

Education and Economy Scrutiny Committee:

Date of meeting :	22 November 2018
Cabinet Member:	Cllr Ioan Thomas
Contact Officer :	Llyr Jones, Senior Economy and Community Manager
Contact E-mail and Tel:	llyrbjones@gwynedd.llyw.cymru ext. 32219
Department / Service:	Economy and Community

Title of Item: Review of Hafan Pwllheli and Harbour

Why does it need to be scrutinised? One of the Economy and Community Department's priorities within the Council's Plan for the period 2018 - 2023 is to develop management options for Hafan Pwllheli and Harbour. This is based on a downward trend in the income generated at the Hafan since 2008/09. The Scrutiny Committee is asked to consider the work carried out to date, including the following aspects:

- 1) Does it agree with the core aims proposed for evaluating the current situation and alternative options for the future (see part 19).
- 2) Does it agree that there was a case for change
- 3) Does it agree with the recommendations to further develop 4 options

What are the background and relevant considerations?

Background

1. Dwyfor District Council developed Hafan Pwllheli in the early 1990s with European funding, before it was transferred to Gwynedd Council following local government reorganisation in 1996. It offers over 400 pontoon moorings, offices, changing rooms, showers, toilets, safe boat storage area, a 50 tonne crane, boat transport and parking provision.
2. More recently, the Plas Heli development has added to the wide range of sailing facilities in Pwllheli Harbour.
3. The most recent economic study dates back to 2002 and, at the time, it was suggested that the Hafan led to a £20m annual expenditure within the local economy and was responsible for approximately 200 local jobs.

Contact:
01286 679868
01286 679490
cabinet@gwynedd.gov.uk



4. It has also contributed significantly to the Council's Financial Strategy over the years with a net income (i.e. profit) of £800k per annum at its peak. Recently, however, there has been a downward trend and it was now anticipated that this year the net income return would be £400k.
5. Over the same period, the number of moorings fell, and the rate of occupation currently stood at 70%.
6. Several theories have been proposed to try to explain this decline, with some contradictory theories coming from different sources. The following challenges have been noted as being possible contributors to this reduced income:
 - The economic recession had had an impact on the maritime sector (and the demand for moorings)
 - Concerns that silting levels in the channel are affecting access to the harbour
 - Lack of capacity in suitable locations for disposing of sediments from the harbour (which restricts dredging options)
 - Recent increase in costs such as VAT and fuel has affected the maritime sector
 - The fragile condition of the maritime sector has led to increasing competition amongst marinas for customers
 - Customers having higher expectations
7. In engaging with stake-holders earlier this year, several operational matters (such as lack of marketing, customer care aspects) and a lack of financial investment on site (including facilities on land and dredging requirements) have been highlighted.
8. Another common finding was that other marinas have adapted to these challenges and have, consequently, filled their moorings. There is a perception that Hafan does not make the most of its assets and lags behind other marinas.
9. Consideration should, however, be given to the context within which Hafan operated. This included factors such as:
 - i) The Council has had to deliver substantial savings on its budget in recent years and the financial contribution from Hafan has reduced the effect of those savings on the residents of Gwynedd. Consideration will have, doubtlessly, been given to investment in Hafan against financial pressures on other public services.
 - ii) The dredging requirements at Pwllheli are great and likely to be more costly compared with other marinas in the United Kingdom. The financial and legal/regulatory complexities of removing the deposits is a stumbling block to carrying out work.

- iii) Managing Hafan is a commercial enterprise but, as previously mentioned, it contributes to a greater benefit within the local economy. Hafan is required to strike a balance between operating commercially and supporting the local economy. For example, some decisions that make commercial sense could impact other local business. Consequently, the service is cautious not to compete excessively with local businesses.
- iv) A softer aspect of the picture is the culture. A general perception of the public sector is that it does not create the circumstances and systems for effective trading. Although private providers with an eye on profit-making would not necessarily be guaranteed financial success, their purpose is usually far more straightforward with activities being built around that purpose. Hafan is subject to the Council's management and governance arrangements; it is possible that this presents barriers to maximising profit.

Steps of the Proposed Review

10. There are three main stages to the proposed review:

- Stage 1: Establishing whether there is a case for change
- Stage 2: Develop the Outline Business Case
- Stage 3: Implementation

11. The current work involves Stage 1, and addresses two fundamental questions:

- i) Is there a case for changing the current management model for Hafan ourselves?
- ii) If there is a case, which management model or models should we develop further?

12. The work in Stage 1 represents the first step in the process of developing a business case and, therefore, presents high level information and considerations with which to set the direction. Looking at every option in detail would be an expensive and useless exercise if it failed to meet our core aims.

13. If there is a desire to carry out further work, this would allow us to focus resources on the option or options most likely to help us achieve our aims as a Council. As part of this, expert legal opinion would have to be sought to verify the feasibility and implications of some options.

The case for change

14. The case for change is based on the following:

- a) Indications that suggest that the current net income of approximately £400k is unsustainable over the coming years. The Pwllheli Harbour Berth Holders

Contact:
01286 679868
01286 679490
cabinet@gwynedd.gov.uk



Association predicts that as many as 50 (12% of all berths) could terminate their contracts during the coming financial year, with reference to access difficulties as the main reason (i.e. dredging matters). If efforts to prevent or to recover this loss are unsuccessful, this could affect the net income by £175k. Furthermore, attracting fewer customers could potentially have a wider impact on the local economy.

- b) The current customer profile at Hafan is a risk in relation to contract retention. Attracting new customers is vital but there is no clear marketing strategy.
- c) Several stake-holders have expressed concern and views about the current provision. Concerns mainly relate to:
- The lack of action on the dredging requirements
 - Lack of investment on the site which has led to a deterioration in its image
 - Lack of facilities such as eateries and shopping
 - Lack of commercial thinking and lack of focus on customer care
 - Negative publicity about the service, facilities and channel into the harbour
- d) The occupation rate at other marinas is higher, which suggests a potential market in which to compete and attract customers.
- e) The current financial model is inadequate to address the necessary dredging requirements.
- f) Most facilities, including moorings, are over 20 years old and despite currently being in working order, they will reach the end of their life in the next few years. The funds that have been earmarked will not be sufficient to address the work that needs to be done in the medium and long term.
- g) If we fail to address this field, we will most likely fail to achieve Hafan's core aims of:
- being an economic catalyst that creates and supports local jobs
 - Provides a financial income that contributes to public services in the County.
15. It is recommended there is a case for change but that does not necessarily mean that new providers are needed to manage the Hafan. The alternative model could, as a minimum, mean introducing improvements and/or an investment to the service and, at the other end of the scale, could mean selling the site to an independent provider.

Scope of the work

Contact:
01286 679868
01286 679490
cabinet@gwynedd.gov.uk



16. It is recommended that the scope for any alternative model should include the responsibilities of managing the harbour and all dredging responsibilities at the site, together with the Hafan itself, of course. This could somewhat restrict the models and possible providers; nevertheless, it is worthwhile including all responsibilities in order to generate the most comprehensive picture of the true benefit and implications of any alternative model.

Criteria for evaluating the options

17. The following stake-holders were consulted to develop the criteria for evaluating the model:
- Pwllheli Harbour Consultative Committee
 - Pwllheli Marina Berth Holders Association
 - Plas Heli
 - Pwllheli Town Council
 - Pwllheli maritime businesses focus groups
 - Dwyfor Area Committee
18. Draft criteria were prepared as a starting point and it was agreed that they reflected the core objectives for the Hafan / harbour. Discussions generally revolved around obstacles or matters that impeded the current model's delivery of those core aims. This then informed the case for change.
19. The following aims were proposed as a basis for evaluating the possible models (in no particular order):
1. To strengthen the economy by being commercially viable and therefore support marine businesses and local employment
 2. To be an economic catalyst by attracting and maximising the use of the harbour by all
 3. The ability to promote the Welsh language
 4. To provide a financial benefit to the Council
 5. To be able to attract investment to improve facilities and implement the agreed Dredging Strategy
 6. A viable and sustainable business model
 7. A model that can be feasibly implemented
20. It is considered that the above are sufficient for the purposes of setting the direction. However, if further work is to be carried out on detailed options, these objectives may need to be more specific and prioritised.

The Possible Direction

21. The table in Appendix 1 summarises the possible options in terms of overall direction, which variances within each direction. It is again emphasised that this is a high level assessment in order to set the direction and focus for any further work; considering each option in detail would be an expensive exercise.

22. The assessment is based on the likelihood of the option addressing or aligning with the individual aims.

Stage 1 Conclusions and Recommendations

23. There is evidence pertaining to the need to take steps to prevent further decline in the income and use of Pwllheli Hafan and the harbour.
24. Necessary investment in Hafan means that the financial gains to the Council are likely to fall over the coming years in all scenarios. Any further work would consider those requirements in more detail and would assess a shortlist of options as grounds for the Council's decision.
25. Based on an initial assessment against the proposed aims, it is recommended that the following options be considered for more detailed development, and the justification for taking action, or not, weighed up on the basis of a business case.
26. It is recommended that Stage 2 of the Review focus on the options below:
- Option 1 (Baseline): Introduce improvements to current arrangements
 - Option 2: Management to stay within the Council with an investment programme
 - Option 3: Establish an arm's length company
 - Option 4: Joint venture with a private provider
 - Option 5: Lease the site
27. The feasibility of options 4 and 5 would have to be proved before any detailed work could continue on them. It is recommended that opportunities to incorporate Plas Heli be considered as part of the work to further develop the above options.
28. In order to continue with Stage 2, it is anticipated that a multi-disciplinary project team would have to be established and external experts appointed to deliver the next phase of the business case.

Relevant timetable

29. It is intended to move forward to develop further details on the options above immediately, and complete Step 2 by spring 2019.

Green = Likely	Yellow = More Likely	?	Orange = Less Likely	Red = Unlikely
----------------	----------------------	---	----------------------	----------------

Options	Objective A: Support maritime companies and local jobs	Objective B: Economic trigger	Objective C: Promoting the Welsh Language	Objective Ch: Financial benefit to the Council	Objective D: The ability to attract investment	Objective Dd: A viable and sustainable business model	Objective E: Feasible	Further Consideration?
1. Do nothing	●	●	●	●	●	●	●	✘
2. The Council to retain its management, with improvements being financed from within the current budget	●	●	●	●	●	●	●	✓ (
3. The Council to retain its management, with improvements and investment from the Council	●	●	●	?	?	?	?	✓
4. Transfer to a Council owned Company	●	●	●	?	?	?	?	✓
5. Create a brand new Trust	●	●	●	●	●	?	?	✓
6. Transfer to a community company	●	●	?	●	●	●	?	✘
7. Joint enterprise with a private provider	●	●	●	●	●	●	?	✓
8. Contract with a private provider as agent	●	●	●	●	●	●	?	✘
9. Lease	●	●	●	?	●	●	?	✓
10. Sell	●	●	●	●	?	?	?	✘