



Meeting: Harbour Committee

Date: 21st December 2015

Wards Affected: All wards in Torbay

Report Title: Tor Bay Harbour Authority Budget and Harbour Charges 2016/17

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 2016/17. 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 2016/17, having considered the budgetary implications set out in this report.
- 1.3 The Committee is further asked to approve the 2016/17 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 2016/17, by a representative average of 2.5% 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 £147,000 for 2016/17.
- 2.3 That, the Tor Bay Harbour Authority budget for 2016/17, based on a 2.5% representative average increase in harbour charges (as set out in Appendix 2, to this report) be approved.
- 2.4 That, during 2016/17 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 2017/18.

3. Summary

- 3.1 The provisional Harbour Estimates for 2016/17 and subsequent two years, together with the Original Approved Estimate for 2015/16 and Projected Outturn for 2015/16 are attached at Appendix 2 and reflect the likely operating position for the consolidated harbour account for next year assuming a representative average increase of 2.5% in Harbour Charges.
- 3.2 It will be noted from Appendix 2 that the consolidated Harbour Account has been budgeted to break even for 2016/17 and subsequent years.
- 3.3 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	£8k
Brixham Harbour	£3k

- 3.4 The Harbour Committee's Budget Review Working Party held meetings on the 12th October 2015, 6th November 2015 and 27th November 2015 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 2.5% as shown at Appendix 1.
- 3.5 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.
- 3.6 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.

Supporting Information

4 Introduction and history

- 4.1 The Harbour Committee's Budget Review Working Party has met on several occasions since it was appointed in June 2015. It has scrutinised the approved Tor Bay Harbour Authority budget for 2015/16 and has made recommendations for a proposed budget for 2016/17. Membership of the Budget Review Working Party includes Councillors Bye, Amil and Stringer with External Advisors Mr Stewart and Mr Ellis, supported by relevant officers.
- 4.2 Torbay Council's General Fund budget continues to face significant pressures with a shortfall of some £12m in 2016/17 and £33m overall for the three years 2016/17 through 2018/19. 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 Business Services and the Chair of the Harbour Committee have held discussions with the Executive Director, Assistant Director of Corporate & Commercial Services, Chief Finance Officer and the Mayor to consider what was expected of the Tor Bay Harbour Authority service area 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 Over recent years the Harbour Committee has agreed to make annual contributions to the Council's General Fund building to a total of £460,000 by 2015/16. The Committee understood that the recommendation relating to the cash contribution 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 With further pressure placed on the Council's overall budget position the Executive Head of Business Services and the Chair of the Harbour Committee were asked to consider a further contribution to the Council's General Fund totalling £400,000 over the period 2016/17 to 2018/19. This proposal was first considered by the Harbour Committee's Budget Review Working Party at its meeting in October 2015.
- 4.5 During November the Budget Review Working Party met twice to review and 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 2016/17. Originally, they considered a 2.0% increase for Paignton and Brixham Harbours with a 3.5% increase for berthing charges at Torquay. After considering the responses from consultation with the Torquay Harbour Users, the Working Party elected to recommend a 2.5% increase across the board. 4.6 The Working Party initially considered a schedule of budget reductions/income generating proposals by the Executive Head of Business Services to achieve the corporate General Fund contribution target of an additional £400,000 over 2016/17 to 2018/19. While the Working Party was generally supportive of the viability of income generating proposals it was felt that a number of high-risk budget cuts would threaten the operation of the Harbour function and its ability to raise income. These specific proposals were rejected and a revised additional contribution of £285,500 was offered back to the corporate centre with £97,000 to be applied from 2016/17.

4.7 Following developments in the Council's overall budget exercise the corporate centre made a counter request that amounted to :-

- Bringing forward £25k of identified savings in both 2017/18 and 2018/19, into the 2016/17 year
- Plus an additional £50k of new savings in 2016/17

On consideration of the revised request, the Working Party accepted a plan presented by the Executive Head of Business Services to bring £50,000 of previously identified savings in future years forward to 2016/17. However, income streams proposed to realise the additional £50,000 of new contribution could not be agreed.

4.8 The recommendation of the Working Party is therefore that the Harbour Account makes an additional contribution to the general fund of £147,000 in 2016/17 this recommendation being £50,000 below the contribution requested from the corporate centre. Additional savings have been identified by the Working Party for 2017/18 and 2018/19 but these are not being recommended at this time.

4.9 The Executive Head of Business Services 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.

4.10 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 £460k for 2015/16 has and will continue to put considerable pressure on the harbour authority budget.

4.11 The most recent meeting of the Harbour Committee’s Budget Review Working Party was held on the 27th November 2015. 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.

4.12 Before charges are reviewed Provisional Estimates indicate that the balances of the Harbour Reserve Funds as at 31 March 2016 could be in the region of :-

	Revenue Deficit Reserve (minimum level)	Projects Reserve	Total Reserve
Harbour Reserve	£488,000	£93,000	£581,000

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 2016/17.

4.13 There is uncertainty over future levels of income and expenditure as outlined in paragraph 8.4 below and this could 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.

4.14 The table below indicates the increase in charges in recent years, compared with

the consumer price index (CPI) taken at the April point of the previous year. In the last five years increases of 2.0%, 3.0%, 2.8%, 4.0 % and 2.5% 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 CPI	Reserve Levels
2015/16	2.0%	1.80%	£687,596
2014/15	3.0%	2.40%	£859,683
2013/14	2.8%	3.00%	£1,144,654
2012/13	4.0%	4.50%	£1,164,624
2011/12	2.5%	3.70%	£1,169,408

4.15 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	853	1,272

4.16 Harbour Accounts – Financial Principles

The Harbour Committee are asked to note the following recommended financial principles for the harbour accounts, which have recently been revised :-

- the harbour account and harbour reserve fund should be ring-fenced (assured);
- any operating surplus will pass to the harbour reserve fund;
- operating deficit will be met from the harbour reserve fund;
- the approved budget should not be in deficit;
- the harbour reserve fund level should aim to be at least the minimum target level 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 account is not over extended.

4.17 **Significant variations to harbour charges**

This report recommends that Harbour Charges be increased, on average, by 2.5%. However, certain charges have not increased and others are subject to a more significant variation. The key variations are set out below:-

- Some charges have been rounded up or down (around 2.5%) for ease of collection.
- Passenger dues for cruise ships have not been increased.
- Daily trailer parking charges have not been increased.
- Salt-water annual extraction charges have increased significantly to be more comparable with the daily charge and to reflect the wear and tear on the harbour infrastructure.
- Brixham Harbour outhaul moorings will be removed in 2016/17 along with the charge.
- Section 4.5.3 of the Schedule of Harbour Charges states - “No charge for Tor Bay Harbour MFV’s when fitting out or under repair for a period not exceeding 14 days per annum or at the Harbour Authority’s discretion”. This has been deleted from the 2016/17 Schedule of Harbour Charges, as the Harbour Authority is no longer able to support this MFV exemption from charges. This exemption applies when a fishing vessel makes use of a drying out facility such as a grid or when the boat is stored on the quay. The Harbour Authority does not offer a similar discount to other vessel types and consequently this exemption provides fishing vessels with an advantage, which is inappropriate. This matter was highlighted when an income analysis was undertaken prior to preparing repair estimates for the drying out grids in Brixham harbour. The analysis showed a clear lack of income currently being generated by this facility. It was suggested to the Harbour Liaison Forums in September that the Harbour Authority could no longer support the MFV exemption charge and this was unanimously agreed.
- It is proposed to introduce a fresh water consumption charge to fishing vessels taking water at Brixham.

4.18 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 2016/17 by an average inflationary increase of 2.5% and increase the overall contribution to the General Fund as per recommendations in section 2 and as outlined in paragraphs 4.3 to 4.8.
- 5.2 Make no change to the level of harbour charges and accept increased operational deficits for 2016/17 and future years in contradiction of the Harbour Accounts – Financial Principles (see Para 4.16).
- 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 2015 and continued in early December 2015. 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. A meeting was also held with the Torquay Harbour Users Association. Some concerns were raised over an initial proposal of a 3.5% increase in harbour charges at Torquay but the Association voted to support an increase of 2.5%.
- 7.2 The Executive Head of Business Services has benchmarked with some other Harbour Authorities and the results are displayed in the table below:-

Harbour Authority	2015/16 - % Increase	2016/17 - Proposed % Increase
Chichester	1.9 ~ 2.2	2.0
Teignmouth	2.6	2.5
Tor Bay	2.0	2.5
Dartmouth	2.5	1.5
Salcombe	2.0	1.0
Poole	RPI + 2.5	RPI + 5.0

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 Reserve. Depletion of this Reserve would eventually require support from the Council's Revenue Fund to meet any operational deficits. Accordingly, the Executive Head of Business Services 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 Business Services 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 Torquay Harbour Users Association 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 financial management of municipal ports.
- 8.4 Specific risks and budget line pressures relating to 2016/17 are explained in the table below when read in conjunction with Appendix 2.

Key	Risk and/or pressure to budget line
A	The salary budget reflects the reallocation of an element of the Executive Head of Business Services costs to General Fund services. It further includes adjustments for "Green Book" payments and reduction in the overall Harbour Authority establishment. A reduction in costs at outturn has now been built into the base budget to allow for the waiving of superannuation contributions by some employees.
B	Minor budget savings have been made over a variety of headings.
C	Financing costs are recharged to the Harbour Account based on 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.
D	An increase in the contribution to the General Fund is being recommended as outlined in section 4.3 to 4.8 of this report.
E	New rental streams are being pursued.
F	Income from harbour dues and mooring fees has been rebased following the reclassification of some MFV's
G	Visitor income remains unpredictable due to the uncertain economic climate.

Key	Risk and/or pressure to budget line
H	New additional pontoons are to be installed in the Torquay Inner Harbour
J	Future levels of fish toll income remain at risk from external factors such as the Common Fisheries Policy, quota allowances, market prices etc.
K	Recharging of water supplies to MFV's will commence in 2016/17
L	Additional advertising streams are anticipated in 2016/17

Appendices

- Appendix 1 Schedule of Tor Bay Harbour Charges 2016/17 showing a representative average increase of 2.5%.
- Appendix 2 Provisional Harbour Estimates for 2016/17 and Subsequent Years with an average 2.5% increase in Harbour Charges.
- Appendix 3 Harbour Account - Estimated Internal Support Service Charges 2016/17

Additional Information

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

Schedule of Tor Bay Harbour Charges 2015/16

Tor Bay Harbour Act 1970

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

Minutes of Torquay & Paignton Liaison Forum – September & December 2015

Minutes of Brixham Harbour Liaison Forum – September & December 2015