

Perth Common Good Fund Committee

26 February 2014

Perth Harbour

Report By Executive Director (Environment)

PURPOSE OF REPORT

The Perth Common Good Fund Committee is asked to agree that the Council's operational and land interests at Perth Harbour should be marketed in accordance with the decision made by the Strategic Policy & Resources Committee in order to gauge private sector interest in acquiring these interests. This will help inform the Council in reaching a decision as to how best to maximise the Harbour's contribution to economic development.

1. BACKGROUND / MAIN ISSUES

- 1.1 The attached report (14/52 Appendix 1) provides an overview of Harbour operations and identifies current challenges and future opportunities. It recommends a way forward in order to better inform the Council in reaching a decision on whether to dispose of its interests or make a substantial capital investment. At its meeting on 12 February, 2014 the Strategic Policy & Resources Committee accepted the report's recommendations, which included referring the proposal to the Perth Common Good Committee for its consideration.
- 1.2 The Council is not the only landowner at the Harbour and this restricts its ability to maximise any potential without securing private sector investment. At present operational losses are met from the General Fund whilst the major portion of the ground rental income accrues to the Perth Common Good Fund. The Perth Common Good Fund makes no contribution to the operational overhead. The maps at Appendices 2 and 3 to Report 14/71 show the land ownership pattern and identify land in the Council's ownership that forms part of the Common Good of Perth. A separate note by the Head of Legal Services explains why the extent of land previously assumed to be Common Good has been reduced, and consequentially the income accrued to the Perth Common Good Fund.

2. CONCLUSION AND RECOMMENDATION

- 2.1 Without significant new investment, Perth Harbour will continue to decline until it closes by default. Furthermore, pilotage is dependent on an agreement with Montrose Port as there is insufficient business at Perth Harbour to attract and retain a qualified pilot. If pilotage support is lost, the Harbour's closure will be sudden.

- 2.2 It is therefore recommended that the Committee notes the contents of this report, and its Appendices, and agrees with the decision of the Strategic Policy & Resources Committee that the economic interests of Perth are best served by marketing the Council's operational and land interests at the Harbour to assess private sector interest.
- 2.3 It is further recommended that following the marketing process a report, setting out a proposed course of action, be brought back to this Committee for its consideration.

Author(s)

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Approved

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Council Text Phone Number 01738 442573

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

The undernoted table should be completed for all reports. Where the answer is 'yes', the relevant section(s) should also be completed. Where the answer is 'no', the relevant section(s) should be marked 'not available (n/a)'.

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

2. Resource Implications

Financial

- 2.1 A comprehensive and fully detailed financial assessment will be provided to support any proposed future recommendation emerging from the marketing of the Council's interests at Perth Harbour.

Workforce

- 2.2 Closure could result in redundancy. The Transfer of Undertakings (Protection of Employment) Regulations 2006 could apply if activity is transferred to a new employer.

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.

The proposals have been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

- (i) Assessed as **not relevant** for the purposes of EqIA

Strategic Environmental Assessment

- 3.2 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

Pre-screening has identified that the proposals contained in this report will have no or minimal environmental effects

Sustainability

- 3.3 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.

The proposals and recommendations contained in this report have no direct impacts on climate change. Subsequent proposals for investment will require to be fully assessed.

Legal and Governance

- 3.4 The Head of Legal Services has been consulted in the preparation of the report.

4. APPENDICES

1. Perth Harbour – Report 14/52 to Strategic Policy & Resources Committee, 12 February 2014
2. Perth Harbour – Industrial Area
3. Perth Harbour - Land Ownership Plan

PERTH AND KINROSS COUNCIL

**Strategic Policy and Resources Committee
12 February 2014**

Perth Harbour

Executive Director (Environment)

PURPOSE OF REPORT

The purpose of this report is to seek approval to market the Council's operational and land interests at Perth Harbour in order to gauge private sector interest in acquiring these. This will help inform the Council in reaching a decision as to how best to maximise the Harbour's contribution to the economic development of Perth & Kinross. The report provides an overview of Harbour operations and identifies current challenges and future opportunities.

1 BACKGROUND/MAIN ISSUES

- 1.1 In its Corporate Plan the Council has set out its ambition to promote a prosperous, sustainable and inclusive economy, with the objective of achieving a thriving economy and employment opportunities for all. The Council has also approved, and will shortly adopt, a new Local Development Plan as its statutory land use planning framework for the area. The Perth City Plan has also been approved by the Council as a framework for working with the private sector in securing new investment; and a new advisory City Development Board established.
- 1.2 The Perth City Plan promotes the Council's ambitions for enhanced activity along the riverside, and increased use of the river for recreation as part of the drive to grow year round tourism in the city and its environs. The Harbour is an important commercial and industrial zone and is designated for employment uses within the Local Development Plan, indicating a commitment to the location of industrial development in this area.
- 1.3 Pragmatically, the industrial nature of the Harbour area severely limits leisure-related opportunities and, therefore, the Council has continued to operate the Harbour as an industrial and commercial facility in an effort to promote trade. Despite this, trade and income has continued to decline.

History

- 1.4 In many respects the Harbour is one of the reasons why Perth was founded in its present location, at the farthest navigable point on the River Tay. The medieval harbour lay at the foot of High Street and as the river silted, and boats became larger, it moved to the bottom of Canal Street, then to the Merchant's Quay at the South Inch and finally to its current location at Friarton.

- 1.5 By 1845 a new tidal basin had been completed and plans were drawn up in 1846 to create several new wet docks and warehousing beside the South Inch, which would be connected to the tidal harbour at Friarton by a canal and lock gates. Railway sidings were also proposed to allow goods to be transhipped via the new railway companies whose tracks converged at Perth. However, none of this was built and in fact the arrival of the railways in Perth, together with increased ship sizes as sail gave way to steam, led to the decline of the Harbour from about 1848.
- 1.6 Perth Harbour's decline has been more or less continual since then and now it has once again become constrained by its geography in the sense that the largest vessels that can berth at Perth are the smallest being built commercially.
- 1.7 Today Perth Harbour handles small coastal and dry bulk ships (up to 90 metres in length and up to 2,000 tonnes) and is now principally utilised for the export of non-containerised bulk agricultural goods, forestry products and aggregates. It is primarily a trans-shipping point with no added value activity taking place on goods brought across the quayside due to limited availability of cargo handling and warehousing facilities.

Current Management and Operation

- 1.8 The majority of harbours and ports in Scotland are managed and operated independently by Trusts or commercial companies rather than local authorities. Of the 93 Scottish Ports currently in operation 34 are run privately and 15 are Trust ports. Of the other local authority owned ports, Perth Harbour is the only one being run as a general port. The others tend to be small fishing ports such as Macduff Harbour, or marinas such as Banff Harbour.
- 1.9 The Council's ownership carries with it a number of distinct legal and operational responsibilities and these are summarised as:
 - Statutory Harbour Authority with associated powers and duties under various legislative regimes
 - Commercial harbour operator running the port services
 - Employer of the Harbour master and two members of staff
 - Head landlord in respect of a number of ground leases and large area of the core operational Harbour, quaysides and berths
- 1.10 A number of private shipping agents undertake all chartering of vessels, and private companies undertake the cargo handling and stevedoring services.
- 1.11 The current charging regime imposed by Forth Ports on vessels transiting Dundee waters to Perth is disproportionate and deemed unfair by shippers. The key issue relates to the charges levied on Perth bound traffic. The issue has been raised formally with Forth Ports and a legal challenge may be possible when sufficient evidence has been collated.

- 1.12 The river pilots needed to pilot ships to Perth from the boundary of Dundee waters are self-employed. For some years now the number of vessels using Perth Harbour has not been sufficient to attract and retain pilots. Consequently Perth currently has an arrangement with Montrose Port to ensure pilots are available to meet the demand at Perth. This arrangement is not necessarily sustainable if oil and offshore renewables port activity at Montrose increases and therefore demand for pilots increases.
- 1.13 The current Harbour Master employed by the Council does not pilot vessels but previous Harbour Masters have fulfilled this role. The three operational staff employed by the Council (Harbour Master and two assistants) are required to discharge the Council's duty as the statutory Harbour Authority and ensure the safe operation of the Harbour.

Harbour Operations: Expenditure and Income

- 1.14 The Council has made considerable financial investment in Perth Harbour over the last 20 years of circa £1.96 million in piling, dredging, dockside improvements and purchasing the Fair Maid tug. Annual gross revenue expenditure in 2012/13 was £288,000.
- 1.15 The Council receives income from port dues, open storage and ground lease rental. It should be noted that the majority of buildings within the operational Harbour boundary are privately owned with businesses leasing the ground on which warehousing has been built.
- 1.16 The income generated to the Council General Fund (from cargo handled and quayside rental) has declined since 2009/10 due to declining trade and vessel numbers. The income generated in the financial year 2012/13 was £94,000 which resulted in a net loss of £194,000. These losses accrue to the General Fund.

Land and Property: Income

- 1.17 Historically the Council, through the Perth Common Good Fund, was the major landowner in the Harbour area, however over the years this land holding has diminished. Approximately 70% of what remains in Council ownership is held in the Perth Common Good Fund and leased to private businesses. The current asset value of the Council's property interests is circa £750,000.
- 1.18 There is limited scope to increase income from land and property as the Council controls only a couple of small areas upon which to build, for example, new warehousing.
- 1.19 The annual income generated to the Perth Common Good Fund is currently £23,000 per annum and historically none of this income has been used to offset Council expenditure at the Harbour.

Perth Flood Defences

- 1.20 Although not part of harbour operations themselves, part of the Perth flood defences are sited in the Harbour area.

Operational Review

- 1.21 As would be the case with any business, regular reviews of harbour operations are undertaken by the Council to assess the potential to maximise economic opportunity. These reviews also identify key operational issues at Perth Harbour and assess Perth Harbour's relative position in the port market and within the wider Scottish logistics industry.
- 1.22 The most recent review undertaken in 2012 confirmed that to maximise economic development opportunities further investment, marketing and pricing restructuring would be required. The consultation with port users and logistic industry experts undertaken as part of the review also confirmed the industry's view that until these challenges are addressed, the Harbour will continue to decline in importance relative to other Scottish ports. This investment requirement, combined with the general economic situation, has resulted in an accelerated decline in the use and performance of the Harbour over the past few years.
- 1.23 A number of those consulted suggested that the Council is not best placed to run a commercial port operation due to lack of relevant commercial expertise and the fact that port operations are not, generally, a core local government function. A number of informal approaches have actually been made over the past few years from organisations interested in acquiring and developing the Harbour; potentially by aggregating private sector land holdings to create bigger sites which could be more economically used for warehousing. These expressions of interest include local business owners, investors and logistic companies.
- 1.24 Without investment to turn around the business, the current operational deficit is projected to increase. Ultimately this could reach £300,000 per annum if trade ceases and overheads associated with the Council's role as statutory Harbour Authority are retained. There is also potential significant risk that further substantial unplanned capital investment may be required to undertake repairs to the quayside. Therefore further consideration is now required of the Harbour's contribution to Perth's economy.

Current and Future Opportunities and Constraints

- 1.25 The operational Harbour is located within a wider established general industrial employment area (see Appendix 1).

- 1.26 In terms of jobs and economic impact, the surrounding private sector owned industrial area along Shore Road is actually a greater economic asset to Perth than the Harbour itself which supports 15 jobs (of which 3 are Council staff). There may be growth opportunities for a number of companies in the wider industrial area arising from future investment in the port operations, for example in support and supply chain activities. However this is difficult to quantify as most businesses in the wider area have no connection with the Harbour.
- 1.27 Due to its tidal nature, restricted ship length and draft, and lack of warehousing and laydown yards Perth Harbour's economic potential is limited to coastal shipping and bulk dry goods. Potential additional direct future employment opportunities for the Harbour are difficult to quantify but it is highly likely that investment and intensive commercial management of the Harbour could increase trade and throughput. There are *potential* growth opportunities in renewables, low carbon green industries; aggregates and waste management, and in boat building and repair and maintenance. In relation to renewables there may be some secondary operations and maintenance within the supply chain as the industry matures and port capacity elsewhere is taken up.
- 1.28 It might be reasonable to assume that the Council could pursue an alternative land use and economic development strategy to exploit the Harbour's riverside location in line with the ambitions of the Perth City Plan. However, It is inconceivable that a private sector developer would undertake a re-development of the harbour for leisure and/or residential uses given the substantial costs of land assembly and decontamination which would deliver a negative return on investment.

2 PROPOSALS

- 3.1 The Harbour has played a significant role in Perth's history and development as an industrial centre. Although its heyday was over 150 years ago it nonetheless continues to make a modest contribution to the area's economy.
- 3.2 If the status quo is maintained, and no further capital investment is made, it is certain that the commercial viability of the Harbour will be further eroded to the point it may cease to be used. This scenario will put further pressure on the Council's revenue budget given that the current operational overheads exceed income. The Council's requirement to meet the significant statutory obligations of a Harbour Authority would also continue to incur expenditure. For these reasons the status quo is not regarded as a viable option.
- 3.3 Ultimately, the Council could decide to retain the Harbour and, in an effort to compete for additional port business, agree to make significant capital investment. Approximately £5.7m will be required over a 5-7 year period.

- 3.4 Before making such a significant investment decision, and given that operating a Harbour is not a core local government function, it would be prudent to explore private sector investment appetite to take on the Council's operational business and long ground lease investment interest. It is therefore proposed to market Perth Harbour and invite bidders to submit formal expressions of interest which would be assessed against agreed criteria. The Council would then be in a much better position to discuss and agree whether or not it wished to progress to invite formal bids. Should no acceptable expressions of interest be received the Council would also be better informed in considering what other course of action may be available to it.
- 3.5 Significant new commercial opportunities are constrained by the limited operational space within the Council's control and approximately half of the land around the Harbour is privately owned. Therefore it is anticipated that if the Council markets the Harbour there may be interest from these landowners because bringing together disparate land holdings under one ownership will be the most cost-effective means of deploying capital and maximising return.

3 CONCLUSION AND RECOMMENDATION

- 3.1 The report recognises Perth Harbour's place in the history of Perth and its contribution to local economic development. Expert opinion advises that without radical intervention the Harbour's decline will continue until it essentially closes by default. This closure could be sudden if pilotage support from Montrose Port is lost. In the interim, ongoing capital and revenue expenditure will be required to ensure compliance with statutory obligations.
- 3.2 Undertaking an initial marketing exercise of the Council's land and commercial interests provides the most certain means of establishing private sector appetite for investment, and will identify the long-term development potential of the business to deliver economic growth.
- 3.3 It is recommended that the Committee gives consideration to marketing its interests with a view to inviting expressions of interests to acquire all its operational and property interests. Bidders would be made aware that the Council's statutory obligations would also be transferred subject to Ministerial approval. Expressions of interest would require to incorporate an outline business case to demonstrate how investment would be made to maximise the use of the harbour as an economic asset and meet statutory operational requirements.
- 3.4 It is recommended that the matter also be referred to the Common Good Fund Committee for their consideration as major landowners in the Harbour area.
- 3.5 It is therefore recommended that following a period of marketing of not less than 3 months, a report be prepared for the consideration of the Council.

Author(s)

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Resource Implications	
Financial	Yes
Workforce	Yes
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	Yes

2. Resource Implications

Financial

- 2.1 Finance has been consulted on this proposal and has noted the potential financial implications of any disposal.
- 2.2 A comprehensive and full detailed financial assessment will be provided to support any proposed future recommendation emerging from the marketing of the Council's interest at Perth Harbour.

Workforce

- 2.3 Human Resources have been consulted as closure or future disposal of the Council's interests at Perth Harbour could have workforce and potential staffing implications.
- 2.4 Closure could result in redundancy as there would no longer be any staffing requirement for the activity. The Transfer of Undertakings (Protection of Employment) Regulations 2006 could apply if the activity is transferred to a new employer, which means that the employees will transfer to the new employer on their current terms and conditions.
- 2.5 Regular discussion has taken place with the harbour staff to apprise them of the situation. Once a decision has been taken about the preferred option, more formal discussions with the staff and Trade Unions will take place.

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 proposals have been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

- (i) 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 proposal recommended in this paper has been considered under the Act and the pre-screening has identified that the proposal will have no environmental effects, it is therefore exempt. The reason for concluding this is that the recommendation in this report will have no direct environmental effects.

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.

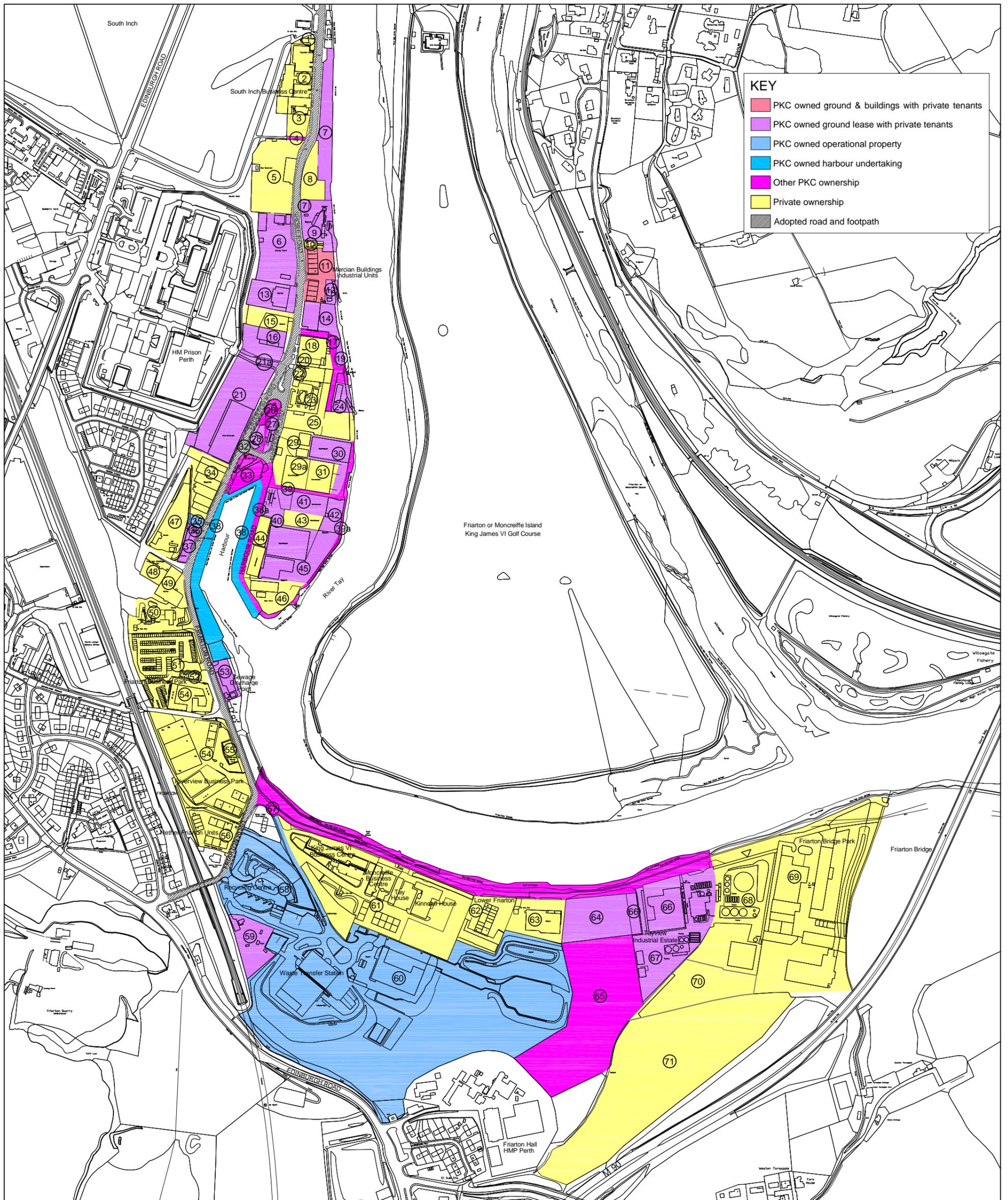
3.6 The proposals and recommendation in this report will not have direct impacts however a subsequent proposals or recommendations for investment or disposal will have to be fully assessed for community, environmental and economic impacts.

Legal and Governance

3.7 The Head of Legal Services has been consulted in the preparation of this report and the legal implications of the recommendations.

4. Appendices

- Appendix 1: Perth Harbour – Industrial Area



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PERTH & KINROSS COUNCIL

The Environment Service

Perth Harbour Industrial Area

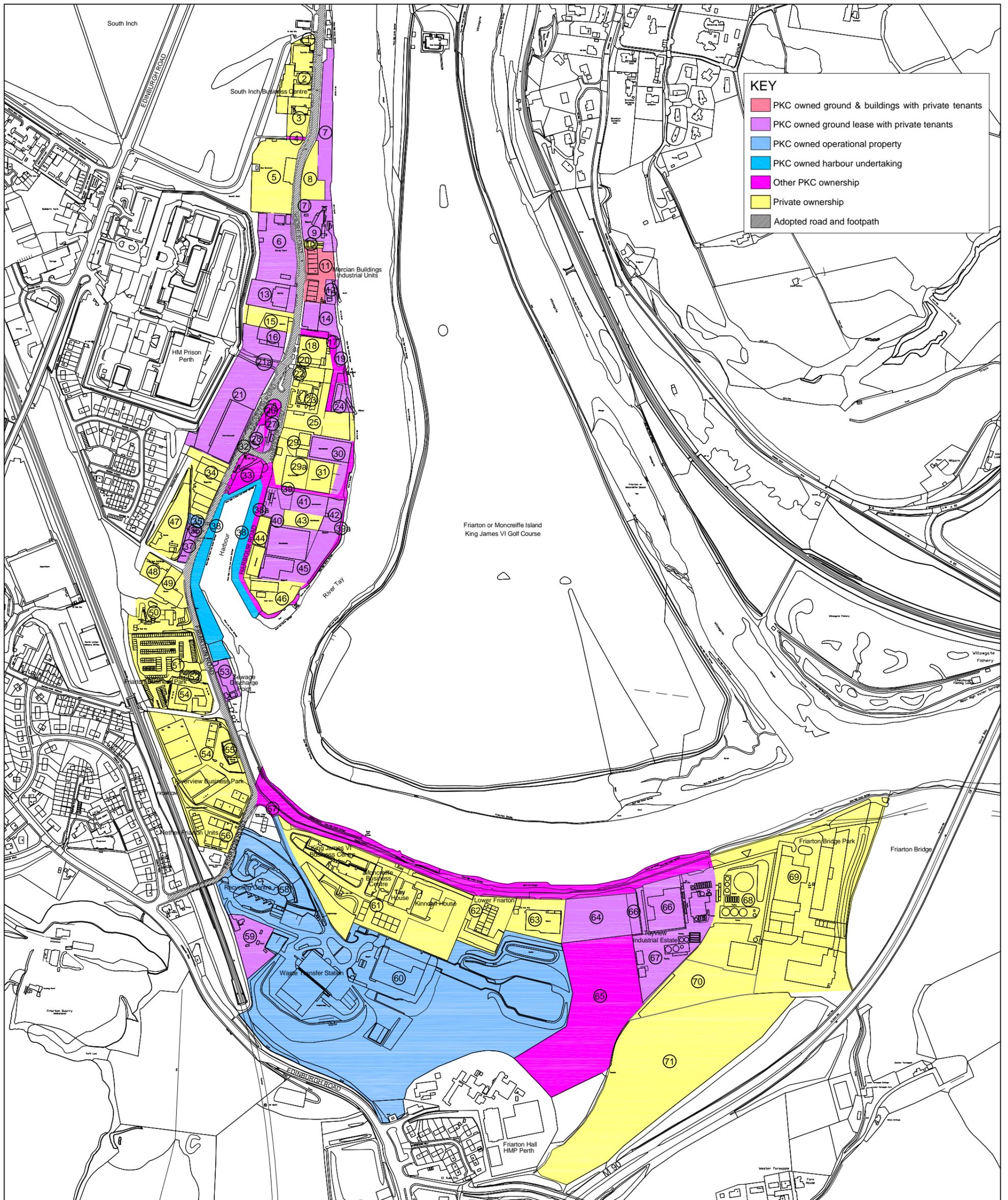
APPENDIX 1

SITE PLAN



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The Environment Service

Perth Harbour Industrial Area

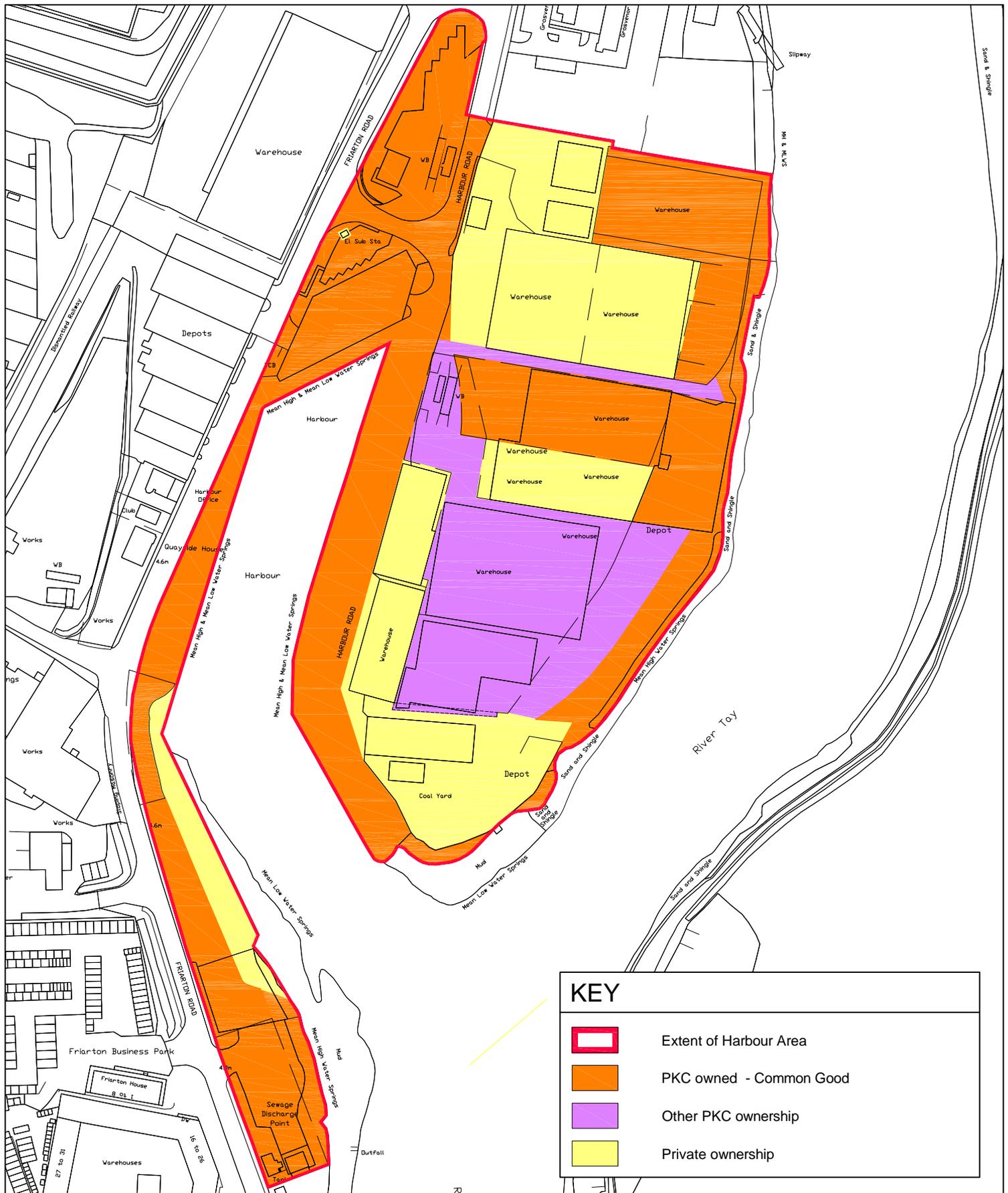
APPENDIX 2

SITE PLAN



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KEY	
	Extent of Harbour Area
	PKC owned - Common Good
	Other PKC ownership
	Private ownership

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Appendix 3

COMMITTEE REPORT PLAN	
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Ref:	
Date:	13/02/2014
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