



Public Agenda Item: **Yes**

Title: **Tor Bay Harbour Authority Budget and Harbour Charges  
2012/13**

Wards Affected: **All Wards in Torbay**

To: **Harbour Committee**

On: **5<sup>th</sup> December 2011**

Change to  
Budget: **Yes**

Change to Policy  
Framework: **No**

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## **1. What we are trying to achieve**

- 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 2012/13. 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.

## **2. Recommendations for 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 Working Party, to increase the harbour charges for 2012/13, by a representative average increase of 4.0% and approve the schedule of harbour charges set out in Appendix 1.**
- 2.2 **That the Tor Bay Harbour Authority budget for 2012/13, based on a 4.0% representative average increase in harbour charges (as set out in Appendix 2, to this report) be approved.**
- 2.3 **That during 2012/13 the Tor Bay Harbour Budget Working Party should continue to review the full range of harbour charges, monitor the revenue budget, and recommend a budget for 2013/14.**
- 2.4 **That, as recommended by the Harbour Committee's Budget Working Party, the Executive Head of Tor Bay Harbour Authority should consider using the harbour reserve funds to make additional repayments against the financing charges of capital projects, provided that the minimum reserve fund level is maintained and such budget adjustments are approved by the Harbour Committee Chairman and reported to the Harbour Committee through the budget monitoring reports.**

**2.5 That, as recommended by the Harbour Committee's Budget Working Party, each harbour reserve fund is split with 20% of budgeted turnover ring-fenced to meet any deficit in the revenue budget or winter storm damage and the balance ring-fenced to fund harbours related capital projects.**

### **3. Key points and reasons for recommendations**

3.1 The provisional Harbour Estimates for 2012/13, together with the Original Approved Estimate for 2011/12 and Projected Outturn for 2011/12 are attached at Appendix 3 and reflect the likely operating position for the two harbour accounts for next year, without any increase in Harbour Charges.

3.2 It will be noted from Appendix 3 that before any increase in charges is applied, there is the likelihood of a £55,000 deficit on the Torquay/Paignton Harbour account and a deficit on the Brixham Harbour account of £44,000 for the 2012/13 financial year.

3.3 Appendix 4 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 but without any growth in marina rental income.

3.4 An increase in Harbour Charges is estimated to produce the following additional annual income:

	<u>2.5%</u>	<u>4%</u>	<u>5%</u>
Torquay and Paignton Harbours	£11,500	£17,900	£23,100
Brixham Harbour	£5,900	£10,200	£11,800

3.5 The Harbour Committee's Budget Working Party held meetings on the 15<sup>th</sup> August 2011, 26<sup>th</sup> September 2011 and 7<sup>th</sup> November 2011 and this report represents the findings and recommendations of that group. The Budget Working Party is recommending that Harbour Charges be increased, on average, by 4.0% as shown at Appendix 1.

3.6 An outcome of the November meeting of the Budget Working Party was a 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 level was maintained.

3.7 At its September meeting the Budget Working Party decided 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.

3.8 The Committee are also asked to approve the recommended level of harbour charges for Tor Bay Harbour for 2012/13, having considered the budgetary implications set out in this report.

3.9 The Committee are further asked to approve the 2012/13 budget for Tor Bay Harbour Authority.

**For more detailed information on this proposal please refer to the supporting information.**

**Capt. Kevin Mowat  
Executive Head of Tor Bay Harbour Authority  
Tor Bay Harbour Master**

**Pete Truman  
Principal Accountant**

## Supporting information

### A1. Introduction and history

- A1.1 The Harbour Committee's Budget Working Party, which was formed on 14 September 2009, has continued to scrutinise the approved Tor Bay Harbour Authority budget for 2011/12 and they have made recommendations for a proposed budget for 2012/13. Membership of the Budget Working Party was agreed as Councillors Ellery, Hytche and Stringer with External Advisors Ms Hayes and Mr Jennings, supported by relevant officers.
- A1.2 Torbay Council's general fund budget is facing a shortfall of approximately £11m for 2012/13 and all council business units have been asked to make savings and/or look at income opportunities to help reduce the deficit. The Chairman of the Harbour Committee and the Executive Head of Tor Bay Harbour Authority therefore agreed to recommend the contribution of a cash dividend to the general fund from the harbour accounts from 2012/13. The figure proposed was 2.5% of income and the offer was linked to a clear understanding that "support costs" made by the general fund to the harbour account would not, in normal circumstances, rise above the 2011/12 level. Furthermore, it was indicated 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 in future years. i.e. beyond the current financial crisis. In 2007 Torbay Council decided to accept the main findings of the Municipal Ports Review and the principle of paying a dividend to the "owning authority" is clearly established within this review. However, the contribution for 2012/13 amounts to £52k and this has put considerable pressure on next year's Harbour's budget
- A1.3 Another pressure on the Tor Bay Harbour Authority budget in 2012/13 is the reinstated contribution to the Council's general fund for depreciation charged on assets used by Tor Bay Harbour Authority.
- A1.4 The most recent meeting of the Harbour Committee's Budget Working Party was held on the 7<sup>th</sup> November 2011. 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.

A1.5 Before charges are reviewed Provisional Estimates indicate that the balances of the Harbour Reserve Funds as at 31 March 2013 (compared to minimum target levels) could be in the region of:

Torquay and Paignton Harbours	£571,000	(£433,000)
Brixham Harbour	£535,000	(£485,000)

A1.6 There is uncertainty over future levels of income and expenditure as outlined in A2.3 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 raise the current Reserve levels.

A1.7 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 2.5%, 5%, 5%, 7%, and 3% have been applied. The table further illustrates the balance of the combined reserves at 1 April of the previous charges year.

<b>Charges Year</b>	<b>Overall Increase</b>	<b>Actual RPI</b>	<b>Combined Reserve Levels</b>
2011/12	2.5%	5.3%	£958,671
2010/11	5%	-1.2%	£913,342
2009/10	5%	4.2%	£867,793
2008/09	7%	4.5%	£1,194,717
2007/08	3%	2.6%	£1,314,146
2006/07	3%	3.2%	£1,308,031
2005/06	3%	2.5%	£1,146,041

## A1.8 Capital Plan/Budget

The items identified in the table below are currently in the Harbour Committee's Capital Plan/Budget.

Capital Item	Project Year or Reserve List	Total Budget £000	Actual to Date (including prior years) £000	Projected Outturn £000
Torquay Harbour – Haldon Pier (Phase 1)	2009	1,200	1,200	1,200
Brixham Harbour – Various Repairs	2006 to 2008	640	647	649
Brixham Harbour – New Fish Quay & Commercial Units	2008 to 2010	4,750	4,750	4,750
Fish Market Roof – PV Panels	2012	48	0	48
Brixham Harbour - Breakwater Repairs	Reserve List Band 1	150	0	150
Torquay Harbour - Haldon Pier (Phase 2)	Reserve List Band 1	5,000	0	5,000
Torquay Harbour – Princess Pier	Reserve List Band 1	3,500	0	3,500
Torquay Harbour – Inner Harbour Pontooning	Reserve List Band 1	1,000	0	1,000
Torquay/Brixham Harbour – Passenger ferries pontoon facilities	Reserve List Band 1	600	0	600
Torquay Harbour – replacement crane	Reserve List Band 3	45	0	45

## A1.9 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.

#### **A1.10 Significant variations to harbour charges**

This report recommends that Harbour Charges be increased, on average, by 4.0%. However, certain charges have not increased and others are subject to a more significant variation. The key charging issues are set out below :-

- The harbour dues for small passenger vessels have now completed the previously agreed staged increase to the same level as private vessel harbour dues at Torquay.
- The outer harbour mooring fees and trot mooring fees for fishing vessels at Brixham have now completed the previously agreed staged increase to the same level as private vessel mooring fees in Brixham. The cost of providing the mooring is the same regardless of the end user.
- Some visitor charges have not been increased, due to falling income.
- Some charges have been rounded up or down (around 4.0%) for ease of collection.
- Certain car parking charges have increased in line with those set centrally by Torbay Council.
- Cruise ship passenger landing fees have not been increased.
- Daily and weekly trailer parking charges have not been increased.
- New daily and weekly Jet Ski pod charges have been introduced.
- Fishing vessel alongside/pontoon charges at Torquay and Paignton have commenced a 3 year staged increase to the same level as private vessel charges and this increase will be completed by April 2014. The cost of providing the service is the same regardless of the end user.

- Torquay harbour Town Dock and South Pier pontoon charges have increased by 5.5%. These services enjoy high demand.
- Passenger vessels berthed on the Town Dock in Torquay harbour have commenced a 3 year staged increase to the same level (when combined with passenger vessel harbour dues) as Town Dock private vessel charges and this increase will be completed by April 2014. The cost of providing the facility is the same regardless of the end user.
- New seasonal charges have been introduced for Jet Ski pods on the Town Dock.
- A new kayak/canoe storage rack charge has been introduced at Brixham harbour.
- New charges are included for the use of showers and washing/drying machines by crew from visiting fishing vessels at Brixham harbour.

A1.11 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. Last year the Harbour Committee's Budget 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 Working Party has now asked officers to work and consult with harbour users, during 2012, 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.

## **A2. Risk assessment of preferred option**

### **A2.1 Outline of significant key risks**

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 Harbours for the forthcoming year in line with prudent expectations for income.

A2.2 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.



A2.3 Specific risks and budget line pressures are explained in the table below when read in conjunction with Appendix 2.

<b>Key</b>	<b>Risk and/or pressure to budget line</b>
A	A reduction in outturn costs is possible 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 negligible growth and although the Brixham repairs and maintenance budget has been increased it remains prone to overspend.
C	Town Dock operating costs should now stabilise with the rating liability being captured as part of the main harbour undertaking.
D	Internal support services costs should at least be held at 2011/12 levels, or reduced. This commitment is linked to the new dividend payable to the General Fund (see A1.2).
E	Capital finance charges may increase if further 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 low average borrowing rate (currently 4.31%) and flexibility exists for the Harbour Account to make additional repayments without penalty.
F	A new depreciation charge contribution has been introduced.
G	A new dividend is being recommended, payable to General Fund and based on 2.5% of total income (see A1.2).
H	Marina rental income is unpredictable due to the uncertain economic climate. No change has been assumed from the 2010/11 outturn until new operating figures are received.
J	Income from harbour dues and mooring fees is difficult to forecast as occupancy levels could drop due to the uncertain economic climate.
K	Brixham energy costs are currently difficult to predict due to the uncertain level of MFV refit work and an unproven recharging system. Similarly Brixham water costs are difficult to forecast due to the introduction of sewerage charges and an unproven recharging system.
L	Visitor income fell in 2011 and remains unpredictable due to the uncertain economic climate.
M	New rental streams generated by the redeveloped Fish Quay building are reflected in the 2012/13 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.
P	This assumes that additional income will be generated by recharging electricity and water to fishing vessels/tenants.
Q	Interest rates are forecast to remain low.

### **A3. Other Options**

A3.1 Make no change to the level of harbour charges and accept increased operational deficits for 2012/13 and future years.

A3.2 Do not agree to the recommended cash dividend of 2.5% of income to the Council's general fund and therefore do not contribute to reducing the Council's overall budget deficit.

#### **A4. Summary of resource implications**

A4.1 The implications on resources are evident within the report.

#### **A5. What impact will there be on equalities, environmental sustainability and crime and disorder?**

A5.1 The recommendations will not have any detrimental effect on equalities, environmental sustainability or crime and disorder.

#### **A6. Consultation and Customer Focus**

A6.1 Consultation with the Brixham Harbour Liaison Forum and the Torquay/Paignton Harbour Liaison Forum commenced in September 2011 and continued in November 2011. 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 4% increase in harbour charges. At a recent meeting the Paignton harbour users did not reach a firm view on the proposed increase in harbour charges. The majority of people who attended a meeting of the Brixham harbour users felt that a 4.0% increase in charges was not unreasonable. They also supported the consultation process on private vessel harbour dues outlined in A1.11 above.

A6.2 The Executive Head of Tor Bay Harbour Authority has benchmarked with some other Harbour Authorities and the results are displayed in the table below :-

<b>Harbour Authority</b>	<b>% Increase in Charges 2011/12</b>	<b>% Increase in Charges 2012/13</b>
Truro & Penryn	4.6	4.98
Teignmouth	3.0	4.0
Torbay	2.5	4.0
Salcombe	2.0	2.0
Weymouth	2.0	2.5
Cattewater	2.0	3.0
Langstone	3.1	5.2

#### **A7. Are there any implications for other Business Units?**

A7.1 No

## **Appendices**

- Appendix 1 Schedule of Tor Bay Harbour Charges 2012/13 showing a representative average increase of 4.0%.
- Appendix 2 Provisional Harbour Estimates for 2012/13 & Original Estimates for 2011/12 with an average 4.0% increase in Harbour Charges.
- Appendix 3 Provisional Harbour Estimates for 2012/13 & Original Estimates for 2011/12 with no increase in Harbour Charges.
- Appendix 4 Projected Harbour Estimates for Future Years to 2015/16
- Appendix 5 Torquay & Paignton Harbour Account - Estimated Internal Support Service Charges 2012/13
- Appendix 6 Brixham Harbour Account - Estimated Internal Support Service Charges 2012/13

**Documents available in members' rooms**

None

**Background Papers:**

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

Schedule of Tor Bay Harbour Charges 2011/12  
Tor Bay Harbour Act 1970  
Tor Bay Harbour (Torquay Marina Act &c.) Act 1983  
Minutes of Torquay & Paignton Liaison Forum – November 2011  
Minutes of Brixham Harbour Liaison Forum – November 2011