Business and Economic Assessment

Harrington Harbour Regeneration Study

Halcrow

Issue 2 - May 2006

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Business Case and Economic Assessment

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Harrington Harbour Regeneration
Business Case and Economic Assessment

Contents Amendment Record

This report has been issued and amended as follows:

Issue	Revision	Description	Date	Signed
1	0		October 2005	
1	0	Draft Issue to client	December 2005	David Wood
2	0	Final Issue to client	May 2006	David Wood

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SUMMARY

Harrington Harbour offers an exciting opportunity to promote the regeneration of the whole of the Harrington area providing a much needed focus for more extensive future development. The current harbour is largely undeveloped having a capacity for approximately 40 boats of which 27 are occupied, providing an income of £2,500 per year. Average expenditure per year is about £8,000, split equally between minor spares and materials and minor capital maintenance. There are no paid staff members. Expenditure is supported by grants and the interest income from a small endowment. These conditions together with the assets in the immediate area, such as the harbour itself, transport connections and available waterside development land make the proposals contained herein an ideal opportunity to drive forward development involving both the public and private sector.

It is proposed to develop a high quality, 200 berth marina, as the centre piece of a development leading the regeneration of the Harrington Harbour and the surrounding area. The proposals contained in this plan envisage development taking place in three phases in order to effectively match capital expenditure against revenue generation and enable development of the surrounding lands over a sensible timescale. Phase 1 encompasses a pontoon based marina with approximately 86 moorings in the inner harbour. Phase 2 extends development to the outer harbour with a further 58 berths while Phase 3 adds a further 56 berths in the outer harbour. In addition to creating the marina through a range of harbour civil works, it is proposed that the release of land for residential development is maximised including the relocation of the existing Harrington Sailing & Fishing Club in Phase 2. Development will ultimately extend into the area known as North Shore and it is envisaged that this will be private sector developer led based on an increasing demand for property development of the area. The net areas of land potentially released for new residential housing rises from approximately 0.13ha in Phase 1 to 1.16ha at completion of Phase 3. The proposals also see significant improvement in the immediate environment through a range of hard and soft landscaping developments which will extend from the harbour into the Bellaport Marina area to the south. The landside residential /commercial/retail development should be led by one or more private sector developers and will encompass around 91 new high quality modern waterside dwellings and six commercial/retail units. In addition to these the development will include a new marina clubhouse, potentially incorporating the existing Harrington Sailing and Fishing Club, and providing all the shore based facilities required to support an attractive marina operation. The final detailed phasing of the development should remain flexible to be responsive to private sector interest.

Once developed, Harrington will form an integral part of a string of marina facilities along the Cumbrian coast enhancing the areas ability to more fully develop as a recognised sailing destination. This is a stated objective of West Lakes Renaissance as contained in their Business Plan and supports the themes of diversifying the local economy as well as the regeneration of the coastal strip. The development will

complement existing facilities at Maryport and Whitehaven as well as those proposed at Barrow and will significantly improve the impetus behind the creation of a vibrant local cruising market. Harrington would add around 50 percent to the present stock of approximately 425 moorings at Whitehaven and Maryport. Discussions with the operators of Whitehaven and Maryport indicate that there is unmet demand for mooring facilities with a substantial current waiting list at Whitehaven (2005). It is envisaged that take up of the facilities created at Harrington would be rapid in the short term, gradually reducing as additional planned capacity is added at both Whitehaven and Maryport. The landside development proposed at Harrington is seen as being distinctive from those at these neighbouring marinas and will assist in placing Harrington as a distinctive and attractive key facility in the area. In order to generate early activity it is proposed that Harrington initially be placed as a price taker. Available evidence suggests that the lower end of this increased capacity would find a market at a 2005 price of around £100 per metre per annum with a demand ramp up of at least 30 berths per annum. For the larger capacities envisaged after phase 1 a conservative take up rate of 15 berths per annum after 2010 has been used to test the business case. It has been reported in the local press that there are proposals to develop a privately owned marina facility at Workington. The status of the proposal cannot be determined at this stage and it should be noted that such a development would have a significant impact on any proposed development at Harrington.

Marina revenue is principally derived from boat owners who take pontoon berths for periods of 6-12 months. Net income from other activities (slipway use, sales of diesel etc) is comparatively minor. Day to day operating expenses are dominated by labour costs, which are largely determined by the need to operate the facilities offered, rather than the number of berths. The development as proposed specifically seeks to minimise the need for operation of facilities such as entrance gates and essential access bridges thus enabling the marina to be operated in the most cost effective manner.

The operating financial position of the phased development has been assessed. Matching capacity to demand, we assume phase 1 opening in 2008, phase 2 in 2012 and phase 3 in 2017. The base berthing charge at 2005 prices is set at £100/m rising to £110/m in phase 2 and £120/m in phase 3. These are considered robust assumptions on which to base the business case taking account of the high quality of the development proposed and compare favourably with the charges at Whitehaven which are currently £165/m.. Expenses comprise labour, dredging, utilities and spares and materials. As stated above the facilities as proposed minimise the staffing requirements and hence minimise labour costs. During Phase 1 it is considered that the marina can be operated by one full time manager and one full time assistant operating in conjunction with the existing staff at the Harrington Sailing and Fishing Club staff. Due to the increased number of vessels in Phase 2 it has been assumed that the full time manager will be supported by two non-management staff and would still be operating in conjunction with the Harrington Sailing and Fishing Club. In Phase 3 the operation is deemed too large to continue operations without an entirely professional staff and it is envisaged that at this stage the manager is supported by a team of 5 operational staff.

The table below summarises operating viability for all three phases, excluding investment and capital maintenance costs, any private operator profit or changes in debtors. Costs and revenues are at constant 2005 prices. The evaluation period is from 2007 (the anticipated year of phase 1 construction) to 2027 (i.e. construction plus 20 years of operation from 2008). Twenty years is chosen as this is approximately the life of pontoons before needing capital maintenance. The prevailing Treasury discount rate, 3.5 percent, has been used.

Summary of operating financial viability

Phase	Revenue			Operating expenses			Financial	Berthing capacity		
	PV £000	£/berth	Ann av 2023-7	PV £000	£/berth	Ann av 2023-7	NPV £000	Inner	Outer	Total
1	1,384	1,420	113,000	999	1,030	80,200	385	86	0	86
1 + 2	2,342	1,630	219,200	1,315	920	114,300	1,027	86	58	144
1 + 2 + 3	2,973	1,740	333,400	1,579	920	166,900	1,395	86	114	200

All phases of the proposed development show a healthy financial NPV based on the assumptions made. The figures demonstrate that break even on operations will be achieved after the first year with a small operational subsidy of approximately £12k being required during 2008. The key aspects on which this assessment depends are, on the income side, the berth take-up rate and the berthing charge and on the expense side the staffing and the dredging costs. It has also been assumed that a satisfactory premises agreement can be concluded with the Harrington Sailing and Fishing Club. In the table above this viability is demonstrated by the positive net present values (NPVs) and by a comparison of the long term (2023-7) average annual revenue and operating expense values. The sensitivity of the results has been assessed by varying the key aspects noted above and whilst these impact on the immediate start-up period they do not change the positive output.

There is little scope for financing significant elements of the marina development capital costs from expected income however there is already private sector interest in the development and engaging a private operator to operate the marina, possibly in conjunction with the landside development is considered a distinct possibility.

The developments required to enable phases 1 and 2 to proceed are not considered to require a harbour revision order (HRO) subject to satisfactory agreements between the council, as landowner and the Harrington Harbour and Dock Board as the body responsible for regulating use of the harbour. If development proceeds to phase 3 then use of the harbour in accordance with its established historical use will become impossible and at this stage an HRO would be needed. Detailed recommendations on the type of contract – management contract, lease etc – are premature at this stage. The final arrangements will require to take account of the extent of private sector involvement and the degree of control which Allerdale Council wish to retain.

There is a good fit between local and regional strategies and the proposed intervention. The justification for public sector investment is moderately strong as there are signs of market failure in the provision of marina facilities and Harrington lies within a local area which contains some of the most deprived SOAs in England.

The economic assessment is at the level of an initial assessment rather than a full appraisal. Economic benefits are assessed relative to that of the reference case. The latter is a "do minimum" option that amounts to continuing much as at present. The proposed intervention will generate conventional national benefits (those arising from environmental improvements) and will have significant longer term impacts on the local, regenerative benefits (increased consumption and therefore employment).

Environmental improvements are valued using transposed values per recreational visitor plus a gain in the prices of existing properties close to a waterfront and gains in residential land values. The lands immediately surrounding the harbour are at present in a poor and unattractive condition and without the proposed intervention there is little likelihood that the land would be developed. The economic assessment incorporates an increase in the land values particularly for the lands immediately surrounding the harbour which are seen as being prime development locations following development of the marina facilities and the planned upgrading of the environment. Increased consumption is based on the expenditure on mooring fees, on provisions, on meals and drinks in restaurants and on boat repairs. There will also be additional consumption by non-resident visitors to the area around the marina. The increased direct spending generated by an additional 114 occupied moorings at the end of phase 2 amounts to an additional annual expenditure of £50,000 on provisions etc and £80,000 on repairs. The position is greatly improved by the planned residential development, which even allowing for displacement and leakage, generates local spending at full development of some £200-300,000 per year. The shopping and eating facilities in the immediate area are relatively poor and with the consumption increases generated by the development there are clear opportunities for new enterprises to be established to meet the growing demand generated by the development.

For incorporation into the economic assessment, consumption has been expressed as an equivalent gross value added (GVA). GVA as a proportion of consumption varies from sector to sector and in this instance a ratio of 0.40 has been used. To convert gross value added to net value that can be expressed as net additional jobs, allowances for leakage, displacement and multiplier effects have been made.

The following tables summarise the results of the economic appraisal. The first table shows the breakdown of economic benefits. Most benefits arise from increased GVA, which will ultimately create approximately 37 net additional jobs. The second table shows net present values (NPVs), i.e. PVs of benefits less PVs of costs. (Costs used in the preparation of this table have not been increased to allow for "optimism bias"). Standard guidance from central government is that worthwhile projects should have positive NPVs.

Economic benefits

Phase	Recreational PVb £	Land & property PVb £	GVA PVb £	Total PVb £
Phase 1	638,000	323,000	1,644,000	2,604,000
Phase 1 + 2	975,000	505,000	2,906,000	4,385,000
Phase 1 + 2 + 3	1,228,000	535,000	3,884,000	5,647,000

Summary table of economic NPVs

Phase	PVb £	PV of investment costs £	PV of incremental op expenses £	Total PVc £	NPV £
Phase 1	2,604,000	1,724,000	270,000	1,994,000	610,000
Phase 1 + 2	4,385,000	2,856,000	586,000	3,442,000	943,000
Phase 1 + 2 + 3	5,647,000	3,074,000	850,000	3,924,000	1,723,000

The positive NPVs are encouraging, depending on delivery of an integrated marina and residential development which will generate the associated local household expenditure.

In summary, there is a strong operating financial case for the marina based on satisfactory management agreements being concluded and suitable capital financing secured. The economic case is also robust based on the combined marina and landside developments being realised. The successful achievement of these proposals would create an environment which would significantly move forward the regeneration of the whole of the Harrington area.

Delivery

Successful delivery of the development critically depends on the front end development of the proposed marina facilities within the harbour area. It is considered that this will be best achieved though public sector investment and that this commitment will provide the required impetus to promote investment in the associated landside development by the private sector.

The whole of the proposed development is thus seen as being driven by a mix of public and private sector investment. It is possible that this could be taken forward as a Public Private Partnership (PPP) and consideration would need to be given as to whether this is the most attractive means of progressing the development. Early involvement of the private sector may reduce the extent of early public sector investment required to move the development forward however this represents an increased risk for the private sector and may not represent the best value in the longer term. The attraction for the private

sector revolves around the land value which will be significantly enhanced by the development of the marina facility and the further progressed the marina development is, the higher the value that can be placed on these lands. The receipts from land sale could be set against the capital investment required by the public sector thus reducing the total capital investment required.

No recent development of this nature has taken place in the area, certainly not in recent years. It is suggested that the next step be to undertake a market testing exercise based on the developed masterplan using an OJEC notice to solicit interest from the private sector.

1 Business case and economic assessment

1.1 Introduction

This report has been produced in response to the study commissioned by West Lakes Renaissance and Allerdale Borough Council to review the potential for redevelopment of Harrington harbour and the potential impact such a development would have on the regeneration of Harrington, West Cumbria.

This section reports on the elements that make up the business case for the proposed development:

- the market for moorings at Harrington
- the financial viability of a phased approach to development
- the economic justification for the approach
- an assessment of managerial and institutional issues

1.2 Market for marina moorings at Harrington

1.2.1 Demand for marina moorings

(a) National demand for moorings

Demand may be inferred from:

- the balance between supply and demand of moorings and how this balance has changed over time
- real changes in charges for moorings

The principal evidence for the supply of and demand for moorings comes from a single national audit published by the British Marine Federation (BMF)[1]. Their conclusions are based on 412 valid responses to 1,001 questionnaires. They estimated that, in 2003, there were approximately 150,000 coastal moorings around the UK (comprising 89,164 from the 412 valid responses plus 59,400 pro-rated for

[1] *Marinas and Moorings Audit – Coastal Sectors, 2003/4*, BMF

the non-respondents). They concluded that demand exceeded supply, a conclusion that rested on the following survey results:

- vacancy rates were low at 2.8 percent of the stock of respondents' 89,614 moorings
- there was a waiting list for 1,703 winter storage moorings
- a 2003 waiting list for moorings of 10,118 and an estimated five year waiting list of 12,212

As there has so far been only one BMF audit, changes in the balance between national supply and demand cannot be inferred from its results. Other surveys, for example those published in *Motor Boat and Yachting*, use different survey techniques and so their results cannot be usefully compared with those published by the BMF.

Evidence for *national* movements in moorings charges is limited but suggests relatively modest increases from 2003 to 2005 of 5-10 percent (in nominal terms). Regionally, however, a sharply different picture emerges, to which we turn below.

1.2.2 *Regional demand*

Waiting list and price increase evidence in table 1.1 suggest strong, if not overwhelming demand for marina berths in the two coastal marinas that form the current market in which Harrington will operate. We also show Glasson, the next marina south, in the table. Its low occupancy is most likely a reflection of its poor access (table 1.4) rather than a reflection of weak demand.

(As a general observation, anecdotal evidence indicates that demand in the north-west is firm, while there is some overcapacity and softening of prices in the south since 2003 (when the BMF audit was undertaken)).

Table 1.1 – Indicators of demand at neighbouring marinas

Marina	Capacity	Vacancies/waiting lists	Pricing strategy
Whitehaven	Increased in mid 2005 from 150 to 250 berths	20 vacancies but 50 on waiting list[a]: confident of close to zero vacancies in 2006	15 percent increase for 2005, similar expected for 2006. Berthing available for boats of 12m plus.

Marina	Capacity	Vacancies / waiting lists	Pricing strategy
Maryport	175 berths	Approximately 4 empty berths. No waiting list since increased Whitehaven capacity became available	Pegs prices at c 75 percent of Whitehaven's. In recent years increases of RPI+5 percent.
Glasson Dock	200 berths	Approximately 75 percent full in 2003[b]	Prices are currently c 10 percent above those at Maryport

Source: marinas

Notes: (a) increase in marina capacity was too late for boat owners looking for summer berthing in 2005. Waiting list comprises those seeking berths from 2006
(b) source: *Sail NW Action Plan*, April 2004, Fisher Associates for NWDA

1.2.3 *Supply in NW England*

(a) Markets

There are three overlapping market segments, all of which are supplied to a greater or lesser extent by marinas:

- a market of "active sailors" – mainly though not entirely supplied by the inland facilities at Windermere and Derwentwater. Many who race small boats keep their boats in dinghy parks and are therefore not significant customers for marinas
- a market for sailors largely based regionally but who cruise along the coast at weekends or during their holidays
- a more sedentary market for those who largely see their boats as somewhere pleasant to stay for a short break (sometimes, and somewhat disparagingly, known as the "floating caravan" market)

Historically the marinas along the NW Cumbrian coast largely suppied the third of these, to a lesser extent the second and to a much lesser extent the first. It is reported that this situation is now changing with a significant increase in the regional sailing activity. The proposed development at Harrington would provide a further boost to the facilities serving this activity and is generally seen as a welcome development.

The historically weak development of the cruising market has been at least in part attributable to the distances between safe havens, as table 1.2 shows. The shaded cells show the distances between Whitehaven, Maryport and Harrington. The only

marina facilities that are a comfortable day's sailing away from this cluster are at Douglas in the Isle of Man (Kirkudbright, a similar distance, has no marina). Barrow, when finished, will improve the prospects for cruising but only for those with larger craft. The obstacle of distance is exacerbated by the short access periods at most ports along this coastline.

More active sailing, i.e. participation in races and regattas, depends on active sailing clubs and enthusiastic individuals. Whitehaven is seeing a significant increase in activity with a new sailing club becoming more active and playing a part in organising annual events.

Table 1.2 Distances between ports in nautical miles

	Preston	Fleetwood	Glasson	Barrow	Whitehaven	Harrington	Maryport	Kirkcudbright (no marina)	Douglas Isle of Man
Liverpool	35	43	54	48	76	80	89	96	71
Preston		28	39	36	67	71	77	85	66
Fleetwood			11	14	47	51	60	65	51
Glasson				19	53	57	66	71	61
Barrow					45	48	56	64	55
Whitehaven						4	12	24	38
Harrington							8	32	40
Maryport								24	48

Source: SailNW and consultants' estimates
Notes: (i) 1 nautical mile = 1.85 km

1.2.4 *Competing and complementary facilities*

Should Harrington be developed, it will form part of a cluster of marina facilities that is, at least in sailing time terms, fairly isolated from other facilities along the

north-west coast, as table 1.2 serves to confirm. Harrington would complement Maryport and Whitehaven and significantly improve the prospects for a local cruising market.

The closest existing marina further south at Glasson dock, in the Lune estuary, is a considerable distance away, 57 nautical miles (say 10 hours at 5 knots) away. While it enjoys better access to the national trunk road network than the NW Cumbrian coast and to the Glasson branch of the Lancaster canal, its maritime access is poor (table 1.4). Its low occupancy (table 1.1) and comparatively low prices suggest that it is neither a complement nor a competitor to the Whitehaven-Maryport cluster.

Two prospective developments are likely to affect Harrington's position.

First, and by now quite certain, is the Barrow marina, which is expected to deliver 150 berths in 2007. Barrow may be considered as being complementary and in competition to existing facilities. In its favour it will be close enough to the Whitehaven-Maryport area to improve the diversity available to the cruising market, as noted above, but this is offset by its distance from the open sea – about 5 miles[2] - which will be an obstacle to cruisers. In respect of the competitor argument is its position – it is closer to the southern Lakes area and the national trunk road network than the Maryport-Whitehaven area, both factors likely to make it a significant competitor for the regional sedentary sailing market.

Second is the possible development of a marina at Town Quay in Workington.

Further north in Scotland, there are no marina facilities at all along the northern shore of the Solway Firth.

Table 1.3 Complementary marina facilities

Marina	Characteristics
Maryport	Public sector funded mixed-use marina and fishing harbour. A recent harbour revision order has separated marina and commercial fishing operations. Limited access (table 1.4). Seeking to change pontoon layout to accommodate craft above 12m.

[2] *Barrow Port Masterplan*, 2003

Marina	Characteristics
Whitehaven	Public sector funded mixed marina and fishing harbour. Good access and good facilities (table 1.4). Has recently expanded its capacity from 150 to 250 berths.
Glasson	A privately owned marina with limited access (table 1.4).
Barrow	Currently under implementation with public funding. ABP are current operators. Initial phase foresees 150 berths. Prospective opening 2007.

1.2.5 *Determinants of demand*

Information from Whitehaven and Maryport suggests that there is an increase in active sailors although there are still a significant number that only see their boats as somewhere pleasant to stay for a short break. The development of the proposed facilities at both Harrington and Barrow will further enhance the growth of the cruising market. This is consistent with one of the strategic regeneration targets established by West Lakes Renaissance in their Business Plan and also highlighted in the Maritime NW Strategy produced by Fisher Associates.

The quality and extent of facilities provided at the proposed marina are likely to be prime determinants of demand. The issue of facilities was reported on by Drivers Jonas in a report for Whitehaven Development Company, "Analysis of Marina Facilities".

Table 1.4 summarises facilities available at existing marinas in the immediate area[3].

Table 1.4 NW Cumbrian coast marina facilities

Facilities	Maryport	Whitehaven	Glasson
Accessibility			

[3] It would have been advantageous to include the Barrow facilities, but sufficiently detailed information was not to hand.

Facilities	Maryport	Whitehaven	Glasson
Maritime access	Gated. Limited by tide to HW+3-3. Length of boat limited to c 12m but plans to re-fit with longer berths VHF	Gated but fairly good HW+8-8 VHF	Gated. Limited to HW+1½-1½ Difficult navigation down Lune – 7½ miles from open sea VHF
Facilities for maintaining, launching, repairing etc			
Boat lift	Yes	Yes	Yes
Slipway	Yes	Yes	Yes
Chandlery	Yes	Yes	Yes
Diesel	Yes	Yes	Yes
Pump Out	No	Yes	No
Dry storage	60	60	N/A
Facilities on pontoons			
Electricity	Yes	Yes	
Water	Yes	Yes	
24h security	Yes	Yes	
Facilities on shore			
Lavatories	Yes	Yes	Yes
Showers	Yes	Yes	Yes
Provisioning	In town (walking distance)	In town (walking distance)	Fairly poor
Laundry facilities	Yes	Yes	Yes

1.3 Marina charges

Marina revenue is principally attributable to berth holders who pay for 6-12 monthly berthing.

Prices for berthing facilities appear to be "sticky" around regional benchmarks, with variations around these benchmarks that reflect facilities, labour costs, access and in some areas the availability of assets created from grant funding. There are a few large marina operators with a near regional monopoly but there is no sign that

monopoly pricing is a serious issue: boat owners can and do move their boats to other parts of the coast or abroad if they are put off by prices. Anecdotal evidence is that operators seldom drop their official, nominal, prices in response to slack demand, but that some offer "off tariff" deals to attract or poach new business.

Thus, along the southern English coast most marinas charge £300-£400 per metre per annum, while around the Bristol Channel charges are £150-£250. Along the NW Cumbrian coast, Whitehaven, with currently the best facilities and some suppressed demand, sets the top end of prices at just under £150/m/annum. Table 1.5 shows marina charges at regional marinas.

Table 1.5 Marina charges, 2005

Marina	Charges per m	Visitor's charges	Other charges
NW Cumbrian coast marinas			
Maryport	£87.18 (annual) £66.41 (01.04-30.09) £41.50 (01.10-31.03)	£11.89 per night	£65 per boat lift £25/hour for slipway (free to berth holders)
Whitehaven	£147 (annual) £102 (any 6 months)	£12 per night (marina) £7 per night (quay wall)	£105 for boat lift (up to 1h) £10 for slipway (free to berth holders)
Glasson Dock	£95 (annual) £63 (any 6 months)	£3.90/m per night	£7.25/m plus labour per boat lift £2.20/m
Fleetwood to Liverpool marinas			
Fleetwood Harbour Village Marina	£141.59 (annual)	£1.65/m per night	Not known
Preston Marina	£103 (annual) £66 (6 months)	Not stated	£10/m per lift
Liverpool Marina	£168.85 (annual) £102.25 (6 months)	£1.84/m per night	£10/m per lift £12 for slipway

Note: all charges exclude VAT

Charges announced for 2006 are as follows:

- at Whitehaven, annual charges have risen by 12 percent to £165/m and the overnight charge from £12 to £14
- at Maryport, charges have risen by 5 percent, so the annual charge is now £91.54/m. The overnight charge is unchanged at £11.89 but a boat lift now costs £100.

The charges described above are for berths at pontoons with pedestrian access to the shore. While this is the predominant form of mooring at most marinas, many also provide facilities alongside quays, or at buoys, piles or "trot" pontoons, all of which require a small craft to gain access to the moored vessel. Naturally these facilities command lower prices. Market evidence is that these lower service level facilities command 25 to 75 percent of the prices charged for full service pontoon berths.

1.4 Demand for marina facilities in Harrington

1.4.1 Present position

There are currently around 27 boats moored in Harrington, out of a total capacity of 44. The average charge for a 6m boat is around £105 per year, i.e. £17.50 per metre. This charge has changed little over the past few years, judging by recorded revenues. Harbour dues are not subject to VAT.

1.4.2 Demand for marina facilities

The following considerations are relevant:

1. there is an established demand for a small number of low cost moorings at Harrington

2. Harrington can initially operate at the lower end of the charge range based on price benchmarks set by Whitehaven and Maryport

3. Harrington's immediate market segments are likely to be (a) price sensitive owners of smaller craft and (b) visitors cruising between Whitehaven and Maryport (and, perhaps, Barrow – see 1.2.4)

4. Both Maryport and Whitehaven are effectively full and there is some evidence of unmet demand at Whitehaven. Both marinas propose to continue

increasing their prices by 5-10 percent per annum in real terms (which is consistent with the declared increases for 2006 – see above).

Depending on the phase of development, Harrington could add 90 to 200 additional moorings to the present stock of approximately 425 at Whitehaven and Maryport, i.e. an increase of 20 to 50 percent. The evidence suggests that this increased capacity would find a market at a 2005 price of around £95 per metre per annum As the development grows and matures we envisage that prices will increase beyond those currently charged at Maryport and have accounted for this by increasing the 2005 base prices to £110 per metre when Phase 2 is available and then finally to £120 per metre when fully developed at phase 3. We have also allowed for a fairly rapid take up of berths in the first 2 years of operation but have assumed a reduced growth rate following on from that. We do not believe that increased capacity at Barrow will greatly affect demand at Harrington (see 1.3.1). It is considered that the assumptions made represent a conservative basis for pricing and demand for the facility provided the quality of the product developed is maintained at the upper end. Those using marina facilities are showing themselves to be quality conscious and prepared to pay premium prices for high quality facilities that provide the essential support now considered fundamental for such leisure activity .

Any development of marina facilities at Workington would have a significant impact on the market and would necessitate further review of the potential for such development although this would clearly be linked to timing of development.

1.4.3 *Demand ramp-up*

While we can probably depend on an immediate market for 35 berths, the additional capacity will not be instantly taken up. According to the Barrow Port Masterplan, marina moorings were taken up at a rate of around 30 per annum at Maryport and at Whitehaven although the recent release of 100 moorings at Whitehaven has been taken up in less than 12 months. Taking account of these factors and the proposals to increase capacity at both Whitehaven and Maryport we have taken a demand ramp up of 35, 30, 20 at Harrington for the first three years of operation (2008-10 inclusive), followed by a slower growth of 15 per year thereafter until maximum occupancy is reached.

1.5 Financial assessment

1.5.1 Overview

Labour costs dominate day to day marina operating expenses. Labour requirements are largely determined by (a) the need to operate locks and gates and (b) the facilities offered. They are relatively insensitive to the number of berths. For example, in 2004 Sovereign marina in Eastbourne (600 berths and 3 000 visitors) faced labour costs of £349 000, while Whitehaven faced £170 000 (150 berths) and Maryport £219 000 (175 berths)[4]. Most commercial marinas employ between 5 and 10 full time equivalent (FTE) staff. For example, Whitehaven and Maryport, both of which have labour intensive gates or locks to operate, employ 11 and 7 respectively. A typical staffing configuration would be:

- two operational staff (fuel and repairs)
- one or two reception staff
- an administrator
- a manager (sometimes known as a harbourmaster)

At first glance, staffing may appear higher than strictly necessary. This arises because of the need to provide cover when high water occurs at unsocial hours, as well as cover for sick leave and annual leave. Total operating expenses excluding capital charges[5] are around £150-£250,000 for a basic marina without a lock to £500,000-£1m for a high quality marina with a lock (or around £400 000 to £900 000 without a lock).

1.5.2 Harrington harbour's current financial position

A spreadsheet showing Harrington harbour's income and expenditure since 1974 was provided by Ms Karen Thompson, a member of the Harrington Harbour and Dock Board. In brief:

- income from moorings is approximately £2,500 per year, supplemented by the annual interest (currently about £1,750) on an endowment of £31,178.25

[4] sources: annual accounts. Both Maryport and Whitehaven also undertook non-marina tasks.

[5] depreciation charges and interest expenses

- annual expenditure is approximately £8,000 on average, split equally between spares and materials and capital maintenance
- there are no staff costs

1.5.3 *Approach*

It is clear that a small scale Harrington development with 90 berths would barely cover its staffing costs and basic maintenance and dredging costs:

- even if staffing were limited to two FTEs, the total labour cost would be in the order of £38,000 per year at 2005 prices
- allowing basic operating & maintenance costs at £8,000
- dredging costs minimised to £10,000
- income from say 86 berths fully occupied by boats averaging 8.5m for which say £70/m were charged would also amount to about £51,000 per annum.

Under these circumstances, pro forma financial statements representing a marina business with investment and operating responsibilities (as implied by the study brief) would merely show sustained losses and not, in our view, be very helpful. We therefore believe the best approach is to treat Harrington as a series of operating expenses and cash receipts, regarding any remaining positive operating cash flows as a source of contributions towards investment or capital maintenance activities.

The evaluation period is from 2007 (the anticipated year of phase 1 construction) to 2027 (i.e. construction plus 20 years of operation from 2008). Twenty years is chosen as this is approximately the life of pontoons before needing capital maintenance.

1.5.4 *Phased development*

Following the draft report and consultation, a phased approach has been adopted. The table below describes the three phases from a financial and economic perspective. The reference case is shown for comparison only.

Whilst it is proposed that all three phases are progressed in response to market demand and development we have appraised phase 1 by itself, phases 1 and 2 and phases 1, 2 and 3. Timing of the phases is clearly indicative. Matching capacity to

expected demand, with a short lag for approvals and construction, adopted timing is as follows:

- phase 1 opens in 2008
- phase 2 in 2012
- phase 3 in 2017

Table 1.6 Phased development

Stage		Inner harbour	Outer harbour
Reference case[a]	Revenue	Approx 30 moorings	None
	Investment costs	None	None
	Operating expenses	Minor repairs & maintenance dredging (no labour costs)	Minor repairs & maintenance dredging
Phase 1 – inner harbour development (86 berths; low operating expenses)	Revenue	Approx 86 full service pontoon berths	None
	Investment costs	Sill (minor modifications); capital dredging; pontoons etc; marina office and shore facilities within existing sailing club; dry storage to northwest of harbour (hardstanding)	Extension of northern breakwater plus southern arm
	Operating expenses	Repairs and dredging. 1 full time manager and 1 operator	None
	Development	Limited to area (0.13ha) east of inner harbour (18 apartments + 6 retail/commercial units) plus 40 space car park	Associated with green space only
	Raised water level	Yes.	No
Additions under phase 2 – progressive development of outer harbour (Addition of 58 berths in outer harbour; low operating expenses)	Revenue	Nothing in addition to stage 1 above.	58 full service pontoon berths
	Investment costs	Relocation of the marina office and Harrington Sailing and Fishing Club to southern side of outer harbour (in order to release 0.11ha of development land to north of inner harbour). Remove phase 1 sill.	Extension of breakwaters. Dredging south side of harbour. Sill at junction outer harbour/approach channel; cut off wall along southern edge of northern breakwater; pontoons; marina office; dry storage to south of harbour (hardstanding). Relocation of fuelling and sullage facilities from inner harbour.
	Operating expenses	Nothing in addition to phase 1 above.	Repairs and dredging. One additional FTE operational staff member engaged,
	Development	Development of additional 0.41ha to north and south of inner harbour (12 townhouses to south and 14 to north)	Associated with green space only
	Raised water level	Yes, as phase 1	Yes

Stage		Inner harbour	Outer harbour
Additions under phase 3 – full marina development (A further 56 berths in the outer harbour; professionally staffed)	Revenue	Nothing in addition to phases 1 and 2	A further 56 full service pontoon moorings on north side
	Investment costs	Nothing in addition to phases 1 and 2	Dredging north side of harbour.
	Operating expenses	Professional staffing by commercial operator.	
	Development	A further 0.62ha for development of 47 townhouse units in north beach area.	Associated with green space only
	Raised water level	Yes	Yes

Note: (a) the reference case is a "do minimum" option, meaning carrying on as we are

1.5.5 *Investment costs*

Investment cost details appear in section 7 of the main report: table 1.7 is a summary, showing base costs (at 2005 prices) plus physical contingencies, design and supervision.

Table 1.7 Summary of investment costs

Investment cost in constant 2005 £			
Phase 1	**Phase 2**	**Phase 3**	**Total**
2,682,000	2,333,000	703,000	5,718,000

Table 1.7 does not include the cost of relocating either Harrington Sailing and Fishing Club or the existing the sewage pumping station , nor does it include costs related purely to residential development.

1.5.6 *Operating income and expenditure*

(a) Income

(i) Common assumptions

Common to all options (except the reference case) are the following assumptions:

- Berthing in phase 1 commands a 2005 price of £95 per metre for a pontoon berth
- Berthing with phase 2 development commands a 2005 price of £110 per metre
- Berthing with phase 3 development commands a 2005 price of £120 per metre
- occupancy growing at 35, 30, 20 berths per year for the first three years of operation (i.e. 2008-10), falling to 15 per year thereafter
- maximum occupancy 90 percent of capacity
- average boat length 9.5m
- berth charges increasing by a real 7 percent per annum from 2005 to 2012 inclusive – this is in line with current trends at Whitehaven and Maryport – thereafter remaining constant in real terms

(b) Other income

The potential sources of other income for a marina are, typically:

- chandlery sales
- fuel sales

- use of the slipway

Profitable chandlery operations are a challenge: inventory costs are high and insensitive to turnover. Maryport, with 175 berths, is in 2005 and for the first time for several years turning a small profit on its chandlery sales. At Whitehaven the chandlery is run separately from the marina.

Availability of fuel sales is an essential feature of a full service marina, but again margins are small. The marina operator will be obliged to buy relatively small quantities and therefore unable to negotiate good prices from suppliers. Gross margins reported by a south coast marina operator are about 5p/litre on petrol and 15p/litre on diesel. Sales are very difficult to predict: a conservative estimate of £200 per annum has been used in the business case.

Slipway use would be priced at c £10 per launch but conventionally long term berth holders are exempt. Providing slipway use could be policed at negligible cost, a realistic figure for net revenue would be £1,000 per year.

Rather than attempt a detailed bottom up estimate of other income, by its nature highly uncertain, we estimate it as follows:

- 1 percent of income from berths during phases 1 and 2
- 2 percent of income from berths during phase 3

(c) Income streams by phased development

The resulting income streams for the phased marina development are shown in table 1.8 and are discussed below in 1.5.8.

Table 1.8 Income streams at constant prices for phased development

Phase			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1		*Timing:*																					
	Income at 2005 prices		0	39,000	78,000	98,300	105,600	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000	113,000
	PV at 3.5%	1,383,600																					
	Unit revenue	1,420																					
	Ann average, 2023-7	113,000																					
1 + 2		*Timing:*																					
	Income at 2005 prices		0	39,000	78,000	98,300	105,600	156,300	181,800	207,400	219,200	219,200	219,200	219,200	219,200	219,200	219,200	219,200	219,200	219,200	219,200	219,200	219,200
	PV at 3.5%	2,341,900																					
	Unit revenue	1,630																					
	Ann average, 2023-7	219,200																					
1 + 2 + 3		*Timing:*																					
	Income at 2005 prices		0	39,000	78,000	98,300	105,600	156,300	181,800	207,400	219,200	219,200	267,700	296,400	324,400	333,400	333,400	333,400	333,400	333,400	333,400	333,400	333,400
	PV at 3.5%	2,973,300																					
	Unit revenue	1,740																					
	Ann average, 2023-7	333,400																					

Notes: (i) unit revenue = (PV of revenue) ÷ (PV of occupied berths) over 20 year evaluation period

(ii) annual incomes and annual averages rounded to nearest £100 and all at 2005 prices

1.5.7 *Expenses*

(a) Scope of marina expenses

Ignoring capital charges, marina operating expenses comprise:

- staff – for reception, administration and operations
- spares and materials for pontoon and harbour maintenance
- maintenance dredging
- utilities
- insurance
- administration
- pilotage and other regulatory costs

We also assume that any pilotage or regulatory costs are not met from marina income. (There is no sign that any such costs are met from the existing Harrington operation).

(b) Assumptions

Common to all phases (except the reference case) are the following assumptions:

- a 2005 labour cost of £26,000 for a full time manager and £12,000 for a full time non-management staff member (these figures are based on current Whitehaven costs)
- labour costs rise at 1 percent per annum in real terms
- utilities, administration etc at 5 percent of labour costs
- spares, materials and hired and contracted services related to pontoon maintenance are £50 per year for an occupied full service pontoon
- inner harbour spares, materials etc £8,000 per annum
- outer harbour spares, materials etc £8,000 per annum, for phases 2 and 3 when the outer harbour is part of the marina operation
- maintenance dredging costs commence 2 years after capital dredging incurred in the construction stage of each phase

Table 1.8 shows how expenses develop by phase.

Staffing arrangements are designed to minimise costs:

- phase 1 is based on engaging one FTE manager plus one non-management staff member with such additional support as may be

required being derived from the Harrington Sailing and Fishing Club at no additional cost to marina operations.

- during phase 2 a further FTE non-management staff member is hired
- during phase 3, when the operation is deemed too large to continue operations without an entirely professional staff, three further operations staff are hired. Hiring is phased: initially one person is hired, rising to three once phase 3 reaches 85 percent of its capacity

Table 1.8 Phased operating expense assumptions

	Phase[a]		
	1	**1 + 2**	**1 + 2 + 3**
	Costs		
Dredging, £/year[b]	22,500	31,500	35,500
Audit fee, £/year	0	0	4,000
	Number		
Management staff (number of FTEs)	1	1	1
Non-management staff (number of FTEs)[c]	1	2	5

Notes: (a) all costs shown at 2005 prices
(b) amounts shown include £5,000 per year incurred at present
(c) see description of staffing in text above

(c) Operating expenses

The resulting operating expense streams for the phased development are shown in table 1.9 and are discussed below in 1.5.8.

Table 1.9 Operating expenses streams at constant prices

Phase			2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1		*Timing:*																					
	Labour costs		0	39,151	39,543	39,938	40,338	40,741	41,149	41,560	41,976	42,395	42,819	43,248	43,680	43,700	43,700	43,700	43,700	43,700	43,700	43,700	43,700
	Dredging		0	0	0	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
	Spares and materials		0	9,750	11,250	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850	11,850
	Other		0	1,958	1,977	1,997	2,017	2,037	2,057	2,078	2,099	2,120	2,141	2,162	2,184	2,185	2,185	2,185	2,185	2,185	2,185	2,185	2,185
	Total		0	50,900	52,800	76,300	76,700	77,100	77,600	78,000	78,400	78,900	79,300	79,800	80,200	80,200	80,200	80,200	80,200	80,200	80,200	80,200	80,200
	PV at 3.5%	998,600																					
	Unit cost	1,030																					
	Ann average, 2023-7	80,200																					
1 + 2		*Timing:*																					
	Labour costs		0	39,151	39,543	39,938	40,338	53,607	54,143	54,684	55,231	55,783	56,341	56,905	57,474	57,500	57,500	57,500	57,500	57,500	57,500	57,500	57,500
	Dredging		0	0	0	22,500	22,500	22,500	22,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500	31,500
	Spares and materials		0	9,750	11,250	11,850	11,850	20,600	21,350	22,100	22,450	22,450	22,450	22,450	22,450	22,450	22,450	22,450	22,450	22,450	22,450	22,450	22,450
	Other		0	1,958	1,977	1,997	2,017	2,680	2,707	2,734	2,762	2,789	2,817	2,845	2,874	2,875	2,875	2,875	2,875	2,875	2,875	2,875	2,875
	Total		0	50,900	52,800	76,300	76,700	99,400	100,700	111,000	111,900	112,500	113,100	113,700	114,300	114,300	114,300	114,300	114,300	114,300	114,300	114,300	114,300
	PV at 3.5%	1,314,600																					
	Unit cost	920																					
	Ann average, 2023-7	114,300																					
1 + 2 + 3		*Timing:*																					
	Labour costs		0	39,151	39,543	39,938	40,338	53,607	54,143	54,684	55,231	55,783	69,863	70,562	71,267	98,900	98,900	98,900	98,900	98,900	98,900	98,900	98,900
	Dredging		0	0	0	22,500	22,500	22,500	22,500	31,500	31,500	31,500	31,500	31,500	35,500	35,500	35,500	35,500	35,500	35,500	35,500	35,500	35,500
	Spares and materials		0	9,750	11,250	11,850	11,850	20,600	21,350	22,100	22,450	22,450	23,230	23,980	24,730	24,970	24,970	24,970	24,970	24,970	24,970	24,970	24,970
	Other		0	1,958	1,977	1,997	2,017	2,680	2,707	2,734	2,762	2,789	7,493	7,528	7,563	7,565	7,565	7,565	7,565	7,565	7,565	7,565	7,565
	Total		0	50,900	52,800	76,300	76,700	99,400	100,700	111,000	111,900	112,500	132,100	133,600	139,100	166,900	166,900	166,900	166,900	166,900	166,900	166,900	166,900
	PV at 3.5%	1,578,600																					
	Unit cost	920																					
	Ann average, 2023-7	166,900																					

Notes: (i) unit cost = (PV of operating expenses) ÷ (PV of occupied berths) over 20 year evaluation period

(ii) annual expenses and annual averages rounded to nearest £100 and all at 2005 prices

1.5.8 *Income and expenditure*

The financial appraisal concentrates on the marina's trading position (without recognition of depreciation charges relating to capital costs).

The trading position is shown in table 1.10 and graphically in figure 1.1. In the table, the present values (PVs) are the discounted sums of revenues or expenses over the period from 2007 to 2027, discounted at the prevailing Treasury discount rate of 3.5 percent[6]. The net present value (NPV) is the PV of revenues less the PV of expenses. (The general rule is that a worthwhile proposal should show an NPV ≥ 0). The unit revenues and expenses (£/berth) are the PVs of revenues (expenses) divided by the PV of the number of berths occupied over the evaluation period. The annual averages for 2023-7 are quoted in order to show long run conditions at full occupancy for each phased stage of development. No account is taken of investment costs or capital maintenance, of any private operator profit or any changes in working capital.

Taking the phases in turn:

Phase 1: after the first year of operation in which a loss of some £12,000 is predicted, phase 1 operations turn profitable and thereafter show a healthy surplus, and would continue to do so even in the absence of further development – hence the modest positive NPV in table 1.10.

Phase 2: the development of phase 2 sees profits increasing as capacity is generated and occupancy increases. Profitability is enhanced by the proposed charging regime which sees berthing fees being increased to more commercially applicable rates following the establishment of interest in the facility during phase 1.

Phase 3: phase 3 sees profitability increasing despite the addition of further operating expenses – mostly in the form of staffing costs.

[6] appropriate for a public sector investment but well below the return on capital employed expected by the private sector

Figure 1.1 Evolution of income and expenses over time

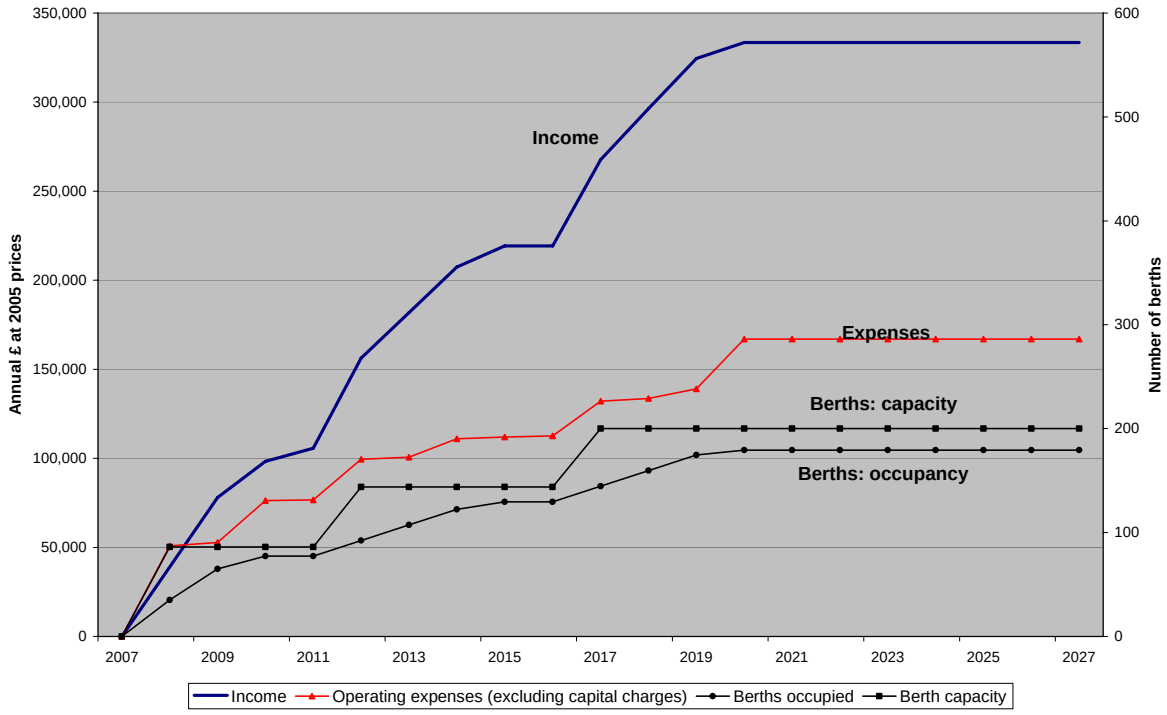

Table 1.10 Summary of operating financial viability

Phase	Revenue			Operating expenses			Financial	Berthing capacity		
	PV £000	£/berth	Ann av 2023-7	PV £000	£/berth	Ann av 2023-7	NPV £000	Inner	Outer	Total
1	1,384	1,420	113,000	999	1,030	80,200	385	86	0	86
1 + 2	2,342	1,630	219,200	1,315	920	114,300	1,027	86	58	144
1 + 2 + 3	2,973	1,740	333,400	1,579	920	166,900	1,395	86	114	200

Note: all costs and revenues are at constant 2005 prices

1.5.9 *Conclusions*

All phases of the proposed development show a healthy financial NPV based on the assumptions made. The figures demonstrate that break even on operations will be achieved after the first year with a small operational subsidy of approximately £12k being required during 2008. The key aspects on which this depends are, on the income side, the berth take-up rate and the berthing charge

and on the expense side the staffing and the dredging costs. It has also been assumed that a satisfactory premises agreement can be concluded with the Harrington Sailing and Fishing Club. In the table above this viability is demonstrated by the positive net present values (NPVs) and by a comparison of the long term (2023-7) average annual revenue and operating expense values. The sensitivity of the results has been assessed by varying the key aspects noted above and whilst these impact on the immediate start-up period they do not change the positive output.

No costs associated with financing capital expenditure from expected income have been included in the assessment.

1.6 Economic assessment

1.6.1 Scope of assessment

This is an economic assessment of phase 1, phases 1 + 2 and phases 1+2+3. The appraisal stops slightly short of a full economic appraisal. It is akin to an initial assessment as defined in the DTI's Single Programme Appraisal Guidance (DTI, November 2001).

1.6.2 The proposed intervention and its outputs

The proposed intervention comprises:

- creation of a managed, minimum water level permitting the development of berthing facilities that represent significant improvement over those currently offered
- creation of a significantly improved environment in the area immediately surrounding the harbour and disposal of these lands for high quality waterside development
- under phase 2, relocation of the existing Harrington Sailing and Fishing Club and incorporation of the facility into a new marina office and amenity complex

To paraphrase the brief, the intended outcomes from the intervention are:

- the creation of the right climate for new investment opportunities
- an environmentally more attractive coastal setting for visitors and residents
- a financially sustainable marina business
- a clearer, more atractive site for building development

With the exception of the first outcome, all can be measured and have values ascribed to them (as described below). The "investment climate" outcome can be measured either as an output of net additional jobs or as an increase in gross value added.

In accordance with the brief, the proposed project is marina led. The development of the marina is seen as the catalyst required to regenerate the Harrington area diversifying its economy and promoting further economic regeneration. The regeneration benefits are significantly enhanced by the household spending derived from the new and associated residential development which is only made viable by the creation of the marina. We therefore appraise the proposed intervention including a residential development. It should be noted that the residential development is seen as being promoted by the private sector and that a series of associated accommodation works will be provided through this avenue. Whilst the intervention of the private sector cannot be assured it is considered that the marina development will create the correct conditions for such development and a degree of interest has already been expressed by the private sector.

1.6.3 *Strategic fit*

(a) The general case for intervention

The general case for intervention is made in the Maryport and Workington Regeneration Strategy and Funding Plan (draft, April 2004). The geographical area covered by the regeneration strategy is West Allerdale, an area of 13 wards and a 2001 census population of 46,089. The regeneration case is as follows.

First, the employment base is weak: public sector employment is the largest single sector and is one of only two sectors to have grown over the period 1998 to 2002[7] (the other being wholesale and retail, where employment has seen much weaker growth than it has in the public sector). Meanwhile, numbers employed in manufacturing, construction, real estate and business activities and hotels and restaurants have all fallen. Employment is further threatened by an expected reduction of employment at Sellafield. Second, the area has relatively poorly performing town centres with low retail and office rents and little market led development. Third, there is a significant concentration of deprivation, with nine

[7] the source document is the regeneration strategy, unless otherwise stated

out of the 13 wards in West Allerdale being in the highest fifth of all wards nationally when ranked by IMD[8].

(b) Strategic fit

The strategy intended to rectify the area's relatively poor economic performance is contained in many documents, reviewed in section 5.

The table below identifies the links between the proposed intervention and the themes identified in the various policy documents. The strategic fit is good, although in most instances risks attend delivery of outcomes.

Table 1.11 Strategic fit

Outcome	Relevant policy theme	Policy source	Risks
Improved investment climate	Business development Develop and maintain a healthy labour market	Regional Economic Strategy for NW	Change of setting for investment is slight Linkages to employment and skills are weak
Environmentally more attractive coastal setting for residents and visitors	Investing in image and environment	NWDA Regeneration Prospectus	Image improvement is slight
	Improving the tourism product in England's NW Improving tourism infrastructure	Tourism Strategy for the NW	i) Harrington not an "attack brand" ii) Lack of long term financial viability of marina
	Development of "aspirational" housing stock	Furness and West Cumbria Economic and Housing Research Study	i) Low developer interest ii) Falling population
A sustainable marina business	Business development	Regional Economic Strategy for NW	Satisfactory forecast financial performance.

[8] Index of Multiple Deprivation

Outcome	Relevant policy theme	Policy source	Risks
Clearer site for building development	Development of "aspirational" housing stock	Furness and West Cumbria Economic and Housing Research Study	i) Low developer interest ii) Falling population

1.6.4 *Economic assessment*

(a) Justifying public expenditure

While a good strategic fit is a necessary condition, it is not a sufficient one to justify public expenditure. Justifying public expenditure depends on:

- correction of market failure
- meeting government distributional objectives

Either provides be a good basis for justification.

(b) Market failure

We can interpret market failure to mean failure of a market to supply an economically optimum quantity of goods. Goods falling into this category are often public goods[9] – though it is a fallacy to believe that such goods are necessarily provided by the public sector. An "environmentally more attractive coastal setting" is a public good and one that markets are unlikely to provide unless providers can capture enough of the environmental benefits as a revenue stream to turn an adequate return on investment (as could happen in the case of a marina and housing development, for example).

In the case of the West Cumbrian coastline, public money has already been used to support the development of improved coastal settings at Maryport and Whitehaven. Significant redevelopment has also taken place in Workington town centre and there have been suggestions of a publicly or privately funded marina and housing development at Workington, just a few km from Harrington. It is

[9] such as clean air or the signals from a lighthouse. Characteristics of a public good are that (a) I cannot prevent you enjoying it, (b) my enjoyment of it does not diminish yours and (c) you cannot opt out of enjoying it.

apparent that public sector funding is beginning to have an impact and that facilities such as those proposed at Harrington are seen as being part of the desired development along the Cumbrian coast.

(c) Distributional objectives

The relative deprivation of the West Allerdale area in 2000 has already been mentioned (section 1.6.3). Harrington ward itself was not especially deprived: its overall IMD rank was 2,885 (out of 8,414 wards in England, rank 1 being the most deprived). This compares with West Allerdale's most deprived ward (Salterbeck) whose rank was 141.

In 2004 government indices of deprivation were updated. The geographical basis for reporting small area statistics by the Office of National Statistics (ONS) was changed at the same time, moving away from ward based statistics to statistics for "super output areas" (SOAs). Harrington ward is now represented by two lower layer SOAs (LSOAs). Out of a total of 32,482 LSOAs in England, the IMD scores of Harrington's LSOAs were ranked at 12,688 and 20,163 (where 1 is the most deprived), while the most deprived Allerdale LSOA is part of Moss Bay ward whose IMD has a rank of 471. Allerdale local authority's IMD is ranked 105 out of 354 local authorities in England (1 = most deprived). The IMD score is an aggregate of seven scores, but none of the individual scores shows Harrington to be especially deprived.

We can say that although Harrington is not itself especially deprived, it lies within a generally deprived area, some of whose LSOAs are amongst the most deprived in England.

(d) Justification

The justification for public sector investment is moderately strong: there is some sign of market failure in the provision of marina facilities and Harrington lies within a local area which contains some of the most deprived SOAs in England.

(e) Economic costs

Relevant costs are incremental market investment and operational costs (incremental compared with the reference case). They should be increased for "optimism bias" to be fully compliant with Green Book rules.

(f) Economic benefits – introduction

Economic benefits are assessed relative to that of the reference, do minimum, case. The evaluation period is the same as that used for the financial assessment (i.e., 2007-2027). This is approximately the life of the pontoons, but is clearly much shorter than that of the civil works, which means that asset residual values will have to be included. The prevailing 3.5 percent Treasury discount rate is used; the price base is 2005.

The proposed intervention will generate some conventional national benefits (those arising from environmental improvements) and some that are purely local, regenerative benefits (increased consumption and therefore employment).

(g) National economic benefits

There are, broadly, two ways of assessing the value of environmental improvements:

- by asking users and non-users how much they would hypothetically be prepared to pay for the improvement – this technique is known as either the stated preference or the contingent valuation method (CVM). There are some standard values in use by the Environment Agency when assessing the value of changes to the water environment
- through changes in land and property prices. This is known as "hedonic pricing" – the idea being that prices reflect environmental attributes.

The results of the two approaches may be added provided this does not lead to double counting: we can sum the willingness to pay values of *visiting* recreational users and the one off gain in *residential* property and land prices.

The value of a recreational visit to a purely local site whose water environment has been improved is around £1-£2 per adult visit at 2001 prices (source: table 2.9 of RPA 2003[10]). At 2005 prices the corresponding range would be £2.50 to £3.50 per visit. There are no visit number data, but we estimate a range of 2,000 to 7,000 per year. For assessment purposes we assume 2,000 in the reference case, rising to 4,000 in phase 1, 5,000 in the case of phase 1+2 and 7,000 in phase 3. We take the lower value of £2.50 per visit for the reference case, rising to £3.50 for phases 1, 2

[10] *Assessment of the Environmental and Social Costs and Benefits of Water Resources*, Risk and Policy Analysts Ltd, 2003 (for the Environment Agency)

and 3. We increase these values by a real 2 percent per annum, as recreational values are usually considered to rise in line with income.

A market research study was undertaken by Harrington Harbour and Dock Board with the assistance of Learning Tourism Business Consultant Vasiliki Theodorou in 2005. This study re-affirms the potential to develop additional recreational and tourism activity at Harrington and gives some substance to the increased visitor numbers outlined above.

In addition to land based recreational benefits there are the recreational benefits of sailing and other marine activities. A lower bound for the benefit of a weekend visit to a moored boat is the nightly visitor's charge – currently £12 per boat at both Maryport and Whitehaven (see table 1.5). However, this ignores the consumer surplus of the visit and for appraisal purposes we use £20 per visit, while £8 is used for the reference case. For assessment purposes we assume 20 weekend visits per year per moored boat.

Table 1.12 Visitors' recreational benefits

Phase	Land based		Marina based			Total PV of benefit
	Annual visits	Value per visit £	No of boats moored	Annual visits	Value per visit £	£
Reference case	2,000	2.50	30	20	8.00	0
Phase 1	4,000	3.50	86	20	20.00	638,000
Phase 1 + 2	5,000	3.50	144	20	20.00	975,000
Phase 1 + 2 + 3	7,000	3.50	200	20	20.00	1,227,765

Notes: (i) reference case = without project
(ii) the PV calculation uses the numbers of berths occupied, as shown in figure 1.1

Generalisations concerning residential land and property prices, and the impact of marina developments on them, are highly uncertain.

Property prices in the CA14 5 postcode sector (i.e. Harrington) average about £70,000 per dwelling according to Land Registry Property Prices, 2004 and 2005. On the other hand, a sample of twelve *asking* prices for second hand properties at estate agents' offices in Harrington in September 2005 had a range from £77,000 to £235,000 and an average of £150,000. We adopt a reference case price of £100,000.

According to the Valuation Office Agency's property market reports (www.voa.gov.uk), land for residential building in the NW sells for approximately £1.25-£1.4 million per hectare, while Allerdale's valuers confirmed a range of £1-£1.25m per ha. Note that these are *gross* areas, i.e. they include roads, footpaths and car parking areas not within householders' property boundaries. Equivalent values per net ha (i.e. areas to which householders ultimately acquire title) would be 20-25 percent higher. The range of property price premiums for properties within 500m of a waterfront is 2 to 15 percent (source: RPA, 2003), while CABE Space[11] cites increases of 7 to 11 percent increases for properties with a view of water or proximity to a lake. The basis for the benefit calculations is £1.5m/net ha for residential land in its present state and that percentage premiums apply equally to land and property. Note that property and land price rises are merely a way of evaluating the environmental benefits of a waterside setting: they cannot be realised as cash flows or converted into spending and employment unless a developer is prepared to invest.

Approximately 20 existing dwellings lie within 500m of the inner harbour (excluding low lying properties east of the railway). Table 1.2 shows very approximate changes in land and property values arising from each of the options. We assume a 20 percent gain for phase 1, which has the most significant impact on the visual setting, an additional 10 percent for phase 2 and nothing further in phase 3. Enhanced values of development land follow the same pattern of 20 percent in phase 1 and a further 10% for phase 2 with only basic 10% increase in the land value associated with the phase 3 release

In order to calculate benefit PVs, gains in land and property prices were first annualised using the Treasury discount rate and lives of 50 years (property) and infinity (land) before computing their PVs over the evaluation period.

Table 1.13 Benefits to land and property

[11] CABE = Commission for Architecture and the Built Environment

Phase	Existing dwellings	Property Unit value ref case £	Change WP percent	Residential land ha	Land Value/ha ref case £	Change WP percent	Total PV of benefit £
Reference case	20	100,000	0%	0.0	1,500,000	0%	0
Phase 1	20	100,000	20.0%	0.13	1,500,000	20.0%	323,000
Phase 1 + 2	20	100,000	30.0%	0.54	1,500,000	30.0%	505,000
Phase 1 + 2 + 3	20	100,000	0.0%	1.16	1,500,000	10.0%	535,000

Notes: (i) change WP = change brought about by the project (i.e. with project)
(ii) residential land areas are net of land for roads, pavements, footpaths etc

(h) Regeneration benefits

The economic gain to West Allerdale arises from additional local area consumption that would otherwise not have taken place. In the case of a marina the direct additional consumption comes from:

- spending by visiting berth holders and visiting boat crew on provisions, mooring fees, restaurant and pub meals and drinks etc
- spending on boat upkeep and repair
- spending by non-resident visitors
- family spending by residents of new households

Annual spending on mooring fees can be taken directly from the unit revenues in table 1.10 – we take an average of £1,300

A 1998 study of twelve marinas on the south coast undertaken for the Southern Harbourmasters' Association found an average expenditure per day of £7.87 (in addition to mooring fees). At 2005 prices – and factoring in real income growth – the equivalent value would be £11. For 20 annual visits each of two days this would produce total annual spending of £440 per occupied berth. There would be little leakage from this expenditure, but there would be some displacement if berth holders were also local residents.

The BMF's annual industry bulletin (UK Leisure Marine) for 2004-5 quotes a national boatyard services income of £73m. The same publication does not cite corresponding numbers of boats or marina berths, but it is reasonable (and probably slightly conservative) to adopt as a range the 89,000-150,000 the BMF annual audit (see 1.2.1), giving a range of £480 to £820 per mooring. We adopt the mid point of this range, i.e. £650. There would be little leakage (unless

specialist services such as insurance are included in the BMF figure) or displacement.

It is worth pointing out how modest these levels of expenditure really are: for an additional 144 occupied moorings at the end of phase 2 we get additional expenditure of £50,000 on provisions etc and £80,000 on repairs. The shopping and eating facilities in the immediate area are relatively poor and with the consumption increases generated by the development there are clear opportunities for new enterprises to be established to meet the growing demand generated by the development. The provision of six retail units, proposed as part of the residential development, represents a clear opportunity to address the current lack of capacity.

In addition to increased consumption by marina users, we assume that 20 percent of recreational visitors (see above) are not resident and spend £25 per visit. (STEAM tourism figures for Allerdale provide a 2004 spend figure of £23.43 for day visitors which when enhanced to 2005 provides a figure of £24.60.)

To get from consumption to economic benefit we need to estimate the gross value added[12] (GVA). GVA as a proportion of consumption varies from sector to sector. Tourism is relatively low, reflecting its relatively low skill, low wage employment. There are no local values however the ratio is unlikely to change significantly across the country and hence a ratio of 0.40 has been taken from a Scottish source[13]. For this assessment this ratio has been used for all categories of consumption.

Leakage and displacement of the GVA generated by the additional berths should be very small – we have taken 5 percent[14]. The multiplier effect (i.e. the additional GVA that remains in the local area) is also likely to be small, as the supplying businesses are likely to buy the majority of inputs from outside the local area; a ratio of 1.1 has thus been adopted.

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[12] GVA is numerically equivalent to GDP less taxes plus subsidies.

[13] Tourism: Economic Update, Highlands and Islands Enterprise, March 2004

[14] See the English Partnerships *Additionality Guide*, 2nd edition, 2004

The table below shows the net additional GVA (i.e. after adjustment for leakage, displacement and multiplier effects), which includes the effect of recreational visitors' spending.

Table 1.14 Net additional local GVA – marina visitors

Phase	Additional berths	Consumption in £/berth/year			PV of net additional GVA £
		mooring fees	provisions etc	repairs etc	
Phase 1	56	1,300	440	650	1,326,000
Phase 1 + 2	114	1,300	440	650	2,224,000
Phase 1 + 2 + 3	170	1,300	440	650	2,756,000

In order to convert net additional GVA into net additional jobs, we take the 2005 GVA per FTE as £13,100, based on the 2001 value for West Cumbria (table ES.1 of the Maryport and Workington regeneration strategy) scaled up for subsequent GDP growth and the change in retail prices. For 2005 onwards the GVA per FTE is increased at the same rate as labour costs (see 1.5.7).

The annual net additional GVA, excluding that associated with new households, at the end of phase 1 is approximately £87,000 and when phase 3 is fully developed is £374,000, implying a net addition of 6 and 25 jobs respectively.

The position improves considerably if we factor in the additional consumption arising from new households. The starting point is those household expenditure items that could be purchased locally – see table 1.15.

Table 1.15 Household expenditure in the north-west, 2001-2 – 2002-3

Item	Weekly expenditure in £
Food and non-alcoholic drinks (1)	40.40
Alcoholic drink, tobacco and narcotics (2)	12.10

Item	Weekly expenditure in £
Clothing and footwear (3)	23.20
Recreation and culture (9.3-9.5)	32.10
Restaurants (11.1)	28.80
Total	136.60

Notes: (a) source: ONS for north-west government office region
(b) figures in brackets are the detailed expenditure item reference numbers used by ONS

There will be considerable leakage of spending outside the local area: according to the Maryport and Workington regeneration plan 74 percent of the Workington catchment convenience spending takes place in three out of centre food stores. New housing around the harbour may also displace housing that could have been developed elsewhere in Harrington in the reference case. Quantifying the displacement and leakage effects is little more than guesswork and to some extent depends on the performance of the new retail units, but our estimate is that between 20 and 40 percent of table 1.14 expenditure would be new, local expenditure, say 30 percent for appraisal purposes. As with marina visitor spending, there would be a small multiplier effect of 1.1. The results of the net GVA calculation are shown in table 1.16. The additional local spending that lies behind this table amounts to £250-£300,000 per year after the final phase of residential development.

Table 1.16 Net additional local GVA – new households

Phase	Additional dwellings	PV of net additional GVA £
Phase 1	18	318,000
Phase 1 + 2	44	682,000
Phase 1 + 2 + 3	91	1,128,000

Adding in new household spending the number of net additional jobs rises to 36 after phase 3 is fully developed.

(i) Summary of benefits

Table 1.16 summarises the benefits, rounded to £1,000.

Table 1.16 Benefits summary

Phase	Recreational PVb £	Land & property PVb £	GVA PVb £	Total PVb £
Phase 1	638,000	323,000	1,644,000	2,604,000
Phase 1 + 2	975,000	505,000	2,906,000	4,385,000
Phase 1 + 2 + 3	1,228,000	535,000	3,884,000	5,647,000

(j) Project net present value

Any option whose NPV is at least zero is worthwhile. Table 1.17 summarises the NPVs of phase 1, phase 1 + 2 and phase 1 + 2 + 3, using values derived elsewhere in the economic assessment. The achievement of the stated NPVs depends on delivery of a substantial residential development following on from the development of the marina.

Investment costs are taken from table 1.7 with phases 1, 2 and 3 construction assumed to fall in 2007, 2011 and 2016 respectively. Asset lives of 50 years were used to calculate residual values in 2027: table 1.17 investment cost PVs are shown net of the PVs of residual values. Incremental operating expenses are values from table 1.9 less an assumed reference case annual expenditure of £8,000 (see 1.5.2) plus £200,000 in 2008 and £300,000 in 2020 for necessary wall repairs.

Table 1.17 Economic NPVs of options

Phase	PVb £	PV of investment costs £	PV of incremental op expenses £	Total PVc £	NPV £
Phase 1	2,604,000	1,724,000	270,000	1,994,000	610,000
Phase 1 + 2	4,385,000	2,856,000	586,000	3,442,000	943,000
Phase 1 + 2 + 3	5,647,000	3,074,000	850,000	3,924,000	1,723,000

1.7 Governance

1.7.1 Current position

Harrington harbour is owned by Allerdale Borough Council and operated by Harrington Harbour and Dock Board. Harrington Sailing and Fishing Club has

assisted with harbour operations in the past but appears no longer to do so. Financially (see also 1.5.2), operations are sustained by the council (although the board collects mooring dues, it does not operate bank accounts itself). Board members (commissioners) are not paid.

The board's constitution is contained in a 1902 harbour revision order (HRO). Under the constitution commissioners were to be appointed by the local authority and the land owner, but as the local authority is now also the land owner, the council is solely responsible for commissioners' appointments. Commissioners can only be removed if they become unfit to act or are voted off by the other commissioners. Clearly this arrangement makes it difficult to make changes to harbour management. The council has in fact been able to make some changes - in order to foster more community involvement, the council agreed with existing commissioners that a community representative could be sought through advertisement.

1.7.2 *Making changes*

To all intents and purposes Harrington is a municipal harbour with what must now be considered as an outdated constitution. Government policy is that municipal ports should benefit from the same changes that are being made in the trust ports sector: management structure and practices should ensure that the harbour plays a full and accountable part in the local and regional economy, and, if practical, a fairly small executive responsible for all functions should be introduced.

Changes to the board's constitution can only be made by an HRO. HROs are time consuming and costly: we understand that the Maryport HRO was allocated £50,000 by the council. The time required to process an HRO will depend on whether the requested changes are contested, and in such an instance, the application may be subjected to a public inquiry.

New legislation may make HROs quicker if not necessarily cheaper. There is currently a bill before parliament, the Harbours Act 2004, under which anyone contesting an HRO must have their objections based on serious and well founded reasons, the Secretary of State for transport having the power to ignore frivolous or unsound protests. If a person has an outstanding objection that they will not withdraw, they will have the opportunity to be heard by a person appointed by the secretary of state.

1.7.3 *The options*

The following table shows generic potential ownership/management options. In this context "public" refers to the council and the board.

Table 1.18 Generic harbour ownership/management options

Model	Regulation, policy, strategy	Asset ownership	Operations
Public	Public	Public	Public
Private 1	Public	Public	Private
Private 2	Public	Private	Private
Private 3	Private	Private	Private

Under the above models it is assumed that the development of Harrington harbour as a marina will incorporate a regulatory body, a land or asset owning organisation and an operational unit. Each of these three elements can, to a greater or lesser degree, be undertaken by the public or private sector or, indeed, a mix of the two with varying consequences for the allocation of responsibility and risk.

In determining the appropriate ownership and management structure for the harbour there is a need for the council and the board to be clear on the objectives they are trying to achieve.

If the decision is to remain under its current structure – in effect the basis for phases 1 and 2 – there would still be a need to introduce more commercially driven principles and objectives into the management and operation of the harbour, along the lines of the trust port/municipal port reviews and the DfT's Guide to Good Governance.

The process could be achieved via agreements between Allerdale Council, the Harbour & Dock Board and the Harrington Sailing and Fishing Club. The agreement would need to specify the harbour's objectives in terms of performance goals, service quality and social obligations, and the roles of each of the parties. The main weaknesses would be enforcement of the agreement and the risk of political interference. An advantage is that there would be no EU state aid issues.

Corporatisation goes further than commercialisation, in that it would involve the transformation of the public harbour into a company subject to commercial law. This would mean that the harbour would be converted into a legally and financially independent body with its own board of directors; ownership remaining with the council. However, neither commercialisation nor corporatisation would bring the investment needed to realise the marina development.

An alternative would be to bring in a private sector operator, perhaps by use of a management contract – as envisaged here under phase 3. This would be an agreement by which the council/board contracts with a private firm to undertake the operations. Only the operating rights would be transferred to the private operator, not the ownership of the assets. Under this type of arrangement, the operator would be paid a management fee, which could be linked to performance. The Council would need to continue to make financial provision for investments in the harbour. However, a contract of this nature would again fail to inject investment for the development of the harbour's facilities.

Leasing could be introduced, again a contractual arrangement, whereby the owner of the asset, the Council, grants another party, the private sector lessee, the right to use the asset and to profit from it for an agreed period of time. The lessee would pay a rental fee for use of the asset. Statutory obligations could remain with the Dock Board although, of course, this would incur its own set of operational costs.

1.7.4 *Examples from elsewhere*

(a) Boston

Until 1989 the Port of Boston was owned by the local borough council. In that year an initiative by the council resulted in a harbour revision order privatising the port. Joint ownership was established between John Sutcliffe & Sons and the Budge Construction Group. This partnership later dissolved, Budge being replaced by Cleveland Trust plc who subsequently took on full ownership. The existing owners, Ashtenne Holdings plc, gained possession in 1999 following the takeover of Cleveland Trust plc.

(b) King's Lynn Conservancy Board

King's Lynn Conservancy Board (KLCB) retains the statutory duties for King's Lynn. The cargo handling facilities are however owned and operated by ABP. KLCB is a self financing, non-profit making organisation deriving its income from the commercial and other users of the port, and navigational marks in the Wash. It receives no funding from local or central government, but like any commercial

concern it relies on balancing income in relation to expenditure for its successful operation.

(c) Whitstable and Langstone

The new Whitstable Harbour Board started in 2003. Whilst Whitstable is owned by Canterbury City Council, the harbour board is responsible for the overall management, maintenance and port development functions. Elsewhere on the south coast, Langstone harbour board is the statutory harbour authority, its main functions being navigational and safety functions, pilotage and pollution prevention with operations undertaken by the private sector.

1.7.5 *Recommendations*

If it were decided that only phase 1 or phases 1 and 2 proceed, an HRO would *probably* not be necessary provided satisfactory agreements could be concluded between the council, as landowner, the board as the body responsible for regulating use of the harbour and the Harrington Sailing and Fishing Club as the putative provider of administrative facilities. We say *probably* as clearly the existing HRO was not designed with management of a marina in mind. It may therefore not contain adequate or appropriate powers; a legal review would be needed to clarify this. A management issue is the employer of salaried staff. As the Board is not currently an employer it is felt that the Council would be more appropriate.

If development proceeded to phase 3 an HRO would be needed. Recommendations on the type of contract – management contract, lease etc – would be premature at this stage.

1.8 Comments on potential grant funding streams

1.8.1 *Introduction*

Marina development is considered impossible without external capital grant support for the civil works.

Few funding bodies provide capital grants for projects of this kind in England. The most suitable is the European Regional Development Fund (ERDF) for Objective 2 areas. Those sources for which Harrington is *unlikely* to be eligible are: English Partnerships (as far as we know there is no EP interest in any of the land involved), the Lottery Heritage Fund (as the area is not a conservation area), Objective 3 (funded from the European Social Fund and principally aimed at improving skills and employment prospects – although this could be relevant to boat repair skills development) and Objective 1 (Allerdale is not an eligible area).

1.8.2 *Objective 2 funding*

(a) Geographical eligibility

All Allerdale wards are eligible for Objective 2 funding

(b) Deadline

Contracts have to be signed by the end of 2006 (the future of structural funds after 2006 is uncertain: there will be reduced eligibility, based on GDP per head of the EU25 rather than that of the EU15).

(c) Matching funding requirement

The ERDF will only fund 50 percent of eligible costs. The RDA would normally provide the matching funds.

(d) State aid issues

State aid issues will not arise under either phase 1 or 2, but could do so under phase 3 if a private sector operator were to be engaged.

(e) Eligibility

Eligibility can be viewed at several levels. Objective 2 support provides assistance through priorities and measures. Those most applicable to Harrington are:

- priority 2 (people and communities):
  - M2.1: develop enterprise and business in communities
- priority 3 (strategic regional investment):
  - M3.2: maximise the economic potential of the region's natural, cultural assets

At the more detailed level, the project will have to satisfy Government of the North West (GONW) project selection criteria and NWDA criteria. The former are too numerous to cite here. From the economic and financial perspective the principal criteria are unit costs (i.e. net exchequer or RDA costs per unit of output) and evidence that the project is self sustaining once grant support stops.

Although the brief does not specify the outputs expected, it is appropriate to use the NWDA's single programme output definitions (version 1.1, April 2005). Those that are either mandatory or are optional and relevant to the proposed intervention are tabulated below. In all cases the quantification of outputs has to be incremental (relative to the reference case), net of leakage (away from the West Allerdale area) and displacement (benefits offset by reductions elsewhere). Given

the distributional justification for the intervention, the most important indicators are 1a, 1b, 3d, 6a and 6b.

The strategic fit of the proposed intervention is described above in 1.6.3.

Table 1.19 NWDA output indicators relevant to Harrington

Output	Status
Job creation	
1a) Number of jobs created	Mandatory
1b) Number of jobs safeguarded	Mandatory
Business creation	
3d) Other businesses started up and growing	Optional
Business support: number of businesses assisted to improve their performance	
4a) Number of businesses engaged in new collaborations with the UK knowledge base (HE/business collaboration projects)	Mandatory
Regeneration: public & private investment levered in support of RES infrastructure priorities	
5f) Hectares of brownfield land reclaimed or redeveloped	Mandatory
5b) Provision of tourism facilities	Optional
Skills: number of people assisted in their skills development	
6a) Number of adults in workforce who lack a level 2 or equivalent qualification who are supported in achieving such a qualification	Mandatory
6b) Number of adults gaining basic skills as part of the Skills for Life strategy	Mandatory

Source: NWDA output definitions version 1.1, April 2005, which also contains detailed descriptions of the indicators.