

Salcombe Harbour Board 12 November 2007**2008/09 BUDGET****Report of Head of Financial Services and Head of Service Salcombe Harbour**

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

Financial Implications: The report identifies a funding gap of £74,650, before any review of charges. It is anticipated that the shortfall can be met by various amendments to the existing charging structure, as identified in a further report to be considered at the 12 November meeting.

Purpose

The 2008/09 budget builds upon the principles adopted in the Salcombe Harbour Strategic Business Plan and details the financial impact of the proposals contained therein.

Recommendations

That the Board RESOLVES that the 2008/09 budget items set out within the report are acknowledged.

Introduction

1. The Salcombe Harbour Strategic Business Plan was endorsed and adopted at the Council meeting on 2 August 2007. This document sets out, in principle, the challenges and opportunities facing the Harbour over the coming years, together with an assessment of their financial implications.
2. The formulation of a detailed budget for the forthcoming year, 2008/09, is vital to allow those financial implications to be understood in detail and to ensure that adequate resources can be put in place to deliver the services identified through the business planning process.
3. The Harbour, like all organisations, has finite resources. The budget has been considered with the utmost regard to the affordability and value for money for Harbour users and the financial wellbeing and sustainability of the Harbour over the medium to long term.
4. The 2008/09 budget, as detailed in this report, links strongly to the approved Business Plan and is based on the assumptions and strategic direction contained therein.

5. It is incumbent upon the Harbour to set a balanced budget. Accordingly, proposals to generate sufficient additional income to match the level of expenditure detailed herein are the subject of a further report to be considered at the 12 November meeting.

Budget Pressures

6. Harbour expenditure requirements have been reviewed in detail, taking into account both the aspirations of the Business Plan document and other considerations, such as the impact of inflation.
7. Wherever possible, efficiency savings have been identified and these have been built into the budget accordingly. In addition, it is anticipated that the impact of inflation will be absorbed within many of the existing budget heads and, with the exception of the items shown below, all other budgets have been held at 2007/08 levels.
8. The anticipated net income and expenditure position is shown at Appendix A, with the 2007/08 budget used as a baseline position. Variations from this baseline, both in terms of the additional resource requirements and identified efficiencies are discussed in detail in sections i) to viii) below, grouped by category of budget head.

i) Employee Costs

9. Staff costs form the single biggest area of expenditure for the Harbour, roughly 42% of the Harbour expenditure budget. A full review of the staffing structure was conducted in 2006. Certain unavoidable increases, such as the impact of the annual pay award and the movement of staff through the pay structure, have a significant impact on costs and will need to be built into the 2008/09 budget. However, staffing levels and associated costs are kept under constant review to ensure they remain appropriate to the requirements of the business.

10. The table below details the variations from the 2007/08 baseline.

	£	£
Staffing Budget 2007/08		317,900
Additional Requirements:		
Pay award – anticipated to be 3%	9,700	
Staff increments – automatic progression to next pay scale point	7,300	
Staff restructure	9,000	
Cessation of licensing recharge to SHDC – Harbour staff were previously involved in boat licensing activities on behalf of SHDC and the cost was recharged to the District Council. Harbour staff no longer perform this function and have therefore been freed up to concentrate on Harbour activities	7,200	

Total Additional Requirements		33,200
Savings:		
Marine Conservation Officer Contribution – assumed additional contributions from third party will reduce the financial obligation of Salcombe Harbour	(6,000)	
Overtime – overtime levels are now able to be reduced, partly as a result of the restructure	(6,000)	
Total Savings		(12,000)
Net Additional Requirements / (Savings)		21,200
Staffing Budget 2008/09		339,100

ii) Premises Related Expenditure

11. Premises related expenditure encompasses costs relating directly to the Harbour infrastructure assets and includes payments in respect of the night security patrol contract.

12. The table below details the variations from the 2007/08 baseline.

	£	£
Premises Budget 2007/08		233,100
Additional Requirements:		
Rent to Duchy – the rental of the fundus from the Duchy of Cornwall has been renegotiated to ensure long term value for money. From 2008/09 onwards, the Duchy is guaranteed a minimum rental of £70,000	7,000	
Mooring Barge – the proposed increase reflects increasing costs seen over the past 3 years	1,000	
Total Additional Requirements		8,000
Savings:		
Security Patrol – the level of service of the Security Patrol has been reviewed and matched to Security income received from Harbour users	(8,000)	
Deepwater Moorings – reduced maintenance requirement following the introduction of new resident's pontoon on piles rather than chains	(3,600)	
Other minor savings	(200)	
Total Savings		(11,800)
Net Additional Requirements / (Savings)		(3,800)
Premises Budget 2008/09		229,300

iii) Supplies and Services

13. Expenditure classified as Supplies and Services relates to items directly linked to the provision of the Harbour's services, including communications, protective clothing, minor equipment and general office supplies.

14. The table below details the variations from the 2007/08 baseline.

	£	£
Supplies & Services Budget 2007/08		38,550
Additional Requirements:		
Shower Tokens – as approved by the Board at the 6 June 2007 meeting, these tokens allow visiting yachtsmen to use the shower facilities at the Yacht Club	4,000	
Clothing – existing staff uniforms are becoming tired and need replacement. Additional expenditure would allow clothing to be purchased with a consistent branding and extended to seasonal staff. To date seasonal staff have been issued with a shirt. The proposal will enable seasonal staff to have more extensive uniform and re-cycled waterproofs from permanent staff	2,000	
WiFi – as approved by the Board at the 6 June 2007 meeting, this represents the cost of providing a WiFi service for Harbour users. It is anticipated that this service will become self-financing during the next financial year	1,500	
Credit Card Handling – the budget has been increased based on the level of charges incurred in 2006/07. It is anticipated that the number of transactions processed will be no lower than last year	1,000	
Printing & Stationery – the budget has been reviewed and increased from the previous year, but represents a reduction from actual expenditure incurred in 2006/07	450	
Postage - the budget has been reviewed and increased from the previous year, but represents a reduction from actual expenditure incurred in 2006/07	500	
Port Marine Safety Code – the cost of complying with the Code has risen over the past 2 years. The budget provision has been reviewed and set at a realistic level	800	
Total Additional Requirements		10,250
Savings:		
Consultancy – there is no identified requirement for the use of consultants during the forthcoming year	(1,500)	
Minor Equipment	(100)	
Total Savings		(1,600)
Net Additional Requirements / (Savings)		8,650
Supplies & Services Budget 2008/09		47,200

iv) Transport

15. Transport related expenditure includes the costs of operating and maintaining the Harbour launches, water taxis and vehicles. In recent years, spiralling fuel charges have contributed to increasing costs in this area. Currently, however, the cost of fuel appears to have stabilised, and is currently running at a level similar to that seen in October 2005. No requirement for additional resources has been identified within the Transport budget.

16. The table below details the variations from the 2007/08 baseline.

	£	£
Transport Budget 2007/08		38,400
Savings:		
Fuel for Launches – the recent reduction in fuel prices has allowed this budget to be reduced. However, the inherent uncertainty in this area is acknowledged and the budgeted level for 2008/09 therefore represents a prudent estimate	(1,000)	
Total Savings		(1,000)
Net Additional Requirements / (Savings)		(1,000)
Transport Budget 2008/09		37,400

v) Central Support & HQ Costs

17. Central functions, such as Personnel & Payroll, Information Technology, Finance, Property advice, Strategic Capacity etc. are provided by the District Council. An accurate time recording system is used throughout the Council, which allows the identification of actual time spent by SHDC employees on Harbour activities. This in turn provides the basis for the level of costs which are recharged to the Harbour. As the Harbour is a ring-fenced account, no subsidy is allowed either from or to the Harbour in respect of central costs. This is subject to an annual audit by PriceWaterhouseCoopers LLP.

18. As is the case with staff costs charged directly to the Harbour, the annual pay award will impact on budget provision. Additionally, the estimate of the costs of providing central support functions for the forthcoming year is based on the actual costs recorded for the preceding year.

19. The table below details the variations from the 2007/08 baseline.

	£	£
Central Support & HQ Budget 2007/08		53,200
Additional Requirements:		
Pay Award – anticipated to be 3%	1,700	
Additional Charge – based on a full analysis of time spent by central functions during the current year.	4,800	
Total Additional Requirements		6,500
Net Additional Requirements / (Savings)		6,500
Central Support & HQ Budget 2008/09		59,700

vi) Contributions to Harbour Reserves

20. The Harbour holds 3 reserves:

1. General Reserve – comprising the accumulation of generated trading surpluses.
2. Renewals Reserve – to provide for the replacement of the Harbour's infrastructure assets, excluding pontoons.
3. Pontoon Reserve – to provide for the replacement of pontoons.

21. The business planning process included a full appraisal of existing reserve balances and levels of contribution. The principle adopted in the Business Plan, and discussed and approved by the Harbour Board at the 6 June meeting, is that sufficient funds should be set aside on an annual basis to provide for the replacement of Harbour assets.

22. This does, however, need to be viewed in terms of affordability and value for money as annual contributions cannot impact on fees and charges in a prohibitive fashion. In light of this, and as set out in the Business Plan, it is recognised that it is not feasible to fund all future pontoon replacements through accumulated reserves; the Batson pontoons replacement scheduled for 2010/11 will be funded through borrowing. This will allow annual reserve contributions to be set within the constraints of affordability and value for money.

23. A summary of estimated reserve balances is included at Appendix B.

24. The table below details the variations from the 2007/08 baseline.

	£	£
Reserve Contributions Budget 2007/08		37,900
Reduction in Renewals Reserve Contributions	(6,900)	
Increase in Pontoon Reserve Contributions	40,000	
Net Additional Requirements / (Savings)		33,100
Reserve Contributions Budget 2008/09		71,000

vii) New Projects

25. The Business Plan identifies revenue funded capital projects totalling £60,000 for 2008/09. This comprises the following:

1. £50,000 Batson Brow Pontoon and Slipway
2. £5,000 Provision of fresh water to Kingsbridge
3. £5,000 Provision of fresh water to the Bag

26. It was agreed at the Board meeting on 25 September 2007 that the Batson Brow Pontoon and Slipway project would be undertaken during the 2007/08 financial year, to take advantage of considerable cost savings.

27. The 2008/09 budget therefore includes provision to fund capital projects from revenue to the value of £10,000.

viii) Capital Charges

28. Capital charges refer to the cost of servicing loans which have been provided by the District Council for the purchase of Harbour assets. Repayment obligations for 2008/09 relate to 4 loans, as detailed below.

Description	Loan Date	Loan Amount £	Term (Yrs)	Payment 08/09 £
Whitestrand Pontoon	1994/95	64,000	15	4,803
Whitestrand Pontoon Safety Improvements	2003/04	48,854	25	4,146
Piling in the Bag	2003/04	11,983	25	1,017
Residents' Pontoon	2007/08	150,000	25	11,734
Total				21,700

29. The annual repayment due during 2008/09, which includes the repayment of both principal and interest, is £21,700. This represents no change from the previous year.

Single Status

30. At the time of preparing the 2008/09 budget, the Single Status pay evaluation exercise is still in progress. It is expected that the results will be known during Spring 2008.

31. At this stage, it is not possible to assess any potential impact on Harbour staffing costs. Accordingly, no provision for any increase or decrease in costs has been built into the budget. To do so at this point in time could unfairly and inaccurately impact on the level of fees and charges needed to balance the budget.

32. The Board should therefore be aware that there may be an impact on Harbour costs during the 2008/09 year that is not currently provided for within the revenue budget. It is hoped, however, that any variations to the budget will be able to be absorbed by the reserve balances, with any ongoing variations assessed as part of the 2009/10 budget process.

Harbour Assets

33. The Harbour, like any trading operation, relies on its assets to deliver services and to generate income.

34. The Harbour's assets have a finite useful life. Funds are set aside and charged to the revenue account as a form of depreciation to provide for replacements when they fall due. The cost implications on the revenue budget are discussed in section vi) above.

35. A summary of assets held as at 1 April 2007 is shown below.

	Land & Buildings	Infrastructure	Vehicles, Plant & Machinery	Under Construction	Total
	£000	£000	£000	£000	£000
Gross Valuation	119	202	162	5	488
Accumulated Depreciation	4	84	126	0	214
Net Book Value	115	118	36	5	274

The Overall Expenditure Position

36. The overall impact of the variations detailed above is shown in the table below.

	£	£
Total Expenditure Budget 2007/08		740,750
Additional Requirements	106,350	
Savings	31,700	
Net Additional Requirements / (Savings)		74,650
Total Expenditure Budget 2008/09		815,400

37. The Strategic Business Plan identified a potential increase in expenditure for 2008/09 of around £120,000, which was based on a number of general assumptions. This figure included £50,000 in respect of the Batson Brow Pontoon project which, as highlighted above, will now be undertaken during the 2007/08 financial year.

38. Allowing for this adjustment, it can be seen that the budgeted requirement for additional expenditure of £74,650 identified in this report is very much consistent with the approved Business Plan.

Income

39. At this stage, no allowance has been made for any additional income raised through a review of charges. Likewise, and consistent with the Business Plan, no income growth has been assumed within the budget.

40. In order to balance the budget to a net break-even position, it is proposed that a review is undertaken of the Harbour's fees and charges. Proposals have been outlined in this regard, and are detailed in a further report to be considered at the 12 November Board meeting.

Value for Money

41. Careful and prudent budgeting, as proposed in this report, directly supports the requirement to deliver value for money through the Harbour operation.

Risk Assessment

42. The following are the significant risks and opportunities identified:

Opportunity	Issues / Obstacles	Benefits
Setting the budget, in conjunction with the Strategic Business Plan, provides the opportunity to assess service levels and ensure that the appropriate resources can be made available to deliver those services efficiently and effectively.	There is a risk that additional expenditure may be required during the year. However, the budget is underpinned by the Strategic Business Plan document and expenditure levels have been assessed in detail. The ongoing process of budget management should allow the timely identification of further pressures. Reserve balances provide flexibility to mitigate the financial impact.	The rigorous assessment of resources that has been undertaken through the budget process significantly helps to ensure the Harbour is run as an efficient operation and will continue to provide value for money for the Harbour users.

Conclusion

43. The 2008/09 expenditure budget detailed in this report has been prepared in line with the strategy defined within the Strategic Business Plan. The budget will allow service levels identified in the Plan to be maintained and improved whilst offering long term value for money for Harbour users.

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Salcombe Harbour Board
12 November 2007

Background Documents:

Detailed Corporate Finance working papers