,000.
- 8. It is recommended that this expenditure is financed through a combination of withdrawals from accumulated reserves, and through a loan from the District Council.
- 9. Appendix # shows the projected reserve balances at March 2006, totalling £309,174. Consideration has been given to the level of funding which could reasonably be utilised from the reserves, whilst maintaining balances at a prudent level. It is recommended that a total of £243,000 be withdrawn from the reserves to finance the pontoon replacement. This will leave a total reserve balance of £66,174 at March 2005.
- 10. Given this significant level of withdrawals from the reserves, it is recommended that the annual contribution to the Renewals reserve be increased by £12,000. This will allow future financing of the renewals programme, whilst enabling a prudent balance to be maintained.
- 11. It is further recommended that a sum of £150,000 is borrowed from the District Council to complete the funding of the pontoon replacements. At an annual interest rate of 6%, and assuming a useful life of 25 years, the annual repayment of principal and interest will be £12,350.
- 12. Both the increased reserve contributions and loan repayments have been built into the 2005/06 budget pressures detailed below.
- 13. In addition to the pontoons replacement, the Harbour Master has identified the requirement to replace the following assets, as part of the planned renewals programme. If this work is progressed, it is recommended that the expenditure is financed from the Renewals reserve.

Poundstone Launch	£15,000
Blackstone Engine	£6,000
Mooring Barge (1 Section)	£7,000
Mooring Barge Lifting Arm	£12,000
Total	£40,000

Additional Expenditure

14. **Night Security Patrol** – The Harbour Master has conducted a survey amongst harbour users to ascertain satisfaction levels with current security arrangements. Early indications are that most users would like to see an increase in the level of harbour security. In light of this, the Harbour Master has identified a requirement for an additional £15,000 per annum to provide an enhanced security patrol service.

Summary of pressures facing the Harbour Board

15. This table summarises the pressures facing the Board and the impact of these on charges. Subsequent paragraphs explore ways of addressing the gap.

Table 2 – Summary of budget pressures

	Cost £	Impact on charges (%)
Unavoidable Budget Pressures	7,050	1.0
SHDC Loan Repayments	12,350	1.9
Night Security Patrol	15,000	2.3
Additional contributions to the Reserves	12,000	1.8
Total pressures	46,400	7.0

Ways of addressing the funding gap

16. This section of the report looks at addressing the budget pressures. Members are asked to consider the following items.
- a. **Income growth:** Substantial surpluses have been generated over a number of years, driven predominately by year on year increases in income streams. On the basis of this evidence, Officers recommend building a sum of **£20,000** into the budget for income growth.

- b. **Increases to existing charges:** An increase in charges of 1% will generate income of £6,600. Customarily, the Board recommends a percentage increase and the Harbour Master brings back specific proposals for their approval. These take into account the local market and comparisons with similar authorities. Inflation is currently running at approximately 3%. An inflationary increase in charges of 3% would generate additional income of **£19,800**, whilst a 4% increase would generate **£26,400**.
- c. **Implementing budget reductions:** The Harbour Master, like other Council service managers, has had to consider meeting the Gershon efficiency savings targets. All budgets are being scrutinised and although there are no readily identifiable savings any significant reductions will be reported.
- Reducing inputs (money, people or assets)
 - Reducing prices (procurement, labour etc.)
 - Getting greater outputs or improved quality (extra service, productivity) for the same inputs
 - Getting more outputs or improved quality in return for an increase in resources that is proportionately less than the increase in outputs or quality
- d. Members need to be made aware that the council has legal obligations to take account of single status which is coming up over the horizon. The term **single status** is used to describe the harmonisation of pay and conditions for all our employees. All local authorities have to complete the review by 31st March 2007. It covers a wide range of issues including pay grades, productivity, flexible and variable working arrangements, training and learning.

Whilst we have legal obligations to proceed with the review it also provides an exceptional opportunity to modernise our pay structures, which will provide opportunities to facilitate increased staff flexibility and motivation

17. The inclusion of income growth of £20,000 together with a 4% increase in charges would return the budget to a self-financing break-even position.
18. As part of the strategic planning business process, the Board may wish to consider its position within the council and how it is best placed in the future, to assist in the improvement of 'council assets' that are part of the harbour estate and are not purely owned by the harbour account.

Risk Assessment

19. Members are aware that the Salcombe Harbour budget is prepared on a break-even basis. Should actual circumstances differ from expectations, a deficit may occur. These include:
- The level of inflation, assumed to be 2.9%;
 - The level of harbour use, which depends on the general economic climate;
 - Weather patterns;
 - Holiday trends.
20. These risks are reduced through continual budget monitoring, which ensures that variances are identified on a timely basis, and remedial action taken where necessary.

Conclusion

21. The purpose of the financial forecast is to provide a reasonable degree of predictability in order that Members may balance funding with the delivery of political and policy choices. The Board is asked to consider the budget as presented in this report, together with proposals for funding the anticipated shortfall.

Paul Bartlett
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Salcombe Harbour Board
4 October 2005

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Background Documents:

Financial Services working papers