

**Salcombe Harbour Board - 19 October 2004****FINANCIAL FORECAST 2004/5 & 2005/6****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 of £19,000 for 2005/06

**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 2005/2006 budget and charges.

The report also updates Members on the trading position in 2004/2005. 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 12 and identify those items they wish to progress for incorporation within the 2005/2006 budget.**
3. **recommend the replacement of fixed assets as listed in paragraph 8.**

**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 capital expenditure. Ways of reducing the funding gap are also put forward for consideration.

## The Current Year 2004/2005

2. Current projections indicate that a surplus of around £15,000 is anticipated IN 2004/05. Table 1 explains the position:

**Table 1: Items contributing to the budgeted surplus:**

Variations from budget 2004/2005	Cost / (Saving) £
i. Increased cost of insurance cover	4,500
ii. Additional rent payable to the Duchy of Cornwall. This is linked to the additional income generated	1300
iii. Other miscellaneous items	400
iv Additional interest	(1,500)
Iv Additional income volumes	(20,200)
<b>Anticipated trading surplus – as at mid September 2003</b>	<b>(15,000)</b>

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 2005/2006

4. Appendix B shows the impact of unavoidable service pressures on the Harbour's trading position in 2005/2006. The next paragraphs explore pressures further. Members are aware that the lease with the Duchy of Cornwall is being re-negotiated. Negotiations commenced in 2003/04 at which time it was agreed that the current lease would be held over for a period of three years. The Duchy of Cornwall agreed to this 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 (£9,500):** The retail price index is currently running at 3% compared to the Council's target of 2.5%. The forecast allows minimal inflation only – for example, the estimated cost of nationally agreed pay increases.
  - b) **Insurances (£4,500):** 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) **Increased contributions to the Pontoon renewals fund (£5,000):** Additional contributions are necessary to ensure funds are built up to replace harbour assets as necessary and to avoid “lumpy” expenditure. Appendix B explains the purpose and balances on Harbour reserves.

### **Future Projects**

6. The Harbour Master informs Members that there are a number of projects of a capital and non-capital nature that Members may wish to consider and prioritise during a Business Plan Training Day. Further information about these proposals will be discussed as a separate agenda note. Members are reminded that any capital projects undertaken during 2005/06 may have an impact on the budget.

If the Harbour Board wishes to accelerate projects for the benefit of Salcombe and the harbour user it should be thinking about making a partner contribution. The Harbour Board has traditionally taken an incremental approach and it may need to take a more strategic view, particularly to consider long term investment on capital projects and improvement to services.

### **Capital Renewals**

7. 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.
8. The renewals reserve includes funding for replacement of the following items during the financial year 2005/2006:
  - (a) A replacement engine for the Blackstone launch at a cost of £8,000
  - (b) A replacement Mig welder at a cost of £1,300

- (c) A replacement outboard engine for the Eddystone Dory at a cost of £5,000

The Harbour Master feels that these assets have now reached the end of their

useful life. It is therefore recommended that funds which have been identified within the reserve are withdrawn to replace them.

### Summary of Pressures Facing the Harbour Board

- 9. This table summarises the pressures facing the Board and the impact of these on charges. Subsequent paragraphs explore ways of addressing the gap, including alternatives to increasing prices.

There may also be an opportunity in the future for the Board to invest in and around the Harbour.

**Table 2 – Summary of budget pressures**

	Cost £	Impact on charges (%)
Inflation	9,500	1.7
Insurance charges	4,500	0.8
Additional contributions to the Pontoon Reserve	5,000	0.9
<b>Totals</b>	19,000	3.4

### Ways of Addressing the Funding Gap

- 10. This section of the report looks at addressing the budget pressures. Members are asked to consider the following items and recommend which they would like to discuss further over the coming months.
  - a. **Increases to existing charges:** An increase in charges of 1% will generate income of £5,600. 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. As an example, an inflationary increase of 3% would generate additional income of **£16,800**.
  - b. **5% Discount:** Members may wish to consider the continued relevance of providing a 5% discount to those harbour customers

who pay their invoices (in excess of £1,610) within a specified time frame. This is an agreed Harbour Board policy that dates back to 1982. Members may wish to consider whether the discount is still relevant as out of the thirteen eligible customers, the majority are able to pass on charges to their customers. Should the Board decide to change this policy the 5% discount amounted to **£2,500** in the last financial year.

- c. **Water Taxi:** Members are aware, we raise the charges every third year. We, therefore recommend that the charge rises from £1.00 to £1.50 for trips off the town, and from £1.50 to £2.00 for trips to the Bag. These increases could potentially increase the Harbour income by £10,000.
- d. **New Activities:** Members should consider whether new activities take priority over existing priorities thereby allowing resources to be freed up.

## **Other Service Issues Identified**

### **Direct Debits**

- 11. At the last Harbour Board a Member requested that payment by Direct Debit should be investigated. A small working party was put together which included the Salcombe Harbour Master, Salcombe Harbour Office Manager, a member of finance and the Internal Audit Manager. Findings as follows:

For:

- (i) Customer service

Against:

- (i) Loss of interest as currently no debt recovery issues
- (ii) Risk of clients ceasing contributions if vessel sold part way through year
- (iii) Additional administration costs including, fee to BACs, dealing with returned direct debits through accidental or intentional change of bank accounts by client.
- (iv) Additional IT costs including, security issues and procedures required to submit data to BACs and checking BACs output.
- (v) Separation of duties between the officer creating the BACs file and the transmission password issuer.
- (vi) Additional charges may have to be levied to cover the additional administration costs.

## **Risk Assessment**

12. 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 2.5%;
  - The level of harbour use, which depends on the general economic climate;
  - Weather patterns;
  - Holiday trends.
13. 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**

14. 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 coming months will involve many difficult decisions for Members as they attempt to balance the resource needs of priority issues, meet service pressures and produce a sustainable budget for the coming years.

Stephen Tooke  
Harbour Master  
Board

Salcombe Harbour

19 October 2004

John Foxworthy  
Head of Financial Services

## **Background Documents:**

Financial Services working papers

## Appendix B

### Harbour Reserves

There are three main reserves:

#### i. General / Revenue Account reserve

This is built up from previous years' surpluses. It forms a contingency fund for the unforeseen.

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**Appendix B continued...**

#### ii. Renewals reserve

This is **fully committed**. It is established by stable annual revenue contributions which are calculated to meet the costs of replacing Harbour assets as needed. This "smoothes" the effects of capital expenditure on the harbour user.

Expenditure is lumpy, so the balance on the reserve varies from year to year.

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### **iii. Pontoon Reserve**

This enables the replacement / repair of pontoons to be carried out.

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