



Meeting: Harbour Committee

Date: 16th December 2013

Wards Affected: All wards in Torbay

Report Title: Tor Bay Harbour Authority Budget and Harbour Charges 2014/15

Executive Lead Contact Details: Non-Executive Function

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1. Purpose

- 1.1 This report provides Members with the opportunity to consider the level of harbour charges to be levied by Tor Bay Harbour Authority, on behalf of the Council as the Harbour Authority, in the next financial year and to consider the Tor Bay Harbour Authority budget for 2014/15. This is being considered at this time to enable implementation and payment to be made in advance of the granting of facilities for the coming financial year.
- 1.2 The Committee is required to approve the level of harbour charges for Tor Bay Harbour for 2014/15, having considered the budgetary implications set out in this report.
- 1.3 The Committee is further asked to approve the 2014/15 budget for Tor Bay Harbour Authority.

2. Proposed Decision

- 2.1 **That, having had regard to the opinions expressed by the Harbour Liaison Forums, Members consider the recommendation from the Harbour Committee's Budget Review Working Party, to increase the harbour charges for 2014/15, by a representative average increase of 3.0% and approve the schedule of harbour charges set out in Appendix 1.**

- 2.2 That, as set out in this report, an additional contribution be made to the Council's General Fund from the Tor Bay Harbour Authority accounts, to the equivalent value of £150,000 for the years 2014/15 and 2015/16.
- 2.3 That, any operating surplus from the Tor Bay Harbour Authority accounts for this year (2013/14) and the next two years be passed to the Council's General Fund in support of the corporate budget saving measures, providing the harbour reserve levels are not below the minimum recommended level.
- 2.4 That the Tor Bay Harbour Authority budget for 2014/15, based on a 3.0% representative average increase in harbour charges (as set out in Appendix 2, to this report) be approved.
- 2.5 That during 2014/15 the Tor Bay Harbour Budget Review Working Party should continue to review the full range of harbour charges, monitor the revenue budget, and recommend a budget for 2015/16.

3. Summary

- 3.1 The provisional Harbour Estimates for 2014/15, together with the Original Approved Estimate for 2013/14 and Projected Outturn for 2013/14 are attached at Appendix 2 and reflect the likely operating position for the two harbour accounts for next year assuming a representative average increase of 3.0% in Harbour Charges and 5.0% for Torquay Town Dock facilities.
- 3.2 It will be noted from Appendix 2 that there is the likelihood of a £9,000 deficit on the Torquay/Paignton Harbour account and a deficit on the Brixham Harbour account of £35,000 for the 2014/15 financial year.
- 3.3 Appendix 3 provides a projection of future year's budgets and forecasts a deficit position with depleted reserves for both harbour accounts before any growth in the income base. It also shows the position of both accounts after applying the cumulative effects of potential increases in user charges and re-introducing a growth element for marina rental income.
- 3.4 As an indication of how much revenue can be generated by an increase in harbour charges the following table shows how much additional annual income is derived from a 1% increase.

	1% increase in charges
Torquay and Paignton Harbours	£5k
Brixham Harbour	£3k

- 3.5 The Harbour Committee's Budget Review Working Party held meetings on the 5th September 2013, 6th November 2013 and 28th November 2013 and this report represents some of the findings and recommendations of that group. The Budget Review Working Party is recommending that Harbour Charges be increased, on

average, by 3.0% as shown at Appendix 1.

- 3.6 A continued outcome of the Budget Review Working Party is the recommendation that harbour reserve funds could be used to make additional repayments against capital financing costs to reduce interest charges over the longer term, provided always that the minimum reserve fund levels are maintained.
 - 3.7 Furthermore the Budget Review Working Party decided to continue to recommend to the Harbour Committee that each harbour reserve fund should be split into two with one part ring-fenced to meet any deficit in the revenue budget, or winter storm damage, and the other part set aside for harbour capital projects.
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Supporting Information

4 Introduction and history

- 4.1 The Harbour Committee's Budget Review Working Party, which was formed on 14 September 2009, has continued to scrutinise the approved Tor Bay Harbour Authority budget for 2013/14 and they have made recommendations for a proposed budget for 2014/15. Membership of the Budget Review Working Party was agreed in June 2013 as Councillors Amil, Hytche and Stringer with External Advisors Mr Stewart and Mr Jennings, supported by relevant officers.
- 4.2 Torbay Council's General Fund budget is facing a significant shortfall of some £22m over the period 2014/15 through 2015/16 and all council business units have been asked to make further savings and/or look at income opportunities to help reduce the corporate deficit. Consequently the Executive Head of Tor Bay Harbour Authority and the Chair of the Harbour Committee have held discussions with the Executive Director, Director of Place & Resources, Executive Head of Finance and the Mayor to consider what was expected of the harbour authority business unit and what could be achieved. As a result of this process it was agreed that a number of recommendations would be made to the Harbour Committee's Budget Review Working Party and to the Harbour Committee itself.
- 4.3 The package of savings under consideration included an additional cash contribution to the general fund of £125,000 plus the removal of £25,000 of public toilet liability by moving Beacon Quay (Torquay), Roundham Road (Paignton) and New Pier (Brixham) toilets into the harbour estate/budget on a permanent basis. Furthermore it was understood that the recommendation relating to the cash contribution be continued in 2015/16 but should then be reviewed. It was also proposed that any operating surplus for this year (2013/14) and the next two years could be passed to the centre (providing the harbour reserve levels are not below the minimum recommended level).

- 4.4 During November the Harbour Committee's Budget Review Working Party met twice to consider the proposals set out in 4.3 above. The Working Party were reminded that when the budget for 2013/14 was agreed on the 17th December 2012 the Harbour Committee resolved *"that the level of the cash dividend to the Council's general fund be capped at a maximum of 6% of harbour income in future years and that the Executive Head of Financial Services be asked to review the level of support costs to the harbour account to reflect the ongoing reduction in central resources"*. The Working Party was advised that the level of support costs had subsequently been reduced by £40,000. Members of the Working Party also agreed that any additional cash contribution could reasonably be described as an asset rental fee. A range of other measures were also discussed with the Working Party, including the advice from the Executive Head of Tor Bay Harbour Authority that to achieve the necessary savings two posts would need to be deleted from the business unit's structure. The Working Party also considered an appropriate increase in the level of harbour charges for 2014/15, linked to the level of RPI inflation.
- 4.5 The Harbour Committee's Budget Review Working Party concluded that they could support the budget saving measures set out in 4.3 above but that the additional contribution of £125,000 to the general fund should be reduced to £100,000. Furthermore the Working Party suggested that this contribution should be referred to as an 'asset rental fee' so that the cash dividend to the general fund would remain capped at 6% of harbour account turnover in line with the previously agreed Harbour Committee minute.
- 4.6 The Executive Head of Tor Bay Harbour Authority has continued to indicate that the delivery of a fully commissioned harbour authority service could reduce some of the existing support & fixed costs and that such cost reduction and efficiency gains, if they were achieved, would place the harbour authority in a better position to potentially continue paying a cash dividend and asset rental in future years. i.e. beyond the current financial crisis.
- 4.7 In 2007 Torbay Council decided to accept the main findings of the Municipal Ports Review and the concept of paying a dividend and/or an asset rental fee to the "owning authority" is clearly mentioned within this review. However, the total contribution for 2014/15 and 2015/16 amounts to £273k (each year) and this has and will continue to put considerable pressure on the harbour authority budget.
- 4.8 The most recent meeting of the Harbour Committee's Budget Review Working Party was held on the 28th November 2013. In 2009 the Working Party established the following guidelines:
- that the Harbour Committee should establish a set of accounting principles;
 - that the annual Budget Report should include details of planned capital spending;

- that details should be provided, in pie-chart format, showing the breakdown of internal support service charges;
- that the budget forecast details should show a column with the percentage variation between the previous year's original budget and the proposed budget;
- that the annual Budget Report should clearly indicate which budget lines are under pressure and more likely to be at risk to variation, complete with the reasons why.

4.9 Before charges are reviewed Provisional Estimates indicate that the balances of the Harbour Reserve Funds as at 31 March 2015 could be in the region of:

Account	Revenue Deficit Reserve (minimum level)	Projects Reserve	Total Reserve
Torquay and Paignton Harbours	£205,000	£130,000	£325,000
Brixham Harbour	£278,000	N/A	£115,000

A list of proposed reserve-funded projects is regularly reported to the Harbour Committee through the budget monitoring process.

4.10 There is uncertainty over future levels of income and expenditure as outlined in section 8 below and this will put significant pressure on the Harbour accounts over the coming years. It is therefore important that as well as keeping pace with rising costs, income levels from user charges, rent and other sources, are sufficient to mitigate these pressures and provide the ability to maintain the appropriate reserve levels.

4.11 The table below indicates the increase in charges in recent years, compared with the retail price index (RPI) taken at the April point of the previous year. In the last five years increases of 2.8%, 4.0 %, 2.5%, 5% and 5% have been applied. The table further illustrates the balance of the combined reserves at 1 April of the previous charges year.

Charges Year	Overall Increase	Actual RPI	Combined Reserve Levels
2013/14	2.8%	2.90%	£1,164,624
2012/13	4.0%	3.5%	£1,169,408
2011/12	2.5%	5.3%	£958,671
2010/11	5%	-1.2%	£913,342
2009/10	5%	4.2%	£867,793

4.12 Capital Plan/Budget

The items identified in the table below are currently in the Council's Capital Investment Plan/Budget relating to the Harbour Authority.

Capital Item	Project Year	Total Budget £000	Actual to Date (including prior years) £000	Projected Outturn £000
Environment Agency grant funding for Torquay Harbour – Haldon & Princess Piers	2011	1,272	365	1,272
Brixham Harbour – Various Repairs	2013	240	184	250
Brixham Breakwater Repair	Reserve List	150	deferred	150
Fish Market Roof – PV Panels	-----	48	0	48
Torquay Harbour – Inner Harbour Pontooning	2013	800	26	800

4.13 Harbour Accounts – Financial Principles

The Harbour Committee are asked to note the following recommended financial principles for the harbour accounts:

- both harbour accounts should be ring-fenced (assured);
- any operating surplus will pass to the relevant harbour reserve fund;
- operating deficits will be met from the relevant harbour reserve fund;
- the approved budget should not have a forecast surplus or deficit that exceeds £50,000;
- harbour reserve levels should aim to be at least the minimum target levels recommended by the Review of Reserves approved by Council each year;
- all budget lines are properly risk assessed prior to recommendation to the Harbour Committee;
- the Harbour Authority should seek to maximise external funding opportunities;
- the cost of borrowing should be monitored so that the harbour accounts are not over extended.

4.14 Significant variations to harbour charges

This report recommends that Harbour Charges be increased, on average, by 3.0%. However, certain charges have not increased and others are subject to a more significant variation. The key charging issues are set out below :-

- Slipway and visitor charges have not been increased. Last year they were increased by approximately 5.5%, following a period of 2 years with no increase.
- Some charges have been rounded up or down (around 3.0%) for ease of collection.
- Cruise ship passenger landing fees have not been increased.
- Daily and weekly trailer parking charges have not been increased.
- Jet Ski visitor charges have not increased for the second consecutive year.
- Alongside charges for Paignton fishing vessels have completed a 3 year staged increase to the same level as private vessel charges. The cost of providing the service is the same regardless of the end user.
- Fishing vessel alongside/pontoon charges at Torquay are in the third year of a 5 year staged increase to the same level as private vessel charges. The fishing vessels at Torquay need to close a larger gap and their staged increase was agreed to be over a longer period, completing in April 2016. The cost of providing the service is the same regardless of the end user.
- Annual compound charges for passenger boats using landing/embarkation facilities have increased significantly to properly reflect the wear and tear on harbour infrastructure, as well the new and improved pontoon berthing arrangements.
- A new charge for Torquay inner harbour pontoon berths has been introduced. It mirrors the South Pier inner harbour pontoon charge introduced last year. Both of these charges are pitched at a level approximately midway between the existing inner harbour chain mooring charge (including harbour dues) and the Town Dock charge. It is proposed that existing inner harbour mooring customers will be offered a phased increase to the new charge such that the full rate becomes payable from April 2015.
- Charges relating to the use of ship to ship transfer hoses and fenders have been deleted as they are no longer required.
- A new option to charge passenger craft for port waste reception facilities has been introduced.
- Torquay harbour Town Dock pontoon charges have increased by 5.0%. These services continue to enjoy high demand and have recently benefitted from investment in additional electricity/water points.

- A further adjustment has been made to bunkering charges to deter smaller deliveries and address the potentially higher risk of such operations.
- Charges have increased for larger boat park spaces.
- Passenger vessels berthed on the Town Dock in Torquay harbour have now completed the 3 year staged increase to the same level (when combined with passenger vessel harbour dues) as Town Dock private vessel charges. The cost of providing the facility is the same regardless of the end user.

4.15 In 2009 the Harbour Committee agreed that private vessel harbour dues at Paignton/Brixham should be increased to the same level as private vessel harbour dues at Torquay and that the increase should be staged between April 2010 and April 2012. However, in 2011 the Harbour Committee's Budget Review Working Party recommended that the staged increase should be halted and that officers should consult further with stakeholders at Brixham and Paignton harbours. This consultation should aim to determine and agree the differences between the three enclosed harbours, in respect of harbour dues, and identify a factor to be applied in future years. The Harbour Committee's Budget Review Working Party has asked officers to work and consult with harbour users to provide a clear proposal for Paignton/Brixham private vessel harbour dues, so that it is seen to be fair in comparison to the level set for private vessel harbour dues at Torquay. Any subsequent change could be implemented over a 10 year period. Due to the current economic climate this work has been postponed.

5 Possibilities and Options

- 5.1 Increase Harbour Charges in 2014/15 by an average inflationary increase of 3.0% and increase the overall contribution to the General Fund as per recommendations in section 2 and as outlined in paragraph 4.3.
- 5.2 Make no change to the level of harbour charges and accept increased operational deficits for 2014/15 and future years in contradiction of the Harbour Accounts – Financial Principles (see Para 4.13).
- 5.3 Do not agree to the recommended contribution to the Council's General Fund and therefore do not contribute to reducing the Council's overall budget deficit.

6 Preferred Solution/Option

- 6.1 See the recommendations in section 2.

7 Consultation

- 7.1 Consultation with the Brixham Harbour Liaison Forum and the Torquay/Paignton Harbour Liaison Forum commenced in September 2013 and continued in December 2013. The responses from both the Torquay/Paignton Harbour Liaison Forum and the Brixham Harbour Liaison Forum will be circulated prior to the meeting in the form of minutes of the meetings. The Torquay Harbour Users Association meeting accepted the idea of an average increase in harbour charges of 3% (5% for the Town Dock). A meeting has not been held with users at Paignton

or Brixham harbours, although a Paignton harbour users newsletter explaining the proposed increase received only minor feedback.

7.2 The Executive Head of Tor Bay Harbour Authority has benchmarked with some other Harbour Authorities and the results are displayed in the table below :-

Harbour Authority	% Increase in Charges 2013/14	Proposed % Increase in Charges 2014/15
Truro & Penryn	2.9	2.8
Chichester	5.0	2.8
Teignmouth	6.0	3.3
Tor Bay	2.8	3.0
Dartmouth	5.0	3.0
Salcombe	2.0	2.0
Fowey	No data	2.5
Weymouth	3.0	Nil
Langstone	2.2	2.7

8 Risks

- 8.1 The major risk associated with this report is not presenting a realistic budget resulting in major operational deficits to be funded from the Harbour Reserves. Depletion of these Reserves would eventually require support from the Council's Revenue Fund to meet the operational deficits. Accordingly the Executive Head of Tor Bay Harbour Authority has recommended a budget that will meet the operational requirements of the Harbour for the forthcoming year in line with realistic expectations for income.
- 8.2 There is a potential risk of customer resistance to increasing Harbour Charges resulting in a shortfall in targeted income. The Executive Head of Tor Bay Harbour Authority has evaluated this risk in line with demand levels for services and the need for harbour income to keep pace with costs. The level of risk is further mitigated by the consultation process with the Harbour User Associations and both of the Harbour Liaison Forums.
- 8.3 If the Council continues to request a significant contribution to the General Fund in the form of a cash dividend and asset rental fee there is a significant risk that the Harbour Authority will be unable to remain self funding. In that situation the Harbour Authority would require a precept from the General Fund and this scenario would be contrary to government best practice for the management of municipal ports.
- 8.4 Specific risks and budget line pressures are explained in the table below when read in conjunction with Appendix 2.

Key	Risk and/or pressure to budget line
A	The 2014/15 budgets for Management & Admin reflect a restructuring exercise currently being undertaken by the Executive Head of Tor Bay Harbour Authority. A reduction in outturn costs is also possible in all salary lines due to the waiving of superannuation contributions by some employees but any saving cannot be relied upon until year end because employees are entitled to join the scheme at any stage.
B	The Repair and Maintenance budget for Torquay/Paignton shows a reduction at each Harbour for 2014/15 as part of overall budget cuts. The Brixham repairs and maintenance budget has previously been reduced back to base level it remains prone to overspend.
C	The Executive Head of Tor Bay Harbour Authority has reviewed the marine insurance cover and approved additional policies for specific risks. Includes the new running costs for the harbourside public toilets outlined in section 4.3.
D	Budget cuts in Council services have resulted in a £40k reduction in Internal Support service charges from 2013/14.
E	Provision has been made for additional costs to generate income from the European Interreg funding programme.
F	Capital finance charges have increased in 2014/15 to reflect borrowing for the Torquay inner harbour pontoons. They could increase further if new borrowing is required to fund repairs to critical infrastructure i.e. Haldon/Princess Piers. Financing costs are recharged to the Harbour Account on the basis of Torbay Council's prevailing low average borrowing rate (currently 4.39%) and fixed over the life of the borrowing period. Flexibility exists for the Harbour Account to make additional repayments without penalty.
G	An increase in the contribution to the General Fund is being recommended as outlined in section 4.3 & 4.4 of this report.
H	Marina rental income is unpredictable due to the uncertain economic climate. A small allowance for growth has been built in for 2014/15 based on better than expected results in 2012/13.
J	Income from harbour dues and mooring fees is difficult to forecast as occupancy levels could drop due to the uncertain economic climate and increased charges. Income at Torquay Harbour will fall in these headings to be replaced by berthing charges for the new inner harbour pontoons.
K	Visitor income fell in 2013 and remains unpredictable due to the uncertain economic climate.
L	New income streams are anticipated from advertising on the new ferry pontoons at Torquay and Brixham Harbours.
M	New rental streams generated by the redeveloped Fish Quay building are reflected in the 2014/15 figure but the figure does not anticipate full occupancy.
N	There is always uncertainty over the future levels of fish toll income because of the Common Fisheries Policy, quota allowances, etc.

Key	Risk and/or pressure to budget line
P	Interest rates are forecast to remain low.

Appendices

- Appendix 1 Schedule of Tor Bay Harbour Charges 2014/15 showing a representative average increase of 3.0%.
- Appendix 2 Provisional Harbour Estimates for 2014/15 & Original Estimates for 2013/14 with an average 3.0% increase in Harbour Charges.
- Appendix 3 Projected Harbour Estimates for Future Years to 2017/18
- Appendix 4 Torquay & Paignton Harbour Account - Estimated Internal Support Service Charges 2014/15
- Appendix 5 Brixham Harbour Account - Estimated Internal Support Service Charges 2014/15

Additional Information

The following documents/files were used to compile this report :-

Schedule of Tor Bay Harbour Charges 2013/14

Tor Bay Harbour Act 1970

Tor Bay Harbour (Torquay Marina Act &c.) Act 1983

Minutes of Torquay & Paignton Liaison Forum – December 2013

Minutes of Brixham Harbour Liaison Forum – December 2013