



Meeting: Harbour Committee

Date: 15th December 2014

Wards Affected: All wards in Torbay

Report Title: Tor Bay Harbour Authority Budget and Harbour Charges 2015/16

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 2015/16. 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 2015/16, having considered the budgetary implications set out in this report.
- 1.3 The Committee is further asked to approve the 2015/16 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 2015/16, by a representative average increase of 2.0% 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 £310,000 for 2015/16.
- 2.3 That, any operating surplus from the Tor Bay Harbour Authority accounts for this year (2014/15) and the next year 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 2015/16, based on a 2.0% representative average increase in harbour charges (as set out in Appendix 2, to this report) be approved.
- 2.5 That during 2015/16 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 2016/17.

3. Summary

- 3.1 The provisional Harbour Estimates for 2015/16, together with the Original Approved Estimate for 2014/15 and Projected Outturn for 2014/15 are attached at Appendix 2 and reflect the likely operating position for the consolidated harbour accounts for next year assuming a representative average increase of 2.0% in Harbour Charges.
- 3.2 It will be noted from Appendix 2 that there is the likelihood of a £51,000 deficit on the consolidated Harbour Account for 2015/16.
- 3.3 Appendix 3 provides a projection of future year's budgets and forecasts a deficit position with a depleted reserve fund balance before any growth in the income base. It also shows the position of the combine account 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 | £6k |
| Brixham Harbour | £3k |

- 3.5 The Harbour Committee's Budget Review Working Party held meetings on the 4th September 2014, 6th November 2014 and 27th November 2014 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 2.0% as shown at Appendix 1.

- 3.6 A continued outcome of the Budget Review Working Party is the recommendation that the harbour reserve fund 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 level is maintained.
- 3.7 Furthermore the Budget Review Working Party decided to continue to recommend to the Harbour Committee that the 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 2014/15 and they have made recommendations for a proposed budget for 2015/16. Membership of the Budget Review Working Party was agreed in June 2014 as Councillors Amil, Hytche and Stringer with External Advisors Mr Stewart and Mr Ellis, 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 In December 2013 the Harbour Committee agreed to make an additional contribution to the Council's General Fund to the equivalent value of £150,000 for the years 2014/15 and 2015/16. The Committee understood that the recommendation relating to the cash contribution be continued in 2015/16 but should then be reviewed. It was also agreed by the Harbour Committee that any operating surplus for the years 2013/14, 2014/15 and 2015/16 be passed to the Council's general fund. (Providing the harbour reserve levels are not below the minimum recommended level).
- 4.4 Since December 2013 further pressure has been placed on the Council's overall budget position and the Executive Head of Tor Bay Harbour Authority and the Chair

of the Harbour Committee have been asked to consider a further contribution to the Council's General Fund of £160,000 for 2015/16. This proposal was first considered by the Harbour Committee at its meeting in September 2014.

- 4.5 During November the Harbour Committee's Budget Review Working Party met twice to consider the commitments and proposals set out in 4.3 and 4.4 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"*. Members of the Working Party were reminded that the additional cash contribution agreed in December 2013 had been described as an asset rental fee. A range of other measures were also discussed with the Working Party, including the feedback received from consultation with the harbour users groups and other stakeholders. The Working Party also considered an appropriate increase in the level of harbour charges for 2015/16, linked to the level of RPI inflation. Originally they considered a 2.5% increase in line with the April 2014 RPI figure. Having considered the views of a number of customers the Working Party decided to use the CPI figure rather than RPI but they chose to keep using the April CPI figure rather than moving to the September or October figure. (April CPI = 1.8% ~ rounded to the nearest ½ percent = 2.0%)
- 4.6 The Harbour Committee's Budget Review Working Party concluded that they could support the budget saving measures set out in 4.3 and 4.4 above but that the level of the contribution beyond 2015/16 was simply **not sustainable**. At least £100,000 of the £310,000 'asset rental fee' could not be repeated in 2016/17 without a significant improvement in harbour income. In the absence of such an uplift in future harbour income, any further or continued call on the harbour account would lead to a significant impact on the provision of harbour services and consequently the very ability to raise income. The Harbour Committee had already agreed that the cash dividend to the general fund would remain capped at 6% of harbour account turnover.
- 4.7 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.
- 4.8 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 of £273k for 2014/15 and £433k for 2015/16 has and will continue to

put considerable pressure on the harbour authority budget.

4.9 The most recent meeting of the Harbour Committee's Budget Review Working Party was held on the 27th November 2014. 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.

On the 27th November 2014 the Harbour Committee's Budget Review Working Party added an additional guideline:

- that any inflationary increase in harbour charges should use the April CPI (consumer price index) figure from the previous year.

4.10 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:

| | Revenue Deficit Reserve (minimum level) | Projects Reserve | Total Reserve |
|-----------------|---|------------------|----------------------|
| Harbour Reserve | £456,000 | £217,000 | £673,000 |

A list of proposed reserve-funded projects is regularly reported to the Harbour Committee through the budget monitoring process. The proposed schemes for the short term, if applied, are forecast to use up the Projects elements of the Reserve during 2015/16

4.11 There is uncertainty over future levels of income and expenditure as outlined in paragraph 9.3 below and this will put significant pressure on the Harbour account 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.

4.12 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 3.0%, 2.8%, 4.0 %, 2.5% and 5% have been applied. The table further illustrates the balance of the combined reserves at 1 April of the charges year.

| Charges Year | Overall Increase | Actual RPI | Reserve Levels |
|---------------------|-------------------------|-------------------|-----------------------|
| 2014/15 | 3.0% | 2.50% | £860,148 |
| 2013/14 | 2.8% | 2.90% | £1,144,654 |
| 2012/13 | 4.0% | 3.5% | £1,164,624 |
| 2011/12 | 2.5% | 5.3% | £1,169,408 |
| 2010/11 | 5% | -1.2% | £958,671 |

4.13 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 | 466 | 1,272 |
| Torquay Harbour – Inner Harbour Pontooning | 2013 | 800 | 912 | 912 |

4.14 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.

4.15 **Significant variations to harbour charges**

This report recommends that Harbour Charges be increased, on average, by 2.0%. 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. In 2013/14 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 2.0%) for ease of collection.
- Daily and weekly trailer parking charges have not been increased.
- A new credit card transaction fee of £2.50 is being recommended.
- A new payment plan charge of 2.5% is being recommended for those customers who opt to pay their annual account by Direct Debit payments over 9 monthly instalments.
- Fish Buyers and Sellers licences include a proposed £50 increase to facilitate the use of the "World Famous Fish Market" brand.
- The lowest gross value of annual fish landings required to meet the definition of a 'fishing vessel' is proposed to increase from £5,000 to £10,000. This is a fairer application of the definition and it means that the greatly reduced rate of harbour dues applicable to fishing vessels will only apply to those boats landing a significant value of fish and paying the appropriate fish tolls. Non qualifying fishing vessels will pay harbour dues at the private craft rate.
- It is proposed to introduce a fresh water consumption charge to fishing vessels taking water at Brixham.
- A new annual parking charge is proposed for vehicles parking on the harbour estate at Brixham. Similar charges already exist at Torquay and Paignton harbours.
- Jet Ski visitor charges have not increased for the third consecutive year.
- Fishing vessel alongside/pontoon charges at Torquay are in the fourth 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.
- Existing inner harbour mooring customers will have completed their phased increase to the new 'Inner Dock' charge and the full rate becomes payable from April 2015.

- 4.16 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 2015/16 by an average inflationary increase of 2.0% and increase the overall contribution to the General Fund as per recommendations in section 2 and as outlined in paragraphs 4.3 and 4.4.
- 5.2 Make no change to the level of harbour charges and accept increased operational deficits for 2015/16 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 2014 and continued in early 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. Meetings were also held with the Paignton Harbour Users Group and the Torquay Harbour Users Association. Some concerns were raised over an initial proposal of a 2.5% increase in harbour charges but others accepted the idea of an average increase in line with inflation. It was proposed that the CPI figure should be adopted rather than the traditional use of RPI. A meeting has not been held with users at Brixham harbours

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 2014/15 | Proposed % Increase in Charges 2015/16 |
|--------------------------|--------------------------------------|---|
| Chichester | 2.8 | 1.9 ~ 2.2 |
| Teignmouth | 3.3 | 2.4 |
| Tor Bay | 3.0 | 2.0 |
| Dartmouth | 3.0 | 2.5 |
| Salcombe | 2.0 | 2.0 |
| Fowey | 2.5 | 2.0 |
| Weymouth | Nil | Leisure – Nil Commercial – 3% |
| Langstone | 2.7 | 1.2 |

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. A small rise in vacant facilities was seen in 2014. 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 | <p>The Salary budgets reflect the revised staffing structure implemented by the Executive Head of Tor Bay Harbour Authority during 2014/15 and includes adjustments for “Green Book” payments and Pension Fund rates.</p> <p>A reduction in costs at outturn is possible in both 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.</p> |
| B | <p>The Repair and Maintenance budget shows a reduction for 2015/16 as part of overall budget cuts. The Brixham repairs and maintenance budget has previously been reduced back to base level but it remains prone to overspend.</p> |
| C | <p>External security arrangements are being terminated for 2015/16. The heading also reflects savings in NNDR liabilities.</p> |
| D | <p>Match funding costs relating to the European Interreg funding programme will not be required in 2015/16 following completion of the exercise in 2014/15.</p> |
| E | <p>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.</p> |
| F | <p>An increase in the contribution to the General Fund is being recommended as outlined in section 4.4 of this report.</p> |
| G | <p>The Rents income budget now reflects service charge income received from units at Brixham Harbour. Offsetting expenditure is included within the Repairs and Maintenance budget.</p> |
| H | <p>Marina rental income is unpredictable due to the uncertain economic climate. No growth has been built in for 2015/16 based on current indications.</p> |
| J | <p>Income from harbour dues and mooring fees has reduced following falls in occupancy levels during the current difficult economic period.</p> |
| K | <p>Visitor income remains unpredictable due to the uncertain economic climate.</p> |
| L | <p>The increase in income targets reflects the first year success of the Inner Dock at Torquay.</p> |
| M | <p>Future levels of fish toll income remain at risk from external factors such as the Common Fisheries Policy, quota allowances, market prices etc.</p> |
| N | <p>New income streams are planned from recharging of utilities.</p> |
| P | <p>A contribution of £96k equating to the anticipated surplus at Torquay Harbour is being applied as a one-off exercise to offset the effect of General Fund levies in 2015/16.</p> <p>A further contribution of £86k in respect of a loan to Children’s Services was approved by Council in November 2014.</p> |

Appendices

- Appendix 1 Schedule of Tor Bay Harbour Charges 2015/16 showing a representative average increase of 2.0%.
- Appendix 2 Provisional Harbour Estimates for 2015/16 & Original Estimates for 2014/15 with an average 2.0% increase in Harbour Charges.
- Appendix 3 Projected Harbour Estimates for Future Years to 2018/19
- Appendix 4 Harbour Account - Estimated Internal Support Service Charges 2015/16

Additional Information

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

Schedule of Tor Bay Harbour Charges 2014/15

Tor Bay Harbour Act 1970

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

Minutes of Torquay & Paignton Liaison Forum – September & December 2014

Minutes of Brixham Harbour Liaison Forum – September & December 2014