

**Salcombe Harbour Board, 24 October 2006****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 of £34,400, before any review of charges. It is anticipated that the shortfall can be absorbed by various amendments to the existing charging structure.

**Purpose**

The financial forecast identifies issues facing the Harbour for the forthcoming year 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 2007/2008 budget and charges.

The report also updates members on the trading position in 2006/2007. 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. the service pressures set out within paragraphs 5 to 8 are acknowledged.**
- 3. the current levels of Harbour reserves and the potential future projects as set out in Appendix B are noted.**

**Introduction**

1. Historically, Harbour charges have been set on an annual basis in order to set a balanced budget for the forthcoming year. It is recognised that, in order to improve upon existing service delivery, and to ensure the Harbour remains a self-financing and sustainable business, there is a requirement for a longer-term view to be taken through the formulation of a robust business plan.

2. However, given the re-constitution of the Harbour Board, together with the recent change of Harbour Master, it is recommended that a budget is set for 2007/08 that allows the business to continue to successfully operate at a break-even position throughout the year, whilst adequate time and resources are allocated to building a long-term business plan. This budget has therefore been prepared on the basis of absorbing only unavoidable additional costs and budget pressures facing the Harbour during the coming year.

### The Current Year 2006/2007

3. The 2006/07 budget was set based on a break-even position, but a substantial increase in income levels has allowed additional expenditure to be absorbed and generate a modest surplus. Current projections indicate that a surplus of £7,200 will be achieved by the end of the year. Table 1 explains the position in greater detail:

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

Variations from budget 2006/2007	Cost / (Saving) £
Additional Repairs & Maintenance expenditure	15,500
Additional rent payable to the Duchy of Cornwall. This is linked to the additional income generated	5,000
Waste recycling expenditure	15,600
Miscellaneous additional expenditure	5,750
Additional income volumes	(49,050)
<b>Anticipated trading surplus</b>	<b>(7,200)</b>

4. Where a surplus is generated during a trading year, it can be used to strengthen reserves, fund items of a one-off nature and to provide for contingencies.

### Financial Forecast 2007/2008

5. **Appendix A** forecasts the Harbour's financial position next year before any increase in charges, identifying a deficit of £34,400.
6. This position is based on having conducted a review of Harbour expenditure and having identified a number of unavoidable pressures. These items are discussed in detail below. The Board should also note that the lease with the Duchy of Cornwall needs to be re-negotiated. The Duchy has agreed to a holding period in order to take a broad look at all leases in terms of income generation and formal negotiations have not yet started. The outcome of the re-negotiation is unlikely to influence next year's financial situation but will, however, impact the budget in future years.

## Unavoidable Budget Pressures

7. The unavoidable budget pressures set out below have been incorporated within the financial forecast.
- a) **Inflation £23,400:** The retail price index (RPI) is currently running at around 3%, which will have a direct impact on items such as employee costs. However, other items of expenditure, such as utility costs and fuel charges are anticipated to increase at a substantially higher rate than basic RPI. A summary of inflationary factors included in the budget is shown in Table 2 below.

**Table 2: Summary of 2007/08 Inflationary items:**

	<b>Inflationary impact £</b>
Employee Costs	11,400
Insurance	1,600
Utilities & Fuel	10,100
Other miscellaneous items	300
<b>Total Inflation</b>	<b>23,400</b>

- b) **Repairs and Maintenance £12,500:** Following the Harbour re-structure, a complete review has been carried out of all Harbour budgets. Where applicable, budgets have been re-aligned to more accurately reflect historic and future expenditure. This has resulted in a requirement to uplift the R&M budget for 2007/08.
- c) **Rent £8,800:** The rent payable to the Duchy of Cornwall is based on income levels achieved in previous years. Recent years have seen income levels out-perform the budget, which has resulted in higher than anticipated rent charges.
- d) **Other unavoidable increases £4,100:** A number of miscellaneous increases have been identified across various budget heads.
- e) **Savings £(14,400):** Harbour expenditure is reviewed on an ongoing basis, and identified savings are built into the budget to mitigate the impact of unavoidable incremental costs. The majority of identified savings for 2007/08 will be achieved through the decision to no longer utilise workshop 2 and to relinquish it back to the Council. The unit can then be let on the open market, which means the Council will sustain its income into the general fund. Further savings have been identified in a number of areas, and are summarised in Table 3 below:

**Table 3: Summary of 2007/08 Identified Savings:**

	<b>Saving impact £</b>
Relinquish Workshop 2 – rent and energy costs	9,400
Dredging – now carried out by RNLI	3,000
Mobile Telephones – review of tariff	1,000
Staff Uniforms – reduction in costs	500
General Office Costs	500
<b>Total Savings</b>	<b>14,400</b>

8. The net additional costs total £34,400, which must be offset to allow the budget to be set on a break-even basis.

### **Addressing the Funding Gap**

9. The Board will need to consider how to absorb the current identified budget shortfall of £34,400.
10. A sub-committee of the Harbour Board has met to consider the current levels and structure of fees and charges. A consensus has been formed that, whilst a complete review of the current system will need to be undertaken for the 2008/09 season, it would be prudent to carry out a review of a small selection of fees and charges for 2007/08.
11. A number of proposals have been put forward, and these are the subject of another report to be considered at the 24<sup>th</sup> October Board meeting. However, should the Board agree to the proposed changes, it is anticipated that additional income will be generated during the year totalling £36,867.
12. If this additional income is built into the 2007/08 budget model, it will clearly offset the unavoidable additional costs. It is recommended that the balance of £2,467 would be budgeted as a further contribution to the General Reserve.

### **Harbour Reserves**

13. The Harbour maintains a number of reserves, which have been built up by contributions over a number of years. **Appendix B** shows details of the current balances together with a number of items that will potentially need to be funded from these balances during the forthcoming year. Details of these projects will be presented to the Board in future reports.

14. This expenditure will not impact the revenue budget discussed in this paper, but Members may like to consider the adequacy of the current level of reserves, and to consider future draws upon the reserves in this context.

15. At this stage, the Board is asked to note the position regarding the reserve balances.

### **Risk Assessment**

Risk	Mitigation
Inflation increases above budgeted levels.	Known inflation elements have been built into the budget. Employee costs account for 43% of total expenditure. The 2007/08 pay award is known with certainty.
Additional expenditure is required during the year.	The ongoing process of budgetary control should allow the timely identification of further pressures. Reserve balances provide flexibility to mitigate the financial impact.
Identified savings are not achieved.	The savings identified in the report relate to current costs that are known with a degree of certainty. It is unlikely that these savings cannot be achieved.
Additional income is not achieved.	Potential additional income has been assessed on a prudent basis. Whilst actual income levels can be affected by external factors, such as weather patterns and the economy as a whole, the prudent nature of the budget, together with ongoing monitoring and the availability of reserve balances will mitigate this.

### **Value for Money**

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

## Conclusion

17. The financial forecast outlined above has been prepared to help Members understand the financial pressures facing the Harbour during the next trading year. The adoption of a prudent, self-financing budget for 2007/08 will allow the Board time to assess future service levels and to formulate a business plan to address the service requirements over the medium to long term.

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Salcombe Harbour Board  
24 October 2006

### **Background Documents:**

Corporate Finance working papers