

**ITEM**

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## **Salcombe Harbour Board - 28 September 2009**

### **2010/11 BUDGET**

#### **Report of Head of Financial Services and Salcombe Harbour Master**

**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 £9,800, 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 28 September meeting.

#### **Purpose**

The 2010/11 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 2010/11 budget items set out within the report are 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, 2010/11, 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 2010/11 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 28 September 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 2009/10 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 38% of the Harbour expenditure budget. There has been a reduction in the total employee costs due to the 2009/10 budget assuming a 2.5% pay award whilst the actual award is unlikely to exceed 1%. The 2010/11 budget assumes a 0% pay award. The movement of staff through the pay structure has been built into the 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 2009/10 baseline.

	£	£
<b>Staffing Budget 2009/10</b>		<b>350,100</b>
<b>Additional Requirements:</b>		
Additional Seasonal Staff	5,700	
Staff increments – automatic progression to next pay scale point	2,000	
Boat Licensing – Credit for work carried out by Harbour staff equal to License income collected fell in 2008/09 to £3900, the 2009/10 allowed for £5000 for income.	1,100	
Additional Staff Training	1,200	
Recharge to HQ – The 2009/10 budget allowed for a pay award of 2.5%, this is most likely to be 1% and zero in 2010/11. Consequently the recharge will be reduced	700	
<b>Total Additional Requirements</b>		<b>10,700</b>
<b>Savings :</b>		
Single Status Provision – no longer required	(10,000)	
Pay Award – The 2009/10 budget allowed for a pay award of 2.5% this is most likely to be 1% and zero in 2010/11.		
Employers NI & Superannuation	(1,200)	
Salaries – Permanent & Seasonal	(2,300)	
Overtime	(200)	
Recruitment costs budget reduced to reflect prior years actuals	(600)	
<b>Total Savings</b>		<b>(14,300)</b>
<b>Net Additional Requirements / (Savings)</b>		<b>(3,600)</b>
<b>Staffing Budget 2010/11</b>		<b>346,500</b>

## ii) Premises Related Expenditure

11. Premises related expenditure encompasses costs relating directly to the Harbour infrastructure assets and as such has seen very high inflationary pressure especially in relationship to commodity prices such as steel in recent years. These have had to be reflected within R&M costs.

12. The table below details the variations from the 2009/10 baseline.

	£	£
<b>Premises Budget 2009/10</b>		<b>274,100</b>
<b>Additional Requirements: Inflationary Pressures</b>		
Moorings – This increase has been built into the budget because from the quotes obtained for 2009/10 all but one of the companies invited to tender submitted quotes in excess of £35K.	10,000	
Insurance – Premium charge increase estimated to be 3%	800	
Utility Charges – Increased to reflect possible price increases	500	
<b>Additional Requirements: Growth</b>		
Replacement Mooring Buoys – Included in the budget for the first time at the request of the Harbour Master	5,000	
Rents:- Rent to Duchy – The rent payable is based on a fixed percentage of certain categories of income.	2,400	
<b>Total Additional Requirements</b>		<b>18,700</b>
<b>Savings :</b>		
Realignment of a number of the individual budget lines within the Premises section to reflect the most recent years' expenditure has also identified potential net saving of £400. These have been agreed with the Harbour Master	(400)	
<b>Total Savings</b>		<b>(400)</b>
<b>Net Additional Requirements / (Savings)</b>		<b>18,300</b>
<b>Premises Budget 2009/10</b>		<b>292,400</b>

### 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 2008/09 baseline.

	£	£
<b>Supplies &amp; Services Budget 2009/10</b>		<b>63,300</b>
<b>Additional Requirements: Growth</b>		
Protective Clothing – Additional costs are required to meet H&S requirements	1,000	
Port Marine Safety Code – Members training requirements	1,000	
Fees & Subscription	300	
Estuary Officer – Increased inline with the original agreement	400	
<b>Total Additional Requirements</b>		<b>2,700</b>
<b>Savings:</b>		
Realignment of a number of the individual budget lines within the Supplies & Services section to reflect the most recent years' expenditure has also identified potential saving of £3,500. These have been agreed with the Harbour Master	(3,500)	
<b>Total Savings</b>		<b>(3,500)</b>
<b>Net Additional Requirements / (Savings)</b>		<b>(800)</b>
<b>Supplies &amp; Services Budget 2010/11</b>		<b>62,500</b>

#### iv) Transport

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

16. The table below details the variations from the 2009/10 baseline.

	£	£
<b>Transport Budget 2009/10</b>		<b>38,100</b>
<b>Savings:</b>		
R&M Launches – reduction to bring in line with prior years actual.	(2,300)	
Fuel for Launches – reduced to reflect actuals in 2007/08 and 2008/09.	(2,500)	
<b>Total Savings</b>		<b>(4,800)</b>
<b>Transport Budget 2010/11</b>		<b>33,300</b>

## 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 The Audit Commission.

18. As is the case with staff costs charged directly to the Harbour, the annual pay award will impact on budget provision. As with the Harbours' own employee costs the 2009/10 budget assumed a 2.5% pay award whereas it is likely to be 1% for 22009/10 and zero in 2010/11. 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.

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

	£	£
<b>Central Support &amp; HQ Budget 2009/10</b>		<b>61,200</b>
<b>Savings:</b>		
The 2009/10 budget had assumed a Pay Award of 2.5% however this is only likely to be 1% giving a saving of £900.	(900)	
The annual review of Officer Time allocations has identified further net savings.	(7,200)	
<b>Total Savings</b>		<b>(8,100)</b>
<b>Central Support &amp; HQ Budget 2010/11</b>		<b>53,100</b>

## 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 2008 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 being considered at the 22 September Board 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.

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

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

	£	£
<b>Reserve Contributions Budget 2009/10</b>		<b>71,000</b>
Reserve Contributions remain unchanged		
<b>Net Additional Requirements / (Savings)</b>		<b>0</b>
<b>Reserve Contributions Budget 2010/11</b>		<b>71,000</b>

#### vii) New Projects

25. The 2010/11 budget includes provision to fund new projects from revenue to the value of £17,000. This comprises the following:

1. £ 2,000 Frogmore Pontoon
2. £ 5,000 Pontoon Disposal
3. £10,000 Improvements to Tender Berthing at Whitestrand

#### viii) Capital Charges

26. 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 2010/11 relate to 4 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 10/11 £
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	190,000	25	13,100
<b>Total</b>				<b>30,000</b>

27. The annual repayment due during 2010/11, which includes the repayment of both principal and interest, is £30,000. This represents a net reduction of £3,700 from 2009/10. This is due to the impact of lower interest rates on the Batson Pontoon project.

### Harbour Assets

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

29. 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.

30. A summary of assets held as at 1 April 2009 is shown below.

	<b>Land &amp; Buildings</b>	<b>Infrastructure</b>	<b>Vehicles, Plant &amp; Machinery</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Gross Valuation</b>	119	599	162	<b>880</b>
<b>Accumulated Depreciation</b>	8	119	142	<b>269</b>
<b>Net Book Value</b>	111	480	20	<b>611</b>

### The Overall Expenditure Position

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

	<b>£</b>	<b>£</b>
<b>Total Expenditure Budget 2009/10</b>		<b>896,500</b>
<b>Additional Requirements</b>	44,100	
<b>Savings</b>	(34,800)	
<b>Net Additional Requirements / (Savings)</b>		<b>9,300</b>
<b>Total Expenditure Budget 2010/11</b>		<b>905,800</b>

## Income

32. 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 Taxes and the new income derived from the use of the Whitestrand Pontoon during July and August.
33. 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 28 September Board meeting.

	£	£
<b>Total Income Budget 2009/10</b>		<b>(896,500)</b>
Additional Income		
Mooring Hire – Dentridge moorings. This is additional income from commercial lettings that has arisen in 2009/10 and, will also be available in 2010/11.	(10,000)	
<b>Additional Income available within the budget</b>		<b>(10,000)</b>
Reduced Income		
Loss of interest received for monies held in the Revenue Reserve Account due to reduction in bank rates.	4,700	
Miscellaneous Income – For many years the budget has included an amount (£36,500 in 2009/10) that represents numerous sources of income. A review of the individual codes has shown that many of the original income streams have ceased and the budget is now overstated. It is proposed that the budget is set against the individual codes to assist budget monitoring.	5,800	
<b>Reduced Income withdrawn from the budget</b>		<b>10,500</b>
<b>Total Income Budget 2010/11</b>		<b>(896,000)</b>

## Budget Deficit

	£	£
<b>Total Expenditure Budget 2010/11</b>		<b>905,800</b>
<b>Total Income Budget 2010/11</b>		<b>(896,000)</b>
<b>Budget Deficit</b>		<b>9,800</b>

## Value for Money

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

## Risk Assessment

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

<b>Opportunity</b>	<b>Issues / Obstacles</b>	<b>Benefits</b>
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

36. The 2010/11 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  
Salcombe Harbour Master

Salcombe Harbour Board  
28 September 2009

**Appendix:**

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

**Background Documents:**

Detailed Corporate Finance working papers