

PERTH AND KINROSS COUNCIL
STRATEGIC POLICY & RESOURCES COMMITTEE

1 September 2021

Revised Perth Harbour Business Plan and Progress Report

Report by Head of Planning and Development
(Report No. 21/150)

<p>The purpose of this report is to consider and agree the Perth Harbour business plan (April 2021 – March 2026) and note the associated actions as detailed in the report.</p>

1. BACKGROUND / MAIN ISSUES

- 1.1 Perth Harbour is very much part of Perth's long history and was finally established at its current location in the 1840s. The harbour is owned by Perth & Kinross Council (PKC) and comprises a tidal basin of about 1.2ha 22 miles upstream from Dundee and 30 miles from the North Sea.
- 1.2 Perth Harbour is a Competent Harbour Authority for waters under its control (from Perth railway bridge to Dundee waters at Balmerino). The Port Marine Safety Code (PMSC) sets standards for the operation of UK Ports. It codifies Duties and Responsibilities of harbour authorities and requires that ports be operated on the basis of Risk Assessment and a Safety Management System. Perth Harbour Authority has established a Safety Management System which demonstrates the Council's commitment to operating Perth Harbour in a safe and environmentally sound manner to the benefit of staff, vessels and their crews, pilots, users, and the community at large, in line with the PMSC.
- 1.3 Perth Harbour is one of the City's many economic assets, supporting supply chain businesses for important industrial sectors, and balancing commercial needs with safe community use. However, the harbour has experienced a long-term decline over the last 25 years in terms of vessels, tonnage handled, and income generated. The number of vessels per year has declined from about 300 in 1990 to around 20 now, although this has recently slightly increased. A number of external factors are principally responsible for this including the growth of competitors, the increase in ship size and general economic conditions. There are also some internal factors including lack of an integrated offer due to a disjointed relationship with stevedores and warehouse owners, and fragmented land ownership. It is worth noting that, over the past 20 years at least, harbour operations have required to be supported by a recurring revenue budget allocation as income generated has never covered the operational costs. The budget allocation for 2021/22 is £178,200.

- 1.4 Warehousing and storage are not under the direct control of the Harbour Board. Most active warehousing and storage yards are owned by or leased to private operators, who also conduct all stevedoring. The Council (General Fund and Perth Common Good Fund) is an important landowner leasing land and buildings to third parties. Although some of these leases have conditional clauses linking them to harbour use, the generated income is not allocated to the Harbour budget, but to the PKC General Fund or the Perth Common Good Fund (PCGF) which are also responsible for any related costs. The annual income for properties within the zone adjacent to the operational harbour (referred to as the Harbour Support Zone) represented £79,280 in 2020/21 of which £18,900 flowed to the General Fund and £60,380 for PCGF.
- 1.5 At its meeting on 12 February 2014 (Report No 14/52 refers), the Council agreed to market its operational and land interests at Perth Harbour in order to gauge private sector interest in acquiring these. This helped inform the Council's decision making about how best to maximise the Harbour's contribution to the economic development of Perth and Kinross.
- 1.6 At its meeting on 25 February 2015 (Report No. 15/100 refers), members noted the details of a report submitted by the Executive Director (Environment) asking authority to proceed to Stage 2 negotiations with a party seeking to acquire the Council's interest. However, members agreed that the marketing process be concluded at that stage and instructed the Executive Director (Environment) to develop proposals for an enterprise transformation programme for the harbour business within Council ownership. Members considered that transformation of the harbour business within Council control represented the best approach to safeguarding a strategic asset for the future, achieving best long-term value and maximising fairness to private harbour businesses and their employees.
- 1.7 On 18 May 2016 (Report No 16/222 refers), the Council approved the Perth Harbour business plan. Council also agreed to undertake a dredge of the River Tay to a depth of 5 Metres and to include the Business Case for the dredging within the Capital Budget. On 22 June 2016 (Report No 16/277 refers), as part of the capital budget setting process, the Council agreed to allocate £870,000 towards dredging costs to be financed through prudential borrowing.
- 1.8 On 29 November 2017 (Report No 17/391 refers), the Council noted that, since May 2016, a number of assumptions had changed which required officers to review the business plan's viability. It was agreed to explore other commercial opportunities outwith coastal cargo shipping and to postpone the dredging contract tender, as well as ensuring continuity of harbour operations.

- 1.9 The Council agreed to outsource the operation of Perth at its meeting on 25 April 2018 to Calmac Ferries Ltd (Report No.18/151 refers). Calmac commenced the running of the Harbour on 2 July 2018 for a period of 5 years, until 2 July 2023, with a possible 2-year extension. This was to develop stronger resilience and continuity, in terms of staff and systems, in order to ensure continuing compliance with the PMSC; and to develop alternative commercial opportunities.
- 1.10 On 3 October 2018, the Council considered an update report (Report No 18/322 refers) and requested the Depute Chief Executive (Chief Operating Officer) to produce a revised business plan (April 2019 - March 2023). It was also agreed to target January - March 2020 to carry out any dredging work with a final decision to be made following approval of the revised business plan.
- 1.11 A business plan was drafted, but its consideration has been delayed, in large part due to Covid. Nevertheless, Perth Harbour has continued to function and some of the identified actions in the draft business plan, particularly in terms of governance and compliance have been taken forward leading to positive improvements as described below.

2. PROPOSALS

- 2.1 The revised draft business plan (April 2021 – March 2026) has been agreed by the Harbour Board and is submitted to this Committee for its consideration. The business plan and annexes are attached in Appendix 1 and are summarised below.
- 2.2 The business plan sets out a series of actions that, if implemented, will support the vision of revitalising Perth Harbour as an economic hub for the benefit of the local economy, environment, and community. Through the development of the business plan, the following strategic objectives have been identified, which are to:
- operate Perth Harbour safely and effectively in compliance with the Port Marine Safety Code and embed into 'business as usual' operations; and
 - turn around Perth Harbour to a self-sufficient business which generates an operational surplus, and which is promoting sustainable freight transport.

Governance

- 2.3 Perth Harbour Board acts as the Harbour Duty Holder on behalf of the Council to ensure compliance with the PSMC. In addition to its role as Duty Holder, the Board provides strategic direction and public representation. The current members, as agreed by the Council, are Councillor Chris Ahern (Chair), Councillor Ian Massie, Councillor Sheila McCole, Councillor Andrew Parrott and Councillor Frank Smith.

- 2.4 The Board is advised by an independent Designated Person in line with the PMSC. The Designated Person role is to provide an effective level of assurance to the Duty Holder through assessment and audit. Nash Marine Ltd has been commissioned to provide the Designated Person role.
- 2.5 As stated in the Council's Scheme of Administration, the Harbour is within the responsibilities of the Executive Director (Communities). There is a line management link between the Executive Director and the operation of the harbour through a lead council officer. The lead council officer's role is to improve performance, manage risk and bring a more focussed commercial approach.
- 2.6 As noted above, harbour operations are currently outsourced until 2 July 2023, with a possible 2-year extension to Calmac Ferries Ltd. The company, as a result, discharges Harbourmaster's responsibilities.
- 2.7 It is proposed to retain the current governance and management structure which is considered robust.

Safe and effective operations

- 2.8 Based on the Designated Person's audit, Perth Harbour has been declared compliant with the PMSC and this was reported to the Maritime and Coastguard Agency in March 2021. Compliance will continue to be monitored and assessed during the period of the business plan.
- 2.9 The Designated Person's audit recommends that the Board reviews the Bylaws (which date back to 2003 and can be accessed [here](#)) and makes recommendations to the Council. Harbour Directions will also be updated as part of the review. Harbour Directions can be issued by Harbour Authorities to regulate ship movement within the harbour area. Bylaws are a regulation made by a local authority. Current Bylaws cover on-shore and navigation/on-water activities. It will be beneficial if Bylaws focussed on on-shore activities, with navigation/on-water activities covered by Harbour Directions, creating a clear demarcation, and avoiding possible overlap.
- 2.10 It is also proposed to put in place a Border Operating Model to meet Customs requirements post-EU exit by October 2021.
- 2.11 A pilotage risk assessment was carried out as part of Navigation Risk Assessment to determine the need for compulsory pilotage. As a result, compulsory pilotage has been introduced for vessels over 40m in length navigating within the Perth Harbour limits. A contract for pilotage services is in place with four trained and authorised pilots.
- 2.12 A defect register covering quays, property, roadways, equipment, aids to navigation and tugboat has been updated. This will be reviewed on an on-going basis.

- 2.13 It is important to note that these actions are included in this business plan to reflect the progress which has been made and which should be maintained during the business plan period. However, the objective is for these actions to be embedded into 'business as usual' operations by the end of the business plan period.

Towards a self-sufficient Perth Harbour

- 2.14 The business plan details the current financial position and financial projections for the period (April 2021 – March 2026).
- 2.15 There was an operational deficit budgeted at £178,200 in 2020/21. The actual deficit for 2020/21 was however £192,500. The overspend of £14,300 for 2020/21 was as a result of the set-up of the pilotage services contract and pilot training.
- 2.16 By implementing the range of proposals set out in the Plan, the aim is to reduce the operational deficit by 32% from £192,500 in 2020/21 to £131,000 in 2025/26. Breakeven will, therefore, not be achieved within the timespan of this business plan. However, if this projected trend continues beyond the period of this business plan, a breakeven position for the harbour as an entity could be achieved. The harbour also contributes wider economic benefits as it is estimated to generate £3.9 million Gross Value Added (GVA) per annum and support 54 jobs throughout Perth and Kinross at present. Across Scotland, this impact grows to £5.5 million GVA and 74 jobs (base 2017/18) (Economic Impact of Perth Harbour – Calmac/Biggar economics – 2021). The direct and indirect core impact covers benefits associated with harbour operations and with other harbours users' activities, such as Glenalmond Timber, Calport Ltd or shipping agents, spending in the supply chain and employees' spending. Harbour operations' impact represents less than 10% in jobs and less than 3% in GVA for Perth and Kinross. There are also wider economic benefits. Moreover, the harbour supports other nearby facilities such as warehousing which generate income to the Council (£79,280 in 2020/21).
- 2.17 The Board proposes to increase cargo shipping income over the business plan period, targeting dry bulk cargo shipping by securing existing cargo, encouraging back previous cargo, and attracting new cargo (increasing total tonnage from 24,000t to 65,000t by March 2026). This would be achieved through improved commercial activities and competitive pricing. The Council has already approved the schedule of charges 2021/22 in line with market conditions (Appendix 3 in the business plan).
- 2.18 The business plan also proposes optimising other commercial opportunities through tugboat chartering, development of services to marine users including training. The Fair Maid tug has already been chartered out to Montrose Port Authority.

Targeted investments

Storage improvement

- 2.19 The availability of laydown space and storage under direct harbour control to facilitate the smooth import and export of goods is a vital element of a competitive commercial package. This could also facilitate the set-up of a Border Operating Model to meet Customs requirements. A 'Harbour Support Zone' around the Harbour Operations Area has been identified to support harbour activities by providing storage opportunities now or in the future.
- 2.20 The Board considered different options within that zone.
- option 1: Business as usual
 - option 2: Entering into an agreement with stevedores and/or storage providers
 - option 3: Covered storage at Berth 1
 - option 4: Open storage at end store site
 - option 5: Covered storage at Berth 1 + open storage at end store
 - option 6: Acquisition/lease of existing covered storage within the Harbour Support Zone
- 2.21 The various options have been assessed using the following Critical Success Factors: value for money, supplier capacity and capability, affordability, and achievability. Based on assessment, it was agreed to take forward options 2 and 6 as the preferred options to develop storage within the Harbour Support Zone during the period of the business plan.
- 2.22 Options 3, 4, 5 were discounted on the basis of affordability and achievability including the time needed to deliver these options.
- 2.23 Option 2 will not require additional investment and can therefore be pursued in the short term.
- 2.24 Option 6 will require capital investment if an existing storage facility is acquired or will require revenue investment if an existing storage facility is leased. In any case, storage facilities would exist and therefore could be delivered rapidly if opportunities arise.
- 2.25 Taking a decision on an acquisition or a lease would require the Council to be agile. To be agile, certain parameters could be agreed in advance in line with the Council's Scheme of Administration. In the case of a lease, one key parameter would have to be that lease costs will have to be contained within the Council's Harbour Revenue Budget and therefore be compensated by an equivalent income. In the case of an acquisition, one key parameter would have to be that acquisition costs (e.g. capital repayments and borrowing costs) will have to be met through additional equivalent income.

2.26 For illustration of what it would mean, we have provided a lease case scenario in Appendix 4 of the business plan. It is estimated that just under £40,000 could be required per annum to be compensated by at least the same level of income. As in any commercial venture, there would be a risk if insufficient income is generated. This risk requires to be mitigated through robust financial assessment and strong partnership between Calmac, key stakeholders and the Council to deliver commercial opportunities. This risk will be managed by the Communities Service Senior Management Team.

Channel accessibility (dredging)

2.27 On 18 May 2016, the Council agreed (report 16/222/P1 refers) to undertake, subject to securing statutory consents and legal agreements, a dredge of the River Tay to a depth of 5 metres. On 3 October 2018, the Council considered an update report (Report No. 18/322 refers) which linked the start of the dredging work with the approval of a revised business plan.

2.28 The Board considered the following 5 options in relation to improving navigation channel accessibility:

- option 1: Business as usual
- option 2: Do minimum – maintenance dredging to 4.2m
- option 3: Capital dredging to 4.5m
- option 4: Capital dredging to 5m
- option 5: Redesign navigation channel

2.29 The different options were assessed using the following Critical Success Factors: value for money, supplier capacity and capability, affordability, and achievability. Based on this assessment, it was agreed to take forward options 2 and 5 as the preferred options. The current Harbour operator has indicated that the tidal window could be increased by surveying the river navigation channel and moving part of the channel where possible at a manageable cost, and therefore a capital dredging is not needed. As proposed in the business plan, the focus should be on building trade within the existing navigational channel parameters (option 5).

2.30 Options 3 and 4 were discounted on the basis of achievability and affordability. Achievability is linked to the fact that although an agreement on the method of work has been agreed in principle with pipeline operators, no agreement has been reached for a dig to 5m over the pipelines and is unlikely to be resolved due to risk exposure. Affordability is linked to the facts that estimated costs would significantly be over the budget allocation and a lack of guarantee of income to repay borrowing. Option 3 will encounter the same challenges in terms of achievability and affordability, although in a lower proportion than option 4.

- 2.31 The costs for a maintenance dredging (option 2) are estimated at £40,000 over the period of the business plan. Costs would have to be funded from the Council's Harbour Revenue Budget. However, these could be phased over the period of the business plan by targeting and prioritising areas to be dredged through surveys as maintenance dredging of the whole navigation channel would not be required.
- 2.32 Council officers are currently securing the approvals for maintenance dredging.

3. CONCLUSION AND RECOMMENDATIONS

- 3.1 Following the appointment of Calmac Ferries Ltd to carry out harbour operations, an alternative business model has been explored and a revised business plan developed with proposals agreed by the Harbour Board. These proposals aim to run the harbour safely and efficiently and reduce the budgeted operational deficit over the period (April 2021 - March 2026). Committee members should note that the operating deficit will not be eliminated by March 2026.
- 3.2 Following the agreement of the Harbour Board, it is now recommended that the Committee:
- i) notes the robust governance arrangements and the legal responsibility of the Harbour Board as the duty holder for Perth Harbour Authority
 - ii) notes the positive progress made to run safe and effective harbour operations
 - iii) notes that, in line with the business plan forecast, the Harbour will continue operating at a (reducing) deficit during the period of the business plan,
 - iv) notes the wider economic benefits of Perth Harbour, and if the financial trend projected in the business plan continues beyond the period of this business plan, a breakeven position may be achievable in the longer term
 - v) approves the draft business plan (April 2021-March 2026) as contained in Appendix 1
 - vi) agrees that the storage capacity under the control of Perth Harbour should be increased within the Harbour Support Zone when opportunities arise, and delegates to the Head of Planning and Development, in consultation with the Harbour Board Chair, the conclusion of a lease or an acquisition subject to costs being contained within the Council's Harbour Revenue Budget or equivalent additional income is generated
 - vii) agrees to accept a recommendation from the Harbour Board not to undertake the capital dredging to 4.5m or 5m and consequentially decommit from the prudential borrowing currently contained within the capital programme
 - viii) agrees to the Harbour Board's recommendation to maintain the navigation channel accessibility at 4.2m through maintenance dredging (Option 2) & redesign of navigation channel (Option 5).

- ix) requests the Head of Planning and Development to bring forward an update report to this Committee by March 2023.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	No
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	Yes
Communication	
Communications Plan	Yes

1. Strategic Implications

Community Plan / Single Outcome Agreement

- 1.1 The Community Plan/Single Outcome Agreement 2017 – 2027 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 revitalisation of Perth Harbour as a vibrant economic hub for the benefit of the local economy, environment, and community.

2. Resource Implications

Financial

- 2.1 Capital – The business plan identifies acquiring storage capacity within the Harbour Support Zone to improve the storage at Perth Harbour. Acquisition costs (capital repayments and borrowing costs) would have to be met by additional generated income.
- 2.2 Revenue – There are revenue implications arising from the report. The business plan aims to reduce the budgeted operational deficit from £192,500 (2020/21) to £131,000 (2025/26). The business plan identifies a proposed preferred way forward to carry out maintenance dredging. Costs are estimated at £40,000 which would have to be contained in the Harbour's Revenue Budgets over the period 2021-2026. The business plan identifies leasing storage capacity within the Harbour Support Zone to improve the storage at Perth Harbour. Costs are estimated at just under £40,000 which would have to be contained in the Harbour's Revenue Budgets over the period 2021-2026.

Workforce

- 2.3 There is no workforce implication arising from the report.

Asset Management (land, property, IT)

- 2.4 The business plan identifies leasing storage capacity within the Harbour Support Zone to improve the storage at Perth Harbour. This asset would be a new asset to manage.

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 has been consulted on these proposals and there are no legal implications.

Risk

- 3.8 There are three key risks associated with the proposed programme:
- (i) risks associated with coastal cargo shipping income and other income not matching income projections. This risk will be mitigated through robust financial assessment and strong partnership between Calmac, key stakeholders and the Council to deliver commercial opportunities. This risk will be managed by The Communities Service Senior Management Team.
 - (ii) risks associated with the storage improvements and possible lack of use leading to a negative financial impact on the Council's Harbour Revenue Budget. This risk will be mitigated through robust financial assessment and strong partnership between Calmac, key stakeholders and the Council to deliver commercial opportunities This risk will be managed by The Communities Service Senior Management Team.
 - (iii) risks associated with the maintenance dredging and possible conditions attached to the Marine Scotland license issued. This risk will be managed by the Communities 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.
- 3.9 However, it should be noted that it may not be possible to mitigate these risks.

4. Consultation

Internal

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

External

- 4.2 Calmac Ferries Ltd as Harbour operator has 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

- 2.1 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

- 3.1 Appendix 1: Draft business plan (April 2021 – March 2026).