

## **Education and Economy Scrutiny Report**

<b>Date of meeting :</b>	21 November 2019
<b>Cabinet Member:</b>	Cllr. Gareth Thomas
<b>Contact Officer:</b>	Llyr Jones, Deputy Head Economy and Community
<b>Department:</b>	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.

### **Background and context**

1. Dwyfor District Council developed Hafan Pwllheli in the early 1990s with European funding, before it was transferred to Gwynedd Council following local government reorganization 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 at Pwllheli Harbour.
3. 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 £250k.
4. Over the same period, the number of moorings fell, and the rate of occupation of annual contracts is around 70% with the remaining being temporary, casual and seasonal use.
5. 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 (including secondary considerations such as the effect on financial markets)
  - 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 due to more competition and new marina developments.
6. In engaging with stake-holders in 2018, several operational matters (such as improved marketing and customer care aspects) and a lack of financial investment on site (including facilities on land and dredging requirements) have been highlighted.
  7. 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.
  8. However, consideration should 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

## **Phase 1 – Case for Change**

9. 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. The work addresses two fundamental questions:

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

10. 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 Association are concerned that more customers 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 further affect income levels. 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 area, 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.

11. 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.

12. 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.
13. The following criteria were proposed as a basis for evaluating the possible models (in no particular order):
  - To strengthen the economy by being commercially viable and therefore support marine businesses and local employment
  - To be an economic catalyst by attracting and maximising the use of the harbour by all
  - The ability to promote the Welsh language.
14. 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.
15. Based on an initial assessment against the above criteria, it was agreed that the following options be considered for more detailed development as Phase 2, and the justification for taking action, or not, weighed up on the basis of a business case:
  - 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
16. The feasibility of options 4 and 5 would have to be proved before any detailed work could continue on them.

## **Phase 2 – considering the 5 options**

17. In order to progress Phase 2, a multidisciplinary project team was established and external experts appointed to develop the business case, Strategic Leisure and Leonie Cowen Associates.
18. During the initial work with the external consultants, it was decided that all the Council's assets in respect of the Harbour site and Hafan should be incorporated so that everything is considered in the further development of the above options.
19. Since the appointment of the consultants earlier this year, the Project Board has worked closely with the consultants to look at a range of considerations relevant to the Hafan and Pwllheli Harbour; these include legal aspects, property, finance and maritime market trends.

### The Counsellants' work

20. Following detailed work and a site visit, the following key issues were identified by the consultants:

- The location of the Harbour and marina is a significant and marketable strength. It is an excellent area for sailing of all types and to be used as a base to enjoy the spectacular natural beauty of the area as a whole;
- However, there does not appear to be any strategic vision for the site. The operation is fragmented and in some cases different operators are competing for the same market. There is a need for a more joined-up approach to planning and management;
- Gwynedd Council has entered into a number of leases and/or allowed third party occupants on the site with various commercial entities and operators. Revenue from these tenants/occupiers does not appear to be ring-fenced for the site as a whole despite the fact that the Council maintains the site infrastructure e.g. roads etc;
- The harbour entrance, basin and Hafan is prone to silting and dredging is an on-going requirement. It is essential that this continues and that a solution is found to the problem of disposing of silt;
- Demand for pontoon moorings has fallen in recent years. There are a number of reasons for this including an external perception (as posted online) that access to the harbour and marina can be problematic at low tide. The Council does not have the resources to counteract such negative publicity through positive marketing initiatives;
- Gwynedd Council's operation of the Harbour and Hafan makes an operational surplus of between £200k and £250k per annum (excluding central and departmental costs). Although this is lower than it has been in the past, it has remained stable over the last few years. This surplus forms part of the Council's Financial Strategy and it has not been identified for reinvestment in the services and facilities. It is recognised that the surplus is after an on-going allowance for the dredging and renewals fund;
- Gwynedd Council's staffing levels are relatively low and the existing staff have significant site knowledge and expertise. There is no succession plan for key staff members who will soon reach the end of their careers;
- The sailing club building occupies a prime location immediately adjacent to the marina moorings. However it is currently empty and in all likelihood deteriorating. Plas Heli now own the building as it was transferred to them by the Sailing Club;

- For a number of reasons the operation of the Plas Heli building is with limited resources. Various improvements have been made during the last 12 months and Plas Heli Directors continue to revise the company's business plan;
- Other areas of the site are showing their age and in need of investment including pontoons and other ancillary facilities for permanent moorings and visitor berths;
- It appears that there is some animosity between the facilities on site and the local community. There is a perception that the investment in the site is being primarily for the elite and not providing opportunities for local people;
- All of the above highlights the challenges that are being faced. However it is worth observing that there is an underlying strength there that needs to be brought out;
- There is an established external market for Harbour and Marina management and evidence of real interest from the private sector in entering into a long term partnership with Gwynedd Council.

**21.** Taking all these factors into account, the conclusion was that options 1, 2 and 3 would not meet the first two criteria and that some form of external partnership would be needed in the long term if the site was to reach its full potential. A joint venture or lease could result in the capital investment necessary to address the current weaknesses.

**22.** Reasons for the decision per option are expanded on in the matrix below.

	<b>Option</b>	<b>Strengthen the economy by being commercially viable</b>	<b>Maximising the use of the harbour by all</b>	<b>Promote the Welsh language</b>
1	Present improvements to the current arrangements	No budget to invest in the site. Current revenue declines.	Uncertainty over the Council's ability to invest significantly in the site / facilities, which would lead to a reduction in use	Management continues within the Council and therefore complies with the Council's language policy
2	Management to stay with the Council with an investments programme	No budget to invest in the site. Current revenue declines.	Lack of Investment in the site / facilities, which would lead to a reduction in use	Management continues within the Council and therefore complies with the Council's language policy

	Option	Strengthen the economy by being commercially viable	Maximising the use of the harbour by all	Promote the Welsh language
3	Create an arms-length company	No budget to invest in the site.	Lack of Investment in the site / facilities, which would lead to a reduction in use	Management continues within the Council and therefore complies with the Council's language policy
4	Joint venture with a private operator	Private provider able to attract funding and therefore investing in the site	Maximise the use due to improvement / investment in the site	The language elements would need to be part of any partnership agreement
5	Lease	Private provider able to attract funding and therefore investing in the site	Maximise the use due to improvement / investment in the site	It is difficult to include Welsh language terms in a lease for land and property

23. The consultants' report notes uncertainty about the Council's future ability to invest significantly in the site. However, it should be noted that the Council could invest if there was a sound business case as a basis.

## Phase 2 – Consultant's recommendations

24. The consultants suggest tackling the challenges set out above in two ways. Phase 1 would be for 1-2 years and would require the Council to address the current weaknesses and prepare itself for Phase 2 which would enter into a partnership with a third party commercial organization.
25. In the short term, it is recommended that the Council focus on addressing current issues in order to create the right conditions for investment. This would include preparing a strategic plan for Glandon (with some input from external commercial providers and other stakeholders) and addressing all other outstanding issues and anomalies.
26. At the heart of this is working with Plas Heli to establish long-term viability and capacity to deliver the socio-economic benefits.
27. In the longer term, it is recommended that the Council considers procuring a long-term partnership with a third party Harbour and Marina operator. There is an established market for these services and initial discussions with potential partners have been very encouraging. Such an arrangement could take the form of a joint venture or lease, the terms and duration of which would depend on the level of

capital investment expected of the partner. The external providers are able to provide a holistic service including both statutory and non-statutory functions and can therefore take over the management of the whole site. They also provide dredging services and this could be a cost effective solution to an ongoing requirement.

28. A joint venture and / or lease is considered to be the best way to fulfill the first two criteria, i.e. an investment that will strengthen the local economy and act as a catalyst for future growth. Subject to negotiation and discussion with potential partners, the third objective of promoting and protecting the Welsh language could also be achieved. A number of market players currently operate Harbours and Marinas in Wales in partnership with local authorities.
29. It should be noted that these are the consultants' recommendations, which also acknowledges that further work is required before making such a decision.

### **Next Steps**

30. The work undertaken to date has highlighted a large number of issues relating to the Hafan, Pwllheli harbour and Council assets in Glandon and the outer harbour. These include legal, commercial and managerial issues, and the work has also highlighted the importance of these resources to the community and area of Pwllheli.
31. However, it is not considered that the Council is currently in a position to make a decision on a preferred option, and that more work is needed to support such a decision.
32. Developing management options for Hafan and Pwllheli Harbour remains a priority for the Economy and Community Department. As a result, we will proceed with the work program including:
  - The multi-disciplinary team will continue to co-ordinate the property, legal, financial and managerial issues.
  - Prepare a Development Plan (Masterplan) for Glandon and the harbour to set a clear vision and direction.
  - Implement the Dredging Strategy, paying particular attention to developing a long-term solution by seeking to re-use the silt from the harbour.
  - Engage with local organisations that have contributed to the work to date.
  - Based on the above, prepare an Investment Strategy incorporating the short, medium and long term investment needs.