

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Salcombe Harbour Board
DATE	26 September 2011
REPORT TITLE	2012/13 BUDGET
Report of	Head of Finance Head of Service – Salcombe Harbour
WARDS AFFECTED	All South Hams

Summary of Report

The 2012/13 budget builds upon the principles adopted in the Salcombe Harbour Strategic Business Plan and details the financial impact of the proposals contained therein.

Financial implications: It is prudent financial management for a balanced budget to be set and allows a realistic review of fees and charges.

RECOMMENDATION:

That the Board RECOMMENDS to Council that the 2012/13 budget items set out within the report is approved.

Officer contact:

John Smith Principal Accountant john.smith@southhams.gov.uk 01803 861417

RECOMMENDATION**1. BACKGROUND**

- 1.1 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.
- 1.2 The formulation of a detailed budget for the forthcoming year, 2012/13, 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.

- 1.3 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.
- 1.4 The 2012/13 budget, as detailed in this report, links strongly to the approved Business Plan and is based on the assumptions and strategic direction contained therein.
- 1.5 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 26 September meeting.

2. ISSUES FOR CONSIDERATION

2.1 Budget Pressures

- 2.1.1 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 much higher inflation.
- 2.1.2 Wherever possible, efficiency savings have been identified and these have been built into the budget accordingly.
- 2.1.3 The anticipated net income and expenditure position is shown at Appendix A, with the 2011/12 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 below, grouped by category of budget head.

2.2 Employee Costs

- 2.2.1 Staff costs form the single largest area of expenditure for the Harbour, roughly 38% of the Harbour expenditure budget. The 2012/13 budget assumes a 0% pay award. The movement of staff through the pay structure has also 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.

- 2.2.2 The table below details the variations from the 2011/12 baseline.

	£	£
Staffing Budget 2011/12		350,200
Additional Requirements:		
Additional employers NI & Superannuation contributions and staff increments – automatic progression to next scale point	5,000	

Additional Staff Training – general inflation,	100	
Employers Liability insurance, previously included Premises	4,000	
Total Additional Requirements		9,100
Savings :		
Reduction in seasonal staff hours	(600)	
Recharge of officer time for assisting Car Parks staff with the new boat washing facilities and additional share of advertising income.	(3,700)	
Total Savings		(4,300)
Net Additional Requirements / (Savings)		4,800
Staffing Budget 2012/13		355,000

2.3 Premises Related Expenditure

2.3.1 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 the past 12 months. These have had to be reflected within R&M costs.

2.3.2 The table below details the variations from the 2011/12 baseline.

	£	£
Premises Budget 2011/12		297,600
Additional Requirements: Inflationary Pressures		
General R&M, Tools etc, Health & Safety	800	
Piers, Landings & Pontoons	400	
Marks & Beacons	200	
Moorings	600	
Diving maintenance support	4,600	
Chain purchases	4,100	
Mooring Buoys	300	
Electric & Gas – new 3 contract will be negotiated before 1 April 2012	900	
Rates	600	
Trade Waste charges	300	
General Office costs	100	
Additional Requirements: Growth		
General Office costs – to bring in line with actuals	200	
Total Additional Requirements		13,100

Savings :		
Insurance premiums new policy negotiated and now separately coded for Employers Liability and Transport	(24,700)	
Total Savings		(24,700)
Net Additional Requirements / (Savings)		(11,600)
Premises Budget 2012/13		286,000

2.4 Supplies and Services

2.4.1 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.

2.4.2 The table below details the variations from the 2011/12 baseline.

	£	£
Supplies & Services Budget 2011/12		57,200
Additional Requirements: Inflationary Pressures		
Equipment	400	
Printing & Stationery	500	
Postage	1,100	
Additional Requirements: Growth		
Cash collection costs – charge is based on payments by cards	1,500	
Conference expenses & subsistence	300	
Total Additional Requirements		3,800
Supplies & Services Budget 2010/11		61,000

2.5 Transport

2.5.1 Transport related expenditure includes the costs of operating and maintaining the Harbour launches, water taxis and vehicles. It has been necessary to reflect very high levels of inflation affecting fuel costs.

2.5.2 Due to changes in the new Insurance Policy the relevant charges relating to the launches and other vehicles/equipment are now

included within this section whereas in the past were shown under premises.

2.5.3 The table below details the variations from the 2011/12 baseline.

	£	£
Transport Budget 2011/12		45,400
Additional Requirements: Inflationary Pressures		
R&M	2,600	
Fuel	3,900	
Additional Requirements: Growth		
Transport Insurance Policy – previously shown under Premises	14,000	
Total Additional Requirements		20,500
Transport Budget 2012/13		65,900

2.6 Central Support & HQ Costs

2.6.1 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.

2.6.2 The table below details the variations from the 2011/12 baseline.

	£	£
Central Support & HQ Budget 2011/12		53,000
Savings:		
Estimated to reflect new SMT structure savings.	(2,000)	
Total Savings		(2,000)
Central Support & HQ Budget 2012/13		51,000

2.7 Contributions to Harbour Reserves

2.7.1 The Harbour holds 3 reserves:

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

2.7.2 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.

2.7.3 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 replacements through accumulated reserves; and that borrowing will also be utilised.

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

2.7.5 The table below details the variations from the 2011/12 baseline.

	£	£
Reserve Contributions Budget 2011/12		71,000
Reserve Contributions remain unchanged		
Net Additional Requirements / (Savings)		0
Reserve Contributions Budget 2012/13		71,000

2.8 Projects Funded from Reserves

2.8.1 The following projects are anticipated to be funded from Reserves during 2012/13:

- 2.8.1.1 Renewals Reserve:
- New Dory and engine £10,400
- 2.8.1.2 Pontoon Reserve:
- Nil.

2.9 New Projects Funded From Revenue

2.9.1 The 2012/13 budget includes provision to fund new projects from revenue to the value of £15,000. This comprises the following:

- £5,000 Pontoon Disposal
- £5,000 Improvements to Tender Berthing at Whitestrand
- £5,000 Environmental Projects, based on Phosphate Free Salcombe

2.10 Capital Charges

2.10.1 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 2011/12 relate to 5 loans, as detailed below. Also included is the repayment for the proposed Replacement of Whitestrand Landing 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	2009/10	190,000	25	13,100
Total				30,000

2.10.2 The annual repayment due during 2012/13, which includes the repayment of both principal and interest, is £30,000. This is a reduction of £10,100 from 2011/12 since it is now intended to fund the replacement of Whitestrand Pontoons using reserves rather than a further loan.

2.11 Harbour Assets

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

2.11.2 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 above.

2.11.3 A summary of assets held as at 1 April 2011 is shown below.

	Land & Buildings	Infrastructure	Vehicles, Plant & Machinery	Total
	£000	£000	£000	£000
Gross Valuation	120	788	150	1058
Accumulated Depreciation	3	248	136	387
Net Book Value	117	540	14	671

2.12 The Overall Expenditure Position

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

	£	£
Total Expenditure Budget 2011/12		926,500
Additional Requirements	49,500	
Savings	(41,100)	
Net Additional Requirements / (Savings)		8,400
Total Expenditure Budget 2012/13		934,900

2.13 Income

2.13.1 At this stage, no allowance has been made for any additional income raised through a review of charges. However, a comparison of 2009/10 and 2010/11 actual income against the 2010/11 budget showed that it would be prudent to increase the income budget by a net £2,600. This has been built into the 2012/13 budget. There has also been a realignment of a few individual income budgets.

2.13.2 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 26 September Board meeting.

	£	£
Total Income Budget 2011/12		(926,500)

Additional Income available within the budget	(2,600)	
Additional Income		(2,600)
Total Income Budget 2012/13		(929,100)

2.13 Budget Deficit

	£	£
Total Expenditure Budget 2012/13		934,900
Total Income Budget 2010/11		(929,100)
Budget Deficit		5,800

3. LEGAL IMPLICATIONS

3.1 Statutory Powers: Local Government Act 1972, Section 151. The Pier and Harbour Order (Salcombe) Confirmation Act 1954 (Sections 22-36).

3.2 There are no other legal implications to this report.

4. FINANCIAL IMPLICATIONS

4.1 The report identifies a funding gap of £5,800, 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 26 September meeting.

5. RISK ASSESSMENT

5.1 The risk management implications are:

Opportunities	Benefits
Setting the budget, in conjunction with the Strategic Business Plan, provides the opportunity to assess service levels.	Assessment of service levels ensures that the appropriate resources can be made available to deliver those services efficiently and effectively.
Issues/Obstacles/Threats	Control measures/mitigation
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.

Corporate priorities engaged:

CP2: Good Jobs
CP3: Retain the districts character
CP4: A clean district
CP5: An accessible Council
CP6: Value for money

Consideration of equality and human rights:

There are no equality or human rights issues with this report

Biodiversity considerations:

Harbour Board's budget will affect policies which have a bearing on biodiversity.

Sustainability considerations:

Harbour Board's budget is designed to be sustainable and support sustainable policies.

Crime and disorder implications:

The Budget includes the continuation of the Night Security patrol, aims of which are to reduce marine crime

Background Papers:

Strategic Business Plan 1st Edition dated 2 August 2007.

Appendices attached:

Appendix A: Anticipated net income and expenditure
Appendix B: Summary of estimated reserve balances

John Smith
Principal Accountant

Ian Gibson
Harbour Master

Salcombe Harbour Board
26 September 2011