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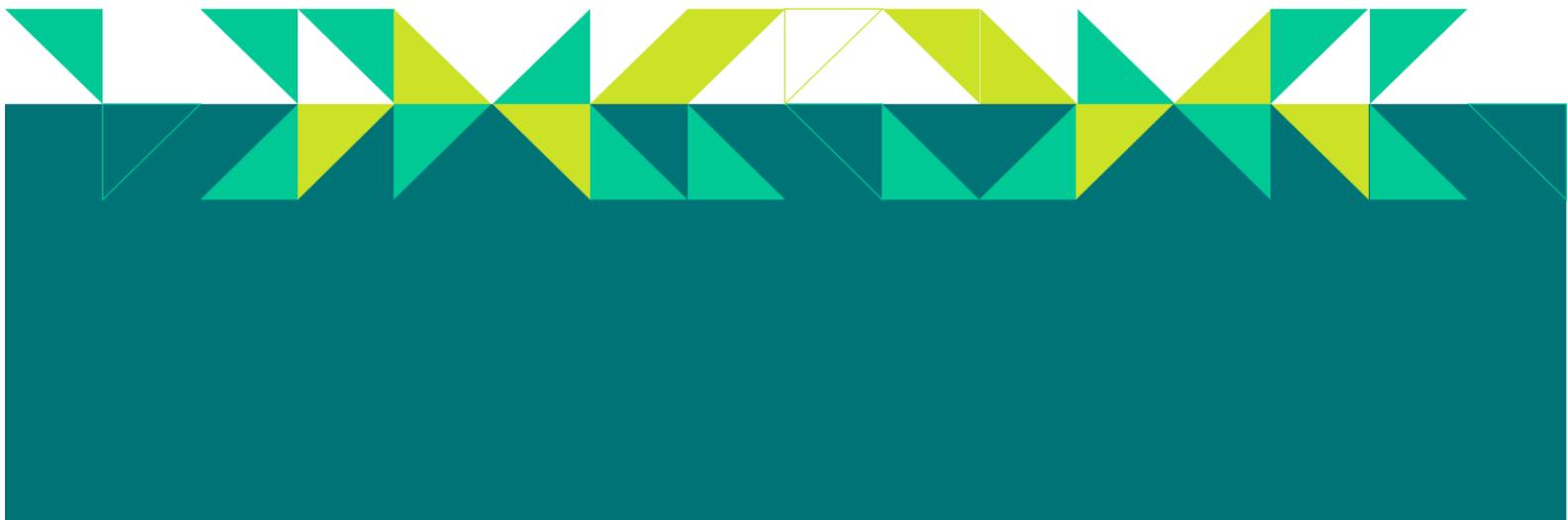
HM Treasury



Review of the Current Funding Arrangements for the Cardiff Harbour Authority

Final Report

Issue Date: 5 December 2019





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1 INTRODUCTION

Background

1. By an Agreement dated 27 March 2000 made pursuant to Section 165 of the Local Government Planning and Land Act 1980 (“the Section 165 Agreement”), between the Cardiff Bay Development Corporation (“CBDC”) and Cardiff City Council (“the Council”), the Council agreed to take responsibility for the harbour authority undertakings and obligations under the terms of the Cardiff Bay Barrage Act 1983 (“the Act”). The Welsh Government (“WG”) subsequently assumed CBDC’s rights and liabilities under the Section 165 Agreement.
2. The arrangements for funding the Cardiff Harbour Authority (“CHA”) are set out in the Section 165 Agreement and subsequent deeds of variation, of which there have been six over the past 19 years. Welsh Ministers have responsibility for funding the functions and liabilities that were transferred to the Council under the Agreement relating to the statutory harbour authority role. WG’s role is to provide the Council with the necessary funding to allow the CHA to fulfil its statutory duties and functions under the 1993 Cardiff Bay Barrage Act.
3. WG funding of the CHA has been subject to three-year agreements, the last of which expired in March 2017. WG advised that they wanted to review the funding arrangements, and hence that agreement was extended for 12 months, to allow such a review to take place. However, the review that was planned for the autumn of 2017 did not take place, and a second 12-month extension was subsequently agreed, which set funding for 2018/19 at £5.400m, a £0.491m (8.3%) reduction over the previous year.
4. During the course of this review, a third 12 months extension has been agreed, with a total budget for 2019/20 set at £5.223m, representing a further 3.3% reduction.
5. In view of the current severe pressure on WG budgets, WG and the Council continue to work together to jointly investigate options for identifying further opportunities for efficiency savings on CHA’s operational costs.

Local Partnerships’ Review

6. Local Partnerships have been asked to review the arrangements between the WG and the Council as set out in the Section 165 Agreement for funding and managing the Cardiff Bay barrage, inland lake and outer harbour including the functions and duties under clause 15 (The Undertaking) of the Section 165 Agreement. Specifically, this review is required to:
 - facilitate the six-yearly review of costs, in compliance with Clause 16.5 of the Section 165 Agreement,
 - consider CHA’s contribution to the WG Taking Wales Forward 2016-20 Programme and its role in delivering the Council’s Corporate Plan and the vision for Cardiff Bay;
 - consider any financial request from CHA within the context of the wider local government financial settlement and to clarify whether there is justification or otherwise, that the CHA budget in future years should be consistent with wider public sector settlements;
 - consider a longer term settlement period;



- consider whether there is scope to achieve improved value for money in the delivery of the statutory harbour authority functions including a means of securing longer-term financial savings. This will involve a review of the activities undertaken by CHA and to determine if they are absolutely necessary under the Cardiff Bay Barrage Act;
 - consider the Agreement's existing terms and conditions (such as use of the Harbour Contingency and Project Fund) to take into account operational requirements and risk;
 - establish if there exists a substantially similar organisation to CHA (in order to enable the parties to carry out a benchmarking exercise);
 - consider the treatment of infrastructure expenditure and identify whether there is scope to reclassify any fixed cost budget revenue costs as capital. To evaluate CHA's assessment of its own future asset renewal requirements to ascertain whether it takes a condition/risk assessed basis and whether mitigation measures have been considered;
 - explore opportunities for increased income generation activities and alternative sources of income generation, including through land use; and
 - examine current governance arrangements.
7. In carrying out this review. We have consulted with personnel from WG, the Council, CHA, Natural Resources Wales ("NRW") and Associated British Ports ("ABP"). We extend our appreciation to all those who have contributed to our undertaking of this review. A list of the individuals with whom we consulted is set out in Appendix D.
8. A list of the documents reviewed is set out in Appendix E.
9. A summary of our conclusions and recommendations is set out in Section 10. We understand that a separate exercise has been undertaken by the WG Estates Division, and specific recommendations have been made regarding the arrangements for the strategic estate management of the land and property portfolio administered by the CHA, which should be considered in conjunction with this report.

2 THE CHA'S STATUTORY FUNCTIONS

Cardiff Bay Barrage Act 1993

10. Under the Act, the CHA's statutory functions and duties can be summarised as being:

- to operate and maintain the Cardiff Bay Barrage in order to safeguard and improve the environment and amenities of the inland bay:
 - opening or closing the lock gates and sluices in the barrage
 - controlling the flow of water in the fish passes in the barrage
 - managing the roadways, bridges and other structure or equipment forming part of the barrage
- to manage the inner bay and outer harbour:
 - facilitating their use by pleasure craft and other vessels and for water sports and other recreational activities
 - ensuring that the quality of water in the bay meets the relevant standard
 - developing and conserving the flora and fauna
- to ascertain, prevent and repair damage to property resulting from any alteration of groundwater levels

Section 165 Agreement

11. Clause 15 of the Section 165 Agreement requires the Council to discharge all the statutory functions and duties contained in the Act, and such other non-statutory functions normally expected of a harbour authority, specifically:

- to operate and maintain the Cardiff Bay Barrage including the day to day opening and closing of the locks, sluices and fish pass
- to comply with all environmental laws in connection with the operation of the Cardiff Bay Barrage to meet the requisite environmental standard
- to maintain and monitor the water level and quality within the prescribed limits as set out in the Act
- to issue licences and to collect appropriate charges
- to fulfil the statutory role of a harbour authority including the banning or removal of dangerous vessels, the making and enforcing of by-laws and maintaining lights and buoys as required by Trinity House
- to develop and conserve in the flora and fauna in the Cardiff Bay area
- to implement the ground water protection and compensation measures
- to provide or procure such infrastructure as the Council may think is reasonably necessary to carry out the powers and duties under the Act including car parking, slipways, public facilities and information points
- to promote the use of the Cardiff Bay area, including the facilitating of use by vessels and for general recreational activities.

12. Clause 16.1 requires the WG to pay the Council the amounts necessary to:

- to discharge its functions under the 1993 Act
- to maintain all the properties that make up the Bay, Barrage and supporting areas
- to fulfil the obligations contained in supporting/linked contracts
- to satisfy any liabilities arising from acts or omissions of third parties.

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13. Any changes in the Section 165 Agreement would require approval from both WG and the Council. As requested by WG, we have set out in Appendix C, an overview of the Section 165 Agreement and its key terms concerning costs, budget and funding periods, performance monitoring and reporting, claims and payment arrangements.

Recommendation

14. Given the number of Deeds of Variations that have been agreed since 2000, we recommend that a clear and consolidated version of the Section 165 Agreement be produced.

3 THE CHA'S STRUCTURE

Introduction

15. The CHA's is structured into the following teams:

- Barrage
- Harbour Master
- Cardiff Bay Water Activity Centre
- Environment, Contracts & Community Liaison
- Operational Management and Support

16. The CHA's total establishment for 2019/20 amounts to 56.8 FTEs. All but two of these individuals are dedicated to CHA activities. The split between each team is set out below.

Barrage

Role	FTEs
Barrage Manager	1
Barrage Operation:	
Barrage Shift Managers	5
Lock Keepers	10
Mechanical and Electrical Engineering Team:	
Principal Engineer	1
Mechanical Engineers	3
Mechanical Engineering Apprentice	2
Electrical Engineers	2
Electrical Engineering Apprentice	1
Engineer Planning & Maintenance	1
Total Establishment: Barrage	26

17. The Barrage Team are responsible for overseeing the day-to-day operations of the Cardiff Bay Barrage, including the locks, bridges, sluices and fish pass. The barrage control room is staffed 24 hours a day, 7 days a week, 365 days a year, with each of the five shifts staffed by a Shift Manager and two Lock Keepers.

18. The Barrage Team play a key role in flood defence and maintaining water levels within the 200 hectare freshwater inner bay to within designated limits. They are responsible for controlling salinity levels within the inner bay and through the system of compressors, pumps and pipework, for maintaining dissolved oxygen levels within the inner bay in accordance with Key Performance Indicators (KPIs).

19. The Engineering Team provide mechanical and engineering services to maintain the CHA's infrastructure assets. They are generally recognised as being a committed and responsive workforce, possessing the experience necessary to identify and rectify failure within the Barrage's infrastructure at an early stage. Whilst experienced, they

are an ageing workforce, hence the introduction by CHA of apprentices for succession planning.

Harbour Master

Role	FTEs
Harbour Master	1
Assistant Harbour Master	1
Quay Supervisor	1
Marine Operatives	4
Marine Operative Trainee	1
Boat Masters	3
Marine Engineer	1
Marine Engineer Apprentice	1
Total Establishment	13

20. The Harbourmaster team is responsible for water use safety and navigation management within the inner bay, outer harbour and rivers Taff and Ely, and for enforcing by-laws, and issuing notices to mariners. The team is also responsible for ensuring that cleanliness standards are met in and around the bay through debris and litter collection, including maintenance of the aeration system and deployment of pollution kit. As the local lighthouse authority they also maintain all statutory aids to navigation.

21. Over 1,300 leisure vessels currently have mooring berths within the CHA's area, and two major yacht clubs are located in Cardiff Bay. The team is responsible for licensing commercial operators, and for maintain two public pontoons and nine water bus-stops. There are currently nine commercial operators within the harbour carrying 193,000 passengers in 2018/9.

22. They utilise a fleet of nine vessels, that are maintained by the marine engineer.

Environment, Contracts and Community Liaison

Role	FTEs
Team Leader	0.9
Contracts, Groundwater & Buildings:	
Senior Technician	1
Groundwater Technician	1
Property Survey and Building Manager	1
Environment:	
Environment Officers	3
Technical Officer	1
Sampling and Maintenance Technicians	1.9
Community Liaison (inc. Marketing & Comms):	



Role	FTEs
Community Liaison Officer	0.6
Communication & Project Officer	1
Total Establishment:	11.4

23. This team's duties comprise:

- downloading, processing and storing data from the Cardiff Bay Groundwater Monitoring System, as well as managing its operation, calibration and maintenance
- specifying, letting and monitoring contracts and service level agreements
- monitoring and maintaining water quality standards within the inner bay;
- conserving, safeguarding, maintaining and enhancing the natural environment within the inner bay
- maintaining the built environment around the inner bay
- overseeing the delivery of educational programmes and events in the Bay and surrounding area
- carrying out marketing and communication activities, such as online promotion via websites and social media, and the provision of materials including leaflets, maps and public information boards
- identifying and undertaking commercial activities.

Cardiff Bay Water Activity Centre ("CBWAC")

Role	FTEs
Centre Manager	1
Water Activity Officers	2
Casual Water Activity Assistants	0.2
Total Establishment	3.2

24. Based on the river Taff, CBWAC provides a number of water-based training courses (canoeing, rowing, dinghy) and land-based activities for individuals and groups. It also provides slipway access for the public into the bay, pursuant to the CHA's obligations under the Act to promote low cost access to the water for the local population and visitors to the bay.

Operational Management, Business Administration and Operational Support

Role	FTEs
Operational Manager	0.5
Finance Officer	1
Receptionist / Administrative Assistant	1
Performance Information Officer	0.7
Total Establishment:	3.2



Workforce Management

25. In response to the ageing workforce, over the last five years, the CHA has focussed on workforce planning which has resulted in the creation of four new apprenticeship / traineeship schemes, in the areas of marine, electrical and mechanical engineering, marine operations / seamanship. Individuals participating in these schemes are progressing through to permanent positions to ensure the continuity of the skills base.

4 THE CHA'S FUNDING

Fixed Cost Budget

26. The table below summarises the CHA's fixed cost budget settlement over the last three financial years. Whilst WG funding of the CHA has been subject to three-year agreements, the last of these expired in March 2017, hence each of the budgets set out below have been agreed on an annual basis.

	Budget 2017/18 £k	Budget 2018/19 £k	Budget 2019/20 £k
Staff & Overheads	4,091	3,921	3,868
Employees	2,641	2,613	2,584
Premises	514	478	440
Transport	46	46	46
Supplies and Services	342	342	342
Support Services	548	442	456
Marketing & Promotion	200	200	50
Ground Water	150	110	110
Groundwater monitoring and reporting	20	17	17
Operation and Maintenance of Groundwater Control	120	91	91
Independent Complaints Administrator	8	0	0
Additional Property Condition Surveys	2	2	2
Fish	135	135	135
Facilities Management	310	305	305
Maintenance of Roald Dahl Plass	223	223	223
Inspect / survey bay edges annually	10	10	10
Maintenance of bay edges, embankments, walkways, fencing, water safety equipment and slipways	25	20	20
Maintenance of water bus stops and pontoons	10	10	10
Maintenance of litter booms	5	5	5
Protection, lighting and signage of river bridge piers	2	2	2
Operation of Cardiff Bay Water Activity Centre	35	35	35
Pest Control	55	47	47
Barrage	1,040	1,040	1,190
Scheduled and unscheduled maintenance operations	440	440	440
Dredging of the outer harbour	600	600	750
Environment	384	366	366
Monitoring of siltation of the Bay, orchard ledges and outer harbour	30	27	27
Siltation monitoring of the rivers and bay	15	13	13
Operation and routine maintenance of aeration system and mobile oxygenation vessel	69	69	69
Collection of debris from the bay and river banks.	60	60	60
Invasive plant control	70	65	65
Disposal of all waste, debris and weed	62	59	59
Disposal of algal scum	7	6	6
Develop and conserve fauna and flora, wetlands and general environmental management	16	16	16
Maintenance of the timber structures	5	5	5
Water quality monitoring	50	46	46
Income	(820)	(920)	(993)
Fixed Cost Budget	5,545	5,204	5,078
Change (from previous year)	(0%)	(6.1%)	(2.4%)



27. The per annum reduction in the CHA's fixed cost budget in cash terms (i.e. excluding inflation) over the last two years of 6.1% and 2.4% as illustrated above represents a continuation of previous years' funding reductions.

28. The table below summarises actual expenditure compared to the fixed cost budget over the last three financial years.

	Variance 2016/17		Variance 2017/18		Forecast Variance 2018/19	
	£k	%	£k	%	£k	%
Staff & Overheads	153	4%	109	3%	44	1%
Marketing & Promotion	32	16%	24	12%	0	0%
Ground Water	(7)	(4%)	(53)	(36%)	(16)	(14%)
Fish	0	0%	0	0%	0	0%
Facilities Management	7	2%	155	50%	2	1%
Pest Control	(13)	(23%)	(13)	(24%)	(12)	(26%)
Barrage	35	3%	(97)	(9%)	(30)	(3%)
Environment	(74)	(20%)	(58)	(15%)	16	4%
	134	2.1%	67	1.1%	4	0%
Income	195	24%	71	9%	(4)	(0%)
Fixed Cost Expenditure	(61)	(1.1%)	(4)	(0.1%)	0	0%

29. The Section 165 Agreement allows the Council to vire expenditure across budget heads, with any underspends or overspends measured only against the total fixed cost budget, with such being shared equally between WG and the Council, subject to the Council's liability being capped. The cap was £100,000, but now reduced to £40,000 by a deed of variation dated 26 April 2018.

30. The long-term trend for the CHA's fixed cost budget in cash terms (excluding inflation), has seen:

- a reduction of £987,000 (16%) since 2014/5
- a reduction of £5,604,000 (52%) since 2000/1

31. For comparison purposes, WG total Revenue Support Grant funding of local authorities has decreased by 1.75% in cash terms.

Conclusions

32. Over the last six years, the CHA's fixed cost budget has steadily decreased in cash terms, at a rate which exceeds the reduction in WG RSG funding of local government across Wales.

33. Variations in actual expenditure against the overall fixed cost budget have been minimal, though significant variances have occurred in relation to specific budget headings.

Asset Renewal Budget

34. In addition to the fixed cost budget, the funding settlement also includes an asset renewal budget, which is agreed annually, based upon the CHA's own assessment of its maintenance and renewal requirements. The table below summarises the CHA's asset renewal budget settlement over the last three financial years.



	Budget 2017/18 £k	Budget 2018/19 £k	Budget 2019/20 £k
Inner Harbour		-	
Barrage			
Sluice Upper Roller Replacement	17		
Bascule Bridges - Maintenance	57	165	35
Lock Electric Panels - Replacement			80
Environment			
Water Quality Model	32		
Aeration System Compressors	28		
Britannia Park Play Equipment	9		
Ground Water			
Submersible Pump - Replacement		6	
Harbour Master			
Harbour 1, Vessel Replacement	300		
Pump Out Barrage South - Replacement		25	
Deck Mounted Crane on Harbour2 work boat			30
Asset Renewal Budget	443	196	145

35. The 2017/8 budget represented an initial allocation of £346k and a subsequent additional allocation of £97k approved in March 2018.

36. The table below summarises the CHA's actual asset renewal expenditure compared to the budget over the last three financial years.

	Variance 2016/17		Variance 2017/18		Forecast Variance 2018/19	
	£k	%	£k	%	£k	%
Asset Renewal Expenditure	(56)	(16%)	(75)	(17%)	0	0%

37. Under the terms of the Section 165 Agreement, the CHA's expenditure against the Asset Renewal Budget is recovered at cost from WG, though any overspend on the Asset Renewal Budget would be borne equally between the Council and WG.

38. The long-term trend in for the CHA's asset renewal budget in cash terms (excluding inflation), has also seen a considerable reduction, of £187,000 (56%) since 2014/5.

Recommendation

39. Given the specialist nature of some of the CHA's infrastructure assets, it is unlikely when agreeing annual budget allocations, that the WG possess the required expertise to evaluate the reasonableness and appropriateness of the requests submitted. As these are now c. 20 years old, we recommend that a suitably experienced organisation is jointly commissioned by the CHA and WG to undertake a comprehensive asset condition survey and a risk assessed forward asset maintenance and renewal plan, to inform future asset renewal budget levels.

40. We understand that progress is already being made in this regard and that the preparation of tender documentation has now begun with a view to undertaking such a survey in the autumn. Aligned with this, the CHA is also looking at what IT systems are required to support a more robust asset management approach.



Harbour Contingency and Project Fund

41. The Section 165 Agreement requires the Council to hold a Harbour Contingency and Project Fund. The Council is allowed to retain all capital receipts from the disposal of land which is owned by the Council as part of the Harbour Authority's Undertaking but must credit the proceeds of the sale of any such land to this fund. In addition, the Council's 50% share of any savings in the Fixed Cost Budget is credited to this account.
42. The Council may draw-down funds from the Harbour Contingency and Project Fund, in consultation with WG, in order to:
- discharge its powers and duties as set out in the Act, including in relation to the properties it holds as listed in the Section 165 Agreement;
 - fund expenditure for other improvement and enhancement of infrastructure, assets, activities or services in or around the Bay.
43. A summary of the credits, draw-downs and balances within the Harbour and Contingency and Project Fund over the last 3 years is set out below, since its peak level on 1 April 2016.

	Revenue £k	Capital £k	Total £k
Balance as at 1 April 2016	664	112	756
Draw-downs 2016/17			
Volvo Ocean Race Hosting Fee	(186)		
Credits 2016/7			
50% of Fixed Cost Savings	21		
Capital Receipts		0	
Balance as at 1 April 2017	479	112	591
Draw-downs 2017/18			
River Taff Deshoaling Works	(100)		
Alexandra Head Works		112	
Credits 2017/8			
50% of Fixed Cost Savings	3		
Capital Receipts		0	
Balance as at 1 April 2018	382	0	382
Draw-downs 2018/19			
Volvo Ocean Race Hosting Fee	(214)		
Alexandra Head Works	(128)		
Credits 2018/9			
50% of Fixed Cost Savings	0		
Capital Receipts		0	
Forecast Balance as at 1 April 2018	40	0	40

44. The Council is obliged to maintain a minimum balance within the fund, and subject to maintaining that balance, is required to draw down from the fund before making any additional claims to WG in relation to any unforeseen costs. The minimum balance was £100,000, but now reduced to £40,000 by the Deed of Variation dated 26 April 2018, considering the demands on the fund during 2018/9 as detailed above.

Conclusion

45. At its current level, the fund's ability to insulate WG from additional funding requests stemming from unforeseen events is severely limited. The continued ability of the Harbour Contingency and Project Fund to fulfil its intended purpose, is likely to be dependent upon the availability of future capital receipts from land



disposals. Whilst we are advised by the CHA that no such capital receipts are forecast, we would recommend the CHA liaise with the WG Estates Division in order to form a common understanding of the potential for future capital receipts, for example by considering any opportunities for joining-up CHA/WG land holdings to increase land values. We understand that a separate exercise has been undertaken by the WG Estates Division, and specific recommendations have been made regarding the arrangements for the strategic estate management of the land and property portfolio administered by the CHA.

5 REVIEW OF THE CHA'S ACTIVITIES

Mandatory, Statutory and Discretionary Services

46. The CHA's 2018-19 Business Plan sets out three primary aims for the CHA:

- to maintain and enhance an outstanding, sustainable environment;
- to provide exceptional facilities and activities to ensure Cardiff continues to have a premier waterfront location; and
- to work in partnership with stakeholders to ensure continued public and investor confidence in Cardiff.

47. These aims are ambitious and appear to go beyond the statutory requirements set out in Section 2. Consequently, we reviewed the activities undertaken by the CHA in order to determine if they are necessary under the Act, taking into consideration the CHA's own assessment of its responsibilities, specifically whether each is:

- mandatory under the Act;
- contractual under the Section 165 Agreement, recognising that any change in the Section 165 Agreement would require approval from both WG and the Council, and hence the obligations within it are similar in status to those under the Act; or
- discretionary.

48. As detailed in Appendix C, we have highlighted two functions as being discretionary, but only to reflect the fact that the Act permits the CHA to undertake such, rather than obliging them to do so. However, as these specific responsibilities relate to imposing charges and byelaws, the fact that the CHA have chosen to apply such either generates revenues or has minimal cost implications respectively.

49. Noting the CHA's obligation under the Section 165 Agreement to "promote the use of the Cardiff Bay area, including the facilitating of use by vessels and for general recreational activities", the activities that are considered pursuant to this are events, communications and commercialisation. With the removal of the events budget in 2019-20, and the consequent requirement that events now be self-financing, the most significant cost activity in this regard has now been removed.

Service Quality

50. Previous reviews have confirmed the high degree of satisfaction expressed by the CHA's clients and stakeholders. Consequently, undertaking fresh client and stakeholder satisfaction interviews was outside the scope of this review.

51. However, we met with representatives of both Natural Resources Wales (NRW) and Associated British Ports, as the CHA's key stakeholders and neighbours in order to obtain their feedback on the CHA's performance. Both were highly complementary of the CHA, and it is apparent to us in conducting the review that the CHA continues to provide a high quality service.

52. The table below sets out the CHA's performance against the annual Key Performance Indicators ("KPIs") for the last two years:

No	KPI	2017-18		2018-19	
		Target	Result	Target	Result
1	Percentage of readings of dissolved oxygen in Cardiff Bay that achieve a reading of 5 milligrams per litre of dissolved oxygen or greater	100%	99.76%	100%	98.69%
2	The CHA will commence 90% of non-urgent cleansing operations within 5 working days of receipt of a substantiated complaint	90%	100%	90%	100%
3	Number of essential maintenance activities carried out on the Barrage	292	233	235	272
4	The number of passengers carried on commercial vessels	150,000	185,512	210,000	192,621
5	The number of attendances at CHA facilities	1,100,000	1,303,350	1,150,000	1,316,446
6	Total income for the CHA	£820,000	£890,674	£820,000	£957,622
7	Customer satisfaction levels for the CHA	95%	98.2%	95%	95%
8	The levels of stakeholder satisfaction from an annual survey of partners	90%	93%	90%	90%

53. Whilst the CHA monitors dissolved oxygen levels and respond promptly to rectify breaches, utilising the oxy-barge and aeration system, we are advised by the CHA that in relation to KPI 1, it is not possible to achieve 100% compliance at all locations at all times. This KPI stems from the requirement under the Act that the CHA must operate the barrage in accordance with any reasonable direction given by NRW to protect the quality of water in the Bay, where the NRW can specify the standard to be achieved.

Conclusion

54. The CHA provides a high-quality service and is well regarded by clients and stakeholders. Our assessment concurs with the CHA's own assessment, as detailed in Appendix C, that in all material terms the CHA's activities are either mandated under the Act or subject to a contractual obligation under the Section 165 Agreement.

55. Having established that the CHA's current activities do not include material discretionary activities, we undertook a detailed review of the CHA's fixed cost budget in order to ascertain whether there is scope to achieve improved value for money in the delivery of the statutory harbour authority functions and achieve longer-term financial savings.

6 REVIEW OF THE CHA'S COSTS

Introduction

56. We have reviewed the CHA's costs in detail, and we are grateful to the CHA for the way in which they have responded to our requests for information. With reference to the budget headings set out in the previous table, this section provides analysis and commentary on the CHA's costs, based on the 2019/20 budget level.

Employees: £2,584,000

57. This represents the employment cost relating to the staffing structure as set out in Section 3. CHA staff are employed by the Council, on Council terms and conditions and salary grades. The 2019/20 budget incorporates employment cost savings of £210k, through staff reductions, partly offset by pay award costs. Except for two individuals, all the employees are dedicated to the CHA, hence the need for an estimated time-based apportionment of costs is minimal.

58. The split of employee costs by CHA function is:

• Barrage	£1,242,000
• Harbour Master	£ 485,000
• Cardiff Bay Water Activity Centre	£ 149,000
• Environment, Contracts & Community Liaison	£ 517,000
• Operational Management and Support	£ 191,000

59. The CHA maintain that they have taken a risk assessed based approach to staffing levels and that further staff reductions would result in them being unable to provide the statutory level of service. Given the specialist nature of the CHA's work, and the absence of similar organisations (see Section 8), it is difficult within the scope of this review to either challenge or substantiate that assertion.

Premises, Supplies and Support Services: £1,284,000

60. This element of the overhead budget comprises of:

- Premises costs, representing the costs (Rent, NNDR, utilities) of CHA's occupation of their premises and assets namely Queen Alexandra House (QAH), Havannah St. car park, CBWAC, Barrage Control and the Environmental Building. Personnel from the Council's Park and Leisure Team occupy space at QAH and consequently c. 50% of the cost of occupying QAH is recharged to the Council, a recharge of c. £50k. The budget includes an allowance of £150k for repairs and maintenance;
- Transport costs, representing the running cost of the CHA's land vehicles/cranes and the insurance of such;
- Supplies and Services, including insurances, office equipment, furniture and materials, communications and computing and advertising;
- Support Services, which includes, the provision of support services supplied by the Council to the CHA, specifically financial services, strategic estates, ICT, human resources and technical services (for car park management). Support service expenditure reduced in 2018/9 following the cessation of the previous



£100k subsidy paid to the Tourist Information Centre. This budget includes £100,000 contribution to the operation of the Cardiff International White Water, an Olympic standard white water rafting and indoor wave facility, located in the bay area.

61. The rental costs of CHA's occupation of QAH has not been benchmarked, however there are obvious operational benefits in their operating from QAH.

62. A full breakdown of the CHA's overhead budget is set out in Appendix B.

Marketing & Communications: £50,000

63. This budget has been reduced following the removal of the events budget in 2019-20, and the consequent requirement that events now be self-financing.

Groundwater: £110,000

64. These costs relate to the activities pursuant to the Property Protection Scheme. As the CHA's obligations under the scheme expires in November 2019, this is the last year in which such costs will be incurred – subject only to the continued operation and maintenance of the Merches Gardens Garden groundwater pump, following the finding of an independent report, at an assumed cost of £5,000 pa.

Fish: £135,000

65. These costs are incurred pursuant to an agreement between the Council and the NRW pursuant to the Cardiff Bay Barrage Fisheries Mitigation Programme, under which the CHA contribute towards the NRW's costs incurred on fish passes, habitat improvement, stocking, fish management and monitoring. The agreement, which commenced in 2008/9 expires at the end of 2019/20, hence this is the last year in which such costs will be incurred.

Facilities Management: £305,000

66. The most significant cost element relates to the routine and ad-hoc "minor works" replacement and maintenance at the Roald Dahl Plass, Graving Docks and Havannah Street Car Park, which is undertaken by the Council. We are advised by the CHA that this budget is increasingly focussed on work required on health and safety grounds rather than work of an aesthetic nature.

Pest Control: £47,000

67. This service is provided under a Service Level Agreement (SLA) with the Council and involves the regular patrolling the Bay and checking key points throughout CHA locations for rodent activity and dealing with rodents when necessary.

Barrage Maintenance: £440,000

68. Scheduled and un-scheduled maintenance of the Barrage is largely undertaken by the in-house team in accordance with their planning and inspection regime, with work prioritised according to a RAG rating. Specialist contractors are generally only required if either heavy lifting or divers are needed. The budget for parts and materials required to maintain the barrage, locks, bridges, sluices and fish pass is c. £350,000. In addition, c. £20,000 is incurred in maintaining and improving the public facilities, including the sail structure.



69. In addition, c. £70,000 is incurred in supplying power to the barrage control and in operating the fish pass. The fish pass is required to operate on a 24/7 basis and requires the continuous running of two 200kW pumps. Consequently, we are advised by the CHA that this is the single largest consumer of power within the Council. The CHA monitor usage of the fish pass, and therefore have considerable data relating to the times of use and numbers - and currently record its use by only 70 salmon per annum.

Dredging: £750,000

70. Dredging of the inner harbour and bay is typically undertaken twice a year. This service is competitively tendered by the CHA under a five-year contract, with the current contract, awarded to Boskalis Westminster Ltd expiring in March 2022. The budgeted cost for such dredging is £600,000 per annum, with c. 155,000 tonnes of dredging taking place per annum. Whilst our review of the procurement and contractual documentation raised no concerns, we note that only a single response was submitted in response to the CHA's invitation to tender and furthermore the service has been undertaken by the same contractor for several years. We are advised that this is due to the constraints in accessing the inner harbour and bay, mean that there are very few dredging vessels that can provide the dredging service to the CHA. Notwithstanding this, it is therefore difficult to establish whether value for money is being achieved.

71. In discussions with ABP, we understand that their annual dredging costs for the outer harbour amounts to £550,000, for the removal of 650,000 tonnes – though we have not sought to substantiate this. Whilst ABP benefit from the services of an in-house group company and are not subject to the same physical constraints as the CHA, enabling larger vessels to be utilised, based on this information, the dredging cost per tonne for the CHA is higher than that incurred by ABP by a factor of four.

72. In accordance with an agreement dated 1992, ABP can claim from the CHA the additional costs of dredging resulting from the increased siltation to the Wrach Channel, resulting from the construction of the barrage. In order to make an annual claim, the first such claim must be made no later than 20 years following the completion of the barrage, as evidenced by siltation records. ABP have recently submitted their first such claim, supported by siltation records over several years. We have concluded from our review of the agreement and the supporting evidence provided by ABP, that a basis for their claim exists, though due to its specialist nature, we are unable to challenge the assertion that the increased siltation stems from the creation of the barrage. The extent of CHA's future contribution towards the ABP's dredging costs is therefore a matter for negotiation, and in this regard the CHA has been successful in reducing ABP's claim, from an original 50% of actual costs (amounting to c. £300,000), to a fixed £150,000 per annum, with such a contribution to be subject to periodic review. This sum has now been agreed and included for in the fixed cost budget. It appears to represent an appropriate compromise.

Environment: £366,000

73. The specific activities under this heading are set out in detail within the fixed cost budget. A number of these services, such as debris collection, the control of invasive plants, disposal of waste collected, and maintenance of the Cardiff Bay wetlands are provided under Service Level Agreements by the Council (as detailed further below).



74. Other activities, such as the siltation monitoring are contracted out and competitively procured. The cost of aeration mainly represents the power costs and will depend on the need in any given year, pursuant to the KPI that the CHA is required to meet.

75. Water quality is monitored for bacteria, pH and temperature, with samples collected, sent to laboratories for testing and results published. The CHA is in the process of switching its predictive pH model.

Income: (£983,000)

76. The CHA's income can be analysed as follows:

- Car Parking Fees: £542,000. Fees increased and brought into line with wider Council rates;
- Harbour Dues: £245,330. Of this, c. £235,000 derives from charges applied to users for mooring and navigation in the harbour. The rate applied to a proportion of the dues is currently discounted by 60%, in accordance with an agreement which will expire at the end of the 2021/22. Whilst the harbour due rates are subject to a challenge to DfT from local stakeholders, we estimate that the removal of the discount and application of full rates (of £40 per annum per metre indexed by RPI) would increase harbour dues income by c. £150,000 per annum from 2022/23. The remainder of the income, c. £10,000 derives from charges to the commercial operators within the bay including a 10p levy per passenger charged.
- Sea Lift: £20,000. Charges to Cardiff Marina.
- Café Concession: £10,000. Leased by the RSPB c. 1 year ago.
- CBWAC Income: £83,000
- Sundry Income: £19,700

77. During the course of the review we met with the CHA officer responsible for commercialisation activities. The CHA has undertaken a SWOT analysis and are cognisant of both the opportunities available to them and the restrictions under which they operate – for example access. We also reviewed a report prepared by Colliers “Commercial Leisure Opportunities at Cardiff Bay Barrage” December 2016.

78. The CHA has considered a number of commercial opportunities and identified a small number of specific fee-earning activities such as pedolos, mini-ports, dog supplies outlet or adventure activity park that are deliverable and are considered appropriate for the bay environment.

79. We do not consider that there are significant commercial opportunities that have not been identified or pursued. Local Partnerships has been discussing commercialisation (what it means to each council, what they are considering, what they have done, what they could do) with a number of Welsh authorities, and we are supporting the Welsh Local Government Association with the development of a commercialisation event and a programme of on-going support. All these activities have resulted from a clear drive to be more commercial and we would encourage CHA and the Council to engage with these initiatives.

Services Provided by Cardiff Council to the CHA

80. Included within a range of fixed cost budget heads, are the costs of the services that the CHA receives from the Council, most of which are subject to SLAs between the two parties. The full list of these services is set out below, the total budget in respect of which amounts to £769,560.

Department & Service	Budget 2019/20
Financial Services - Accountancy	£17,860
Financial Services - Insurance	£15,240
Financial Services - Income Recovery	£530
Financial Services - Payroll	£1,110
Financial Services - Payments	£2,150
Financial Services - Procurement	£7,070
Strategic Estates	£35,380
ICT - SAP Support	£19,000
ICT - ICT Services	£28,000
Personnel Services	£24,740
Legal Services	£7,820
Legal Services - Post Corp Servs	£1,210
Health & Safety	£8,200
Communications	£28,470
Bilingual Cardiff	£2,280
Emergency Management Unit - Support	£20,000
Traffic Section - Car Park Management	£42,000
Employee Counselling Service	£500
Shared Admin	£10,000
Central Transport Services - Vehicle Usage	£65,000
Park Rangers - Timber Recycling SLA	£11,000
Park Rangers - Wetlands Reserve SLA	£16,000
Park Management - Grounds Maintenance & Weed Control SLA	£65,000
Pest Control	£38,000
Drainage (Highways) - Groundwater SLA	£62,000
Cleansing Services - Litter Collection SLA	£133,000
Neighbourhood Services - Waste Collection SLA	£60,000
Waste Management (Commercial Services) – Waste Disposal SLA	£48,000
TOTAL	£769,560

81. We have reviewed a sample of the SLAs relating to some of the above services, which include a service specification and schedule of rates. We are advised that the rates incurred by CHA are the same that apply to the Council's departments. The total costs incurred are typically on a volume/transaction/frequency basis, and we are aware that such flexibility has been used in the past to reduce certain SLA costs. CHA personnel inform us that they are generally content with the quality of service they receive from the Council.



Savings Identified

82. On the basis of the review undertaken, savings of c. £419,000 pa can be estimated with a high degree of confidence:

- £134,000 pa from 2020/21 following the cessation of the Groundwater Protection Scheme, including staff savings;
- £135,000 pa from 2020/21 following the expiry of the contract with NRW pursuant to the Cardiff Bay Barrage Fisheries Mitigation Programme;
- £150,000 pa from 2022/3, from an increase in Harbour Dues, assuming that the current challenge is not upheld, and the full undiscounted charges are applied.

83. In addition, informed by almost 20 years of successful operation of the barrage, we recommended that the CHA's suggestions relating to the following be investigated. Each would require a well-managed trial in order to ensure that there is no detrimental impact to the environment or fish welfare:

- The potential to operate the fish pass on a more targeted basis aligned to its use, which could release savings of c. £10,000 per annum, depending upon the actual operating hours;
- The relaxation of KPI1 "Percentage of readings of dissolved oxygen in Cardiff Bay that achieve a reading of 5 milligrams per litre of dissolved oxygen or greater". It is not possible to quantify the extent of such savings until discussions have taken place to determine what revised KPI, if any, NRW would find acceptable.

84. There will be cost pressures, for example pay-awards and increases in the cost of specific supplies and services, that will offset some of these savings.

Analysis of the CHA's Expenditure by Function

85. There are differences in the way that the CHA's financial and budgetary information is presented and analysed for the purposes of CHA's own budget monitoring purposes compared to when presenting quarterly grant claims to WG. During the course of the review, we discussed with the CHA the benefits of disaggregating its staff an overhead budget (LA904) across each of its functions, and this work has now been done. In order to simplify, improve transparency and provide a single common budget for CHA and WG purposes we recommend that this be further refined, with the objective of disaggregating the entire CHA budget to correspond with its functions, such that the net cost of undertaking each becomes apparent.

Reclassification of Fixed Cost Budget Items as Capital

86. Based on our analysis of the 2019/20 Fixed Cost Budget, within the Facilities Maintenance and Barrage Maintenance budgets, c. £500,000 relates to maintenance and renewal of the barrage and bay area and which could be capitalised.

Recommendations for Longer-Term and Alternative Funding Arrangements

87. Whilst three-year funding settlements have been suspended subject to the conclusion of this review, we recommend that in order to facilitate effective service planning, that three-year funding settlements are re-instigated, with the timing corresponding to the WG's budgetary cycle.



88. From the WG's perspective, budgetary responsibility sits within the Regeneration and Homes and Places Division. Whilst the construction of the barrage and redevelopment of the Bay area originated as a significant regeneration project, having now operated successfully for 20 years, we recommend that the WG review its internal budgetary responsibility in respect of the CHA accordingly. We consider that transferring budgetary responsibility to the Local Government Division may now be more appropriate.
89. The obligation to fund the CHA's activities pursuant to the Act and the Section 165 Agreement sits with WG. The expertise in undertaking the CHA's activities sits within CHA and the Council. The CHA's activities make important contributions towards the Council's strategic objectives (as detailed in Section 7) within a high-profile area for the capital. The CHA, having made significant savings, continues to provide a high-quality service, is well regarded by its clients and stakeholders and has been operating without incident for 20 years. In light of the above, we recommend that consideration be given to transferring the responsibility for funding and delivery to the Council by means of an un-hypothecated transfer of funding, to see if a mutually acceptable solution can be found – as this would better facilitate the achievement of future efficiencies. The treatment of asset renewal and maintenance may need to sit outside any such arrangements, given the potential scale of such, unless a sinking-fund arrangement can be agreed.

7 REVIEW OF THE CHA'S STRATEGIC CONTRIBUTIONS

90. In order to assess the CHA's wider contribution, we considered the strategic objectives set out in:

- the WG's Programme for Government "Taking Wales Forward 2016-21"¹;
- the Council's "Corporate Plan 2019-22"; and
- the Council's "Capital Ambition".²

Taking Wales Forward 2016-21

91. Taking Wales Forward sets out the WG's four key priorities for Wales:

- prosperous and secure;
- healthy and active;
- ambitious and learning;
- united and connected.

92. The Business Plan links CHA actions to the priorities in Taking Wales Forward, and the annual and quarterly reports that the CHA produce for the WG provide information on the progress that has been made since the last report.

93. We have picked out the following aims of the WG in Taking Wales Forward that CHA contributes to:

- "Wales has raised its profile globally as a first-class place to invest, do business, visit, study, and to live."
- The WG will "support the development of our successful Creative Industries and Tourism businesses and build on our record of success in hosting major cultural, sporting, business and other events."
- "Good health underpins all of our ambitions for Wales. We are committed to helping improve health and well-being for all. Living healthy lives allows us to fulfil our potential, meet our educational aspirations and play a full part in the economy and society of Wales."
- Under "Community Assets", the WG commits to "work with communities to protect local facilities that bring people together, including pubs, libraries, museums, arts centres and leisure centres".

¹ <https://beta.gov.wales/sites/default/files/publications/2017-08/taking-wales-forward.pdf>

² <https://www.cardiff.gov.uk/ENG/Your-Council/Strategies-plans-and-policies/capital-ambition/Documents/Capital%20Ambition%20ENG%20low%20res.pdf>



Cardiff Council's Corporate Plan

94. The Business Plan summarises how the CHA action aligns with the seven aims of the Corporate Plan:

- People in Cardiff are safe and feel safe – the CHA will work with local emergency service providers to ensure that emergency plans and safety measures are in place.
- Cardiff has a prosperous economy – ensuring that as the city grows it benefits the wider region, and the CHA and the WG work together to lead the way for Wales out of the economic downturn.
- People in Cardiff achieve their full potential – the CHA and the WG will work in partnership to help provide opportunities for everyone in the city through education, work experience and volunteering provision.
- Cardiff is a great place to live, work and play – we will work with partners to provide an outstanding programme of activities and opportunities for people to enjoy.
- Cardiff is a clean and sustainable environment – the CHA will manage the water and land-based environment within its control to ensure that high environmental standards are maintained.
- People in Cardiff are healthy – the CHA will look to promote activities that contribute to the health and wellbeing of the local population.
- Cardiff is a fair, just and inclusive – the CHA will work to provide opportunities and access for all.

95. Furthermore, the Business Plan sets out how each action contributes to the above.

96. Specifically, in relation to the Bay area, the Corporate Plan states that the Council is committed to expanding its visitor economy infrastructure, focussing on Cardiff Bay, to kick-start its next phase of development. It aims to develop a new vision and masterplan for Cardiff Bay by 2020 including taking forward delivery of the next phase of development for the International Sports Village by 2019.

Cardiff Council's Capital Ambition

97. The Capital Ambition document sets out the new administration's commitments for Cardiff. Whilst the CHA's business plan does not cross-refer to the commitments set out in this document, we have picked out the following which we believe are of greatest relevance to the CHA's contribution:

- In "Building on our Capital City Status", the Council says that it "must continue to attract major sporting and cultural events, tourists, investment and students into Wales and to position Cardiff as a front-ranking capital city in a post-Brexit global economy."
- In "Making the Most out of our Cultural Capital", the Council says that "Cardiff's distinct cultural offer is an area of competitive advantage and its cultural and leisure infrastructure is recognised by its citizens as amongst the best in Europe. We will continue to make the most of these assets, attracting major events to Wales while supporting the best Welsh talent to emerge onto the world stage."
- The Council states its aim to "set a refreshed vision for Cardiff Bay as a leisure destination by securing a new visitor attraction, with the possible creation of a



permanent “beach style” facility and revitalising the strategy for the International Sports Village.”

- The Council states that it “will bring forward exciting plans for the future of Cardiff Bay... significant improvements in the visitor experience of Cardiff Bay, Alexandra Head and Mermaid Quay, building on Cardiff’s unique industrial heritage”.

Conclusion

98. The CHA makes a broad contribution towards achieving both the WG and the Council’s strategic objectives. As a high-profile location within the capital, Cardiff Bay and CHA’s role within it, makes a greater and more direct contribution towards the Council’s ambitions, for example through hosting significant events such as the Volvo Ocean Race or the international food and drink festival.

99. With reductions going forward in the Events budget, we are advised that such events will now need to be self-funding, which may reduce the extent to which the CHA’s activities contribute to such ambitions.



8 POTENTIAL SIMILAR ORGANISATIONS

100. Our brief required us undertake a limited amount of desktop research to establish if there exists a substantially similar organisation to the CHA - in order to assess whether it is feasible for the parties to carry out a benchmarking exercise.

101. We have considered the following organisations:

- Associated British Ports;
- Bristol Harbour, as we understand that CHA personnel have spent some time with the team that operates Bristol Harbour in order to understand how they operate their facilities.
- Canal and River Trust, as this organisation could be useful to consult when considering commercial ventures and potential income generation.
- Jersey;
- Milford Haven;
- Peel Ports;
- Portsmouth Harbour;
- Sunderland, as this is a commercial port that is owned by Sunderland City Council;
- Thames Barrier, as this could be relevant when considering the operations of the Barrage and the sluice gates.

102. We have not been able to identify an organisation that has responsibilities commensurate with that of the CHA. This reflects the fact that the Barrage was provided for under an Act of Parliament, and that the statutory responsibilities arising out of the Act and the environmental monitoring regimes put in place by NRW as regulator potentially places the CHA under more rigorous regulatory control than similar organisations.

103. We note that the 2006 review by Hornagold & Hills attempted to compare the operations of CHA with Laganside Development Corporation in Northern Ireland and Bristol City Council as part of a benchmarking exercise. Hornagold & Hills concluded that as these organisations differed considerably in their operations, that a direct comparison in their activities is very difficult to make – the variables being almost impossible to align without a significant amount of further research and analysis.

Conclusion

104. Based on the limited amount of desktop research undertaken, we have not been able to find a substantially similar organisation to the CHA that the parties could use for benchmarking purposes.

9 CHA GOVERNANCE

Current Governance Arrangements

105. In accordance with the terms of Schedule 9 of the Section 165 Agreement, the CHA produces an Annual Business Plan and four Performance Monitoring Reports that are discussed and reviewed at the Programme Board.
106. The terms of reference for the Programme Board state that it is not a decision-making board but has been established to ensure an integrated approach over monitoring, governance and policy making in connection with the CHA and to keep Ministers briefed on progress and advise on the priority of proposed actions or areas of competing interest.
107. The Programme Board is responsible for ensuring that:
- the CHA's performance and funding arrangements for the management of Cardiff Bay and the Barrage are both effective and efficient;
 - the CHA performs its functions and duties in a way consistent with minimising longer-term costs and providing value for money;
 - the conditions attached to the payment of WG grant conform to the requirements contained in the Section 165 Agreement and Deeds of Variation;
 - arrangements are in place to effectively monitor the CHA's use of the approved budgets and that it is compliant with the terms and conditions in the Agreement;
 - the CHA submits a Business Plan containing relevant information to support its financial plans, performance targets and outputs and to evaluate the Annual Report in respect of CHA's achievements for the previous financial year;
 - the CHA continues to review its services and activities under the Agreement to ensure it is achieving and aiming to obtain improved value for money; and
 - the CHA meets its environmental responsibilities in connection with protecting water quality; preventing flooding and fish monitoring.
108. Whilst the Section 165 Agreement states that *"the performance reports should where appropriate include explanations as to why any targets and or milestones... have not been met, or where the agreed outputs and outcomes have not been, or are not expected to be achieved"*, and that *"details of the implications of such occurrences and the impact on spend should also be provided"*, this is generally not included in the sample of reports we have reviewed. We understand that over time the amount of explanatory information included has gradually reduced, with explanations provided verbally.
109. In between the quarterly meetings, regular ad-hoc discussions take place between WG and CHA personnel, as/if specific issues arise.



110. Within the Council, the CHA comes under the Sport, Leisure and Culture portfolio currently held by Councillor Peter Bradbury. The CHA Operational Manager meets with Councillor Bradbury on a fortnightly basis, and reporting is done by exception.
111. The Cardiff Bay Advisory Committee meets twice a year, chaired by the Vale of Glamorgan Council, attendees include stakeholders with an interest in the Bay e.g. NRW, local yacht clubs etc. Councillor Bradbury also attends these meetings.

Conclusion

112. Governance is “light-touch” and largely operational in nature, but generally operates in accordance with the Section 165 Agreement. This probably reflects the fact that no substantial issues have arisen to date.

Recommendation

113. We recommend that CHA governance be enhanced through more senior WG and Council attendance on an annual basis, thus facilitating more strategic discussions including formal approval of the annual business plan. We recommend that a CHA risk register be prepared, with risks, identified, allocated to the appropriate individual and mitigation measures put in place and monitored.

Business Continuity Plan

114. One aspect of good governance is having a clear up-to-date Business Continuity Plan (“BCP”) in place, which is accessible and well-publicised within the organisation.
115. A BCP is in place for all CHA facilities including the Barrage which is current and clearly identifies the contingency arrangements for a range of scenarios.
116. Our view is that the BCP is comprehensive, identifying:
 - the events that could trigger implementation of the plan
 - the parties’ decision-making process for implementation of the plan
 - the process for managing any changes to the arrangements in the Bay, Barrage, etc.
 - the process for assessing the expected impacts on the services, including whether the impacts will be short term or long term
 - the process for managing the necessary communications (internal and external)
 - plans for mobilising any additional staff and resources required at short notice
 - the steps needed to return the services to normal once the issue has been resolved
 - alternative monitoring arrangements to allow for continuation of the required monitoring functions.
117. The BCP could benefit from the inclusion of information on:
 - any consents which may be needed from third parties to implement the plan

- the parties' approvals process for implementation of the plan
- the process for recording and retaining the knowledge gained as a result of the implementation of the plan including amendments to the plan itself.



10 SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Section 165 Agreement

118. Given the number of Deeds of Variations that have been agreed since 2000, we recommend that a clear and consolidated version of the Section 165 Agreement be produced.

CHA Funding

119. Over the last six years, the CHA's fixed cost budget has steadily decreased in cash terms, at a rate which exceeds the reduction in WG RSG funding of local government across Wales.
120. Variations in actual expenditure against the overall fixed cost budget have been minimal, though significant variances have occurred in relation to specific budget headings.
121. Given the specialist nature of some of the CHA's infrastructure and which are now c. 20 years old, we recommend that a suitably experienced organisation is jointly procured by the CHA and WG to undertake a comprehensive asset condition survey and a risk assessed forward asset maintenance and renewal plan, to inform the level of future asset renewal budgets. WE understand that this process is now underway.
122. With a current balance of c. £40,000, the Harbour Contingency Fund is not able to effectively insulate WG from additional unforeseen funding requests. Its continued ability to fulfil its intended purpose, is likely to be dependent upon the availability of future capital receipts from land disposals. We recommend that the CHA liaise with the WG Estates Division to form a common understanding of the likely potential for future capital receipts.

CHA's Activities

123. The CHA provides a high-quality service and is well regarded by clients and stakeholders. Our assessment concurs with the CHA's own assessment, that in all material terms the CHA's activities are either mandated under the Act or subject to a contractual obligation under the Section 165 Agreement.

Savings Identified

124. Savings of £419,000 pa can be estimated with a high degree of confidence:
- £134,000 pa from 2020/21 following the cessation of the Groundwater Protection Scheme;
 - £135,000 pa from 2020/21 following the expiry of the contract with NRW pursuant to the Cardiff Bay Barrage Fisheries Mitigation Programme;
 - £150,000 pa from 2022/3, from an increase in Harbour Dues, assuming that the current challenge is not upheld, and the full undiscounted charges are applied.
125. In addition, informed by almost 20 years of successful operation of the barrage, we recommended that the CHA's suggestions relating to the following be investigated.



Each would require a well-managed trial in order to ensure that there is no detrimental impact to the environment or fish welfare:

- The potential to operate the fish pass on a more targeted basis aligned to its use, which could release savings of c. £10,000 per annum, depending upon the actual operating hours;
- The relaxation of KPI1 “Percentage of readings of dissolved oxygen in Cardiff Bay that achieve a reading of 5 milligrams per litre of dissolved oxygen or greater”. It is not possible to quantify the extent of such savings until discussions have taken place to determine what revised KPI, if any, NRW would find acceptable.

Analysis of the CHA’s Expenditure by Function

126. There are differences in the way that the CHA’s financial and budgetary information is presented and analysed for the purposes of CHA’s own budget monitoring purposes compared to when presenting quarterly grant claims to WG. During the course of the review, we discussed with the CHA the benefits of disaggregating its staff an overhead budget (LA904) across each of its functions, and this work has now been done. In order to simplify, improve transparency and provide a single common budget for CHA and WG purposes we recommend that this be further refined, with the objective of disaggregating the entire CHA budget to correspond with its functions, such that the net cost of undertaking each becomes apparent.

Reclassification of Fixed Cost Budget Items as Capital

127. Based on our analysis of the 2019/20 Fixed Cost Budget, within the Facilities Maintenance and Barrage Maintenance budgets, c. £500,000 relates to maintenance and renewal of the barrage and bay area and which could be capitalised.

Recommendations for Longer-Term and Alternative Funding Arrangements

128. Whilst three-year funding settlements have been suspended subject to the conclusion of this review, we recommend that in order to facilitate effective service planning, that three-year funding settlements are re-instigated, with the timing corresponding to the WG’s budgetary cycle.
129. From the WG’s perspective, budgetary responsibility sits within the Regeneration and Homes and Places Division. Whilst the construction of the barrage and redevelopment of the Bay area originated as a significant regeneration project, having now operated successfully for 20 years, we recommend that the WG review its internal budgetary responsibility in respect of the CHA accordingly. We consider that transferring budgetary responsibility to the Local Government Division may now be more appropriate.
130. The obligation to fund the CHA’s activities pursuant to the Act and the Section 165 Agreement sits with WG. The expertise in undertaking the CHA’s activities sits within CHA and the Council. The CHA’s activities make important contributions towards the Council’s strategic objectives (as detailed in Section 7) within a high-profile area for the capital. The CHA, having made significant savings, continues to provide a high-quality service, is well regarded by its clients and stakeholders and has been operating without incident for 20 years. In light of the above, we recommend that consideration be given to transferring the responsibility for funding



and delivery to the Council by means of an un-hypothecated transfer of funding, to see if a mutually acceptable solution can be found – as this would better facilitate the achievement of future efficiencies. The treatment of asset renewal and maintenance may need to sit outside any such arrangements, given the potential scale of such, unless a sinking-fund arrangement can be agreed.

The CHA's Strategic Contributions

131. The CHA makes a broad contribution towards achieving both the WG and the Council's strategic objectives. As a high-profile location within the capital, Cardiff Bay and CHA's role within it, makes a greater and more direct contribution towards the Council's ambitions, for example through hosting significant events such as the Volvo Ocean Race or the international food and drink festival.
132. With reductions going forward in the Events budget, such events will now need to be self-funding, which may reduce the extent to which the CHA's activities contribute to such ambitions.

Potential Similar Organisations

133. Based on the limited amount of desktop research undertaken, we have not been able to find a substantially similar organisation to the CHA that the parties could use for benchmarking purposes.

CHA Governance

134. Governance is "light-touch" and largely operational in nature, but generally operates in accordance with the Section 165 Agreement. This probably reflects the fact that no substantial issues have arisen to date.
135. We recommend that CHA governance be enhanced through more senior WG and Council attendance on an annual basis, thus facilitating more strategic discussions including formal approval of the annual business plan. We recommend that a CHA risk register be prepared, with risks, identified, allocated to the appropriate individual and mitigation measures put in place and monitored.

Appendix A: Section 165 Agreement Key Terms

The key undertaking under the Section 165 Agreement requires the Council to discharge all of the statutory functions and duties contained in the 1993 Act, and such other non-statutory functions normally expected of a harbour authority. We summarised the key aspects of this undertaking at paragraph 11 of this report.

We set out below the key terms relating to costs, budget and funding periods, performance monitoring and reporting, claims and payment arrangements.

Costs

Clause 16 relates to costs. Clause 16.1 requires the WG to pay the Council the amounts necessary:

- to discharge its functions under the 1993 Act;
- to maintain all of the properties that make up the Bay, Barrage and supporting areas;
- to fulfil the obligations contained in supporting/linked contracts; and
- to satisfy any liabilities arising from acts or omissions of third parties.

Clause 16.2 requires the WG to agree with the Council an amount of funding and list of activities for each funding period (each to be a three-year period). If the actual costs of performing these activities are more or less than that agreed, then the additional costs or savings (respectively) shall be shared between the parties. Asset renewal costs will be paid by the WG based on an indicative schedule agreed by the parties at the beginning of each funding period.

Clause 16.4 requires the Council to maximise the generation of income from the Bay.

If the Council uses any of the funding for a purpose other than it was provided for, the WG shall be entitled to recover this aspect of the funding under Clause 16.10.

Clause 16.11 states that KPIs, targets and performance monitoring arrangements shall be agreed between the parties and reviewed at the start of each business year.

Clause 16.14 permits the WG to visit the Council to inspect any relevant activities, capital assets, accounts, records and documents.

Clause 16.15 requires a review of Clause 16 every 6 years starting from 1st April 2011, and the review of Schedules 8-10 should take place every 3 years starting from 1st April 2014, under Clause 16.15.

Clause 16.16 covers the Harbour Contingency and Project Fund. This is an account held by the Council which can be used in relation to its obligations under the 1993 Act, and to fund the improvement and enhancement of infrastructure, assets, activities or services in or around the Bay. The Council is required to maintain a minimum sum of £100,000 in this Fund at any point in time (now reduced to £40,000 following a deed of variation). The Council is required to draw down money from this Fund up to this level before making any additional claims to WG in relation to unforeseen costs.

If the Council is negligent in performing its obligations under the S.165 Agreement, Clause 16.17 permits the WG to recover reasonably foreseeable costs.



Budget and Funding Period

Schedule 8 requires the WG and Council to agree a three-year fixed cost budget, and the estimated cost of the asset renewal proposals, covering 2014/15, 2015/16 and 2016/17.

Performance Monitoring and Reporting

Schedule 9 sets out the performance monitoring and reporting arrangements. Part A requires CHA to provide written performance reports on a quarterly and annual basis. Paragraph 8 states that reports should where appropriate include explanations as to why any targets or milestones have not been met, and why any outputs and outcomes have not been achieved.

Paragraph 14 of Schedule 9 requires the parties to agree dates to meet and discuss progress against the Business Plan, both as reported in its quarterly and annual reports, and any other relevant topics in connection with the s.165 Agreement.

Part B of Schedule 9 sets out a timetable of key dates for financial and performance monitoring reporting.

Claims and Payment

Schedule 10 sets out the financial planning, claims and payment arrangements. Paragraph 7 states that funding will be provided on the basis of a certified quarterly claim from the Council for the forthcoming quarter. The details of what is required in said claim form are set out in the remainder of Schedule 10.

The Council is entitled to make claims for additional funding under paragraphs 24 and 25 of Schedule 10. The Council can make a claim if it incurs any actual costs in connection with the activities to be funded under clause 16 which it was not possible to identify or quantify, or it incurs any actual costs in excess of the amounts identified in Schedule 8 which were recorded as being subject to a limitation or qualification.

If the actual costs cannot be accommodated within the annual budget then the Council will as soon as reasonably practicable seek authorisation from the WG for an increase to the annual budget. In certain circumstances the Council can incur the costs without first having obtained the authorisation of the WG.

Paragraph 32 of Schedule 10 requires the Council to obtain the prior written consent of the WG for any material change of use of an asset.

Part B of Schedule 10 sets out a timetable of key dates for financial and performance monitoring reporting.

Appendix B: Breakdown of the CHA's Overhead Budget 2019/20



Premises	£
RT: Build Formfind	40,000
Fabrication Unit	25,000
Repairs Alterations & Maintenance	20,000
Maintenance Contracts	40,000
CRC Allowances	7,000
Electricity	15,000
Gas	5,000
Propane Gas	1,500
Rents	85,000
National Non Domestic Rates	90,000
Water Metered Supplies	3,000
Cleaning Materials	100
Contract Cleaning	60,100
Household & Toilet Requisites	1,000
Premises Insurance Premiums	20,000
Property Insurance Claims	15,000
	427,700

Transport	£
Repair of Boats	1,000
Fuel & other Running Costs	300
Hire of Plant & Equipment	1,000
Car Allowances	2,000
Travel Expenses	2,000
Motor Insurance Premiums	2,000
Motor Insurance Claims	3,000
	11,300

Supplies & Services	£
Purchase/Repair of Furniture	4,000
Office Equipment	2,000
Plan Printing Equipment	2,000
New Plant & Tools	500
Equipment & Materials	15,000
Consumables	4,000
Purchase of Kitchen Equipment	200
Health & Safety Equipment	3,000
General Provisions	300
Uniforms & Overalls	4,000
Overalls & Protective Clothing	2,000
General Printing & Stationery	3,500
Print Rationalisation Recharges	700
Health & Safety	2,000
Audit Fee	3,000
Audit Commission Fee - Grant Claim	5,000
Consultants Fees	20,000
Commission	500
Outside Legal Advice	8,000
General Legal Expenses	1,000
External Contractors	25,000
ICT Holding a/c	8,000
Central Telephone Exchange	15,000
Telephones	5,500
Postages	8,000
Mobile Telephones	1,000
Internet Charges	500
Computer Software Purchase	5,000
Computer Consumables	1,000
Computer Hardware Purchases	10,000
Computer Software Licence/Mice Agreement	1,000
Maintenance & Development	3,000
Refreshments for Meetings	1,000
Planning Applications & Appeals	2,000
Subscriptions	2,000
Public Liability Insurance Premiums	2,000
Public Liability Insurance Claims	24,000
Insurance – Misc. Premiums	90,000
Insurance – Misc. Claims	8,000
	292,700



Support Services	£
Service Accountancy	17,860
Insurance	15,240
Income Recovery	530
Payroll	1,110
Payments	2,150
Procurement	7,070
Strategic Estates	35,380
SAP Support	19,000
ICT Services	28,000
HR People Services	24,740
Legal Services	7,820
Post-Corporate Services	1,210
Health & Safety	8,200
Communications	28,470
Welsh Translation	2,280
CIWW Recharge	100,000
Project Development (EMU)	20,000
Traffic Admin Section (Car Parks)	42,000
Employee Counselling service	500
CTS Vehicle Recharge	65,000
Shared Admin	10,000
	436,560

APPENDIX C: The CHA's Functions

Responsibility	Description	CHA Function(s)	Mandatory (M) under the Act, Contractual (C) under the Section 165 Agreement, or Discretionary (D)
Operate the barrage	Maintain and repair the barrage, which includes opening and closing the lock gates, managing the roadways, etc.	Barrage	M – s. 7(1) C – s. 165, cl. 15.1
	Safeguard and improve the environment and amenities of the bay.	Barrage, Environment	M – s. 7(2)
	Follow any reasonable direction given by the National Rivers Authority.	Barrage, Environment	M – s. 8(1)
	Have regard to the safety of boats.	Barrage	M – s. 9(2)
Manage the inland bay and harbour	Fulfil the role of a Harbour Authority.	Harbour Master	M – s. 17(1) C – s. 165, cl. 15.7
	Ensure that the quality of water in the bay meets the relevant standard.	Environment, Harbour Master	M – s. 12(1) C – s. 165, cl. 15.4
	Facilitate and promote the use of the bay for recreational boat use, water sports, etc. Aim to increase the number of visitors.	Harbour Master, Parks & Leisure	M – s. 13(1) C – s. 165, cl. 15.8
	Maintain moorings, granting licences and dealing with fees and charges.	Harbour Master	M – s. 13(4)
	Develop and conserve flora and fauna.	Environment, Harbour Master	M – s. 14 C – s. 165, cl. 15.10
	May impose charges on boats for use of the barrage, bay and harbour.	Barrage, Harbour Master	D – s. 15
	If part of the tidal structure is damaged, give notice to the relevant party, and take steps to prevent danger, and undertake repairs if directed by the SoS.	Harbour Master	M – Schedule 6
	Provide the infrastructure necessary to carry out the powers and duties under the 1993 Barrage Act including car parking slipways, public facilities and information points.	Barrage, Environment	C – s. 165, cl. 15.9



Responsibility	Description	CHA Function(s)	Mandatory (M) under the Act, Contractual (C) under the Section 165 Agreement, or Discretionary (D)
Byelaws	May make byelaws for the rule and government of the bay and harbour.	Barrage, Harbour Master	D – s. 16(1)
Establish and consult with a liaison committee	Consult the committee on matters affecting the environment or amenities of the bay, or navigation in the bay and harbour.	Environment, Harbour Master	M – s. 20
Groundwater Damage Protection	Ascertain, prevent and/or repair damage to property resulting from any alteration of groundwater levels which may occur.	Environment	M – s. 21 and Schedule 7 C – s. 165, cl. 15.5
Comply with relevant legislation	<p>Water Resources Act 1991</p> <p>Harbours Act 1964</p> <p>Public Health Acts Amendment Act 1907</p> <p>Salmon and Freshwater Fisheries Act 1975</p> <p>Harbours, Docks and Piers Clauses Act 1847</p> <p>Land Drainage Act 1991</p> <p>Highways Act 1980</p> <p>Comply with all environmental laws in connection with the operation of the barrage so as to meet the requisite environmental standards of the Environmental Agency.</p>	Barrage, Environment, Harbour Master, Parks & Leisure	<p>M – s. 8(3), 15(4), 15(6), 18, 22, and Sch. 4</p> <p>C – s. 165, cl. 15.3</p>
Comply with ancillary documents	The Ancillary 1993 Barrage Act Documentation.	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 15.11 and Sch. 3
Discharge the functions under the Act, maintain the properties, and carry out contractual obligations	<p>Fulfil the contractual obligations contained in the documents listed in Schedules 1, 2 and 3 of the S.165 Agreement.</p> <p>Satisfy any liability arising from an act or omission of a third party when the Council is carrying these activities.</p>	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 16(1)



Responsibility	Description	CHA Function(s)	Mandatory (M) under the Act, Contractual (C) under the Section 165 Agreement, or Discretionary (D)
Share excess costs or excess funds.	If the actual costs of performing the specified activities exceed the amount specified then the parties will share equally the excess cost. If the actual costs of performing the activities are less than the amount fixed in the budget the difference between the two sums shall be shared equally between the parties.	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 16(2)
Maximise income	Maximise the generation of income from the Bay and the Properties	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 16(4), 17, 18
Produce a plan	Produce a plan for each Business Period showing for each year covered by the plan how it can most efficiently and effectively renew assets which are used in connection with the functions under the Act, the properties transferred to it and the agreements listed in Schedules 1, 2 and 3 of the S.165 Agreement.	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 16.8
Manage the operations	Ensure that the duties are managed appropriately.	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 19.1
Manage the funding	Ensure that all funding is applied to discharge the obligations under the S.165 Agreement... not to use the funding for any other purpose with the intent that the said funding shall be ring fenced and that all income generated shall be used in connection with the purpose.	Barrage, Environment, Harbour Master, Parks & Leisure	C – s. 165, cl. 19.2

Appendix D: Individuals Consulted

In conducting this review, Local Partnerships has consulted the following individuals:

CHA:

Jon Maidment (Operational Manager)
Andy Vye-Parminter (Harbour Master)
Chris Seddon (Barrage Manager)
Natalie Taylor (Team Leader, Contracts and Environment)
Dave Westerland (Community Liason Officer)

WG:

John Howells (Director of Housing and Regeneration)
Mark Williams (Head of Regeneration Strategy, Homes and Places Division)
Colin Squire
Nigel Thomas (Principal Estates Surveyor)

NRW

Liz Felton

ABP:

Callum Couper (Port Manager)

Appendix E: Documents Reviewed

In producing this report, Local Partnerships has reviewed the following documents:

- Associated British Ports reconciliation spreadsheet 2016-18;
- Associated British Ports / CHA Wrach Channel Protective Provision & Siltation Mitigation Discussion Paper, dated 19th November 2018;
- Boskalis Westminster Ltd agreement for maintenance dredging of the outer harbour and approach channel dated 30th June 2017;
- Budget Summary 2018/19 spreadsheet;
- the Business Continuity Management Plan for the Barrage;
- “Capital Ambition”, Cardiff Council’s overarching corporate plan, including their vision for Cardiff Bay;
- Cardiff Barrage Operational Overview;
- the Cardiff Bay Barrage Act 1993;
- the Cardiff Bay Barrage Bill agreement with Associated British Ports, dated 9th November 1992;
- Cardiff Council Annual Governance Statement 2017/18;
- Cardiff Council Statement of Accounts 2017/18;
- CHA Annual Reports for 2016/17 and 2017/18;
- CHA Asset Renewal Budget 2018/19;
- CHA Asset Renewal Programme 2018/19 (x4);
- CHA briefing note on potential restructure (confidential);
- CHA Business Plan 2018/19;
- CHA Central Support with apportionment bases
- CHA Employee Structures PowerPoint;
- CHA Land Ownership map;
- CHA Proposed Budget 2019/20;
- CHA Proposed Budget Trend;
- CHA Provisional Asset Renewal Proposals 2019/20;
- CHA Provisional Savings Proposals 2019/20;
- CHA Quarterly Profile & Grant Claim - Quarter 4
- CHA quarterly reports 2016/17 (x4), 2017/18 (x4), 2018/19 (x3);
- CHA staff and overheads 2017/18;
- Checklist for grant in aid claims, Quarter 4: 2017 -2018;
- Copy of monitoring CHA;
- Copy of premises budget listing;
- Copy of staffs and overheads: supplies and services;
- Deed of Variation dated 5th April 2011 inserting new Clause 16 and Schedules 8-10;
- Deed of Variation dated 2014 in relation to the Harbour Contingency & Project Fund;
- Deed of Variation dated 5th April 2017 deferring the review until April 2018.
- Deed of Variation dated 26th April 2018 deferring the review until April 2019, and committing to maintain minimum of £40k in the Harbour Contingency & Project Fund;
- Delivering Capital Ambition: Cardiff Council Corporate Plan 2019-22
- Fleet Services Internal Vehicle/Plant Service Level Agreement;
- Fisheries Mitigation Agreement dated 29th May 2008;
- NRW Marine Licence DML1540;
- Payment Requisition for the CHA 4th Quarter 2017-18;
- Pest Control Service Level Agreement 2018/19;
- the reports and findings from previous reviews of the CHA in 2006 and 2010;

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- Return of Income and Expenditure (“Grant Return”) 2016/17 and 2017/18;
 - the Section 165 Agreement and subsequent Deeds of Variation;
 - Street Cleansing Service Level Agreement 2018/19;
 - Section 165 Agreement between Cardiff Bay Development Corporation and Cardiff Council;
 - Timber Service Level Agreement 2018/19;
 - UK Dredging Disposal Returns for Quantities Deposited;
 - UK Dredging Internal Conditions Provision of Dredging Craft 2018, and associated plans;
 - Wallace Evans & Partners pre-investigation technical feasibility study
 - WG “Taking Wales Forward 2016-21”



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