HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	River Hamble Harbour Board
Date:	5 April 2019
Title:	River Hamble Future Options
Report From:	The Director of Corporate Resources and Director of Culture, Communities and Business Services

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1. Recommendations

1.1. That the Harbour Board notes the growing shortfall between the projected net annual surplus on revenue activities and the £35,000 balance agreed to be transferred to the Asset Replacement Reserve.

1.2. That the Harbour Board recognises that an increase in Harbour Dues for the 2020 calendar year, currently projected to be 5.1%, is likely to be required and that this future options report be considered alongside the Asset Review and Final Accounts in setting Harbour Dues for next year at a future Board meeting.

1.3. That the Harbour Board considers whether a programme of future opportunities should be pursued, with a resulting further increase to the Harbour Dues.

2. Executive Summary

2.1 In 2009, a detailed review of the Harbour Authority income and expenditure was undertaken, as a result of which the Board approved budgeted expenditure reductions of approximately £50,000 for the 2010/11 financial year. The income budget was also reduced accordingly, by a 10% reduction in the rate of Harbour Dues.

2.2. Expenditure has continued to be closely scrutinised by the Harbour Authority on an ongoing basis, with a number of efficiencies being made. At the same time, increases to Harbour Dues have been kept to a minimum, with inflationary increases being consistently below RPI and indeed frozen for a number of years.

2.3. Over recent years, whilst annual revenue activities have generated a surplus, the surplus has not been sufficient to meet in full the agreed £35,000 annual transfer to the Asset Replacement Reserve (ARR). The resulting deficit has needed to be offset by a transfer from the Revenue Reserve (RR). This has been a planned approach to reduce the balance held within the RR account and bring the balance back in line with the agreed reserves policy which specifies that the balance of the RR should not exceed 10% of the gross expenditure.

2.4. This approach is not sustainable on a long-term basis and therefore this report considers the various options to ensure that the annual surplus on revenue activities is sufficient to fully meet the transfer to the ARR. This will mean that an annual draw from the RR is not expected to be required, mindful that the intent is to operate at a sustainable level and not for profit.

2.5. It is recommended that the Board recognises that a proposed 5.1% increase in Harbour Dues is forecast to be required this year (which would take effect from 1st January 2020). Ongoing increases to Harbour Dues are expected to be within the region of 2% per annum, in line with RPI. The conclusions drawn in this paper will need to be considered alongside the Asset Review work and Final Accounts at the Summer round of governance meetings.

2.6. This report also presents the potential costs and possible funding options for the Board's consideration, should the Board decide that it wishes to take advantage of further development opportunities on the River Hamble.

2.7. It is recommended that the principle be agreed that any additional funding in that respect will also be achieved through an increase to Harbour Dues.

2.8. Any further ambition to take advantage of enhancement opportunities will need to be considered in the light of the current financial position and the concomitant need to increase Harbour Dues further. It will be noted that every £10,000 funding per annum allocated for this purpose would require an approximate increase of 2% increase in Harbour Dues.

3. Introduction

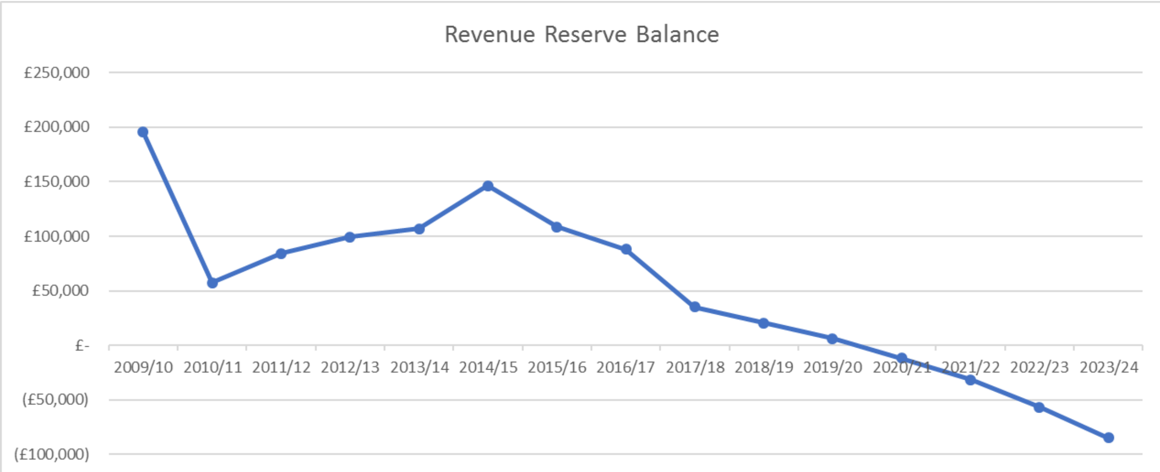
3.1. The River Hamble Harbour Authority (RHHA) maintains a number of statutory services, the safe and efficient delivery of which are not in scope of this review. These services maintain the level of risk within the Harbour at a level which is as low as reasonably practicable. The essential operational pillars supporting this are therefore also not in scope.

3.2. Over the past ten years, RHHA income has reduced. Overall expenditure has also reduced from 2009 levels but remained broadly static since 2011/12 as a result of a prudent approach. Staff expenditure, fundamental to the delivery of the Marine Safety Service, has increased through a combination of wage and associated additional actuarial pension contributions and, recently, the correct management of an employee with a debilitating illness. The net effect with some projects being funded from revenue has been to create a deficit. The Revenue or General Reserve (RR) has been used in accordance with

Board Policy to offset when necessary any annual imbalance in a way that is no longer sustainable.

3.3. The impact of this has seen the balance on the RR reduce considerably so that it is now at the level where it is no longer practicable to continue to draw from the RR to meet the annual transfer to the ARR. Instead the transfer needs to be planned to be met fully from a surplus on annual revenue activities.

3.4. As shown in the graph below, based on current projections the RR will be fully utilised in 2020/21 and would become significantly overdrawn if corrective action is not taken.



*Based on a 2% increase in expenditure per annum and a 1.5% increase in Harbour Dues

4. Income and Expenditure of the Harbour Authority

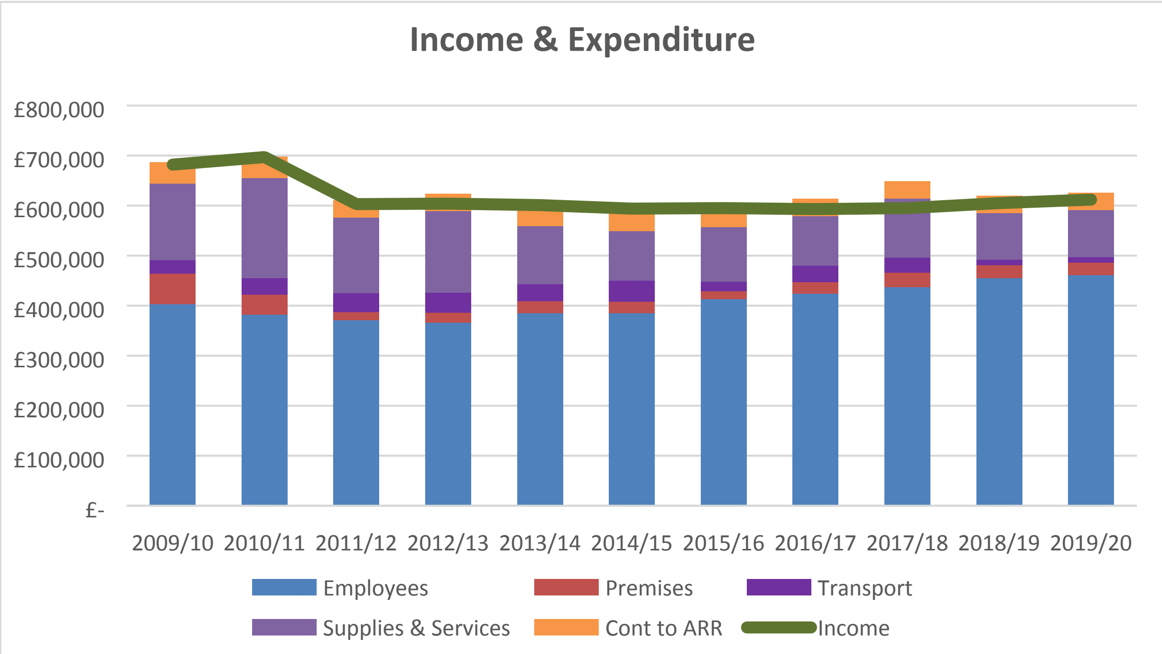
4.1. In 2009, Harbour Dues income stood at £559,000 (net) and the Crown Estate Management Agreement earned the RHHA £47,000. By 31 March 2018, the same figures were £506,000 and £64,000. Other sources of income are variable and include, but are not limited to: services (towing, pontoon cleaning), visitors' income and income from sublets. As these income streams vary, they cannot be relied upon and are therefore not considered further here.

4.2. The reasons for the drop in overall income include a small reduction in the moorings let over the intervening period, a loss in rent for the sublet of property leased at the time and more significantly, a downward adjustment in Harbour Dues since 2009, to reflect the scrutiny of and subsequent reduction in the budgeted expenditure at that time.

4.3. At the Board meeting on 10th Sept 2010 it was agreed that the Harbour Dues would be reviewed annually with the general presumption that any increase should be no higher than the retail prices index plus 1%. That year, the Harbour Board approved a 10% reduction, equivalent to a reduction in income of £62,000[1]. The result of this is that Harbour Dues are set today at a rate that is 7% lower than in 2009. As a benchmark, the Consumer Prices Index has increased by 10% since January 2012. The actual percentage changes to Harbour Dues since 2009 (taking effect from 1st January the following year) and the maximum increases that could have been made using RPI plus 1% are shown in the table below:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actual	-1%	-10%	0%	0%	1%	1.5%	0%	0%	0%	1.5%
RPI +1%			5.8%	5.8%	4.1%	3.7%	2.6%	2.2%	3.5%	5.1%

4.4. Gross income and expenditure (including the £35,000 transfer to the ARR) for each year since the 2009/10 financial year is shown in the graph below:



4.5. Reductions in costs in relation to premises, transport and supplies and services have offset an increase in salaries and on-costs, including actuarially-calculated additional pension contributions[2], to the extent that gross expenditure budgeted at £591,000 before the annual contribution to the ARR is forecast to be £54,000 less than 10 years ago. Notwithstanding an increase of 1.5% in Harbour Dues in the 2018 billing round, forecast income for 2019/20 at £612,000 is £70,000 less than 10 years ago.

4.6. The amount required from the Revenue Reserve to make up the Harbour Board's commitment to transfer £35,000 to the Asset Replacement Reserve

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[1] 2010 also saw a transfer from the Revenue Reserve (then standing at £195,000) to bolster the the Asset Replacement Reserve 0f £180,000, taking that latter reserve to £310,000. The RR reduced to £67,000.

[2] 2% pay award in 2018 and a further 2% in 2019. This meant an increase in on-cost for salaries for 2018/19 of £29,000 including indirect costs for actuarial adjustments to pensions.

is currently projected to be in the region of £14,000 at the end of the current financial year.

4.7. Assuming that Harbour Dues continue to be increased at a rate of 1.5% per annum, as per last year, but that costs rise at 2% per annum (which is 1% below projected RPI increases), this gap would increase to £28,000 per annum by 2023/24.

5. Options for the Financial Sustainability of the RHHA

5.1. The options considered to remove the growing gap between the expected annual surplus on revenue activities and the £35,000 for transferring to the ARR are as follows:

a) Increase the income

b) Reduce the annual expenditure

c) Reduce the annual contribution to the ARR

d) Draw the required balance from the other reserves

5.2. Each of the above options is explored in more detail below.

5.3. In considering those options, the following factors and assumptions have been applied:

a. The integrity of the RHHA's statutory responsibilities cannot be compromised[3]. The Duty Holder 'must ensure that sufficient resources are available to discharge its marine safety obligations and set the level of Dues accordingly'. This is also the primary objective of the Strategic Vision[4] and the subject of the core Mission Statement in the Strategic Plan[5];

b. A continued contribution of £35,000 will be necessary to ensure that the Asset Replacement Reserve is maintained at a level necessary to maintain the essential operational pillars of the RHHA undertaking[6];

c. The Harbour Board wishes to set aside a further surplus to the Asset Enhancement Reserve for a programme of future development opportunities[7]. This is a second order question which depends on both a definition of the requirement and an appetite to increase Harbour Dues beyond the level required to bring the Budget into balance;

d. The RHHA will retain the Crown Estate Management Agreement at the next tender on or before 31 March 2020, without which an additional £64,000 per annum income (or 13.5% increase) would be required;

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[3] Harbour Dues are payable so that the Harbour Authority is able to discharge its statutory responsibilities. Port Marine Safety Code Section 3.

[4] Vision Statement paragraph 5.1 dated 16 January 2018.

[5] Strategic Plan paragraph 3.2 dated 16 January 2018.

[6] Harbour Dues Board Paper June 2019.

[7] Board Policy (Strategic Vision 5.4.1) is to sustain pro-actively the Asset Enhancement Reserve.

e. Imaginative methods to economise have been explored and implemented. Only smaller scale economies remain available;

f. The number and type of moorings let will not decrease in such a manner as to reduce Harbour Dues taken[8];

g. Harbour Dues are the only means of increasing income reliably. The Harbour Board has the statutory powers under the Harbours Act of 1964[9], to set Harbour Dues at the level it sees fit.

Increasing the Income

5.4. It is helpful to recognise, when considering how any increase in income might be achieved, that a one percent increase in Harbour Dues will realise around £4,750 (net).

5.5. The Forward Budget for Income for 2019/20, without any increase applied, is shown in the table below:

Item	Amount	Remarks
Harbour Dues	£483,000	9.75% less than in 2009/10 (£535,125)
Crown Estate Agreement	£67,000	43.5% more than in 2009/10 (£46,700)
Visitors' Income	£43,000	55.75% more than in 2009/10 (£19,024)
Miscellaneous Income	£9,000	39% more than in 2009/10 (£5,474)
Towing	£7,000	(nil recorded)
Other Funding	£2,000	(£1,622) (19% more than in 2009/10)
Interest	£1,000	(£575)
Total	£612,000	10% less than in 2009/10 (£679,200)

5.6. Given that Harbour Dues is the only lever which can adjust income, an increase in Harbour Dues designed to realise an additional £25,000 to address the projected gap in the 2020/21 budget should Harbour Dues remain at the 2019 level must, at the very least, be implemented.

5.7. **An overall increase in Harbour Dues** - With current actual income from Harbour Dues standing at around £475,000, and budgeted at £483,000 for 2019/20, an increase of 5.1% would be necessary to bring the Budget back into balance. This is the least increase that should be considered for implementation although it will not satisfy assumption c. While a larger increase than River Users have been used to in recent times, Harbour Dues would still be set at a level that is 1.5% less than ten years ago. The table

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[8] There is risk here. While the RHHA Waiting List remains strong (599 at the time of writing), not all moorings are let. The RHHA has seen a reduction in these over the past few years. There are 630 Crown Estate moorings and mooring lets have seen a small drop in some categories. While it is difficult to judge with accuracy, it is reasonable to assume that an increase in Harbour Dues is unlikely to be a factor that reverses this situation.

[9] Section 26(2).

below shows how this would affect River Users and also illustrates the rates (per metre per annum) a decade ago.

River User	2009	2019	2020
Mid-stream moorings – resident	£16.06	£15.04	£15.81
Marina/Dry Sailor (basic rate)	£14.60	£13.67	£14.36
Mid-stream moorings – commercial	£14.60	£13.67	£14.36

This increase might be applied in one of two ways: 5% at the next round or incrementally, dependent on the period over which this increase might be applied. However, given that the RR is projected to be only £6,000 at the end of March 2020, a phased implementation would put the RR at significant risk of being fully utilised and without a sufficient balance to meet the ARR transfer. A phased implementation is therefore not recommended.

5.8. **A reduction in the discount granted to the payers of commercial Harbour Dues** - It is recognised that this source of income is reliable and represents around 80% of the net Harbour Dues taken each year. Commercial Harbour Dues are invoiced on 01 January each year at a rate which offers a 20% discount on the recognised meterage available in accordance with a long-established Memorandum of Understanding with the Commercial community. This benefit has been granted in recognition of the administrative burden of collecting the Harbour Dues.

5.9. Assuming net commercial income of £380,000 with that 20% discount, a reduction of 5% in the discount would deliver an increase of £23,750. For illustrative purposes, a commercial Harbour Dues invoice of £20,000 after the current 20% discount would increase under such an arrangement to £21,250 with the 15% discount. While this measure would achieve the necessary deficit amount, it is recognised that such a step would place an uneven burden on the commercial community over the private for the increase.

5.10. For the reasons outlined above, an increase in Harbour Dues of 5.1% for the 2020 calendar year is likely to be necessary.

Reducing Annual Expenditure

5.11. As illustrated by the graph in paragraph 3.4, the majority (80%) of Harbour Authority expenditure relates to staffing in the 2018/19 forecast and 2019/20 budget (excluding the contribution to the ARR). Any reduction in expenditure can only be achieved through savings in supplies and services, which, it can be seen, have been already achieved, or by cutting staff.

5.12. The primary objective of the Strategic Vision is to maintain safety. This is the Board's responsibility in Law, and the Port Marine Safety Code is the "central pillar" of everything the Harbour Authority does[10].

5.13. The manpower structure of the RHHA delivers both afloat safety and office components and operates every day except Christmas day. Winter hours are 07:00 – 19:00 and Summer hours 07:00 – 22:00. The office component is

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[10] Strategic Plan 2018-2021 paragraph 6.1 dated 16 Jan 2018.

made up of three staff or 2.1FTE (full time equivalent) and the afloat capability is made up of five staff or 4FTE.

5.14. The independently audited Marine Safety Management System requires two patrol officers to be on duty at any one time for safety purposes (lone working is not allowed for most activities). The current staffing levels allows the roster to deliver essential cover on a river which can have as many as 400 boat movements every hour. The existing headcount is considered by the Harbour Master and the Designated Person to be the minimum required to deliver a safe, persistent service[11].

5.15. Reducing the staffing expenditure is therefore not considered a viable option.

5.16. Reducing the non-staffing costs to reduce the deficit would require a nearly 10% reduction in these costs to achieve the £14,000 required in 2019/20, rising to a 20% reduction to achieve the projected £28,000 required by 2023/24. As mentioned above, non-staffing costs have continued to be closely scrutinised since the 2009 review and are now almost half what they were in 2009/10 (£130,000 per annum in 2018/19, compared to £232,000 in 2009/10). Whilst expenditure will continue to be monitored and kept to a minimum, it is considered that there is little scope to realise the reductions required to meet the deficit.

Reduce the Annual Contribution to the ARR

5.17. As at 31st March 2018, £480,000 was held in the ARR, and it is anticipated that this will increase to £497,000 by 31st March 2019. The purpose of the ARR is to ensure funding is available to replace all Harbour Authority Assets over a 25 year cycle, and therefore the amount held in the Asset Replacement Reserve is critical in ensuring that future asset replacement needs are met.

5.18. The Asset Review work has become business as usual for the Harbour Board and is considered each year in April. It aims to show that capital is being accumulated at rate sufficient to address replacement out to 50 years. For prudence, any reduction (or increase) to the transfer to the annual reserve, should only be driven by the Asset Review work determining that the current level of contribution should be amended to match the requirement. Before 2011/12, the amount transferred annually from Revenue to this Reserve was £43,000. The current commitment to transfer £35,000 remains important in ensuring that continued needs are met.

5.19. This year's Asset Review has shown that, on current estimates, a continuation of the £35,000 contribution will allow the Asset Replacement Reserve to service the essential RHHA operational assets out to 2050 and beyond. This level of contribution is forecast currently to result in a prudent contingency of around £150,000. Dependent on the Board's appetite for risk, the contingency figure might be reduced to £50,000, were the annual contribution to be reduced to £33,000, however, this would not meet the deficit required. The

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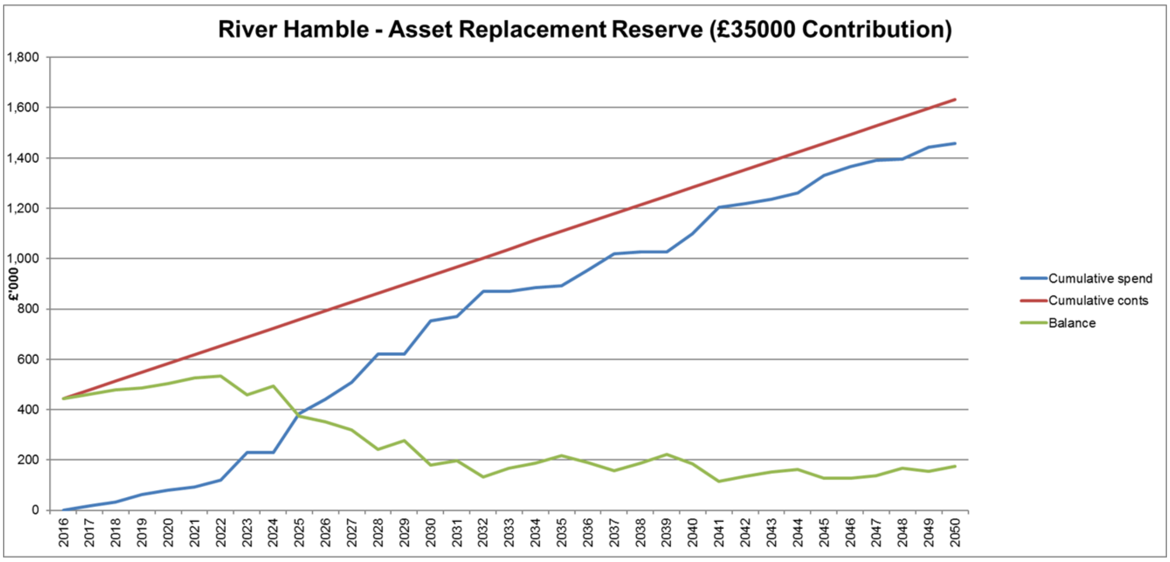
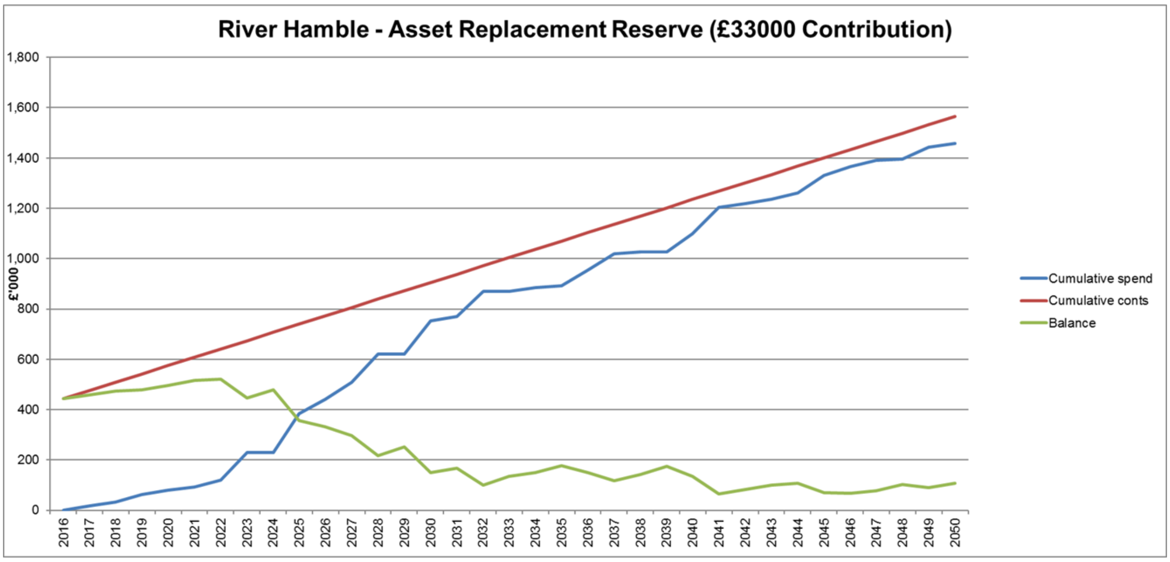
[11] The Harbour Board is on record (Board Minutes 10/9/10, item 64) as having raised concerns that the existing structure, when it was proposed in July 2010, would be too lean. The current structure was supported fully with the Board's additional support being given to the award of appropriate special recognition payments to staff who had undertaken additional activities and responsibilities while the structure was under particular scrutiny.

following graphs are indicative and illustrate that but do not acknowledge the risks involved.





5.20. Reducing the annual contribution to below the required level is not considered a viable option.

5.21.

Draw the Required Balance from other Reserves

5.22. The reserves of the River Hamble are shown in the table below:

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue Reserve	£195,414	£57,245[12]	£84,061	£99,524	£107,114	£146,242	£108,642[13]	£88,062[14]	£35,294[15]	£20,294[16]
Asset Enhancement Reserve (AER)	£311,814	£314,471	£317,145	£286,388	£275,154	£260,310	£130,899[17]	£71,968[18]	£69,760	£66,760[19]
Asset Replacement Reserve	£186,674	£322,078[20]	£339,447	£370,152	£406,492	£365,268[21]	£404,811	£443,402	480,268	£496,268[22]
Total	£693,902	£693,794	£740,655	£756,065	£788,760	£771,820	£644,352	£603,432	585,322	£563,322
Total without the AER	£382,088	£379,323	£423,510	£469,677	£513,606	£511,510	£513,453	£531,464	£498,562	£496,562

5.23. The Revenue Reserve's purpose is to hold annual surpluses totalling no more than 10% of the gross Revenue Budget. Any excess is transferred either to the Asset Enhancement Reserve, returned to mooring holders or to fund one-off revenue budget pressures as approved by the Board. It can be seen that the Revenue Reserve was consistently in surplus before 2015, with exceptional transfers either being made to bolster the Asset Replacement Reserve (£180,000 – 2010/11) and the Asset Enhancement Reserve (£39,000 - 2015/16). More recently, with increasing financial pressure, it has been used to fulfil the commitment to transfer £35,000 annually to the Replacement Reserve.

5.24. The Asset Enhancement Reserve came into being with a one-off windfall of £320,000 from the sale of piles to the Crown Estate. Its purpose has been to support a programme of future opportunities. To date, £292,000 has been spent on projects for the benefit of River Users with the remaining balance being made up from interest accrued and transfer from revenue. The detail of this Reserve's use was brought to the Board in April 2018. The Board has previously discussed its ambition to pursue pro-actively development opportunities. In the light of the deficit and requirement this year to increase Harbour Dues in order to redress that position, any appetite for a further augmentation will merit discussion.

5.25. This capital windfall is irrelevant when considering baseline business planning because any enhancement to the Harbour deemed necessary would have to

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[12] Brought about by a one-off transfer of £180,000 from the RR to the ARR.

[13] A one-off transfer of £39,000 from the RR to the AER.

[14] Transfer of £21,272 to the ARR to make up the £3,5000 commitment.

[15] Transfer of £17768 from the RR to the ARR to make up the £35,000 commitment.

[16] Transfer of £15000 from the RR to the ARR to make up the £35,000 commitment.

[17] £70000 contribution to Hamble Life Boat; £23100 to sediment study; £68,657 to Warsash Slipway improvements.

[18] PhD project into Sacrificial Anodes (£5000); Warsash Link Pontoon (£52,725); River Hamble Games (£2,224).

[19] River Hamble Games 2018 (£3,000).

[20] Previous ARR contribution was £43,000 p.a.

[21] EHarbours (£23,144); Hamble Jetty pontoon replacement (£50,000 - £8,000 credited in 2016 accounts); Navigation light replacement (£5,068).

[22] Boat engine replacement, handrail replacement, replacement of daymarks and decking (£21,000).

be funded in any case, necessitating funding from Revenue with concomitant implications for the rate of annual income. Board Policy is to sustain it, pro-actively for a programme of enhancement opportunities. Acknowledging the tangible benefit to River Users of projects realised by funding from the Asset Enhancement Reserve, the overall balance of the reserves not including the balance of that reserve has increased from £381,000 in 2009 to £497,000 in 2019.

5.26. Again, for the reasons above, addressing the deficit through a transfer from the other reserves is not considered a viable option.

6. Conclusions

6.1. First, the existing level of safety cover must be maintained to ensure that the Risks managed to comply with the PMSC are managed to levels that are as low as reasonably practicable.

6.2. All reasonable reductions in expenditure have been made. Maintaining an essential level of cover requires an increase in income which it is recommended can only reasonably be brought about by an increase in Harbour Dues.

6.3. This year, the forecast shortfall will require a draw on the General Reserve of a predicted £14,000, leaving that Reserve with a forecast balance of £20,000. For 2020/21, the projected shortfall before any uplift to Harbour Dues increases to £25,000. The level of increase necessary is based upon a need for an increase of £25,000 (5%) and will be dependent on the appetite of the Board to take risk on the forecast contingency remaining in the Asset Replacement Reserve, which will be subject to influences not within the Harbour Authority's control.

6.4. In the event that a lower contingency in the Asset Replacement Reserve was deemed acceptable and accepting the associated additional risk, the necessary requirement for an increase would reduce to £23,000 (4.8%). With that in mind, the higher level of contingency afforded by maintaining an annual contribution from Revenue of £35,000 will offer a greater margin of security.

6.5. Secondly, recognising that commercial Harbour Dues bring in the bulk of the Authority's income and also that this income has proved the most stable source, a reduction in the 20% benefit granted to Commercial operators for their collection would therefore achieve the additional level of income required.

6.6. However, it can be argued that this unequal approach, while bringing commercial levels of payment closer into line with those for mid-stream mooring holders, would not be consistent with the Board's policy which recognises and promotes the importance of marine businesses.

6.7. Finally, any appetite to set aside additional income for a programme of future opportunities must be considered in the light of the income forecast to be achieved by a 1% increase (£4,750). Recognising that the Asset Enhancement Reserve will be available up to a point, a project costing

£20,000 would otherwise require an increase beyond that discussed above of over 4%.

7. Impact Assessment

7.1. This report is in accordance with the budget strategy and the County Council's financial management policy. This policy applies equally to all services and ensures consistent financial management decisions across all services. The proposals outlined in this report are not considered discriminatory.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes
People in Hampshire live safe, healthy and independent lives:	Yes
People in Hampshire enjoy a rich and diverse environment:	Yes
People in Hampshire enjoy being part of strong, inclusive communities:	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.)

Document	Location
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:

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

Equalities Impact Assessment:

1.2. This report is in accordance with the budget strategy and the County Council's financial management policy. This policy applies equally to all services and ensures consistent financial management decisions across all services. The proposals outlined in this report are not considered discriminatory.

2. Impact on Crime and Disorder:

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

3. Climate Change:

1. 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.
2. 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.