

ITEM

ITEM

Salcombe Harbour Board 22 September 2008

2009/10 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 £26,200, 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 during this meeting meeting.

Purpose

The 2009/10 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 2009/10 budget items set out within the report is approved.

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, 2009/10, 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 2009/10 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 during this 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.
8. The anticipated net income and expenditure position is shown at Appendix A, with the 2008/09 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 largest area of expenditure for the Harbour, roughly 39% of the Harbour expenditure budget. 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 2009/10 budget. However, staffing levels and associated costs are kept under constant review to ensure they remain appropriate to the requirements of the business.
10. At the time of preparing the 2009/10 budget, the Single Status pay evaluation exercise is nearing completion. The results will be known by late 2008.
11. Although at this stage, it is not possible to know the exact impact on Harbour staffing costs, it would be prudent to include a provision. Accordingly, £10,000 has been included within the 2009/10 budget
12. The Board should also be aware that there may be an impact on Harbour costs during the 2008/09 year that were not provided for within the revenue budget. These will have to be met from reserve balances.
13. The table below details the variations from the 2008/09 baseline.

	£	£
Staffing Budget 2008/09		327,100
Additional Requirements:		
Pay award – anticipated to be 2.5%	9,100	
Staff increments – automatic progression to next pay scale point	4,200	
Single Status Provision	10,000	
Increased overtime working arrangements	2,400	
Employers superannuation contributions increased from 9.6% to 10.5%	2,300	
Total Additional Requirements		28,000
Savings :		
Boat Licensing – Credit for work carried out by Harbour staff equal to License income collected.	(5,000)	
Total Savings		(5,000)
Net Additional Requirements / (Savings)		23,000
Staffing Budget 2009/10		350,100

ii) Premises Related Expenditure

14. Premises related expenditure encompasses costs relating directly to the Harbour infrastructure assets and as such as seen very high inflationary pressure especially in relationship to commodity prices such as steel, which have risen during 2008 by over 50%. These have had to be reflected within R&M costs.

15. The table below details the variations from the 2008/09 baseline.

	£	£
Premises Budget 2008/09		229,300
Additional Requirements:		
Rents:- Rent to Duchy – the rental of the fundus from the Duchy of Cornwall has been renegotiated to ensure long term value for money.	19,900	
Island Street Workshop – Rent reviewed under 3 year lease agreement.	2,500	
Utility Charges – Increased to reflect price rises.	2,300	
R&M Costs:- have all been increased to reflect inflationary pressures General Repairs & maintenance Marks and Beacons	1,000 500	

Moorings	17,400	
Security Patrol – offset by increased charges	1,600	
Insurance – Premium charge increase	700	
Trade Refuse & Office Cleaning – Increased to reflect 2007/08 actuals and 2008/09 anticipated costs	2,200	
Total Additional Requirements		48,100
Savings :		
Piers, Landings and pontoons – reduced costs due to proposed replacement of Batson pontoons	(3,300)	
Total Savings		(3,300)
Net Additional Requirements / (Savings)		44,800
Premises Budget 2009/10		274,100

iii) Supplies and Services

16. 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.

17. The table below details the variations from the 2008/09 baseline.

	£	£
Supplies & Services Budget 2008/09		59,200
Additional Requirements:		
Printing & Stationery :-		
General - this will bring the budget in line with expenditure in 2007/08.	1,200	
Harbour Guide - the cost of producing the guide needs to be included to match the income which has already been built into the budget	4,500	
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	2,000	
Fees and Subscriptions -	200	
Total Additional Requirements		7,900
Savings:		
WiFi – Income is received net of all costs	(1,500)	
Telephones - reduced to reflect 2007/08 actuals	(500)	
Licence Fees - reduced to reflect revised fees	(300)	
Cash Collection Expenses – reduced to reflect 2007/08 actuals	(500)	
Clothing – reduced to reflect actuals in 2007/08 and 2008/09	(1,000)	

Total Savings		(3,800)
Net Additional Requirements / (Savings)		4,100
Supplies & Services Budget 2009/10		63,300

iv) Transport

18. Transport related expenditure includes the costs of operating and maintaining the Harbour launches, water taxis and vehicles

19. The table below details the variations from the 2008/09 baseline.

	£	£
Transport Budget 2008/09		37,400
Additional Requirements:		
Fixed and variable car allowances – increases to reflect agreed increases being paid and actual mileages claimed over the previous 2 years.	600	
R & M of Launches -	1,500	
Total Additional Requirements		2,100
Savings:		
Fuel for Launches – reduced to reflect actuals in 2007/08 but allowing for increased costs in 2008/09.	(1,000)	
Water Taxi Licences – no longer payable	(400)	
Total Savings		(1,400)
Net Additional Requirements / (Savings)		700
Transport Budget 2009/10		38,100

v) Central Support & HQ Costs

20. 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 The Audit Commission.

21. 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 are based on the actual costs recorded for the preceding year.

22. The table below details the variations from the 2008/09 baseline.

	£	£
Central Support & HQ Budget 2008/09		59,700
Additional Requirements:		
Pay Award – anticipated to be 2.5%.	1,500	
Total Additional Requirements		1,500
Net Additional Requirements / (Savings)		1,500
Central Support & HQ Budget 2009/10		61,200

vi) Contributions to Harbour Reserves

23. 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.

24. 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 2008 meeting, is that sufficient funds should be set aside on an annual basis to provide for the replacement of Harbour assets.

25. 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 being considered as a separate agenda item at this meeting will be part funded through borrowing. This will allow annual reserve contributions to be set within the constraints of affordability and value for money.

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

27. The table below details the variations from the 2008/09 baseline.

	£	£
Reserve Contributions Budget 2008/09		71,000
Increase in Renewals Reserve Contributions	5,000	
Reduction in Pontoon Reserve Contributions	(5,000)	
Net Additional Requirements / (Savings)		0
Reserve Contributions Budget 2009/10		71,000

vii) New Projects

28. The 2009/10 budget includes provision to fund capital projects from revenue to the value of £5,000. This comprises the following:

1. £5,000 Pontoon Disposal

viii) Capital Charges

29. 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 2009/10 relate to 3 loans, as detailed below. Also included is the repayment for the proposed Replacement of Batson Pontoons since this if approved would impact on the revenue accounts.

Description	Loan Date	Loan Amount £	Term (Yrs)	Payment 09/10 £
Whitestrand Pontoon Safety Improvements	2003/04	48,854	25	4,147
Piling in the Bag	2003/04	11,983	25	1,018
Residents' Pontoon	2007/08	150,000	25	11,735
Batson Pontoon Proposed	2009/10	215,000	25	16,800
Total				33,700

30. The annual repayment due during 2009/10, which includes the repayment of both principal and interest, is £33,700. This represents a net increase of £12,000 from the previous year. A reduction of £4800 due to the repayment of the loan for the Whitestrand Pontoon and a provision of £16,800 for proposed Batson Pontoons.

Harbour Assets

31. The Harbour, like any trading operation, relies on it's assets to deliver services and to generate income.

32. 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.

33. A summary of assets held as at 1 April 2008 is shown below.

	Land & Buildings	Infrastructure	Vehicles, Plant & Machinery	Total
	£000	£000	£000	£000
Gross Valuation	119	562	162	843
Accumulated Depreciation	6	93	136	235
Net Book Value	113	469	26	608

The Overall Expenditure Position

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

	£	£
Total Expenditure Budget 2008/09		815,400
Additional Requirements	98,100	
Savings	(18,500)	
Net Additional Requirements / (Savings)		81,100
Total Expenditure Budget 2009/10		896,500

Income

35. At this stage, no allowance has been made for any additional income raised through a review of charges. However, it has been identified that an overly prudent view has been taken in the past with regards Residents Harbour Dues, Mooring Hire, and Mooring Licences. In addition the income budget should be increased to reflect the VAT changes for Water Tax and the new income derived from the use of the Whitestrand Pontoon during July and August.

36. 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 as a separate agenda item at this meeting meeting.

	£	£
Total Income Budget 2008/09		(815,400)
Additional Income		
Harbour Dues – Resident income actual 2008/09	(1,500)	
Mooring Hire – Resident income actual in 2008/09.	(31,500)	
Mooring Licences – Actual in 2008/09.	(2,500)	
Water Taxi – change to VAT rules.	(3,000)	
Pontoon Systems – Income from Whitestrand Pontoon in July & August.	(14800)	
Interest on General Reserve and Waiting lists	(1,600)	
Additional Income available within the budget		(54,900)
Total Income Budget 2009/10		(870,300)

Budget Deficit

	£	£
Total Expenditure Budget 2009/10		896,500
Total Income Budget 2009/10		(870,300)
Budget Deficit		26,200

Value for Money

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

Risk Assessment

38. 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

39. The 2009/10 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.

John Smith
Principal Accountant

Ian Gibson
Head of Service Salcombe Harbour

Salcombe Harbour Board
22 September 2008

Appendix:

- A. Harbour Budget
- B. Harbour Balances 2009-10

Background Documents:

Detailed Corporate Finance working papers