

Agenda Item	8
Report No	RC/017/16

Tain Common Good Fund – Tain Mussel Fishery

Joint Report by the Director of Development and Infrastructure and the Director of Finance

Summary

This report invites Members to consider the recent performance of the Tain Common Good mussel fishery and options for the future. Members are asked to agree their view on the proposed way forward. It is recommended that the mussel fishing boat and licence be declared surplus to requirement and that both be sold in favour of a move to a leased fishery.

1. Background

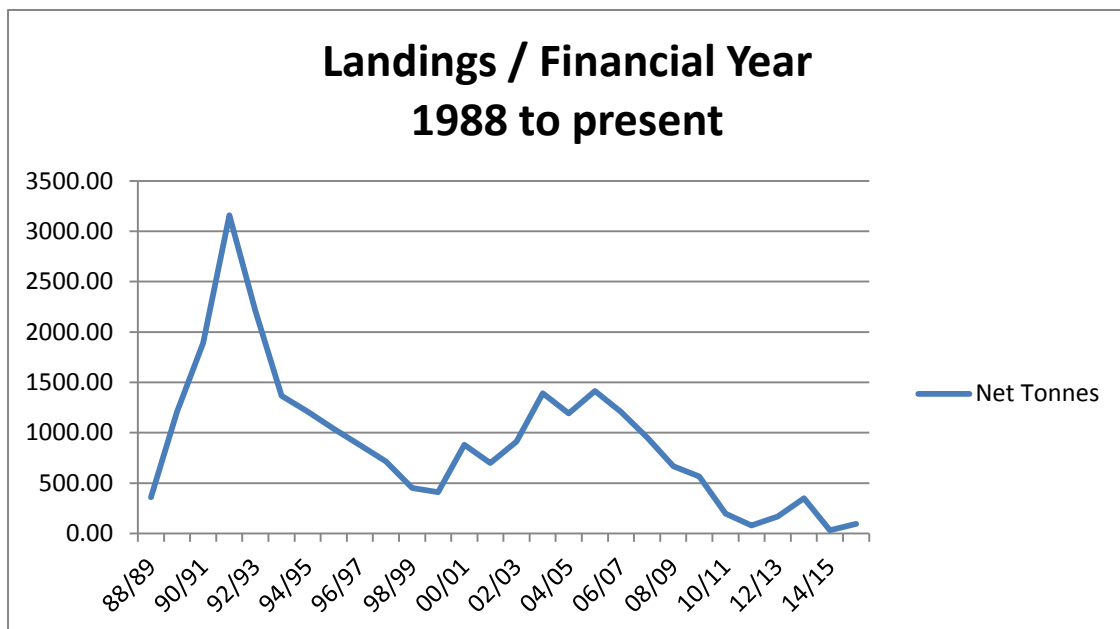
- 1.1 Mussel fishing rights within the Dornoch Firth are one of the Common Good assets of the Royal Burgh of Tain. These fishing rights were granted by James 1st in 1612 and for a long time the fishery was a food source for local people and for long-line bait for local fishermen.
- 1.2 During the 1980s the mussel fishery was leased to local operators. They exercised the fishing rights leased to them by the local Council and paid a levy on landings to Ross and Cromarty District Council. The levy (net of management expenses) was a financial contribution to the Common Good Fund.
- 1.3 In the late 1980s the fishery became an activity run entirely by Ross and Cromarty District Council. In 1996, with local government re-organisation, the fishery became the responsibility of the Highland Council and until recently the operation contracted a skipper and crew. The Common Good assets include the fishing rights, boat and fishing licence. Other Tain Common Good assets include land holdings, agricultural grazings, property, salmon fishings and industrial property.
- 1.4 Very early records are not available but since being operated by the Council production has varied considerably year on year. Fluctuations are to be expected in wild fisheries but more recently due to a combination of factors including low demand and fishery closures, the costs of the operation have been greater than the income received resulting in repeated deficits to the Common Good. As monitoring reports to the Area Committee have noted the potential for deficits to be incurred represents a risk to the Common Good. Monitoring reports have noted that performance would be kept under review and Members kept up to date.

1.5 All 80 Highland Councillors are trustees of Tain Common Good. Ross and Cromarty Committee now approves the annual budget for its Common Good Funds, authorises expenditure over £10,000 and receives quarterly budget monitoring reports. However certain decisions, including disposal of assets which make up over 10% of the fund value are reserved for full Council. This report recommends the sale of the boat and licence. The estimated value of these at the end of March 2015 was £208,000 against total Fund Reserves (usable and unusable) of £961,088. Actual values are thought to be lower than that estimated in March 2015 but nevertheless the value this represents is over 10% of the fund value and disposal will require approval by full Council.

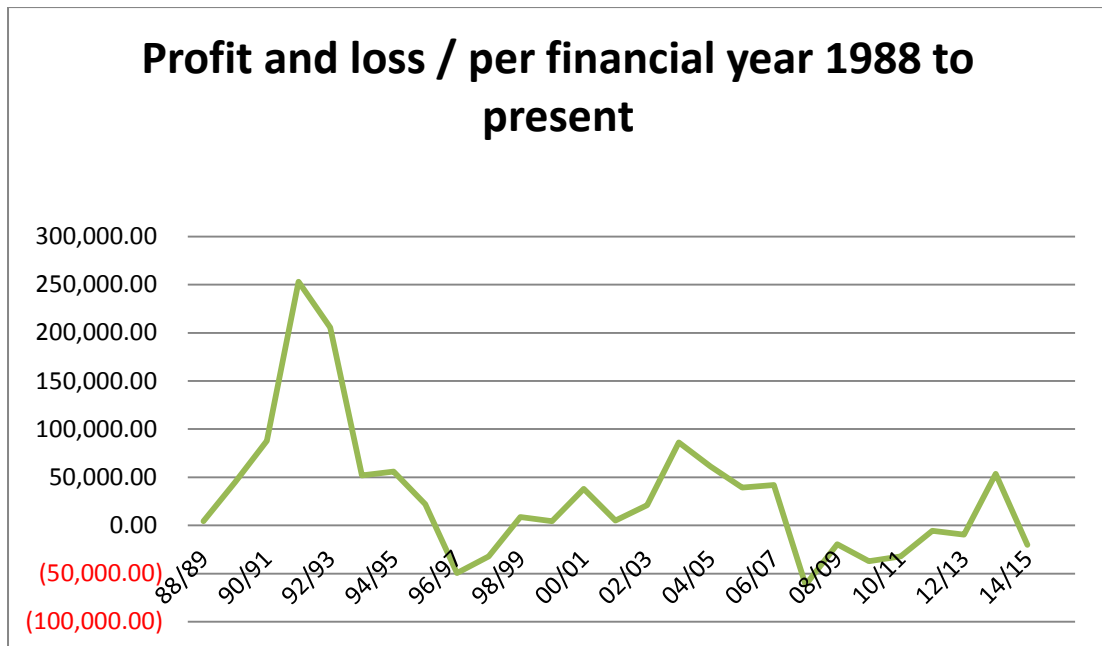
2. Fishery Performance since 1988

2.1 Since 1988 the mussel fishery has been operated by the responsible local authority. Profits generated as a result of the activity form the financial contribution to the Tain Common Good Fund.

2.2 Very early records are not available but since being operated by the Council production has varied considerably year on year. Peaks and troughs in abundance are characteristic of wild fisheries where reproduction, settlement and growth rates are determined by various biological factors. Overlying this are peaks and troughs in consumer demand for the available resource and so landings reflect both available stocks and customer demand. The graph below shows the volume of mussels landed from the fishery during the financial years 1988/89 to date.



2.3 As can be expected, profitability has follows productivity. Contributions to the Common Good Fund since 1988 are indicated in the graph below.



- 2.4 Contributions to the Common Good have been made after payment of all fishery operating costs and as some costs are fixed (e.g forklift hire, skipper fees, landing and light dues) the contribution to the Common Good Fund is highest when production is highest.
- 2.5 It has been clear for some time that the operation of the fishery in its current form is marginal at best and economically unsustainable at worst. In some years the presence of algal toxin events has meant that the fishery has been closed even if there was market demand. Toxins have not been an issue in the last 2 years but despite some promising market leads in the early part of 2016/17, sales failed to materialise. The fishery now appears to be one of last resort and insufficient income is generated to cover the cost of the activity. This was the case during 2014/15, and in 2015/16 the fishery will generate a loss of around £25k rather than the breakeven position anticipated. At present, all things being equal, there is no reason to believe this trend will not continue into the foreseeable future.
- 2.5 In order to reduce the costs of the fishery operation and to reduce losses there is a need to consider an alternative operating model which has the potential to improve efficiency for the current market conditions, reduce risk and generate income rather than losses.

3. Update on current position

- 3.1 Following recent discussions with Ward Members and pending the decision of Ross and Cromarty Members, the skipper's contract has been suspended and the forklift contract has been cancelled. These represent an immediate saving of £16k that may be reversed if the recommended option to sell the boat and licence is not agreed and the fishery operation is to be maintained.

- 3.2 Remaining fixed costs include satellite reporting fees, light and harbour dues, radio licence fees, mooring fees and liferaft rental. These will cost around £8.5k during 2016/17.
- 3.3 The application for the new fishing licence has been submitted and this will be required if Members wish to continue the fishing operation.
- 3.4 The 5 yearly MCA inspection is now due. £30k has been allocated to repairs, maintenance and improvement within the Common Good budget and this expenditure will be required if the boat is to be retained and the current operation continued. MCA have been informed of the current position and have agreed an extension to the inspection deadline, which should now be undertaken by 31st August 2016.
- 3.5 Stock assessment data has been gathered regularly since the last full assessment in 2012 and feedback from sales is a good indicator of quality. As a result stock information is fairly reliable. At the time of writing there is estimated to be around 300 tonnes of better quality mussel available. There has been no recent demand for this mussel but it may be of interest to fishermen if offered for lease in the interim. Other stocks are very patchy, poor quality and small volumes have been sold for re-laying during 2015/16. Around 200 tonnes remains available for sale if demand improves.
- 3.6 Only one buyer currently sources mussels from the Dornoch Firth. Around 50 tonnes were sold to this buyer during 2015/16 and demand remains low. This buyer has been informed of the current situation and that depending on Member views the stock of interest to him may become available again during the year.

4. Going Forward: Alternative Operating Models

- 4.1 Over the last two financial years the performance of the fishery has been monitored closely by Ward members. There have been concerns about performance, as highlighted to the Area Committee in previous reports, but breakeven or limited profitability appeared to be a realistic possibility particularly taken alongside efforts to reduce expenditure to a minimum. However this has not proved to be the case and it is now important to consider other operating models including:
- Maintaining current activity
 - Mothballing the operation and monitoring stock levels
 - Ceasing the current operation and returning to the leased fishery model
 - Leasing the fishery but retaining the boat and licence
 - Ceasing the operation entirely

Each of these options are considered in more detail below:

- 4.1.1 **Maintaining current activity** - this option is considered economically unsustainable and the risks to the Common Good are clear from the profit/loss graph shown in 2.3. The market remains very uncertain and there

is only one customer interested in the mussel stock available. As a result of the wider Highland Council budget setting process voluntary redundancies mean there will be a loss of expertise to support the operation in its current form. Even if this were not the case the budget setting process included agreement that officer time spent on Common Good work will, in future, be recharged. Resourcing these elements of work will therefore increase operating costs. Additional work to the boat which has been postponed, such as replacement of the crane, would also have to be undertaken (para 3.4).

Estimated out-turn 2016/17 under current conditions: £30k deficit + £30k capital expenditure.

- 4.1.2 **Mothballing** - is not a no-cost option and has in reality been the position the fishery has been in during 2015/16. Low production coupled with the need to retain a skipper and crew, maintain water sampling regimes and forklift availability has resulted in an estimated loss for the financial year of approximately £25K. If mothballed there would still be costs of around 20K - £30K per annum associated with retaining a skipper, sampling and other items mentioned at paragraph 3.2. There would be no balancing income to offset expenditure.

Estimated out-turn 2016/17 under current conditions: £40k deficit + £30k capital expenditure.

- 4.1.3 **Return to the lease model** - ceasing the current fishing operation while retaining the option to lease fishings based on the availability of stocks would reduce costs to a minimum while retaining the potential to generate income via rental. This model has been used in the past and a similar approach is taken with the Common Good salmon fishings. If this course is taken the boat and licence could be sold which would mean no maintenance costs were incurred and a one off receipt (approx £150k) would be generated. If the fishing rights were leased on a % basis of landing value it may be possible to generate around £25 – £35k/annum, and more when stocks improved and/or if demand increases. There would be ongoing costs associated with this model including:

- sampling – estimated at up to £8k/annum depending on the likely timescale of recommencing fishing (**Appendix 1**);
- stock survey – estimated at £5k every 2nd year; and
- managing the lease and payment of rental - carried out by HC and re-charged to the Common Good.

More detail on the draft regime proposed and associated costs are included at **Appendix 1**.

Estimated out-turn 2016/17 if fishery can be leased during year: Profit of £10k + capital receipt of £150k.

- 4.1.4 **Leasing the fishery but retaining boat and licence** – this option would involve leasing the fishery as described above and retaining the boat (and licence) in the Council's Lochinver Harbour. The boat could be removed from the water and stored within the Lochinver boat yard where it could be maintained, inspected and improvement work carried out in preparation for re-use if stock assessments permitted. If stocks did not improve or if the leased model proved most efficient the boat and licence could then be sold. The cost of moving the boat to Lochinver for storage and returning to the water at a future date are estimated at around £8k. No charge would be levied for storage while at Lochinver. Sampling and stock assessment costs would be similar to those in 4.1.3 while the fishery was leased but there would be no receipt from the sale of the boat and licence. Repairs and improvement costs of £30k would be incurred if the boat was to be re-used. At a suitable point in the future the fishing operation could be re-started.

Highland Council's Harbour Manager has offered to assist if this option is chosen.

Estimated out-turn 2016/17 if fishery can be leased during year: deficit of 10K + capital expenditure of £30k.

- 4.1.5 **Ceasing fishing completely** - this would eliminate costs but also the potential to generate future income. An income feed of approximately £150k could be received from the sale of the boat and licence.

Estimated out-turn 2016/17 if fishery closed: deficit of 2k + capital receipt of £150k.

5. Local Consultation

- 5.1 The Head of Environment and Economic Development has attended ward business meetings with Member and Community Council representatives to consider the performance of the mussel fishery. The most recent meeting was held on 21st March 2016. Members and community councillors are very concerned by the repeated deficits and anxious that the Common Good fund can be protected from further losses. They do have some concerns about the proposed sale of the boat and licence but as the report outlines retaining the boat inevitably triggers costs. It is hoped that a local operator might be interested in leasing the boat but the officer view is that this is unlikely as a potential operator is more likely to want to make additional use of an existing boat and licence to increase income in relation to costs. If Members are minded to retain the boat and licence, then local interest in leasing could be assessed.

6. Conclusions

- 6.1 The mussel fishery is an important element of the Tain Common Good and for periods of time it has been an important source of income for the Common Good fund. Stock quality and market changes mean that the

current operating model is economically unsustainable. Mothballing is not a realistic option as costs will still be incurred with no income potential to offset them. Ceasing fishing completely removes all costs and releases a one off capital payment from the sale of the boat and licence but precludes any potential for income generation. The option of returning to a lease model allows the one off capital receipt from the sale of the boat and licence to be realised. Some costs would be incurred but if there is market interest in a lease it would be a more efficient model, could generate income and would minimise the risk to the Common Good fund.

Therefore the recommended model is:

- current activity be ceased in favour of a fishery leased to 3rd party operators;
- the fishing boat, licence and ancillary equipment be deemed surplus to requirement and placed on the market for sale to the highest bidder; and
- a programme of sampling and stock assessment be agreed for implementation during the 2016/17 and allowance made for this work within the Common Good budget annually

6.2 Members are asked to consider the report and to agree the recommended way forward.

7.0 Implications

7.1 Financial and Risk Implications:

There are clearly financial implications in changing the way the fishery is operated. However the biggest financial risk is associated with continuing the current operating model. Costs have already been minimised but some costs must be incurred to keep the fishery open whilst sales are dependent on other factors and can fail. Mothballing would inevitably result in continuing deficits as there are unavoidable costs associated with keeping the boat but no income potential to offset. Selling the boat and licence and not operating the fishery is an option that removes all risk from the Common Good but it does not exploit an income potential and therefore is not seen as the best value for the Common Good.

7.2 Selling the boat and licence whilst leasing the fishery reduces risk but allows for income to be generated. If experience shows a lack of interest in the fishery or too low an income to fully offset costs of stock surveys and sampling, then this option could be reviewed and complete closure considered.

7.3 Legal Implications:

No disposal of the assets will be made without appropriate approval in place. If the fishery is operated either directly or via a lease this will be done in compliance with appropriate legislation.

- 7.4 **Carbon Clever/Climate Change, Equality, Gaelic and Rural:**
There are no Carbon Clever/climate change, equality, Gaelic or rural implications associated with this report.

Recommendation

Committee is invited to consider the performance of the Tain mussel fishery and options for the way forward and to recommend to Highland Council that the following actions be agreed:

- the current operation be ceased in favour of a fishery leased to 3rd party operators;
- the fishing boat, licence and ancillary equipment be deemed surplus to requirement and placed on the market for sale to the highest bidder; and
- a programme of sampling and stock assessment be agreed for implementation during the 2016/17 and allowance made for this work within the Common Good budget annually

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Date: 15 April 2016

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Proposed water/shellfish sampling regime

Water quality (E-coli)

- Monthly water samples provided to the EHO.
- Minimum 10 samples required monthly to maintain shellfish harvesting classification – suggest Feb – Nov planned for (weather/daylight).
- Samples normally taken from pier and from forestry bank (20 samples/annum).
- Estimated cost/annum - £5k. (Procured)

Shellfish toxins (ASP/PSP/NSP)

- If harvesting, weekly samples to EHO (mussels and water).
- EHO to witness sample taking.
- Samples must be below algal toxin action level for two consecutive samples for fishing to commence.
- Estimated cost/annum - £3k. (Procured)

Stock assessment

- Contracted piece of work.
- A number of contractors exist who could do the work including Marine Lab Aberdeen.
- Heriot Watt University has indicated an interest in the work but would not be available to do it until summer 2016. However this fits with normal stock assessment timetabling.
- Estimated cost/annum - £5k in 2016 (Procured).
- Repeat assessments in 2018, 2020.