

# HAMPSHIRE COUNTY COUNCIL

## Report

<b>Committee</b>	River Hamble Management Committee
<b>Date:</b>	8 June 2018
<b>Title:</b>	River Hamble Final Accounts 2017/18
<b>Report From:</b>	The Director of Corporate Resources and Director of Culture, Communities and Business Services

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### 1. Recommendations

- 1.1. That this report, the statutory accounts and management accounts be noted by the River Hamble Harbour Management Committee and submitted to the River Hamble Harbour Board for approval.
- 1.2. That the Committee notes the level of the General Reserve as at 31 March 2018 of £35,294, and that the balance has reduced under the stated level of no more than 10% of the gross revenue budget, as set out in the reserves policy.
- 1.3. That the Committee notes that without any changes to the budget for 2018/19, the expectation is that the General Reserve will reduce to £12,294 at the end of 2018/19.
- 1.4. That the Committee recommends to the Harbour Board that the 2018/19 budget is revised so that:
  - a. Expenditure relating to patrol boat engine replacements is funded from the Asset Replacement Reserve rather than from revenue
  - b. Expenditure relating to the maintenance of public jetties and navigational safety is funded from the Asset Replacement Reserve rather than from revenue
  - c. Expenditure relating to future asset engineering surveys is funded from the Asset Replacement Reserve rather than from revenue
  - d. That the staffing budget is increased to reflect the higher pay award to staff of 2%.

## **2. Executive Summary**

- 2.1. The purpose of this report is to present the final accounts of the Harbour Authority for the year ended 31 March 2018 to the River Hamble Harbour Management Committee for consideration.
- 2.2. Under Section 42(1) of the Harbours Act 1964, the River Hamble Harbour Authority is required to prepare an annual statement of accounts relating to the harbour activities in accordance with the Companies Act 2006, to be submitted to the Secretary of State for Transport.
- 2.3. The River Hamble Harbour Authority is considered to be exempt from the requirement for these accounts to be separately audited, as set out in section 477 of the Companies Act 2006. However, the Harbour Authority accounts form part of Hampshire County Council's final accounts, and are therefore included within the audit for those accounts.
- 2.4. The statutory accounts for the year ended 31 March show a net profit of £34,132, as detailed in Appendix 1.
- 2.5. This profit is the result of a net credit to the accounts of £52,241 relating to depreciation. This has arisen due to changes in useful asset lives following the recent review of assets, as detailed further in Section 3 of this report.
- 2.6. This report also presents the end of year management accounts, comparing the outturn position for income and expenditure for the year ended 31 March 2018 against the 2017/18 budget (detailed in Appendices 2 and 3).
- 2.7. The management accounts show that the Harbour Undertaking returned a net deficit of £17,768 on general revenue activities. The £35,000 contribution to the Asset Replacement Reserve was taken from the General Reserve.
- 2.8. The outturn position includes approved but unbudgeted one-off expenditure of £5,500 that was incurred as a result of the engineering surveys detailed in Section 3.4. These costs are directly related to the ongoing review of assets and the planned use of the Asset Replacement Reserve (ARR) and future provision should therefore be made to charge these costs to the ARR.
- 2.9. Section 5 of this report also contains recommendations for charging costs of approximately £10,000 associated with public jetties and navigational safety and £16,000 on the replacement of boat engines to the Asset Replacement Reserve (ARR) in future. This would ensure that costs are matched against the provision being made for these items as part of the annual £35,000 contribution to the ARR. These costs were charged against the general revenue budget in 2017/18.
- 2.10. The costs described above totalled £36,959 in 2017/18. Excluding these costs, a net surplus of £19,191 was achieved on standard revenue activities.
- 2.11. The outturn position is less favourable than the original budget, which predicted that there would be a net deficit of £10,000 after the agreed contribution to the ARR of £35,000.

- 2.12. It is also less favourable than the revised forecast presented as part of the 2018/19 Budget Report to the Committee in December 2017, when it was predicted that a transfer of £21,000 would be necessary from the General Reserve to meet the agreed ARR contribution.
- 2.13. The change since the last report to the Committee is largely the result of additional one-off costs related to public jetties and navigational safety, historic Crown Estate turnover rent and boat engine replacements as well as higher than expected weather related costs for environmental maintenance. Total income was lower than previously forecast, albeit in line with amounts achieved in previous years.
- 2.14. The balance on the General Reserve as at 31 March 2018 is £35,294. The reserves policy states that the General Reserve should hold annual surpluses not totalling more than 10% of the gross revenue budget, which currently equates to approximately £59,000.

### **3. Statutory Accounts**

- 3.1. Under Section 42(1) of the Harbours Act 1964, the River Hamble Harbour Authority is required to prepare an annual statement of accounts relating to the harbour activities in accordance with the Companies Act 2006. Section 42(5) of the Harbours Act 1964 states that the published accounts should be sent to the Secretary of State for Transport, together with a report on the “state of affairs” disclosed by the accounts, within nine months of the financial year end.
- 3.2. Using guidance issued by the Department for Transport, the River Hamble Harbour Authority is considered to be exempt from the requirement to audit the statutory accounts under Section 477 of the Companies Act 2006. However, the Harbour Authority accounts form part of the overall Hampshire County Council accounts and therefore will be included within the audit of those accounts.
- 3.3. The statutory accounts, as detailed in Appendix 1, show a profit for the year of £34,132. This is after a net credit to the accounts relating to depreciation of £52,241, and expenditure on projects of £2,500 that has been funded from reserves.
- 3.4. Members of the Management Committee will recall the recent review of assets conducted by the Harbour Authority in conjunction with Opus Engineering. As part of this review, it was determined that good husbandry of the Authority’s assets would allow for longer asset lives than previously anticipated, as reported in the Asset Register report to the Management Committee in March 2018. This extension of asset lives means that an adjustment to accumulated depreciation amounts from previous years of £87,013 has been made.
- 3.5. This adjustment is offset partly by the depreciation charge for 2017/18 of £34,772 resulting in a net credit to the accounts of £52,241.

#### **4. 2017/18 Outturn**

- 4.1. The original budget projected a surplus on standard revenue activities of £25,000, before the agreed £35,000 contribution to the Asset Replacement Reserve (ARR), with a net deficit of £10,000 therefore expected.
- 4.2. At the Committee meeting on 1 December 2017 and Board meeting on 12 January 2018, it was reported that the projected surplus was expected to be £11,000 lower than budgeted. This was largely the result of the decision to create a full time assistant harbour master role as a job share when the budget had assumed a part time post. The additional cost was expected to be partly offset by lower than budgeted charges from Legal and Democratic Services and an unspent IT budget relating to a provision for potential costs associated with any development of the harbour management system.
- 4.3. The outturn position is presented in Appendix 2 and shows that a deficit of £17,768 was incurred on standard revenue activities, a difference of £42,768 compared with the original budget. Excluding items that could have been funded by the ARR the net surplus on general revenue activities was £19,191.
- 4.4. The General Reserve will be used to cover this deficit and will also need to be used to fund the agreed £35,000 annual contribution to the ARR. This will mean a total draw from the General Reserve of £52,768.

#### **Income**

- 4.5. Total income for 2017/18 in the management accounts was £595,004, which was lower than both the original budget of £611,000 and the forecast of £608,000 that was presented to the Committee in December, albeit this was broadly in line with total income from previous financial years.
- 4.6. The two most significant areas in which income targets did not meet the budget were Other Funding and Harbour Dues, although Harbour Dues were in line with amounts received in previous years.
- 4.7. Income from Other Funding was £4,000 lower than budget. It was identified as part of the forward budget report for 2018/19 that sublet, waiting list and late payment fee income from the Crown Estate is now included in the management agreement with the Crown Estate. This new agreement came into place after the budget for 2017/18 had been set.
- 4.8. Harbour Dues fell short of the budget by approximately £8,000, albeit they were broadly in line with prior year trends. The Harbour Dues budget for 2018/19 has been updated accordingly to bring the budget back in line with prior year income trends.
- 4.9. There were various other smaller adverse variances totalling £4,000 on Visitor and Miscellaneous income, albeit visitor income was slightly higher than in 2016/17.

## **Expenditure**

- 4.10. Total revenue expenditure in the management accounts was £612,772, which was higher than both the original budget of £586,000 and the forecast of £594,000 that was presented to the Committee in December.
- 4.11. The change since the last report to the Committee is largely the result of additional one-off costs related to public jetties and navigational safety, historic Crown Estate turnover rent and boat engine replacements as well as higher than expected weather related costs for environmental maintenance.
- 4.12. The cost of asset related one-off items that it is recommended are charged to the ARR in future was £36,959 in 2017/18. Had these costs been charged to the ARR in 2017/18, total general revenue expenditure would have been £575,813. This is lower than the overall expenditure budget.
- 4.13. The additional expenditure of £26,772 against the budget of £586,000 is predominantly due to a planned overspend on staffing costs of £18,762, as a result of the assistant harbour master resource change described in section 4.2 above. This was partly offset by an underspend on the training budget of £8,955. This underspend was due to lower staff turnover, resulting in reduced demand for training for new starters, and the cyclical nature of refresher training for staff in general.
- 4.14. The premises costs budget was overspent by £5,566, largely as the result of a payment made to the Crown Estate for turnover rent relating to 2015/16.
- 4.15. These additional costs were offset by an underspend of £5,882 against the Central Department Charges budget due to lower than budgeted charges from Legal and Democratic Services and a saving of £5,000 under IT Charges as described in section 4.2. IT charges relating to the harbour management system may be incurred in future and this same provision has therefore been made in the budget for 2018/19.
- 4.16. It may be that it is felt appropriate to make a transfer from the ARR to the General Reserve in 2018/19 to retrospectively charge one-off costs incurred during 2017/18 to the ARR in relation to boat engine replacements, public jetties and navigational safety, and the engineering surveys.
- 4.17. Actual expenditure on these items was £36,959 in 2017/18. The net surplus on general revenue activities excluding these items was £19,191.
- 4.18. A more detailed breakdown of the income and expenditure is set out in the tables contained in Appendices 2 and 3 and the Notes to Appendices 2 and 3.

## **5. Review of the 2018/19 Forward Budget**

- 5.1. At the meeting on 12 January 2018, the Board approved the forward budget for the 2018/19 financial year. The approved budget allowed for a surplus on general revenue activities of £12,000 and, as a result, would also require a transfer of £23,000 from the General Reserve to enable the full £35,000 contribution to the ARR to be made.

- 5.2. As the forward budget was based on the forecast position for the 2017/18 financial year as at the end of September 2017, a review has been undertaken in comparison with the final accounts for 2017/18, to highlight any potential areas of pressure against the budget in the 2018/19 financial year.
- 5.3. The forward budget for expenditure was set at £595,000, however actual expenditure incurred in 2017/18 was £612,772, but this included one-off expenditure relating to the additional turnover rent paid to the Crown Estate of £4,351, the cost of engineering surveys of £5,500 and a shift in timing in the replacement of boat engines/maintenance which brought forward costs of £4,068.
- 5.4. It is recommended that costs associated with boat engine replacement, engineering surveys and public jetties and navigational safety are charged to the ARR in future. These costs accounted for £36,959 of the expenditure in 2017/18.
- 5.5. The review has, however, highlighted that pressures still exist on the Environmental Maintenance budget. This is related to Warsash Slipway clearance costs and rubbish collection. These costs can fluctuate from year to year depending on external factors such as the weather.
- 5.6. An additional pressure has also been confirmed relating to staffing costs. The budget was set on the assumption of a 1% pay award for staff, however it has recently been confirmed that a pay award of 2% has been agreed. This creates an additional pressure of approximately £5,000.
- 5.7. As part of the recent review of assets, asset lives and replacement costs have been estimated, with this information then used to cash flow anticipated spend from the Asset Replacement Reserve (ARR) through to 2050. The cost of replacing patrol boat engines and costs associated with the maintenance of public jetties and navigational safety have historically been treated as general expenditure. The budget for these costs in 2018/19 is £26,000 and Appendix 4 has been updated on the assumption that these costs will be charged to the ARR from 2018/19 onwards.
- 5.8. Charges from Legal and Democratic Services are based on actual hours worked and have been below budget in recent years. The budget for 2018/19 has been reduced to reflect previous year trends, however, it should be noted that these charges depend on the level of work required and can increase significantly should a particular legal issue arise. Finance charges have also been reviewed and are considered to be a fair reflection of the time undertaken on the Harbour Authority's affairs.
- 5.9. The provision of office space is not currently recharged to the River Hamble Harbour Authority, but has been assessed by Hampshire County Council's surveyors as having a value of approximately £7,500 per annum. Discussions have previously been held around whether such costs incurred by the County Council in supporting the Harbour Authority but not currently recharged, should in future be charged. Should this be done in future, it would create an additional pressure.

- 5.10. The income budget for 2018/19 was set at £607,000, however actual income generated in 2017/18 was £595,004. The income generated in 2017/18 was broadly in line with income received in previous years.
- 5.11. Additional income from the Crown Estate of £3,000 and from the increase in charges for Towing to reflect actual costs incurred by the Harbour Authority (see below) will help to mitigate this difference. The provision of additional mooring space at Premier Marinas is also expected to lead to an increase in Harbour Dues, as will the part year effect of increasing Harbour Dues for 2019, assuming this is agreed. Any remaining underachievement of income levels to be met through cost savings being sought by the Harbour Master.
- 5.12. It was agreed at the Harbour Board meeting on 6 April 2018 to increase towing charges from £49 to £79 per hour plus VAT to more accurately reflect the recovery of actual costs incurred. This is expected to lead to additional cost recovery of approximately £3,000 per year and the new charge rates have already been put in place.

## **6. Reserves**

- 6.1. The Harbour Board approved a reserves policy on 18 May 2007 which provided for the following three reserves:
- Asset Enhancement Reserve (AER) – £320,000 for a programme of future opportunities.
  - Asset Replacement Reserve (ARR) – to replace all Harbour Authority Assets and provide maintenance dredges over a 25 year cycle. Annual contribution of £43,000, later reduced to £35,000, to be received from revenue.
  - Revenue Reserve (RR, also known as the General Reserve) – to hold annual surpluses totalling no more than 10% of the gross revenue budget (for 2017/18 this equates to approximately £59,000). Any excess to be transferred to the AER, returned to mooring holders or to fund one-off revenue budget pressures as approved by the Board
- 6.2. The total reserves for the River Hamble were £585,322 at 31 March 2018, a decrease of £18,109 on the position at the end of 2017/18. The reserves are detailed in Appendix 4.
- 6.3. The Revenue Reserve decreased by £52,768 during the financial year, due to the revenue deficit of £17,768 and the £35,000 transfer to the Asset Replacement Reserve. £2,500 was drawn from the Asset Enhancement Reserve in 2017/18 for the final costs relating to the Sacrificial Anodes PhD Project. The Asset Replacement Reserve was increased by the planned annual transfer of £35,000.
- 6.4. In 2017/18, interest of £2,960 was received on the reserves balances and income received in advance for annual Harbour Dues. Interest was paid at the agreed rate of 0.42% on all reserve balances.
- 6.5. The balance on the Revenue Reserve as at 31 March 2018 was £35,294. If no changes are made to the budget or Harbour Dues, £23,000 of this balance will be earmarked to cover the budgeted net deficit in 2018/19. This would leave a balance of £12,294 as at 31 March 2019.

- 6.6. The reserves policy states that the Revenue Reserve should hold annual surpluses not totalling more than 10% of the gross revenue budget, which currently equates to approximately £59,000.
- 6.7. The Board committed to a zero percent increase in Harbour Dues for 2017 and 2018 to reduce the balance on the Revenue Reserve in a controlled way and to minimise the risk of higher increases to Harbour Dues in the future.
- 6.8. It is recommended that costs associated with boat engine replacement, public jetties and navigational safety, and future asset engineering surveys are charged to the ARR. This would ensure that costs are matched against the provision being made for these items as part of the annual £35,000 contribution to the ARR. These costs were charged against the general revenue budget in 2017/18.

## **7. Conclusion**

- 7.1. The report highlights pressures on the revenue budget and the General Reserve and identifies potential mitigations.
- 7.2. The report provides background information and context for the report on Harbour Dues, covered elsewhere on the agenda.



**CORPORATE OR LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	yes

## Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**Due regard in this context involves having due regard in particular to:**

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

### **1.2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report.

### **2. Impact on Crime and Disorder:**

2.1. This report does not deal with any issues relating to crime and disorder.

### **3. Climate Change:**

How does what is being proposed impact on our carbon footprint / energy consumption? The contents of this report have no impact on carbon footprint or energy consumption.

How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? Not applicable to this report.