

## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee:</b>	River Hamble Harbour Board
<b>Date:</b>	25 September 2020
<b>Title:</b>	River Hamble Final Accounts 2019/20
<b>Report From:</b>	The Director of Corporate Resources and Director of Culture, Communities and Business Services

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#### Purpose of this Report

1. The primary purpose of this report is to present the final accounts of the Harbour Authority for the year ended 31 March 2020 to the River Hamble Harbour Board for consideration. The report also presents an early view of the forecast position for the current financial year.

#### Recommendations

2. That this report, the statutory accounts and management accounts be approved by River Hamble Harbour Board.
3. That the Board notes that as at 31 March 2020 the General Reserve has a £189 balance, but this is expected to increase to £17,189 at the end of 2020/21.
4. That the Board approves a £35,000 increase to the 2020/21 Harbour Dues income budget, to reflect the newly introduced dry launching charges and in accordance with the principle agreed by the Board at the meeting of 10 January 2020, with the expected surplus from the additional income being added to the Revenue Reserve.

## **Executive Summary**

5. Under 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. However, these accounts are considered to be exempt from the requirement to be separately audited.
6. The statutory accounts for the year ended 31 March show a net loss of £76,111, as detailed in Appendix 1. This is after a depreciation charge of £35,080 and net expenditure on projects that have been funded from reserves totalling £64,099.
7. This report also presents the end of year management accounts, comparing the final outturn position for income and expenditure for the year ended 31 March 2020 against the 2019/20 budget (detailed in Appendices 2 and 3).
8. The management accounts show that the Harbour Undertaking returned a net surplus of £19,019 on general revenue activities. After the agreed £35,000 contribution to the Asset Replacement Reserve, this becomes a net deficit of £15,981, which has been met from the General Reserve.
9. The outturn position is slightly more favourable than both the original budget and the forecast presented as part of the 2019/20 Budget Report to the Board in January 2020, which predicted net deficits of £17,000 and £19,000 respectively, after the agreed contribution to the ARR of £35,000.
10. The change since the last report to the Board is largely the result of increased income - in particular, harbour dues and visitor income, partially offset by higher than anticipated pay costs.
11. The remaining balance held in the General Reserve as at 31 March 2020. The reserves policy states that the General Reserve should hold annual surpluses totalling not more than 10% of the gross revenue budget, which currently equates to approximately £59,000. There is no minimum balance set out in the policy.
12. This report also considers an early outturn position for the year ended 31 March 2021 in the context of the changes agreed to certain charges by the Board in January, and also the Covid-19 pandemic.
13. The increases to charges are expected to generate additional income of £35,000 per annum, and it is recommended that the income budgets be increased by this amount. The impact of Covid-19 on the financial position is currently anticipated to be relatively small, with a reduction in visitor income being the main impact to date, but concerns remain over the longer term impact.

## **Contextual Information - Statutory Accounts**

14. 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.
15. 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.
16. The statutory accounts, as detailed in Appendix 1, show a loss for the year of £76,111. This is after a net charge to the accounts relating to depreciation on the assets held of £35,080, and one-off planned expenditure on projects of £64,099 that has been funded from reserves.

## **2019/20 Outturn**

17. The revised budget projected a surplus on standard revenue activities of £18,000, before the agreed £35,000 contribution to the Asset Replacement Reserve (ARR), with a net deficit of £17,000 therefore expected.
18. At the Committee meeting on 6 December 2019 and Board meeting on 10 January 2020, it was reported that the projected surplus was expected to be £2,000 lower than the revised budget.
19. The final outturn position, as presented in Appendix 2, is a surplus of £19,019 on standard revenue activities, £1,019 higher than the revised budget. The surplus will be used to part fund the agreed £35,000 annual contribution to the ARR, with the remaining £15,981 being met from the General Reserve.

## **Income**

20. Total income for 2019/20 in the management accounts was £627,632, exceeding both the revised budget of £612,000 and the forecast presented to the Board in January of £618,000. This is following the approval of proposed changes to charges by the Board at the meetings on 15 November 2019 and 10 January 2020.

21. Additional income of £8,658 has been received for Harbour Dues in respect of newly introduced charges for dry launching, relating to the period January 2020 to March 2020, with the full year benefit being realised from 2020/21 onwards.
22. Visitor income was £5,515 higher than budgeted and £3,515 higher than previously forecast. A contributing factor being the recently introduced increases to visitor and launching fees, which had previously remained unchanged since 2006.

### **Expenditure**

23. Total revenue expenditure in the management accounts was £608,613 which was higher than both the revised budget of £594,000 and the forecast of £602,000 that was presented to the Board in January.
24. The additional expenditure of £14,613 against the budget was predominantly £10,150 on staff related costs mainly due to increased overtime costs, due to a vacant seasonal post being covered by higher graded staff members working additional hours. Although these were partly offset by lower than expected training costs. In addition, rent and rates were £2,644 higher than budgeted (as highlighted in the previous forecast, reflecting the reducing transactional relief for business rates following the revaluation in 2017).
25. 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.

### **2020/21 Revised Budget**

26. At the meeting on 10 January 2020, the Board approved the forward budget for the 2020/21 financial year. The approved budget allowed for a surplus on general revenue activities of £52,000, which would enable the full £35,000 contribution to the ARR to be made and increase the balance against the General Reserve from £189 to £17,189.
27. In the separate Income Adjustment Options paper taken to the 10 January 2020 meeting, the Board approved that changes to various charges covering a flat rate annual charge for dry dock launches, mooring rates for permanently moored fishing vessels at Warsash, and increases to daily launching charges and visitors' rates, be incorporated within the income budgets for the 2020/21 financial year.
28. It is therefore proposed that the Harbour Dues budget be increased by £35,000 to £541,000 as shown in Appendix 6. Other smaller changes will be incorporated during the preparation of the 2021/22 budget, when more information is available on the actual impact of these changes.

29. This will increase the budgeted surplus to £87,000, which after the contribution to the Asset Replacement Reserve would increase the expected balance in the Revenue Reserve to £52,000. At the Board meeting of 10 January 2020 it was noted that any additional income generated as a result of the new increases to charges could be added to the Asset Enhancement Reserve to take advantage of future opportunities. However, given the relatively low value in the Revenue Reserve, it is recommended that the expected surplus due to this additional income is added to the Revenue Reserve this financial year to restore the balance to a reasonable level.

## **2020/21 Forecast Outturn**

30. Given that the 2020/21 budget was based on the forecast position for the 2019/20 financial year as at the end of September 2019, a review of the 2020/21 budget has been undertaken in comparison with the final accounts for 2019/20, as well as an early view of the 2020/21 position as at the end of June 2020. This is considered particularly important in view of the extraordinary circumstances relating to Covid-19.
31. The forward budget for expenditure was set at £585,000, and the forecast position is currently expected to be on budget.
32. Actual expenditure incurred in 2019/20 was £608,613, but this included £24,800 for past service pension costs. Following the triennial actuarial pension valuation this payment will not be required in 2020/21.
33. Charges from Legal and Democratic Services are based on actual hours worked and, whilst currently forecast to budget, 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.
34. It should also be noted that the forward budget includes an additional £15,000 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. The inflationary pay award was estimated at 2%, however this has not yet been agreed, and currently 2.75% has been offered. The staffing budget may also be impacted by higher than usual overtime costs as a result of Covid-19, should staff become ill or need to self-isolate, requiring their work to be covered by other members of the team.
35. 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 as to whether such costs incurred by the County Council in supporting the Harbour Authority should in future be charged, and if this were to change, this would create an additional pressure.

36. The income budget for 2020/21 was set at £637,000, with actual income generated in 2019/20 of £627,632. For 2020/21 the full year benefit of the 5% increase to Harbour Dues will be realised.
37. Since the budget was agreed charges for dry launching have been introduced with income over a full financial year expected to be around £35,000. Therefore, an increase to the 2020/21 Harbour Dues income budget for the same amount is recommended.
38. The financial impact of Covid-19 to date has been a reduction in visitor income, which is currently forecast as a shortfall of £7,000 this year.
39. Therefore, overall the position for this financial year is currently looking positive with the increased income from the changes to charges. However, the impact of Covid-19 remains an unknown quantity. Furthermore, as highlighted in the previous report, the past pension contribution charges (which are not payable this year) could potentially be reintroduced following the next actuarial valuation in three years time, and this could now be considered far more likely given the adverse impact of Covid-19 on the economic climate.

## **Reserves**

40. 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 2019/20 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
41. The total reserves for the River Hamble were £542,180 at 31 March 2020, a decrease of £42,531 on the position at the end of 2018/19. The reserves are detailed in Appendix 4.
42. The majority of the £16,170 balance in the Revenue Reserve was used to meet the shortfall between the revenue surplus of £19,019 and the £35,000 transfer to the Asset Replacement Reserve, leaving a balance of £189 at the end of 2019/20.

43. £417 was drawn from the Asset Enhancement Reserve for the contribution towards Bursledon Regatta.
44. A net amount of £30,182 was drawn from the Asset Replacement Reserve, being the planned annual transfer of £35,000 less £65,182 to fund asset replacement costs and projects. The spend is broken down as follows:
  - Purchase of tidal gauges - £1,500
  - Boat engine maintenance - £2,275
  - Hamble jetty maintenance - £3,900
  - Purchase and implementation of the new Harbour Assist system - £45,500
  - Harbour Office works - £12,007
45. In 2019/20, interest of £5,004 was received on the reserves balances and income received in advance for annual Harbour Dues. Interest was paid at the agreed rate of 0.72% on all reserve balances.
46. There is £189 held on the Revenue Reserve as at 31 March 2020. It is expected that £17,000 will be added to the reserve in 2020/21 from the surplus on standard revenue activities (after the agreed £35,000 transfer to the ARR) in 2020/21. As highlighted earlier in the report, additional revenue income totalling £35,000 is now expected in relation to dry launching and, once factored in, increases the proposed budgeted revenue surplus to £52,189. However, it should be noted that this is prior to factoring in the financial impact of Covid-19, particularly the loss of visitor income during lockdown. Current estimates are a loss of approximately £7,000 in 2020/21.
47. 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. The balance is currently zero however it is anticipated to increase during 2020/21, as has been outlined above.

## **Conclusion**

48. The report highlights the final position for the 2019/20 financial year, which is less favourable than the budgeted position, and slightly less favourable than the forecast position presented in December 2019.

49. The report also highlights the pressures on the revenue budget in 2019/20 and subsequently the diminished balance within the General Reserve. The outlook for 2020/21 is more positive due to the agreed changes to charges, but will be impacted by reduced visitor income due to Covid-19.

## **REQUIRED CORPORATE AND 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.)**

<u>Document</u>	<u>Location</u>
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.