

PERTH AND KINROSS COUNCIL

25 April 2018

HARBOUR BUSINESS PLAN - PROGRESS UPDATE**Report by Depute Chief Executive, Chief Operating Officer**

The purpose of this report is to update the Council on the delivery of the Perth Harbour Business Plan and asks the Council to consider the next steps.

1. BACKGROUND / MAIN ISSUES

- 1.1 On 29 November 2017, the Strategic Policy and Resource Committee considered an update report (refer 17/391) and instructed the Depute Chief Executive (Chief Operating Officer) to report to the Committee or the Council later in the financial year.

2. PROPOSALS

- 2.1 The following sections provide an update on each element of the Business Plan.

Financial position

- 2.2 An updated financial position to 31 March 2018 is provided below:

- Expenditure: £256,452 (budget: £268,183)
 - o Staff costs: £120,851 (budget: £128,807)
 - o Property costs: £33,062 (budget: £33,100)
 - o Supply & Services: £39,718 (budget: £32,150)
 - o Transport costs: £2,727 (budget: £1,000)
 - o Third party payments: £250 (budget: £0)
 - o Support Services costs: £5,000 (budget: £5,000)
 - o Capital charges: £59,185 (budget: £68,126)
- The amount of outstanding loan debt is £1,227,197 (31 March 2018). The harbour loan charges relate to the Harbour wall (borrowing over 30 years, with 14-16 years left), Harbour Development work in 2004-07 (borrowing over 30 years, with 16-18 years left) and the Harbour boat (borrowing over 20 years, with 9 years left).

The loan charges above are charged to the Corporate Loan Charges budget, and not directly to the Harbour. The current planned dredging work budgeted at £870,000 is funded by Prudential Borrowing and the Loan Charges, and will therefore be charged direct to the Harbour, at an estimated annual cost of around £95,000 per annum (for 10 years) once the dredging has been completed.

- Income: £287,747 (budget: £36,803)
 - o 15 ships used the harbour in 2017/18 (17 in 2016/17) with timber, aggregate, fish meal imports and baryte exports with a total tonnage of 24,000 tonnes (31,000 tonnes in 2016/17).

- 2.3 There is a net loss of £227,711 which is more than the budgeted net loss of £231,380 resulting in a positive variance of £3,669.

Financial projections

- 2.4 In the report (refer 17/391) considered by the Strategic Policy and Resources Committee, revised financial projections for future years after dredging were provided based on possible projected cargo coastal shipping traffic increase described as moderate or high growth scenarios. Both scenarios raised serious concerns about the viability of the approved business case and the Committee instructed the Depute Chief Executive (Chief Operating Officer) to explore other commercial opportunities.

Governance, Management and Staffing

- 2.5 The new governance and management structure established is working well with the Harbour Board providing strategic direction. Although transitional arrangements have been put in place to sustain operational activities and pilotage is secured, recruitment has previously been a challenge and would be a challenge once again. The level of wages offered by the Council are not competitive with the private sector, in addition, working patterns have proved to be difficult to manage within the current Council's policies. To address these issues, the Board agreed to explore the option of outsourcing the harbour operations through a specific tender.

Sales and Marketing Strategy

- 2.6 Despite an 'open for business' approach and a pro-active mind-set, the level of cargo coastal shipping traffic has not increased. In addition to cargo coastal shipping, other commercial opportunities have been suggested such as using the Harbour as a base for specific fleets or passenger traffic. Some interest had also been informally noted. It was considered that if such opportunities were taken forward, they could offer an alternative business model which may not need a dredging of 5m. The Board agreed to test the market through a specific tender to develop this alternative business model.

Harbour operation services and commercial opportunities tender

- 2.7 As instructed by the Strategic Policy and Resources Committee and agreed by the Board, a tender to outsource the harbour operations and to allow a new operator to develop commercial opportunities was issued on 8 February 2018 with a deadline of 12 March 2018.
- 2.8 The contract will see a third party operator taking over the responsibilities of harbourmaster for a period of 5 years from 1 July 2018 with a possible

extension of 2 years. This contract does not include any ownership transfer of harbour assets to the third party. The third party would be able to use harbour assets such as the Harbour Offices or Tug Boat (on a full repairing lease). The Harbour Board and the Harbour Duty Holder will retain the overall responsibilities as Perth Harbour Authority.

2.9 The Board considered the current position at its meeting on 19 March 2018 and agreed to recommend to outsource the harbour operations to the recommended preferred third party. None of the bidders indicated dredging as a requirement. Therefore, there would be no need to dredge in the short term as an alternative business model could be developed and possibly achieve a reduction of the current net loss over the next 5 years as well as a possible sustainable model beyond.

2.10 3 compliant bids were received as follows:

- Calmac Ferries Limited
- Forth Ports Ltd – Dundee
- GAC Services UK Ltd

2.11 Following the assessment, Calmac Ferries Limited (CFL) is the preferred bidder. CFL have a proven track record in the provision of Harbour, Port, Marine and Ferry services across Scotland and the UK and currently operate out of more than 50 ports. CFL have many years of experience in dealing with the regular inspection and maintenance of all aspects of port and harbour infrastructure. CFL will utilise the full extent of its existing marketing, commercial and business expertise to identify key areas for development and expansion to maximum benefit to the operation.

2.12 The outsourcing option was assessed against the in-house option to ensure best value using specific criteria which are presented below:

Options	Outsourcing	In-house
Criteria		
Safe running of the Harbour	High	High
Staff recruitment and availability	High	Low
Cost control/Potential savings	Medium	Medium
Income generation	Medium	Low
Need of dredging	Not required	Required (based on business plan)

2.13 It is recommended that the best option is to outsource the harbour operations to Calmac Ferries Ltd even if limited savings would be achieved initially. However, we would aim to increase savings through contract negotiations.

Accessibility/Dredging/Marine Scotland Licence

- 2.14 At its meeting on 29 November 2017, the Strategic Policy and Resources Committee agreed to wait for the Marine Scotland Licence to be issued before publishing the dredging contract tender and to continue engagement with stakeholders to mitigate risk in terms of costs and timescale.
- 2.15 Following a statutory period, the public consultation should have finished on 8 March 2018. However, following a request from Scottish National Heritage (SNH) an extension of 3 weeks was granted by Marine Scotland and the consultation period finished on 29 March 2018. Marine Scotland has also required the results of the ecological surveys (i.e. otter, lamprey, fresh water mussel) before determination of the application. The Council already have in place a contractor to carry out these surveys for an estimated cost of £9,000. The contractor will need approx. 2/3 weeks to carry out the surveys depending on mobilisation and weather/river conditions. A meeting has been organised with Marine Scotland and SNH to review their requirements as we believe carrying out the surveys could be part of the licence conditions and not a pre-requirement for determination.
- 2.16 Moreover, Marine Scotland has received two objections from Ineos (ex-BP) and from Shell. Both objections are based on three main arguments:
- (i) Removing soil from the top of their pipelines will increase risk in case of grounding particularly with larger vessels.
PKC's: Both companies have encased pipelines in concrete to provide protection and removing soil should not lead to increase risk as it is not the soil which is providing protection. Proposed dredging will leave at least 1.5m of soil on the top of the pipelines. We are also aiming to increase the number of ships through an improved tidal window rather than increasing the size of ships.
 - (ii) Methods of work, control measures and risk analysis for dredging work over pipelines are not provided and companies cannot properly review dredging request without this information.
PKC's: we have provided survey data information to both companies. Methods of work, control measures and risk analysis can only be provided by a contractor through a tender process which cannot be issued without a licence in place with established requirements. We are organising meetings with both companies to ask them which methods of work, control measures and risk analysis they use for their own works and agree to include these in our tender.
 - (iii) Existing agreements between companies and the Crown Estates prevent any dredging over pipelines.
PKC's: PKC also has an existing agreement with the Crown Estates. However, the agreement will have to vary as dredging areas are different from those identified in the original agreement. A condition consent agreement between Tayside Regional Council and Shell authorised a dredging of up to 1.5m over the pipeline. However, it does not cover the Ineos pipeline. The Council sought legal advice and we should send a robust response highlighting the fact that the Council

was granted a dredging licence in the past and that the pipelines were installed on the understanding that it would not limit the commercial use of the river Tay.

- 2.17 In February 2018, soft market testing took place to assess the level of funding which would be needed for contract works. It is estimated that the contract work costs would be in the region of £1m without costs for any specific constraints arising from stakeholders' consultation (e.g. methods of works for dredging over pipeline, ecological surveys). Although the actual tender costs may be lower due to competition, it is anticipated that the current allocation of £700,000 would not be sufficient to meet contract work costs.
- 2.18 In the approved business plan, the dredging costs were estimated at £870,000 and this is the amount which was agreed in the Council's Capital Programme on a prudential borrowing basis. These costs included all preparatory work costs, management costs and contract costs. Preparatory costs included surveying the river bed to design the dredging scheme as well as preparing Marine Scotland Licence application and dredging tender documentation. At 31 March 2018, £151,000 has been spent leaving £700,000 for contract works and £19,000 for project management.
- 2.19 As previously reported to the Harbour Board and to the Strategic Policy & Resources Committee at its meeting on 29 November (refer 17/391) statistics published by the Department of Transport (UK major and minor ports, all freight traffic, by port and direction, annually: 1965 – 2016 - Updated 1 September 2017) indicate that freight traffic has considerably reduced over the period 2005-2016: 17% for major ports and 22% for minor ports. In Scotland, there were reductions of 14% for major ports and 24% for minor ports.
- 2.20 The implication of this downward trend in coastal freight traffic is that the 'realistic' projections in the business plan had now become optimistic. Based on the revised projections, the Harbour would not return to a break even position before 2034/35. This would be extended out even further if the dredging costs were to increase. It is important to note that current Prudential Borrowing principles will not allow an extension to the repayment period over the asset depreciation period. This means that repayments have to be contained within a 10 year period which is considered as the depreciation period for the dredging.
- 2.21 The Board agreed to recommend pursuing the Marine Scotland licence application although this may take time to have a final determination; and issuing a tender for a dredging contract as soon as licence is determined to firm up costs and timescale, after which a considered decision on whether to proceed with the dredging contract can be made.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 The Harbour Business Plan was approved in May 2016. However, its viability has raised some concerns. An alternative business model has been identified

through the outsourcing of harbour operations to a third party. This would improve the harbour financial viability in a short term without the need for dredging.

3.2 It is recommended that the Council:

- (i) Note the current financial position.
- (ii) Agree to accept the offer from Calmac Ferries Ltd as the preferred bidder for Harbour operation services.
- (iii) Note the Marine Scotland Licence requests and instruct the Depute Chief Executive (Chief Operating Officer) to take the necessary actions to obtain the Licence.
- (iv) Agree to issue the dredging contract tender publication when the licence has been determined to firm up costs and timescales and report the outcome back to the Council.
- (v) Continue engagement with stakeholders to mitigate risk in terms of costs and timescale.

Author(s)

Name	Designation	Contact Details
Tom Flanagan	Interim Head of Economic Development	01738 475000
Serge Merone	Investment Manager	01738 475000

Approved

Name	Designation	Date
Jim Valentine	Depute Chief Executive (Chief Operating Officer)	6 April 2018

If you or someone you know would like a copy of this document in another language or format, (on occasion, only a summary of the document will be provided in translation), this can be arranged by contacting the Customer Service Centre on 01738 475000.

You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	Yes
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan / Single Outcome Agreement

- 1.1 The Community Plan/Single Outcome Agreement 2013 – 2023 lays out five outcomes focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:
- (i) Giving every child the best start in life
 - (ii) Developing educated, responsible and informed citizens
 - (iii) Promoting a prosperous, inclusive and sustainable economy
 - (iv) Supporting people to lead independent, healthy and active lives
 - (v) Creating a safe and sustainable place for future generations
- 1.2 This report relates to objective (iii) by maximising and enhancing economic development opportunities to the benefit of businesses and local communities, encouraging new business creation and growth of existing businesses through Harbour operations.

2. Resource Implications

Financial

- 2.1 Capital – an allocation of £870,000 has been agreed as part of the capital programme as prudential borrowing. However, the previous report stressed

that the coastal shipping market which was supposed to provide the income to pay back the investment was reducing across the UK and the period of re-payments of the prudential borrowing would have to extend significantly beyond an acceptable depreciation period of 10 years or could possibly not be repaid at all. In addition, this report highlights that additional funding of £300,000 + would be required to meet the dredging contract costs.

- 2.2 Revenue – The harbour has a revenue loss of £237,973 in 2016/17 and a projected loss of £227,711 in 2017/18. If the Council agree to outsource harbour operations to a third party, the net loss could be reduced in future years. However, the exact amount will be determined through contract negotiations.

Workforce

- 2.3 If the Council agree to outsource harbour operations to a third party, there would be an immediate workforce impact of 1 FTE. TUPE arrangements have been built in to the tender. However, alternative arrangements may be agreed with the current postholder before the contract is awarded. The other two posts are currently vacant.

Asset Management (land, property, IT)

- 2.4 Asset Management issues arising from the operations of the Harbour are detailed in the report.

3. Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 The information contained within this report has been considered under the Act. Pre-screening has identified that the PPS will have no or minimal environmental effects, it is therefore exempt.

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. The proposals will enhance socio economic and economic development opportunities to the benefit of businesses and local communities.

Legal and Governance

- 3.7 The Head of Legal and Governance Services and the Head of Finance have been consulted on these proposals and there are no legal implications.

Risk

- 3.8 There are two key risks associated with the proposed programme.
- (i) Risks associated with the Dredging contracts and possible conditions attached to the Marine Scotland license issued. This risk will be managed by The Environment Service Senior Management Team. External advisers have been recruited to engage early with key stakeholders. The Harbour Board takes an active role in managing the programme. The dredging contract has been postponed to understand better the risks associated with BP and Shell Pipelines/to maximise the alternative business model.
 - (ii) Risks associated with coastal cargo shipping reduction and the income reduction with possible non-repayment of prudential borrowing. This risk will be mitigated through robust financial assessment and the use of an alternative business model generating other commercial opportunities.

4. Consultation

Internal

- 4.1 The Head of Finance and the Head of Legal and Governance Services have been consulted in the preparation of this report.

5. Communication

- 5.1 The recommendations from the report will be communicated to stakeholders and the press through the Board and the media team.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Contract Award Report (Exempt)