



Meeting: Harbour Committee

Date: 5th December 2017

Wards Affected: All wards in Torbay

Report Title: Tor Bay Harbour Authority Budget and Harbour Charges 2018/19

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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 2018/19. 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 2018/19, having considered the budgetary implications set out in this report.
- 1.3 The Committee is further asked to approve the 2018/19 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 2018/19, by a representative average 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 £145,000 for 2018/19.
- 2.3 That, the Tor Bay Harbour Authority budget for 2018/19, based on a 2.0% representative average increase in harbour charges (as set out in Appendix 2, to this report) be approved.
- 2.4 That, during 2018/19 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 2019/20.

3. Summary

- 3.1 The provisional Harbour Estimates for 2018/19 and the subsequent four years, together with the originally approved Estimate for 2017/18 and Projected Outturn for 2017/18 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 2.0% in Harbour Charges.
- 3.2 It will be noted from Appendix 2 that, as a result of the continuing financial contribution to the Council's General Fund and investment in the harbour infrastructure, the consolidated Harbour Account is forecast to be in deficit over the next five year period. Returns from investment will reduce the level of deficit over the latter part of the period and it is anticipated the Harbour Account will then return to a break even position in the longer term. The annual deficits will be funded from the Harbour Reserve.
- 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	£4k

- 3.4 The Harbour Committee's Budget Review Working Party held meetings on the 7th September and 2nd November 2017 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 reflected within Appendix 1.
- 3.5 The Budget Review Working Party 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 2017. It has scrutinised the approved Tor Bay Harbour Authority budget for 2017/18 and has made recommendations for a proposed budget for 2018/19. Membership of the Budget Review Working Party includes Councillors Bye, Amil and Ellery 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 £17m by 2021. 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 Assets and Business Services, along with the Chair of the Harbour Committee have been involved in discussions with the Chief Executive, Director of Corporate Services & Operations, 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 £657,000 by 2017/18. The Committee understood that the recommendation relating to the cash contribution should then be reviewed.
- 4.4 A further £173,000 contribution was requested by the General Fund over 2018/19 and 2019/20 as part of the previous year's budget proposals. With further pressure placed on the Council's overall budget position the Executive Head of Assets and Business Services and the Chair of the Harbour Committee were asked to consider a further contribution to the Council's General Fund totalling £100,000 over in 2018/19 in addition to the earlier proposal.
- 4.5 The Budget Review Working Party met twice between September and November 2017 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 also 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 harbour users groups and other stakeholders. The Working

Party also considered an appropriate increase in the level of harbour charges for 2018/19 and after considering the responses from consultation with the Torquay Harbour Users, the Working Party elected to recommend a 2.0% increase across the board.

- 4.6 The Working Party initially considered a schedule of budget reductions/income generating proposals by the Executive Head of Assets and Business Services to achieve the corporate General Fund contribution target of an additional £273,000 over 2018/19 to 2019/20. While the Working Party continued to be generally supportive of the viability of income generating proposals it was considered that there was considerable risk in the sustainability of the levels projected. These specific proposals were rejected and a revised additional contribution totalling £223,000 was offered back to the corporate centre with £128,000 to be applied from 2018/19.
- 4.7 A further development since the Working Party meetings is a separate demand by the corporate centre arising from savings achieved due to a reduction in overtime and enhancement rates for all Council staff (“Green Book” terms & conditions). The Council’s Senior Leadership Team agreed to take the full effect of these changes, from all service areas, as a corporate saving. However, these savings had already been anticipated and were used to make up the additional General Fund contribution requested during a previous year Harbour budget exercise. In any event, because the changes to rates of pay were only applied during this current year a clear request has been made for an additional contribution of £17,000 from the Harbour budget.
- 4.8 No firm agreement has so far been reached regarding the contribution levels expected from the Harbour service area to the Council’s overall Budget for 2018/19 but the budget proposal presented at Appendix 2 is based on the Working Party view set out in para 4.6 and the additional “Green Book” levy for consideration by the Committee.
- 4.9 These proposals, if approved will bring the overall contribution to the general fund to £802,000 in 2018/19 with a further £95,000 requested for 2019/20.
- 4.10 The Executive Head of Assets and 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.
- 4.11 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 £657k for 2017/18 has and will continue to put considerable

pressure on the harbour authority budget.

4.12 A set of financial guidelines recommended by the Harbour Committee Budget Working Party in 2009 remain valid and are set out below:

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

4.13 Before charges are reviewed Provisional Estimates indicate that the balances of the Harbour Reserve Funds as at 31 March 2018 could be in the region of £609,000 :-

	Revenue Deficit Reserve (minimum level)	Projects Reserve	Total Reserve
Harbour Reserve	£570,000	£39,000	£609,000

The Reserve table in Appendix 2 reflects a significant reduction in the Reserve level by 2022/23 to fund revenue deficits. Any uplift to the forecast levels can be used to reduce borrowing requirements on existing schemes or to fund other desirable investment projects such as the Torquay Fuel Station and Haldon Pier works.

4.14 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.

4.15 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 3.0%, 3.0%, 2.0%, 3.0%, and 2.8% have been applied. The table further illustrates the balance of the combined reserves at 1st April of the charges year.

Charges Year	Overall Increase	Actual CPI	Reserve Levels
2017/18	3.0%	2.30%	£821,623
2016/17	3.0%	1.60%	£719,930
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

4.16 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	1,272	1,272
New Harbour Workboat	2016	45	45	45
Torquay Harbour Pontoon Replacement	2017	220	15	250
Harbour Light Restaurant Building Redevelopment	2018	600	0	600
Oxen Cove Jetty	2018	1,500	0	1,500
Beacon Quay Decking	2017	90	0	90

4.17 Harbour Accounts – Financial Principles

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

- 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.

4.18 The recommended budget at Appendix 2 gives rise to a breach of a number of these principles over the term of the forecasts. However, the Executive Head of Assets and Business Services is of the view that the proposal offers the best balance in assisting the General Fund and investing in the future of the Council's Harbour Authority function.

4.19 **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 variations are set out below:-

- Some charges have been rounded up or down (around 2.0%) for ease of collection.
- In some cases, on the advice of officers, the recommended charges have not increased by 2% but have remained at the same level as 2017/18. The areas where charges have not changed are set out below :-
 - Visitor charges
 - Annual launch & recovery charges
 - MFV fresh water tank charges
 - Miscellaneous charges
 - Waste charges
 - Labour and equipment hire excluding pressure washing
 - Storage space for fishing equipment and leased areas on the quayside
- Alongside berthing charges for the use of the Princess Pier Pontoon are significantly lower than the Town Dock for what is considered an equivalent facility. This is not an equitable arrangement and these charges will rise to the same level as the Town Dock over a five year phase in period, with 2018/19 being the second year.

5 **Possibilities and Options**

5.1 Increase Harbour Charges in 2018/19 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 to 4.9.

5.2 Make no change to the level of harbour charges and accept increased operational deficits for 2018/19 and future years in contradiction of the Harbour Accounts – Financial Principles (see Para 4.17).

5.3 Do not agree to the recommended level of contribution to the Council's General Fund.

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 2017 and continued in November 2017. 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.

7.2 The Executive Head of Assets and Business Services has benchmarked with some other Harbour Authorities and the results are displayed in the table below :-

Harbour Authority	2017/18 - % Increase	2018/19 - Proposed % Increase
Chichester	2.0	2.6% - 2.8%
Teignmouth	2.5	3.6%
Tor Bay	3.0	2.0
Dartmouth	1.5	3.9%
Salcombe	1.0	6.0% (Dues only)
Poole	RPI + 5.0	RPI + 5%
Langstone	-	3.0%

8 Risks

8.1 The major risk associated with this report is not presenting a realistic budget resulting in excessive operational deficits beyond the capacity of the Harbour Reserve. Long term depletion of this Reserve would eventually require support from the Council's Revenue Fund to meet any operational deficits. Accordingly, the Executive Head of Assets and Business Services has recommended a budget that will meet the operational requirements and initial new investment costs of the Harbour over a five year period 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 Assets and 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 2018/19 are explained in the table below when read in conjunction with Appendix 2.

Key	Risk and/or pressure to budget line
A	The salary budgets reflect the new Harbour Master post and other smaller changes to the staffing structure.
B	Increased security and cleaning arrangements will add to costs at Brixham Fish Quay but will be offset by increased fish toll income.
C	Financing costs are recharged to the Harbour Account based on Torbay Council's prevailing low average borrowing rate and fixed over the life of the borrowing period. New liabilities are incorporated in respect of redevelopment of the Harbour Light Restaurant Building and the Oxen Cove Jetty.
D	The Executive Head of Assets and Business Services has agreed to part fund an Environmental Health Officer post to reflect the benefit to the fish market operation.
E	An increase in the contribution to the General Fund is being recommended as outlined in section 4.3 to 4.9 of this report.
F	New rental streams are being pursued.
G	Annual growth is anticipated from the Marina rental streams but is expected to be offset by a loss of income during development work around Torquay Harbour.
H	Addition income streams are anticipated from the cruise ship sector following recent marketing.
J	Fish toll expectations have been prudently adjusted in line with current levels and expectations of new shellfish income streams.

Appendices

- Appendix 1 Schedule of Tor Bay Harbour Charges 2018/19 showing a representative average increase of 2.0%.
- Appendix 2 Provisional Harbour Estimates for 2018/19 and Subsequent Years with an average 2.0% increase in Harbour Charges.
- Appendix 3 Estimated Support Service Charges 2018/19

Additional Information

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

Schedule of Tor Bay Harbour Charges 2017/18

Tor Bay Harbour Act 1970

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

Minutes of Torquay & Paignton Liaison Forum – September & November 2017

Minutes of Brixham Harbour Liaison Forum – September & November 2017