



---

**REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 APRIL 2019**

**SUBJECT: COUNCIL DREDGER – MV SELKIE**

**BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT,  
PLANNING AND INFRASTRUCTURE)**

**1. REASON FOR REPORT**

- 1.1 To inform the Committee of the business case and operation of the Council owned dredger MV Selkie.
- 1.2 This report is submitted to Committee in terms of Section III (I) (10) of the Council's Scheme of Administration relating to scrutiny of the effectiveness of policies of the Council.

**2. RECOMMENDATION**

- 2.1 **It is recommended that Committee considers and notes the update on the dredger's operation.**

**3. BACKGROUND**

- 3.1 At a meeting of the Economic Development & Infrastructure Services Committee (ED&I) on 19 February 2019 the Committee considered and noted the update on the dredger's commercial operation (para 17 of the draft Minute refers).
- 3.2 On 28 August 2012 a meeting of ED&I Committee agreed to commence the process of procuring a new dredger as a replacement of the previous vessel, MV Shearwater (para 20 of the minute refers). This was following a number of reports to committee in 2011 and 2012 setting out the increasing costs of maintaining and operating the Shearwater.
- 3.3 The August 2012 decision was on the basis of a report to ED&I on 24 January 2012 (para 23 of the minute refers), which set out a number of options the Council could pursue. Each option had a net annual cost to the Council. These options ranged from ceasing dredging entirely (with resultant impact on commercial harbour activity at Buckie and Burghead), through the use of external contractors, to various vessel replacement options.

- 3.4 The options included repairs and refurbishment of the previous dredger MV Shearwater, however, this options was not considered cost effective given the scale of immediate, medium term and long term repairs in addition to known refurbishment requirements.
- 3.5 Each option presented to the Council had an annual net cost (over 25 years) of at least £200k – taking into account any income generation from the option.
- 3.6 The preferred option which was as per the 28 August 2012 Committee decision was to purchase a new build, small, dredger, with a stated net annual cost of £376k per annum after all costs and income. This figure was presented in the report as a £9.4m total cost over 25 years, but has been disaggregated for this report to help compare with other annual expenditure / income.
- 3.7 The reports relied on by Committee in reaching this decision explicitly stated that no external income was anticipated from a small 20-25m dredger, but any income would improve the business case presented.
- 3.8 Subsequent to the Committee decision to purchase a new dredger at a net annual cost to the Council the expenditure was incorporated into the Capital Plan, and a full procurement exercise was undertaken for the design and build contracts for such a vessel.
- 3.9 Although the Shearwater operated in Buckie and Burghead until early 2012, in 2011 the only external dredging work carried out was in Macduff, and 2010 was the last year that meaningful external work was undertaken for 3<sup>rd</sup> party harbours by a Moray Council owned dredger.
- 3.10 Currently the Selkie is operating at a budgeted net annual cost to the Council of £200k revenue costs and £100k capital costs (based on a 40 year depreciation period).
- 3.11 This net cost is before the benefit of internal dredging at a budgeted cost of £180k to the Harbours is taken into consideration. This equates to 60 days of operation.
- 3.12 Financial analysis demonstrates that to dispose of the dredger would increase revenue costs to the Council by a minimum of £50k per annum.
- 3.13 The costs of external dredging are based on previous costs incurred to carry out essential dredging at Buckie and Burghead between the disposal of the MV Shearwater and the operation of MV Selkie. The Council as Statutory Harbour Authority has a legal duty of conservancy i.e. maintaining appropriate navigation channels into / around the harbours. This level of dredging is therefore the minimum for compliance at the Council's commercial harbours, and over future years is likely to increase and include the Council's leisure harbours. As an alternative assumption for the cost of dredging the Council's harbours using an external resource, the 2012 business case on dredging options for the Council (referred above) assumed an annual cost of £313k for external dredging of harbours, recognising that dredging of the smaller harbours was unlikely to be achieved with an external contractor.

- 3.14 In relation to capital costs, the full cost of the dredger was £2.8m in line with the approved capital budget. If the vessel were to be disposed of it would likely generate £1.5m (price provided by Macduff Ship Design). Depending on how the capital receipt of £1.5m were to be treated gives different scenarios on capital impact, however, none of these scenarios has a positive revenue impact, or fully recovers the cost of the vessel.
- 3.15 Separately to the financial case for the Council owning and operating a dredger, and the current external workload, there have been staffing issues over Q2 and Q3 2018/19 which have impacted on the Council's ability to crew the vessel. These issues are being resolved. As of 4<sup>th</sup> April 2019 dredging operations have recommenced with an interim staffing arrangement from the harbours team and agency crew. The external costs are within budget available from vacant posts. The longer term crewing position is being reviewed with options currently being assessed prior to implementation.

#### **4. SUMMARY OF IMPLICATIONS**

**(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

Sustainable harbours with improved infrastructure contribute to the economic development of Moray.

**(b) Policy and Legal**

In relation to the business case for internal dredging works the Council must comply with its legal duties as a Statutory Harbour Authority.

**(c) Financial implications**

In compliance with State Aid rules the Council are required to recover costs for the use of the dredger in the private sector.

**(d) Risk Implications**

No specific risk implications from this report

**(e) Staffing Implications**

There are no staffing implications arising from this report.

**(f) Property**

There are no property implications arising from this report.

**(g) Equalities/Socio Economic Impact**

There are no specific equalities matters

**(h) Consultations**

The Corporate Director (Economic Development, Planning and Infrastructure), The Legal Services Manager, Principal Accountant (P Connor), Committee Services Officer (C Howie), and Equalities Officer have all been consulted and their comments incorporated into this report.

**5. CONCLUSION**

- 5.1 The dredger continues to operate as set out in the original business case determining the purchase of the vessel.**
- 5.2 Operating the MV Selkie is a more cost effective solution to externally procured dredging services for the conservancy of Moray's harbours.**

Author of Report: Nicola Moss, Transportation Manager

Background Papers: None

Ref: