

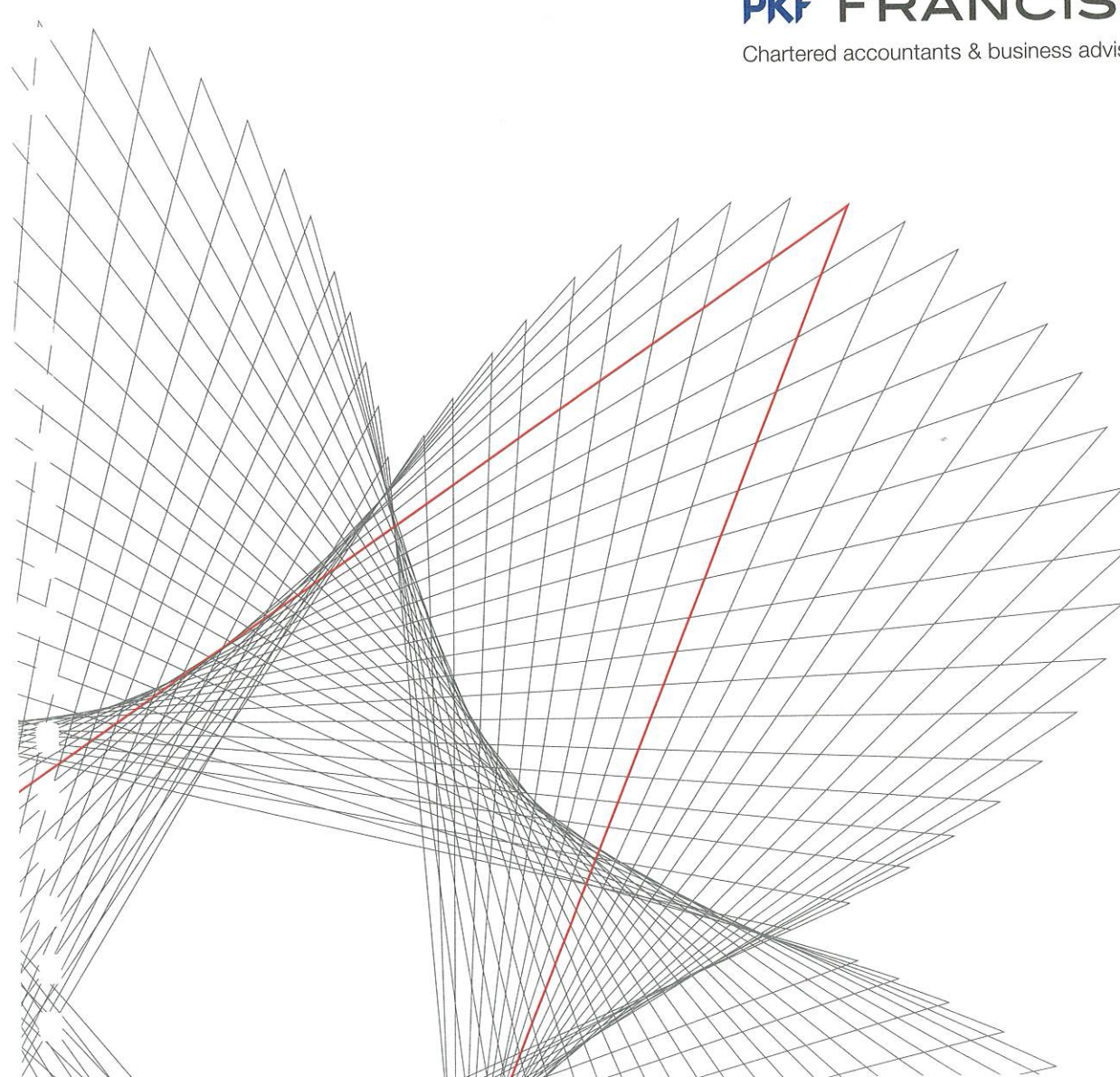
FALMOUTH HARBOUR COMMISSIONERS

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2018

PKF FRANCISCLARK

Chartered accountants & business advisers



FALMOUTH HARBOUR COMMISSIONERS

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FALMOUTH HARBOUR COMMISSIONERS

ORGANISATION INFORMATION

Commissioners: Captain M Sansom Chief Executive and Harbour Master
C Gilmore Chair
G Tomlinson Deputy Chair (Term Ended 31 December 2018)
C Jarvis (Term Ended 31 March 2018)
R Reed
G Tranter
J Wolfram
M Chanter
B Grigg (Appointed 1 April 2018)

Deputy Harbour Master: Captain D Paul

General Manager: B Buist

Finance Manager: L Allan

Falmouth Harbour Commissioners: 44 Arwenack Street
Falmouth

Bankers: Barclays Bank plc
Killigrew Street
Falmouth

Lloyds Bank plc
Killigrew Street
Falmouth

HSBC Bank plc
Market Street
Falmouth

Santander
31 Boscawen Street
Truro TR1 2QH

Solicitors: Burgess Salmon
Dorade Law
Hine Downing
Mills & Co
Stephens Scown LLP

Auditors: PKF Francis Clark
Statutory Auditor
Lowin House
Tregolls Road
Truro TR1 2NA

FALMOUTH HARBOUR COMMISSIONERS

STRATEGIC REPORT

Year Ended 31 December 2018

The Commissioners present their strategic report for the year ended 31 December 2018.

Principal activities

The principal activities of the Harbour Commissioners are the administration of the affairs of Falmouth Harbour and the administration of pilotage services as a competent harbour authority under the Pilotage Act 1987.

Fair review of the business

These financial statements record a surplus, after payment of pension liability contributions, of £242,473 (2017 - £120,614) before tax which reflects an improving level of commercial shipping activity compared to 2017 and a further growth in leisure facilities. Due to the significance of the pension deficit related outgoings and valuations, the Commissioners have maintained the format of their accounts introduced in 2016 in order to show these in a separate column.

Exceptional costs for pension scheme contributions totalled £279,449 (2017 - £261,071), with further net service cost and interest adjustments in respect of the defined benefit pension schemes of £1,000 (2017 - £18,000) for this financial year, indicating that trading activities made a surplus after tax of £522,922 (2017 - £399,685). Leisure activity showed some growth in income during the year, partly due to investment in new small craft facilities and revised lease arrangements for Custom House Quay.

The organisation's key financial and other performance indicators during the year were as follows:

	2018 £	2017 £
Turnover	3,137,464	2,717,043
Trading operating surplus	546,624	409,128
Operating surplus / (deficit)	267,175	148,057
Trading surplus after tax	522,922	399,685
Surplus / (deficit) after tax	242,473	120,614
Net current ratio (including Investments)	6	6
Average number of employees	39	37
Operating Earnings Before Interest Tax & Depreciation (EBITDA)	695,423	570,793
Cash at bank & in hand	1,551,699	1,253,282
Investment portfolio	953,459	1,018,472

Principal risks and uncertainties

Pilots Pension Fund

A court ruling gave the Fund Trustee wide powers to seek deficit contributions from Competent Harbour Authorities (CHA) engaged or having been previously engaged in employing or authorising pilots and Falmouth Harbour Commissioners has a liability on this basis. The liability share has been allocated by the Trustee to CHAs as a percentage of the deficit and the Falmouth Harbour Commissioners share has been estimated at £3,148,000 based on a valuation undertaken in 2013. The FRS102 report as at 31 December 2018 indicates that this liability has changed to £3,097,000 (2017 - £3,032,000) and it is this figure that is reported in the accounts. A plan for repaying this liability over a suitable term was agreed with the Trustee. Subsequently, the Trustee advised FHC that they considered that a lump sum contribution was due in respect of their lump sum contribution policy and a revised plan has been agreed to discharge any obligation that may arise from this.

Cornwall Council Pension Fund

Falmouth Harbour Commissioners also have a pension liability in the Local Government Pension Scheme (LGPS); however, due to the fact that the majority of their employees are active members of the scheme, the risk of the liability becoming immediately due is considered negligible.

The details relating to the pension scheme liabilities are shown on pages 17 – 20. A triennial valuation of the Pilots National Pension Fund was last carried out at the end of 2016 and no adjustment to the repayment plan in respect of this has been proposed.

FALMOUTH HARBOUR COMMISSIONERS

STRATEGIC REPORT

Year Ended 31 December 2018

Investment powers, policy and performance

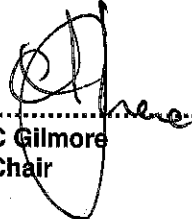
Falmouth Harbour Commissioners have the power to make any investment that they consider appropriate and investment performance is reviewed regularly throughout the year.

Going Concern

The balance sheet shows that Falmouth Harbour Commissioners has a net deficit on reserves of £(819,745) (2017 £(991,218)). However, the Commissioners consider that it is appropriate for the accounts to continue to be prepared on a going concern basis for the reasons set out below:

- The net liability position on the balance sheet has arisen primarily as a result of the valuations of liabilities of the pension schemes. Such valuations are volatile, with an actuarial (deficit) of £(71,000) being incurred during 2018, compared to a surplus of £151,000 during 2017.
- The Board are committed to ensuring that annual income covers liabilities, and to this end have acted to ensure that their facilities are operated commercially and costs are mitigated.
- Falmouth Harbour Commissioners hold substantial current assets and investments which cover the repayment liabilities relating to the pension deficits for the next 12 months by a factor of 5.5. Falmouth Harbour Commissioners have dues raising powers and expect to be able to trade with sufficient reserves to cover the necessary repayments on an annual basis going forward.

Approved by the Board on 9th August 2019 and signed on its behalf by:


.....
C Gilmore
Chair

FALMOUTH HARBOUR COMMISSIONERS

COMMISSIONERS' REPORT

Year Ended 31 December 2018

The Commissioners present their report and the financial statements for the year ended 31 December 2018.

Commissioners of the organisation

The following Commissioners held office during the year:

- | | |
|------------------|--|
| Captain M Sansom | Chief Executive and Harbour Master |
| C Gilmore | Chair |
| G Tomlinson | Deputy Chair (Term Ended 31 December 2018) |
| C Jarvis | |
| R Reed | (Term Ended 31 March 2018) |
| G Tranter | |
| J Wolfram | |
| M Chanter | |
| B Grigg | (Appointed 1 April 2018) |

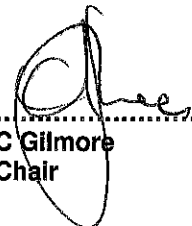
Future developments

The Commissioners have revised their business plan in light of the previous year's performance and anticipate operating profitability during 2019.

Disclosure of information to the auditors

Each Commissioner has taken steps that they ought to have taken as a Commissioner in order to make themselves aware of any relevant audit information and to establish that the organisation's auditors are aware of that information. The Commissioners confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Approved by the Board on *9th August 2019* and signed on its behalf by:


.....
C Gilmore
Chair

FALMOUTH HARBOUR COMMISSIONERS

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

The Commissioners are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Relevant law requires the Commissioners to prepare financial statements for each financial year. Under that law the Commissioners have elected to prepare the financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under the relevant law the Commissioners must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the organisation and of the income and expenditure of the organisation for that period. In preparing these financial statements, the Commissioners are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the organisation will continue in business.

The Commissioners are responsible for keeping adequate accounting records that are sufficient to show and explain the organisation's transactions and disclose with reasonable accuracy at any time the financial position of the organisation and to enable them to ensure that the financial statements comply with the Statutory Harbour Undertakings (Accounts etc) Regulations 1983, the Falmouth Harbour Orders 1870-1991 and the Statutory Harbour Undertakings (Pilotage Accounts) Regulations 1988. They are also responsible for safeguarding the assets of the organisation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FALMOUTH HARBOUR COMMISSIONERS

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Falmouth Harbour Commissioners for the year ended 31 December 2018 which comprise the Income and Expenditure Account, Statement of Comprehensive Income, Balance Sheet, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice) incorporating the requirements of Section 1A.

In our opinion the financial statements:

- give a true and fair view of the state of the organisation's affairs as at 31 December 2018 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Harbours Act 1964, as amended by the Transport Act 1981 and subsequent legislation.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Commissioners' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Commissioners have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the organisation's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Commissioners' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Commissioners' Report has been prepared in accordance with applicable legal requirements.

FALMOUTH HARBOUR COMMISSIONERS

INDEPENDENT AUDITOR'S REPORT

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the organisation and its environment obtained in the course of the audit, we have not identified material misstatements in the Commissioners' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Commissioners' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of the commissioners

As explained more fully in the Statement of Commissioners' Responsibilities (set out on page 5), the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Commissioners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Commissioners are responsible for assessing the organisation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commissioners either intends to liquidate the organisation or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Commissioners, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Commissioners those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

KSkea

Katie Skea ACA (Senior Statutory Auditor)
PKF Francis Clark, Statutory Auditor

Lowin House
Tregolls Road
Truro TR1 2NA

Date:.....6.....September 2019.

FALMOUTH HARBOUR COMMISSIONERS

INCOME AND EXPENDITURE ACCOUNT

YEAR ENDED 31 DECEMBER 2018

	Note	£	£	2018 £	£	£	2017 £
		Operations	Pensions / Other	Total	Operations	Pensions / Other	Total
Turnover		3,137,464	-	3,137,464	2,717,043	-	2,717,043
Other operating income		2,225	-	2,225	2,225	-	2,225
		<u>3,139,689</u>	<u>-</u>	<u>3,139,689</u>	<u>2,719,268</u>	<u>-</u>	<u>2,719,268</u>
Staff Costs & Pilots fees	3	1,515,740	-	1,515,740	1,426,994	-	1,426,994
Amortisation & Depreciation		148,799	-	148,799	161,665	-	161,665
Pension fund deficit contributions and other professional pension costs		-	279,449	279,449	-	261,071	261,071
Other operating expenses		928,526	-	928,526	721,481	-	721,481
		<u>(2,593,065)</u>	<u>(279,449)</u>	<u>(2,872,514)</u>	<u>(2,310,140)</u>	<u>(261,071)</u>	<u>(2,571,211)</u>
Operating surplus/(deficit)	2	546,624	(279,449)	267,175	409,128	(261,071)	148,057
Net service cost and interest adjustments in respect of the defined benefit pension schemes		-	(1,000)	(1,000)	-	(18,000)	(18,000)
Deficit on disposal of assets		(31)	-	(31)	(40,345)	-	(40,345)
Unrealised gain on investments		(59,971)	-	(59,971)	16,292	-	16,292
Other interest receivable and similar income		36,300	-	36,300	14,610	-	14,610
		<u>(23,702)</u>	<u>(1,000)</u>	<u>(23,702)</u>	<u>(9,443)</u>	<u>(18,000)</u>	<u>(27,443)</u>
Surplus/(deficit) for the year before Taxation		522,922	(280,449)	242,473	399,685	(279,071)	120,614
Taxation	4	-	-	-	-	-	-
Surplus/(deficit) for the financial year		<u>522,922</u>	<u>(280,449)</u>	<u>242,473</u>	<u>399,685</u>	<u>(279,071)</u>	<u>120,614</u>

The above results were derived from continuing operations.

The notes on pages 11 to 22 form an integral part of these financial statements.

FALMOUTH HARBOUR COMMISSIONERS
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	£	£	2018		£	£	2017
	Operations	Pensions / Other	£	£	Pensions / Other	£	Total
Surplus/(deficit) for the financial year	522,922	(280,449)	242,473	399,685	(279,071)	120,614	
Actuarial (loss) / gain on defined Benefit pension schemes	-	(71,000)	(71,000)	-	151,000	151,000	
(Deficit) on property, plant and Equipment revaluation	-	-	-	(46,180)	-	(46,180)	
Total comprehensive Income / (expense) for the year	522,922	(351,449)	171,473	353,505	(128,071)	225,434	

The notes on pages 11 to 22 form an integral part of these financial statements.

FALMOUTH HARBOUR COMMISSIONERS

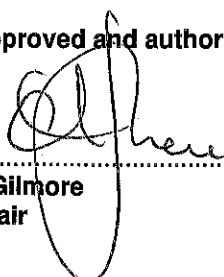
BALANCE SHEET


FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	£	2018 £	£	2017 £
Fixed assets					
Intangible assets	5		-		11,826
Tangible assets	6		1,959,194		1,925,679
			<u>1,959,194</u>		<u>1,937,505</u>
Investments	7		953,459		1,018,472
Current assets					
Stock		5,852		6,389	
Debtors	8	349,671		277,991	
Cash at bank and in hand		1,551,699		1,253,282	
			<u>1,907,222</u>	<u>1,537,662</u>	
Creditors: amounts due within one year	9	(480,732)		(395,744)	
Net current assets			1,426,490		1,141,918
Total assets less current liabilities			<u>4,339,143</u>		<u>4,097,895</u>
Creditors: amounts due after more than one year	9		(8,888)		(11,113)
Net assets excluding pension liability			<u>4,330,255</u>		<u>4,086,782</u>
Pilots National Pension Fund Scheme liability	10		(3,097,000)		(3,032,000)
Cornwall Council Pension scheme liability	10		(2,053,000)		(2,046,000)
Net assets			<u>(819,745)</u>		<u>(991,218)</u>
Capital and Reserves					
Revaluation reserve			48,208		48,208
Revaluation reserve – investments			(43,679)		16,292
Accumulated funds			(824,274)		(1,055,718)
Total equity			<u>(819,745)</u>		<u>(991,218)</u>

These accounts have been prepared in accordance with the provision applicable to organisations subject to the small companies regime.

Approved and authorised by the Board on: 9th August 2019 and signed on its behalf by:


 C Gilmore
 Chair


 Captain M Sansom
 Chief Executive and Harbour Master

The notes on pages 11 to 22 form an integral part of these financial statements.

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. ACCOUNTING POLICIES

General information

Falmouth Harbour Commissioners is an unincorporated organisation set up for the administration of the affairs of Falmouth Harbour and the administration of the pilotage services as a Competent Harbour Authority under the Pilotage Act 1987.

The address of its primary office is:
44 Arwenack Street
Falmouth

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared using the historical cost convention, except that as disclosed in the accounting policies certain items are shown at fair value.

The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the organisation operates.

The organisation's financial statements have been prepared in accordance with FRS102 – the Financial Reporting Standard applicable to UK and Republic of Ireland.

Turnover recognition

Turnover represents the amount derived from the provision of goods and services falling within the organisation's activities after deduction of value added tax.

Income is calculated so as to spread the income over the period that it covers. Any deferred income is included within creditors and released in the period to which it relates.

Finance income and costs policy

Turnover is recognised as interest accrues using the effective interest method.

Tax

Tax is recognised in the Income and Expenditure Account, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the United Kingdom.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable surplus will be available to allow all or part of the assets to be recovered.

Tangible assets

Tangible assets are stated in the Balance Sheet at cost, less accumulated depreciation and accumulated impairment losses. It is the policy of Falmouth Harbour Commissioners not to capitalise items under £5,000 or have an expected useful life of less than 18 months. Such cost includes costs directly attributable to making the asset capable of operating as intended.

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Depreciation

Depreciation is charged on all tangible fixed assets, other than freehold land, so as to write off the cost of assets over their estimated useful lives, as follows:

Asset Class	Depreciation method and rate	
Freehold property (excluding land)	0%	
Office equipment	33.33% sl, 10%	wdv p.a
Harbour Master's Craft and Buoys	6.7%, 10%, 20%,	p.a. reducing balance
Pilot Boats	13.46% or 15%	wdv until nbv=25% cost, then 5% wdv
Computers	20%, 25%, 33.33%	p.a. straight line
Equipment	4%, 20%	p.a. straight line
Fuel Barge	4%, 10%	p.a. straight line
Yacht Haven	4%, 5%, 6.66% or 10%	p.a. straight line

Freehold property is not depreciated as the Commissioners consider that the residual value of the freehold property is not less than the book value. As a result any depreciation charge would be immaterial. No depreciation is charged on freehold land.

For the freehold property re-valued prior to the implementation of FRS102, the transitional provisions are being followed and the valuation has not been updated since. For the property that was re-valued prior to the implementation of FRS102, the excess over the carrying value of the asset was taken to the revaluation reserve.

Intangible assets

Intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost less any estimated residual value, over their useful-life as follows:

Asset Class	Amortisation method and rate	
Software	3 years	p.a. straight line

Investments

Fixed asset investments are stated at fair value.

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is determined using the first-in, first-out (FIFO) method.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income and Expenditure account on a straight-line basis over the period of the lease.

Defined Contribution Pension Obligation

The assets of the defined contribution scheme are held separately from those of the organisation in an independently administered fund. The amount charged against the surplus represents the contributions payable to the scheme in respect of the accounting period.

Defined Benefit Pension Obligation

Full details of the defined benefit pension schemes are given in note 10.

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. Operating deficit

Arrived at after charging:	2018 £	2017 £
Auditors' remuneration	7,220	5,920
Auditors' remuneration – non audit work	4,771	3,929
Commissioners' fees	40,632	40,539
Operating lease rentals – Plant and Machinery	9,299	9,280
Depreciation expense	136,973	147,473
Amortisation expense	11,826	14,192
	<u> </u>	<u> </u>

3. Staff costs & pilot fees

The aggregate payroll costs (including Commissioners' remuneration) were as follows:

	2018 £	2017 £
Wages and salaries	880,947	850,539
Social security costs	78,770	70,045
Other pension costs	136,875	136,684
Pilots' fees	419,148	369,726
	<u> </u>	<u> </u>
	1,515,740	1,426,994
	<u> </u>	<u> </u>

The average number of persons employed by the organisation (including Commissioners) during the year, analysed by category was as follows:

	2018 No	2017 No
FHC staff (including commissioners)	14	14
Falmouth Pilot Services	12	12
Falmouth Haven	13	11
	<u> </u>	<u> </u>
	39	37
	<u> </u>	<u> </u>

4. Taxation

Tax (credited) in the Income and Expenditure account

	2018 £	2017 £
Current taxation		
UK Corporation Tax adjustment to prior periods	-	-
	<u> </u>	<u> </u>

The tax on the surplus before tax for the year is less than the standard rate of corporation tax in the UK (2017 – less than the standard rate of corporation tax in the UK) of 20% decreasing to 19% from 1 April 2017.

A deferred tax asset has arisen on the pension scheme liability. Due to the magnitude of this and the expected time taken to utilise the losses, the amount has not been recognised.

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The differences are reconciled below:

	2018	2017
	£	£
Surplus before tax	242,473	120,614
Corporation tax at standard rate	46,070	23,218
Effect of revenues exempt from taxation (pilot boat)	(28,031)	(7,004)
Effect of change in market value of investment portfolio	11,394	(3,258)
Effect of expense not deductible in determining tax loss	(3,173)	2,100
Effect of tax losses	(39,060)	(7,825)
Effect of change in tax rate	-	905
Tax increase / (decrease) from effect of capital allowances and depreciation	12,800	(8,136)
Total tax credit	-	-

Deferred Tax

Deferred tax assets and liabilities

	Asset	Liability
	£	£
2018		
Capital allowances in excess of depreciation	-	-
Pension scheme tax asset	-	-
2017		
Capital allowances in excess of depreciation	-	-
Pension scheme tax asset	-	-

5. Intangible assets

	Software	Total
	£	£
Cost or valuation		
At 1 January 2018	66,357	66,357
Disposal	-	-
At 31 December 2018	66,357	66,357
Amortisation		
At 1 January 2018	54,531	54,531
On disposal	-	-
Amortisation charge	11,826	11,826
At 31 December 2018	66,357	66,357
Written Down Value		
At 31 December 2018	-	-
At 31 December 2017	11,826	11,826

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6. Tangible assets

	Freehold Property £	Office Furniture and Computer Equipment £	Craft £	Pontoons and Fuel Barge £	Equipment £	Total £
Cost or valuation						
At 1 January 2018	567,808	144,401	1,620,267	1,102,691	121,129	3,556,296
Additions	151,676	-	21,135	-	-	172,811
Disposals	-	-	(7,652)	-	-	(7,652)
At 31 December 2018	<u>719,484</u>	<u>144,401</u>	<u>1,633,750</u>	<u>1,102,691</u>	<u>121,129</u>	<u>3,721,455</u>
Depreciation						
At 1 January 2018	103,688	128,819	740,383	588,379	69,348	1,630,617
Charge for the year	-	8,877	61,508	63,508	3,080	136,973
Eliminated on disposal	-	-	(5,329)	-	-	(5,329)
At 31 December 2018	<u>103,688</u>	<u>137,696</u>	<u>796,562</u>	<u>651,887</u>	<u>72,428</u>	<u>1,762,261</u>
Written down value						
At 31 December 2018	<u>615,796</u>	<u>6,705</u>	<u>837,188</u>	<u>450,804</u>	<u>48,701</u>	<u>1,959,194</u>
At 31 December 2017	<u>464,120</u>	<u>15,582</u>	<u>879,884</u>	<u>514,312</u>	<u>51,781</u>	<u>1,925,679</u>

The freehold property at 44 Arwenack Street, Falmouth was revalued on an open market basis on 18 March 1997 by Stratton Creber Chartered Surveyors. The historical cost of the freehold land and buildings included above at the revaluation of £125,000 was £2,692 and the aggregate depreciation thereon would have been £1,346 (2017 - £1,346).

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

7. Investments - Investec

	Other investments	2017
	£	£
Valuation at 1 January 2018	868,276	-
Additions	362,550	863,160
Fair value adjustments	(60,215)	15,632
Disposals	(269,350)	(10,516)
	<u>901,261</u>	<u>868,276</u>
	2018	2017
	£	£
UK Fixed Interest	229,478	194,087
Overseas Fixed Interest	144,791	122,055
UK Equities	145,399	200,943
Overseas Equities	127,232	163,914
Emerging Economies	23,539	15,842
UK Property	86,600	51,702
Alternative Assets	144,222	119,733
	<u>901,261</u>	<u>868,276</u>
Cash Account	52,198	144,828
Dividend Account	-	-
Capital Account	-	5,368
	<u>953,459</u>	<u>1,018,472</u>

8. Debtors

	2018	2017
	£	£
Trade debtors	269,366	212,702
Other debtors	35,343	21,797
Prepayments	44,962	43,492
	<u>349,671</u>	<u>277,991</u>

9. Creditors

	2018	2017
	£	£
Due within one year		
Trade creditors	188,391	170,908
Other creditors	70,501	65,366
Other taxation and social security	20,790	20,268
Accruals and deferred income	201,050	139,202
	<u>480,732</u>	<u>395,744</u>

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Due after one year		
Deferred income	8,888	11,113

Included in deferred income due after one year are the following amounts due after more than five years:

After more than five years by instalments	-	-
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10. Pension and other Schemes

Defined contribution pensions scheme

The organisation operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the organisation to the scheme and amounted to £134,212 (2017 – £136,412).

Defined benefit pension schemes

Cornwall Council Defined Benefit Scheme

The organisation operates a defined benefit scheme through Cornwall Council. An actuarial valuation was carried out on 31 December 2018 for the purposes of FRS102 by a qualified independent actuary. These figures have therefore been incorporated into the financial statements.

The total cost adjustment relating to the defined benefit scheme for the year recognised in the Income and Expenditure account as income was £120,000 (2017 – £103,000). Outstanding pension contributions included in other creditors as at the year-end total £15,613 (2017 - £14,807).

The total gain relating to the defined benefit scheme for the year included in the cost of an asset was £112,000 (2017 – £104,000).

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position were as follows:

	2018 £	2017 £
Fair value of scheme assets	3,775,000	3,725,000
Present value of defined benefit obligation	(5,828,000)	(5,771,000)
Defined benefit pension scheme deficit	<u>(2,053,000)</u>	<u>(2,046,000)</u>

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2018 £	2017 £
Present value at start of year	5,771,000	5,317,000
Current service cost	264,000	241,000
Interest cost	147,000	148,000
Actuarial (gain) / losses	(309,000)	108,000
Benefits paid	(90,000)	(88,000)
Contributions by scheme participants	46,000	45,000
Administration expense	(1,000)	-
Present value at end of year	<u>5,828,000</u>	<u>5,771,000</u>

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2018 £	2017 £
Fair value at start of year	3,725,000	3,270,000
Interest income	97,000	94,000
Actuarial (losses) / gains	(197,000)	212,000
Employer contributions	196,000	194,000
Contributions by scheme participants	46,000	45,000
Benefits paid	(90,000)	(88,000)
Administration expense	(2,000)	(2,000)
	<u>3,775,000</u>	<u>3,725,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £	2017 £
Cash and cash equivalents	57,758	29,428
Equities	1,231,405	1,226,643
Property	307,285	253,673
Other (eg Liability Driven Investments)	296,338	343,073
Other bonds (eg corp bonds)	1,882,214	1,872,183
	<u>3,775,000</u>	<u>3,725,000</u>

Return on scheme assets

	2018 £	2017 £
Return on scheme assets	<u>(100,000)</u>	<u>306,000</u>

Principal actuarial assumptions:

The principal actuarial assumptions at the statement of financial position date are as follows:

	2018 %	2017 %
Discount rate	2.85	2.55
Future salary increases	2.45	2.35
Future pension increases	2.45	2.35

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age – male	22.2	22.2
Current UK pensioners at retirement age – female	24.5	24.4
Future UK pensioners at retirement age – male	24.2	24.1
Future UK pensioners at retirement age – female	<u>26.1</u>	<u>26.0</u>

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

In December 2018, the Court of Appeal ruled on the McCloud/Sargeant legal case that certain transitional arrangements relating to the 2015 reform of public sector pension schemes gave rise to unlawful discrimination. The UK Government has, subsequent to the financial year end, been unsuccessful in seeking permission to appeal this decision in the Supreme Court.

Given permission to appeal has been denied, the likely result of the decision is a request to compensate certain public sector pension scheme members. It is currently unknown as to the form that this compensation would take and whether the matter impacts any current employees or pensioners of the organisation, and therefore, quantification of the impact on the organisation's financial statements is not possible.

In light of this uncertainty in timing, probably of resolution, and inability to quantify any potential impact, no adjustment has been made to these financial statements or disclosure of any contingent liability.

Pilots National Pension Fund (PNPF) Defined Benefit Scheme

The PNPF is a centralised multi-employer defined benefit scheme for non-associated employers. It provides benefits for employed and self-employed maritime pilots. The trustee of the PNPF has sought the guidance of the court on a number of issues relating to the trustee's powers under the rules of the PNPF, including who is liable to contribute (as set out in note 10).

Until the legal status of the PNPF had been clarified, the Commissioners were unable to determine their share of the liabilities of the PNPF. However, following the court's determination and further information being made available on the extent of the PNPF's liabilities, the Commissioners are now able to do so.

The date of the most recent comprehensive actuarial valuation was 31 December 2010. The results of these calculations have been updated to 31 December 2018 by a qualified actuary and incorporated into the financial statements.

The total (income) relating to the defined benefit scheme for the year recognised in the Income and Expenditure account as an expense was £(119,000) (2017 – £(85,000)).

The total (cost) / gain relating to the defined benefit scheme for the year included in the cost of an asset was £(183,000) (2017 – £47,000).

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position were as follows:

	2018 £	2017 £
Fair value of scheme assets	4,606,000	5,172,000
Present value of defined benefit obligation	(7,703,000)	(8,205,000)
	-----	-----
	(3,097,000)	(3,033,000)
Other amounts recognised in the statement of financial position	-	1,000
	-----	-----
Defined benefit pension scheme deficit	(3,097,000)	(3,032,000)

Defined benefit obligation

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Changes in the defined benefit obligation are as follows:

	2018	2017
	£	£
Present value at start of year	8,205,000	8,281,000
Current service cost	10,000	12,000
Interest cost	195,000	217,000
Actuarial (gains) / losses	(211,000)	176,000
Benefits paid	(530,000)	(515,000)
Contributions by scheme participants	34,000	33,000
Administration expense	-	1,000
	-----	-----
Present value at end of year	<u>7,703,000</u>	<u>8,205,000</u>

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2018	2017
	£	£
Fair value at start of year	5,172,000	5,117,000
Interest income	123,000	134,000
Actuarial (losses) / gains	(394,000)	223,000
Employer contributions	201,000	180,000
Contributions by scheme participants	34,000	33,000
Benefits paid	(530,000)	(515,000)
	-----	-----
Fair value at end of year	<u>4,606,000</u>	<u>5,172,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2018	2017
	£	£
Cash and cash equivalents	128,968	144,816
Equities	700,112	786,144
Other bonds (eg corp bonds)	1,787,128	2,006,736
Other (Hedge Funds & Diversified Growth Funds)	1,478,526	1,660,212
Government bonds	511,266	574,092
	-----	-----
	<u>4,606,000</u>	<u>5,172,000</u>

Return on scheme assets

	2018	2017
	£	£
Return on scheme assets	<u>(271,000)</u>	<u>357,000</u>

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Principal actuarial assumptions:

The principal actuarial assumptions at the statement of financial position date are as follows:

	2018 %	2017 %
Discount rate	2.75	2.45
Future salary increases	n/a	3.00
Future pension increases (max 5%)	3.05	2.95
Future pension increases (min 3%, max 5%)	3.60	3.55
Rate of deferred pension increases	2.15	2.00

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age – male	22.30	22.20
Current UK pensioners at retirement age – female	24.20	24.10
Future UK pensioners at retirement age – male	24.00	23.90
Future UK pensioners at retirement age – female	26.00	25.90

11. Commitments

Capital commitments

There were no capital commitments at the year end.

Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £13,166 (2017 – £22,460).

Pilots Pension Fund

A court ruling gave the Fund Trustee wide powers to seek deficit contributions from Competent Harbour Authorities (CHA) engaged or having been previously engaged in employing or authorising pilots and Falmouth Harbour Commissioners has a liability on this basis. The liability share has been allocated by the Trustee to CHAs as a percentage of the deficit and the Falmouth Harbour Commissioners share has been estimated at £3,148,000 based on a valuation undertaken in 2013. The FRS102 report as at 31 December 2018 indicates that this liability has changed to £3,097,000 (2017 - £3,032,000) and it is this figure that is reported in the accounts. A plan for repaying this liability over a suitable term was agreed with the Trustee. Subsequently, the Trustee advised FHC that they considered that a lump sum contribution was due in respect of their lump sum contribution policy and a revised plan has been agreed to discharge any obligation that may arise from this.

Cornwall Council Pension Fund

Falmouth Harbour Commissioners also have a pension liability in the Local Government Pension Scheme (LGPS); however, due to the fact that the majority of their employees are active members of the scheme, the risk of the liability becoming immediately due is considered negligible.

The details relating to the pension scheme liabilities are shown on pages 17 – 20. A triennial valuation of the Pilots National Pension Fund was last carried out at the end of 2016 and no adjustment to the repayment plan in respect of this has been proposed.

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

12. Related Party Transactions

Summary of transactions with persons with significant interest

The Commissioners' Remuneration for the year amounted to £40,632 (2017 – £40,539).

The Commissioners are committed to ensuring that the Board remains balanced and fit for purpose. The skills identified as being of particular relevance to the management of the Harbour have been identified and are listed in the Falmouth Harbour Revision Order 2004. When vacancies occur, the Board will decide which special skills are most appropriate for the new Commissioner and a job description and person specification will be drawn up. Vacancies are advertised regionally as well as locally and the recruitment process is open to all. Appropriate remuneration is paid to Commissioners and the levels kept under review to help ensure that Board membership remains attractive.

The Chairman of the Board has a specific responsibility to ensure continuity and Commissioner development; appraisals are undertaken to ensure there are suitable candidates to take over as Chair and Deputy Chair when the time comes.

13. Going concern

The balance sheet shows that Falmouth Harbour Commissioners has a net deficit on reserves of £(819,745) (2017 - £(991,218)). However, the Commissioners consider that it is appropriate for the accounts to continue to be prepared on a going concern basis for the reasons set out below:

- The net liability position on the balance sheet has arisen primarily as a result of the valuations of liabilities of the pension schemes. Such valuations are volatile, with an actuarial (deficit) of £(71,000) being incurred during 2018, compared to a surplus of £151,000 during 2017.
- The Board are committed to ensuring that annual income covers liabilities, and to this end have acted to ensure that their facilities are operated commercially and costs are mitigated.
- Falmouth Harbour Commissioners hold substantial current assets and investments which cover the repayment liabilities relating to the pension deficits for the next 12 months by a factor of 5.5. Falmouth Harbour Commissioners have dues raising powers and expect to be able to trade with sufficient reserves to cover the necessary repayments on an annual basis going forward.

14. Pilot Boat Funds

The Commissioners monitor funds accumulated from the surplus of the pilot boat operations and interest received upon these funds. The funds relating to the pilot boat operations total £2,070,576 and are expected to be used on replacement pilot boats; however, if there was a need to use these funds elsewhere in the organisation, then a tax liability would arise, and has been estimated at 19%, being £393,409.

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The following pages are for the Commissioners only

