

HAMPSHIRE COUNTY COUNCIL

Report

Committee:	River Hamble Management Committee
Date:	7 June 2019
Title:	River Hamble Final Accounts 2018/19
Report From:	The Director of Corporate Resources and Director of Culture, Communities and Business Services

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Purpose of this Report

1. The purpose of this report is to present the final accounts of the Harbour Authority for the year ended 31 March 2019 to the River Hamble Harbour Management Committee for consideration.

Recommendations

2. 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.
3. That the Committee notes the level of the General Reserve as at 31 March 2019 of £16,170, and that the balance remains below the level of no more than 10% of the gross revenue budget, as set out in the reserves policy.
4. That the Committee notes that without any changes to the budget for 2019/20, the expectation is that the General Reserve will reduce to £2,170 at the end of 2019/20.
5. That the Committee notes the potential pressures on the 2019/20 budget based on the final position for the 2018/19 financial year.

Executive Summary

6. 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.
7. 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.
8. The statutory accounts for the year ended 31 March show a net loss of £32,095, as detailed in Appendix 1. This is after a depreciation charge of £38,984 and net expenditure on projects that have been funded from reserves totalling £12,663.
9. This report also presents the end of year management accounts, comparing the outturn position for income and expenditure for the year ended 31 March 2019 against the 2018/19 budget (detailed in Appendices 2 and 3).
10. The management accounts show that the Harbour Undertaking returned a net surplus of £15,876 on general revenue activities. After the agreed £35,000 contribution to the Asset Replacement Reserve this becomes a net deficit of £19,124, which has been met from the General Reserve.
11. The outturn position is less favourable than the original budget, which predicted that there would be a net deficit of £2,000 after the agreed contribution to the ARR of £35,000.
12. It is also less favourable than the revised forecast presented as part of the 2019/20 Budget Report to the Committee in December 2018, when it was predicted that a transfer of £15,000 would be necessary from the General Reserve to meet the agreed ARR contribution.
13. The change since the last report to the Committee is largely the result of a payment to the Crown Estate for turnover rent covering the last three financial years, partially offset by higher than forecasted income and lower than provided for charges from Democratic and Legal Services.
14. The balance on the General Reserve as at 31 March 2019 is £16,170. 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 £57,000.

Contextual Information - Statutory Accounts

15. 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.
16. 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.
17. The statutory accounts, as detailed in Appendix 1, show a loss for the year of £32,095. This is after a net debit to the accounts relating to depreciation of £38,984, and expenditure on projects of £12,663 that has been funded from reserves.

2018/19 Outturn

18. The original budget projected a surplus on standard revenue activities of £33,000, before the agreed £35,000 contribution to the Asset Replacement Reserve (ARR), with a net deficit of £2,000 therefore expected.
19. At the Committee meeting on 7 December 2018 and Board meeting on 11 January 2019, it was reported that the projected surplus was expected to be £13,000 lower than budgeted. This was largely the result of staff overtime costs and the annual costs of the Bathymetric survey, where the budget was moved from revenue to the ARR in July 2018, however it had been identified that it would be more appropriate to keep this specific cost in revenue.
20. The outturn position is presented in Appendix 2 and shows that a surplus of £15,876 was incurred on standard revenue activities, a further £4,124 lower than the original budget. The surplus will be used to part fund the agreed £35,000 annual contribution to the ARR, with the difference of £19,124 being met from the General Reserve.

Income

21. Total income for 2018/19 in the management accounts was £610,450, exceeding both the original budget of £607,000 and the forecast of £605,000 that was presented to the Committee in December.

22. Additional income of £9,000 has been received from towing charges. This is due to the agreed increase in the hourly charge out rate to more accurately reflect the costs incurred by the Harbour Authority, and a drive to ensure all towing is charged for, including any towing carried out on behalf of the Crown Estate relating to the pile replacement programme.
23. Income from Other Funding is £4,000 less than budgeted. The original budget included provision for £3,000 income from Fareham Borough Council towards the clearance of seaweed adjacent to the Warsash Slipway, however, this contribution has not been required for a number of years, as the corresponding costs have not been incurred.

Expenditure

24. Total revenue expenditure in the management accounts was £594,575, which was higher than both the original budget of £574,000 and the forecast of £585,000 that was presented to the Committee in December.
25. The change since the last report to the Committee is largely the result of a payment to the Crown Estate for turnover rent covering the last three financial years totalling £13,171, partly offset by lower than provided for charges from Legal and Democratic Services, which are charged on the basis of actual time spent.
26. The additional expenditure of £20,575 against the budget of £574,000 is predominantly due to the payment to the Crown Estate as above, as well as a £6,194 overspend on staffing, mainly due to overtime costs, and a £5,812 spend on Public Jetties and Navigational Safety for the annual costs of the Bathymetric Survey. The budget for this survey expenditure was moved from revenue to the ARR in July 2018, however it has since been identified that it would be more appropriate to keep this specific cost in revenue.
27. These additional costs were offset by an underspend of £4,440 against the Central Department Charges budget due to lower than budgeted charges from Legal and Democratic Services and a saving of £5,083 under Environmental Maintenance due to work being carried out by Harbour Authority staff and slipway clearances only being carried out when absolutely necessary.
28. 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.

Review of the 2019/20 Forward Budget

29. At the meeting on 11 January 2019, the Board approved the forward budget for the 2019/20 financial year. The approved budget allowed for a surplus on general

revenue activities of £21,000, which would require a transfer of £14,000 from the General Reserve to enable the full £35,000 contribution to the ARR to be made.

30. As the forward budget was based on the forecast position for the 2018/19 financial year as at the end of September 2018, a review has been undertaken in comparison with the final accounts for 2018/19, to highlight any potential areas of pressure against the budget in the 2019/20 financial year.
31. The forward budget for expenditure was set at £591,000. Actual expenditure incurred in 2018/19 was £594,575, which included one-off expenditure relating to the additional turnover rent paid to the Crown Estate of £13,171 for three financial years. There is expected to be an ongoing annual cost for this, which is currently not provided for in the budget.
32. Charges from Legal and Democratic Services are based on actual hours worked and have been below budget in recent years. 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.
33. It should also be noted that the forward budget includes an additional £13,000 on the staffing budget to cover expected increases to staff costs for the inflationary pay award as well as increased employer pension costs following the actuarial valuation of the pension fund.
34. 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.
35. The income budget for 2019/20 was set at £612,000, with actual income generated in 2018/19 of £610,450. Due to the 1.5% increase in Harbour Dues, income is expected to increase for 2019/20, and therefore there is no reason at this stage of the year to assume the income budget will not be reached.

Reserves

36. 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
37. The total reserves for the River Hamble were £584,711 at 31 March 2019, a decrease of £611 on the position at the end of 2018/19. The reserves are detailed in Appendix 4.
38. The Revenue Reserve decreased by £19,124 during the financial year, due to the shortfall between the revenue surplus of £15,876 and the £35,000 transfer to the Asset Replacement Reserve. £3,000 was drawn from the Asset Enhancement Reserve in 2018/19 for the contribution towards the Hamble Games.
39. A net amount of £17,837 was added to the Asset Replacement Reserve being the planned annual transfer of £35,000 less £17,163 drawn to fund asset replacement costs including a new boat engine (net of sales proceeds from the old engine) and handrail refurbishment.
40. In 2018/19, interest of £4,625 was received on the reserves balances and income received in advance for annual Harbour Dues. Interest was paid at the agreed rate of 0.67% on all reserve balances.
41. The balance on the Revenue Reserve as at 31 March 2019 was £16,170. It is expected that £14,000 of this balance will be required to cover the budgeted net deficit (after the £35,000 transfer to the ARR) in 2018/19. This would leave a balance of £2,170 as at 31 March 2020.
42. 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 £57,000. The expected balance is considerably below this. In view of the reducing balance, the Board agreed a 1.5% increase to Harbour Dues for 2019. The Management Committee and the Board will need to consider what further action will be required to manage future cost pressures and ensure that the annual contribution to the ARR can be made.

Conclusion

43. The report highlights the final position for the 2018/19 financial year, which is less favourable than the budgeted position, and slightly less favourable than the forecast position presented in December 2018.
44. The report also highlights the ongoing pressures on the revenue budget and subsequently the diminishing balance within the General Reserve.

REQUIRED CORPORATE AND 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

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

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