

**FALMOUTH HARBOUR COMMISSIONERS**

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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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  
C Jarvis  
R Reed  
G Tranter  
J Wolfram  
M Chanter (Appointed 1 January 2017)

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: Bartons  
Hartnell Taylor Cook  
Hine Downing  
Howell Hylton Solicitors  
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 2017

The Commissioners present their strategic report for the year ended 31 December 2017.

### 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 £120,614 (2016 - £(86,791)) before tax which reflects an encouraging turnaround from the loss making position of 2016. Levels of commercial shipping using the Port improved slightly and results were further improved by effective cost control. Due to the increasing relevance of the pension deficit related outgoings and valuations, the Commissioners have maintained the format of their accounts introduced last year in order to show these in a separate column.

Exceptional costs for pension scheme contributions totalled £261,071 (2016 - £239,044), with further net service cost and interest adjustments in respect of the defined benefit pension schemes of £18,000 (2016 - £(88,000)) for this financial year, indicating that trading activities made a surplus after tax of £399,685 (2016 - £64,253). Leisure activity showed some growth in income during the year, partly due to investment in new small craft facilities.

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

	2017 £	2016 £
Turnover	2,717,043	2,457,762
Trading operating surplus	409,128	44,381
Operating surplus / (deficit)	148,057	(194,663)
Trading surplus after tax	399,685	64,253
Surplus / (deficit) after tax	120,614	(86,791)
Net current ratio	4	8
Average number of employees	37	38
Operating Earnings Before Interest Tax & Depreciation (EBITDA)	570,793	201,422
Cash at bank & in hand	1,253,282	2,200,845
Investment portfolio	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 2017 indicates that this liability has reduced to £3,032,000 (2016 - £3,164,000) and it is this figure that is reported in the accounts. A plan for repaying this liability over a suitable term has been agreed with the Trustee.

#### 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 agreed has been requested by the Trustee.

# FALMOUTH HARBOUR COMMISSIONERS

## STRATEGIC REPORT

Year Ended 31 December 2017

### Investment powers, policy and performance

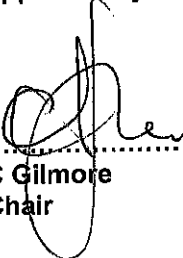
Falmouth Harbour Commissioners have the power to make any investment that they consider appropriate and investment performance is reviewed regularly throughout the year.

### Going Concern

The balance sheet shows that Falmouth Harbour Commissioners has a net deficit on reserves of £(991,218) (2016 £(1,216,652)). 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 new deficit 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 surplus of £151,000 being incurred during 2017, compared to a loss of £(1,644,000) during 2016.
- 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.
- Falmouth Harbour Commissioners does not currently authorise any members of the Pilot's National Pension Fund (the 'PNPF') as pilots, although this position may change as a recruitment process is ongoing. As a result of having no current PNPF contributing members, the PNPF Trustees have advised FHC that it believes that a cessation event has occurred under its lump sum contribution policy, and that FHC has a liability to make a contribution. In light of the ongoing recruitment exercise, the PNPF Trustees have agreed to defer their consideration of the matter until the 31<sup>st</sup> October 2018 and advised that there is a possibility of a further period of grace being granted beyond this. Due to the complex legal position, there are considerable uncertainties associated with FHC's financial position after 31<sup>st</sup> October 2018. The PNPF Trustee has indicated that, based on its previous experience of similar situations, it currently anticipates that a negotiated agreement would be reached should a lump sum contribution become due. On this basis, this is classed as non-current liability.

Approved by the Board on ..... 10.08.2018 ..... and signed on its behalf by:



.....  
C Gilmore  
Chair

**FALMOUTH HARBOUR COMMISSIONERS**

**COMMISSIONERS' REPORT**

**Year Ended 31 December 2017**

The Commissioners present their report and the financial statements for the year ended 31 December 2017.

**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
C Jarvis	
R Reed	
G Tranter	
J Wolfram	
M Chanter	(Appointed 1 January 2017)

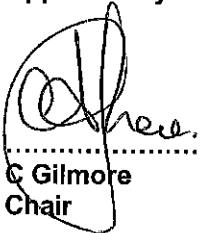
**Future developments**

The Commissioners have updated their business plan in light of the downturn in commercial shipping experienced during 2016. The effectiveness of the significant cost saving measures including reducing staff costs together with a slight upturn in commercial shipping activity resulted in returning profitability earlier than expected. It is expected that profitable operations will be maintained during 2018.

**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 ..... 10.08.2018 ..... 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 transaction 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 2017 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 2017 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 provisions of the Statutory Harbour Undertakings (Accounts etc) Regulations 1983, the Falmouth Harbour Orders 1870-1991 and the Statutory Harbour Undertakings (Pilotage Accounts) Regulations 1988 applicable to small undertakings.

#### 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.

#### Material uncertainty relating to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 13 to the financial statements concerning Falmouth Harbour Commissioner's ability to continue as a going concern. At the date of signing the accounts, the entity does not have any contributing members to the Pilot's National Pension Fund ('PNPF') and as a result the trustees of PNPF have advised Falmouth Harbour Commissioners that it believes a cessation event has occurred under its lump sum contribution policy. The PNPF Trustees have agreed to defer their consideration of the matter until 31 October 2018 and whilst there is the possibility of this being extended, at the date of our report, this was not confirmed.

As the amount and timing of any lump sum contributions required are as yet unknown, this condition, along with the other matters explained in Note 13 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the entity was unable to continue as a going concern.

#### 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.

## FALMOUTH HARBOUR COMMISSIONERS

### INDEPENDENT AUDITOR'S REPORT

#### 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.

#### 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](http://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.



Duncan Leslie ACA (Senior Statutory Auditor)  
PKF Francis Clark, Statutory Auditor

Lowin House  
Tregolls Road  
Truro TR1 2NA  
Date:....23/8/2018.....

**FALMOUTH HARBOUR COMMISSIONERS**  
**INCOME AND EXPENDITURE ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2017**

	Note	£	£	2017 £	£	£	2016 £
		Operations	Pensions / Other	Total Operations	Total Operations	Pensions / Other	Total
Turnover		2,717,043		2,717,043	2,457,762	-	2,457,762
Other operating income		2,225	-	2,225	2,225	-	2,225
		<u>2,719,268</u>	<u>-</u>	<u>2,719,268</u>	<u>2,459,987</u>	<u>-</u>	<u>2,459,987</u>
Staff Costs & Pilots fees	3	1,426,994	-	1,426,994	1,473,332	-	1,473,332
Amortisation & Depreciation		161,665	-	161,665	157,041	-	157,041
Pension fund deficit contributions and other professional pension costs		-	261,071	261,071	-	239,044	239,044
Other operating expenses		721,481	-	721,481	785,233	-	785,233
		<u>(2,310,140)</u>	<u>(261,071)</u>	<u>(2,571,211)</u>	<u>(2,415,606)</u>	<u>(239,044)</u>	<u>(2,654,650)</u>
<b>Operating surplus/(deficit)</b>	<b>2</b>	<b>409,128</b>	<b>(261,071)</b>	<b>148,057</b>	<b>44,381</b>	<b>(239,044)</b>	<b>(194,663)</b>
Net service cost and interest adjustments in respect of the defined benefit pension schemes		-	(18,000)	(18,000)	-	88,000	88,000
Deficit on disposal of assets		(40,345)	-	(40,345)	-	-	-
Unrealised gain on investments		16,292	-	16,292	-	-	-
Other interest receivable and similar income		14,610	-	14,610	19,872	-	19,872
		<u>(9,443)</u>	<u>(18,000)</u>	<u>(27,443)</u>	<u>19,872</u>	<u>88,000</u>	<u>107,872</u>
<b>Surplus/(deficit) for the year before Taxation</b>		<b>399,685</b>	<b>(279,071)</b>	<b>120,614</b>	<b>64,253</b>	<b>(151,044)</b>	<b>(86,791)</b>
Taxation	4	-	-	-	-	-	-
<b>Surplus/(deficit) for the financial year</b>		<b><u>399,685</u></b>	<b><u>(279,071)</u></b>	<b><u>120,614</u></b>	<b><u>64,253</u></b>	<b><u>(151,044)</u></b>	<b><u>(86,791)</u></b>

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 2017**

	£	£	2017		£	£	2016
	Operations	Pensions / Other	£	£	Pensions / Other	Total	£
			Total Operations				
Surplus/(deficit) for the financial year	399,685	(279,071)	120,614	64,253	(151,044)		(86,791)
Actuarial gain / (loss) on defined Benefit pension schemes	-	151,000	151,000	-	(1,644,000)		(1,644,000)
(Deficit) on property, plant and Equipment revaluation	(46,180)	-	(46,180)	-	-		-
<b>Total comprehensive Income / (expense) for the year</b>	<b>353,505</b>	<b>(128,071)</b>	<b>225,434</b>	<b>64,253</b>	<b>(1,795,044)</b>		<b>(1,730,791)</b>

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

**FALMOUTH HARBOUR COMMISSIONERS**

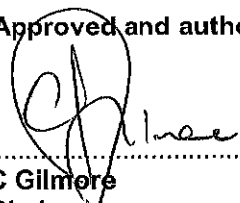
**BALANCE SHEET**


**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	£	2017 £	£	2016 £
<b>Fixed assets</b>					
Intangible assets	5		11,826		26,018
Tangible assets	6		1,925,679		1,800,860
			<u>1,937,505</u>		<u>1,826,878</u>
<b>Investments</b>	7		1,018,472		-
<b>Current assets</b>					
Stock		6,389		7,840	
Debtors	8	277,991		298,478	
Cash at bank and in hand		1,253,282		2,200,845	
		<u>1,537,662</u>		<u>2,507,163</u>	
<b>Creditors: amounts due within one year</b>	9	(395,744)		(326,355)	
<b>Net current assets</b>			<u>1,141,918</u>		<u>2,180,808</u>
<b>Total assets less current liabilities</b>			<u>4,097,895</u>		<u>4,007,686</u>
<b>Creditors: amounts due after more than one year</b>	9		(11,113)		(13,338)
<b>Net assets excluding pension liability</b>			<u>4,086,782</u>		<u>3,994,348</u>
<b>Pilots National Pension Fund Scheme liability</b>	10		(3,032,000)		(3,164,000)
<b>Cornwall Council Pension scheme liability</b>	10		(2,046,000)		(2,047,000)
<b>Net assets</b>			<u>(991,218)</u>		<u>(1,216,652)</u>
<b>Capital and Reserves</b>					
Revaluation reserve			48,208		94,388
Revaluation reserve – investments			16,292		-
Accumulated funds			(1,055,718)		(1,311,040)
<b>Total equity</b>			<u>(991,218)</u>		<u>(1,216,652)</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: 10.08.2018 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 2017

#### 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 statement of financial position 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 2017

#### 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:

<b>Asset Class</b>	<b>Depreciation method and rate</b>	
Freehold property (excluding land)	0%	
Office equipment	33.33% sl, 10% wdv	p.a
Harbour Master's Craft and Buoys	10%, 20%,	p.a. reducing balance
Pilot Boats	13.46% or 15%	wdv until nbv=25% cost
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

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:

<b>Asset Class</b>	<b>Amortisation method and rate</b>	
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 2017

2. **Operating deficit**

Arrived at after charging:	2017 £	2016 £
Auditors' remuneration	5,920	5,920
Auditors' remuneration – non audit work	3,929	7,733
Commissioners' fees	40,539	39,549
Operating lease rentals – Plant and Machinery	9,280	9,276
Depreciation expense	147,473	142,849
Amortisation expense	14,192	14,192
	<u>                    </u>	<u>                    </u>

3. **Staff costs & pilot fees**

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

	2017 £	2016 £
Wages and salaries	850,539	904,119
Social security costs	70,045	77,024
Other pension costs	136,684	141,278
Pilots' fees	369,726	350,911
	<u>                    </u>	<u>                    </u>
	<u>1,426,994</u>	<u>1,473,332</u>

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

	2017 No	2016 No
FHC staff (including commissioners)	14	15
Falmouth Pilot Services	12	12
Falmouth Haven	11	11
	<u>                    </u>	<u>                    </u>
	<u>37</u>	<u>38</u>

4. **Taxation**

Tax (credited) in the Income and Expenditure account

	2017 £	2016 £
<b>Current taxation</b>		
UK Corporation Tax adjustment to prior periods	-	-
	<u>                    </u>	<u>                    </u>

The tax on the deficit before tax for the year is the same as the standard rate of corporation tax in the UK (2016 – the same as the standard rate of corporation tax in the UK) of 20% decreasing to 19% from 1 April 2017 (2016 – 20%).

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 2017

The differences are reconciled below:

	2017 £	2016 £
Surplus / (Deficit) before tax	120,614	(86,791)
Corporation tax at standard rate	23,218	(17,358)
Effect of revenues exempt from taxation (pilot boat)	(7,004)	(2,196)
Effect of change in market value of investment portfolio	(3,258)	-
Effect of expense not deductible in determining tax loss	2,100	(16,847)
Effect of tax losses	(7,825)	59,402
Effect of change in tax rate	905	-
Tax (decrease) from effect of capital allowances and depreciation	(8,136)	(23,001)
Total tax credit	-	-

**Deferred Tax**

Deferred tax assets and liabilities

	Asset £	Liability £
<b>2017</b>		
Capital allowances in excess of depreciation	-	-
Pension scheme tax asset	-	-
<b>2016</b>		
Capital allowances in excess of depreciation	-	-
Pension scheme tax asset	-	-

**5. Intangible assets**

	Software £	Total £
<b>Cost or valuation</b>		
At 1 January 2017	66,357	66,357
Disposal	-	-
At 31 December 2017	66,357	66,357
<b>Amortisation</b>		
At 1 January 2017	40,339	40,339
On disposal	-	-
Amortisation charge	14,192	14,192
At 31 December 2017	54,531	54,531
<b>Written Down Value</b>		
At 31 December 2017	11,826	11,826
At 31 December 2016	26,018	26,018

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

6. Tangible assets

	Freehold Property	Office Furniture and Computer Equipment	Craft	Pontoons and Fuel Barge	Equipment	Total
	£	£	£	£	£	£
<b>Cost or valuation</b>						
At 1 January 2017	596,450	144,401	1,835,420	982,825	117,958	3,677,054
Additions	-	-	252,452	119,866	-	372,318
Disposals	(17,150)	-	(163,971)	-	(8,321)	(189,442)
Movement	(11,492)	-	-	-	11,492	-
Impairment	-	-	(303,634)	-	-	(303,634)
At 31 December 2017	567,808	144,401	1,620,267	1,102,691	121,129	3,566,296
<b>Depreciation</b>						
At 1 January 2017	105,132	116,275	1,055,630	530,453	68,704	1,876,194
Charge for the year	-	12,544	68,072	57,926	8,931	147,473
Eliminated on disposal	(1,444)	-	(125,865)	-	(8,287)	(135,596)
Impairment	-	-	(257,454)	-	-	(257,454)
At 31 December 2017	103,688	128,819	740,383	588,379	69,348	1,630,617
<b>Written down value</b>						
At 31 December 2017	464,120	15,582	879,884	514,312	51,781	1,925,679
At 31 December 2016	491,318	28,126	779,790	452,372	49,254	1,800,860

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 (2016 - £1,346).

FALMOUTH HARBOUR COMMISSIONERS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

7. Investments - Investec

	Other investments £	2016 £
Valuation at 1 January 2017	-	-
Additions	863,160	-
Fair value adjustments	15,632	-
Disposals	(10,516)	-
	<u>868,276</u>	<u>-</u>
Valuation at 31 December 2017	<u>868,276</u>	<u>-</u>
	<b>2017</b> £	<b>2016</b> £
UK Fixed Interest	194,087	-
Overseas Fixed Interest	122,055	-
UK Equities	200,943	-
Overseas Equities	163,914	-
Emerging Economies	15,842	-
UK Property	51,702	-
Alternative Assets	119,733	-
	<u>868,276</u>	<u>-</u>
Cash Account	144,828	-
Dividend Account	-	-
Capital Account	5,368	-
	<u>1,018,472</u>	<u>-</u>

8. Debtors

	2017 £	2016 £
Trade debtors	212,702	207,624
Other debtors	21,797	44,460
Prepayments	43,492	46,394
	<u>277,991</u>	<u>298,478</u>

9. Creditors

	2017 £	2016 £
<b>Due within one year</b>		
Trade creditors	170,908	126,146
Other creditors	65,366	52,399
Other taxation and social security	20,268	21,141
Accruals and deferred income	139,202	126,669
	<u>395,744</u>	<u>326,355</u>

**FALMOUTH HARBOUR COMMISSIONERS**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

<b>Due after one year</b>		
Deferred income	11,113	13,338
	<u>          </u>	<u>          </u>
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	-	2,213
	<u>          </u>	<u>          </u>

**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 £136,412 (2016 – £140,767).

**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 2017 for the purposes of FRS102 by a qualified independent actuary. These figures have therefore been incorporated into the financial statements.

The total cost / (income) adjustment relating to defined benefit schemes for the year recognised in the Income and Expenditure account as income was £103,000 (2016 – £(11,000)).

The total gain / (cost) relating to defined benefit schemes for the year included in the cost of an asset was £104,000 (2016 – £(1,017,000)).

**Reconciliation of scheme assets and liabilities to assets and liabilities recognised**

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

	2017 £	2016 £
Fair value of scheme assets	3,725,000	3,270,000
Present value of defined benefit obligation	(5,771,000)	(5,317,000)
	<u>          </u>	<u>          </u>
Defined benefit pension scheme deficit	(2,046,000)	(2,047,000)
	<u>          </u>	<u>          </u>

**Defined benefit obligation**

Changes in the defined benefit obligation are as follows:

	2017 £	2016 £
Present value at start of year	5,317,000	3,869,000
Current service cost	241,000	151,000
Interest cost	148,000	149,000
Actuarial losses	108,000	1,189,000
Benefits paid	(88,000)	(89,000)
Contributions by scheme participants	45,000	48,000
	<u>          </u>	<u>          </u>
Present value at end of year	5,771,000	5,317,000
	<u>          </u>	<u>          </u>

**FALMOUTH HARBOUR COMMISSIONERS**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**Fair value of scheme assets**

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

	2017 £	2016 £
Fair value at start of year	3,270,000	2,828,000
Interest income	94,000	112,000
Actuarial gains	212,000	172,000
Employer contributions	194,000	200,000
Contributions by scheme participants	45,000	48,000
Benefits paid	(88,000)	(89,000)
Administration expense	(2,000)	(1,000)
	<u>3,725,000</u>	<u>3,270,000</u>

**Analysis of assets**

The major categories of scheme assets are as follows:

	2017 £	2016 £
Cash and cash equivalents	29,428	68,343
Equities	1,226,643	1,028,088
Property	253,673	257,022
Other (eg Liability Driven Investments)	343,073	1,594,125
Other bonds (eg corp bonds)	1,872,183	322,422
	<u>3,725,000</u>	<u>3,270,000</u>

**Return on scheme assets**

	2017 £	2016 £
Return on scheme assets	<u>306,000</u>	<u>284,000</u>

**Principal actuarial assumptions:**

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

	2017 %	2016 %
Discount rate	2.55	2.80
Future salary increases	2.35	2.50
Future pension increases	2.35	2.50

**Post retirement mortality assumptions**

	2017 Years	2016 Years
Current UK pensioners at retirement age – male	22.2	22.40
Current UK pensioners at retirement age – female	24.4	24.70
Future UK pensioners at retirement age – male	24.1	24.70
Future UK pensioners at retirement age – female	26.0	27.10

***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 2017 by a qualified actuary and incorporated into the financial statements.

The total (income) relating to defined benefit schemes for the year recognised in the Income and Expenditure account as an expense was £(85,000) (2016 – £(78,000)).

The total gain / (cost) relating to defined benefit schemes for the year included in the cost of an asset was £47,000 (2016 – £(627,000)).

**Reconciliation of scheme assets and liabilities to assets and liabilities recognised**

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

	2017 £	2016 £
Fair value of scheme assets	5,172,000	5,117,000
Present value of defined benefit obligation	(8,205,000)	(8,281,000)
	(3,033,000)	(3,164,000)
Other amounts recognised in the statement of financial position	1,000	-
Defined benefit pension scheme deficit	<u>(3,032,000)</u>	<u>(3,164,000)</u>

**Defined benefit obligation**

Changes in the defined benefit obligation are as follows:

	2017 £	2016 £
Present value at start of year	8,281,000	7,307,000
Current service cost	12,000	8,000
Interest cost	217,000	262,000
Actuarial losses	176,000	1,176,000
Benefits paid	(515,000)	(500,000)
Contributions by scheme participants	33,000	29,000
Administration expense	1,000	(1,000)
Present value at end of year	<u>8,205,000</u>	<u>8,281,000</u>

**FALMOUTH HARBOUR COMMISSIONERS**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

**Fair value of scheme assets**

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

	2017 £	2016 £
Fair value at start of year	5,117,000	4,692,000
Interest income	134,000	168,000
Actuarial gains	223,000	548,000
Employer contributions	180,000	180,000
Contributions by scheme participants	33,000	29,000
Benefits paid	(515,000)	(500,000)
	<u>5,172,000</u>	<u>5,117,000</u>

**Analysis of assets**

The major categories of scheme assets are as follows:

	2017 £	2016 £
Cash and cash equivalents	144,816	143,276
Equities	786,144	777,784
Other bonds (eg corp bonds)	2,006,736	1,985,396
Other (Hedge Funds & Diversified Growth Funds)	1,660,212	1,642,557
Government bonds	574,092	567,987
	<u>5,172,000</u>	<u>5,117,000</u>

**Return on scheme assets**

	2017 £	2016 £
Return on scheme assets	<u>357,000</u>	<u>716,000</u>

**Principal actuarial assumptions:**

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

	2017 %	2016 %
Discount rate	2.45	2.70
Future salary increases	3.00	3.85
Future pension increases (max 5%)	2.95	3.10
Future pension increases (min 3%, max 5%)	3.55	3.65
Rate of deferred pension increases	<u>2.00</u>	<u>2.20</u>

**Post retirement mortality assumptions**

	2017 Years	2016 Years
Current UK pensioners at retirement age – male	22.20	22.40
Current UK pensioners at retirement age – female	24.10	24.50
Future UK pensioners at retirement age – male	23.90	24.10
Future UK pensioners at retirement age – female	<u>25.90</u>	<u>26.40</u>

## FALMOUTH HARBOUR COMMISSIONERS

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

#### 11. Commitments

##### Capital commitments

The total amount contracted for but not provided in the financial statements relates to the 12 metre multi-purpose catamaran workboat named Aberfal. The total capital commitment at the year end was £nil (2016 – £237,940).

##### Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £22,460 (2016 – £30,317).

##### Pilots National 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 FR102 report as at 31 December 2017 indicates that this liability has reduced to £3,032,000.

##### 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 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 agreed has been requested by the Trustee.

#### 12. Related Party Transactions

##### Summary of transactions with persons with significant interest

The Commissioners' Remuneration for the year amounted to £40,539 (2016 – £39,549).

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 £(991,218) (2016 £(1,216,652)). 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 new deficit 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 surplus of £151,000 being incurred during 2017, compared to a loss of £(1,644,000) during 2016.
- 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

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

- 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.
- Falmouth Harbour Commissioners does not currently authorise any members of the Pilot's National Pension Fund (the 'PNPF') as pilots, although this position may change as a recruitment process is ongoing. As a result of having no current PNPF contributing members, the PNPF Trustees have advised FHC that it believes that a cessation event has occurred under its lump sum contribution policy, and that FHC has a liability to make a contribution. In light of the ongoing recruitment exercise, the PNPF Trustees have agreed to defer their consideration of the matter until the 31<sup>st</sup> October 2018 and advised that there is a possibility of a further period of grace being granted beyond this. Due to the complex legal position, there are considerable uncertainties associated with FHC's financial position after 31<sup>st</sup> October 2018. The PNPF Trustee has indicated that, based on its previous experience of similar situations, it currently anticipates that a negotiated agreement would be reached should a lump sum contribution become due. On this basis, this is classed as non-current liability.

#### 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 £1,857,558 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 £352,963.

**FALMOUTH HARBOUR COMMISSIONERS**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017**

The following pages are for the Commissioners only