



SCRABSTER HARBOUR TRUST ANNUAL REPORT

2019-20

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Grateful thanks to Karen Munro and Highland Drones for the photographs included in the report

About Us

Scrabster Harbour Trust is an independent statutory body, governed by its own local legislation, run by an independent board for the benefit of stakeholders. Modernising Trust Ports – A Guide to Good Governance describes a trust port as 'a valuable asset presently safeguarded by the existing board, whose duty it is to hand it on in the same or better condition to succeeding generations. This remains the ultimate responsibility of the board, and future generations remain the ultimate stakeholder'. Through the running and maintenance of this asset, though, others stand to benefit.

The Trust is established and acts in terms of various Scrabster Harbour Acts and Orders enacted in the period 1841 to 2011. The current constitution and management arrangements of the Trust are set out in the Scrabster Harbour Revision (Constitution) Order 2005.

The Board in 2019-20

Non-Executive Members

Tom Pottinger, Chairman – term of appointment to September 2021

Colin Calder, Vice Chairman – term of appointment to September 2020

Alexander Anderson – term of appointment to September 2020

Frank Bremner – term of appointment to September 2022

William Thomson – term of appointment to September 2021

Douglas Mackay – term of appointment to September 2022

Tanya Sutherland – co-opted member until September 2020

Executive Member

Sandy Mackie, Trust Manager



Chairman's Report

It gives me great satisfaction, on behalf of the Board of Directors of Scrabster Harbour Trust to commend our Manager, Sandy Mackie, and his staff for achieving a profit of nearly £1.1 Million for the year to 31st March 2020.

In his report of business and operations Sandy gives a detailed report on how different parts of the business have performed.

The profitability of the last six years have enabled the Trust, along with welcome grant assistance from the Nuclear Decommissioning Authority (NDA) and Highlands and Islands Enterprise (HIE), to put substantial funding towards the redevelopment of the Ola Pier. This pier, built in the early seventies for the Orkney ferry, was in a very poor state of repair. Severe corrosion to the pile wall, at the low water mark, had led to the pier being unusable for all but limited purposes. The Trust was faced with the choice of a very expensive repair to bring the pier back into a useable condition or to undertake a more expensive refurbishment and enhancement to create a pier with berthing on both sides and a two hundred and fifty metre deep water berth on the outer face.

During the tendering process it became apparent that our £17 million budget was too optimistic and we finalised a contract with RJ Mcleod Ltd. for just over £18.5 million with an altered design to achieve cost savings but retain functionality.

The Trust is confident that this development, delayed by three months due to Covid 19, will set the harbour in good stead for the future. Our business case has become the focus of much attention and stress testing in deciding to proceed with the project in the changing situation we are in. Cruise ship business has been dealt a severe blow and oil and gas is under cost pressure worldwide; nevertheless the Trust Board decided to proceed with the reconstruction of the pier. As a Trust port we take a much longer term view of investment than a commercial business would; all our profits are reinvested in the harbour, we have no shareholders looking for dividends!

The Scotwind leasing round for the seabed areas around the Scottish coast is open at last! There is an area of seabed, known to fisherman as "Stormy Bank" to the north and west of Holborn Head. It extends to 800 km², many times larger than the area of the Beatrice windfarm, off Wick. Scrabster harbour has received quite a bit of interest from companies looking to tender for the lease of this area. If successful in their bid an operator will need an operations and maintenance base. Scrabster will be in prime position for such an opportunity.

The Covid 19 pandemic has caused terrible loss of life and great concern in the country. Many people and businesses have been seriously affected. At local level there has been considerable price pressure on the fishing industry with voluntary tie ups being seen. Prices still have some way to go to recover to previous levels. The export market to China for shellfish and Faroese salmon is fragile and often closed. It amuses me to see the praise given to the supermarket sector for keeping food on the shelves during the pandemic with scant recognition of where that food comes from in the first place!

Unfortunately an exit from Europe without a trade deal at the end of the year may not be the panacea that the fishing industry hopes for.

One year ago we were eagerly anticipating the introduction, and corresponding reduction in fares, of Road Equivalent Tariff (RET) for the Northern Isles ferries. This would have led to an increase in passenger numbers on the ferry as it did on the west coast. We are still waiting!

I must, in closing, give special mention to Sandy Mackie and his team for the way they have kept everyone safe and businesses functioning over the past few stressful months. This has been carried out in a very professional manner. I must also thank my fellow Board members for their support and input during the last financial year and their ongoing support during these difficult times. Thanks also to Colin Calder who is stepping down after nine years as a Board member with much of that in the Vice-Chairman's position.

All the Best,

Tom Pottinger

(Chairman)



Key Operational Indicators

Number of Arrivals	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Ferry	794	805	803	798	806	794	768
Fishing	1,107	1,344	1,145	1,049	1,125	1,068	977
Offshore Oil	108	105	96	136	97	76	89
Renewables	4	6	4	11	20	17	3
General Cargo	103	81	90	55	56	85	73
Fish Cargo	57	48	53	53	55	75	96
Tankers	31	31	39	37	45	24	13
Cruise	10	12	11	10	6	8	9
Visiting Yachts	77	48	61	62	48	61	53
Total Arrivals	2,291	2,480	2,302	2,211	2,258	2,208	2,081

Tonnage of Vessels	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Ferry	6,945,492	7,057,334	7,026,860	7,006,440	7,007,762	6,971,220	6,662,034
Fishing	258,613	309,338	254,691	245,613	243,873	241,272	214,733
Offshore Oil	559,514	519,995	457,595	679,676	525,090	318,943	372,671
Renewables	23,896	40,050	22,296	49,611	19,272	27,906	2,552
General Cargo	181,654	136,443	153,080	74,766	61,473	138,222	136,532
Fish Cargo	206,142	195,992	211,497	235,906	244,890	248,896	236,352
Tankers	50,313	49,512	50,700	48,100	44,892	37,681	39,951
Cruise	164,177	203,174	191,140	228,395	131,498	81,431	133,767
Total Tonnage	8,389,801	8,511,838	8,367,859	8,568,507	8,278,750	8,065,571	7,798,592

Traffic Statistics	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Ferry - passengers	155,461	153,530	147,183	134,111	126,808	122,421	111,593
White fish - Box Landings	280,224	355,049	292,523	298,943	290,651	288,233	249,265
Offshore Oil - cargo tonnes	10,222	8,689	12,141	9,026	5,295	2,199	4,131
Renewables - cargo tonnes	0	42	82	5,157	5,481	8,727	84
General Cargo - tonnes	52,048	33,073	35,771	19,340	16,482	50,332	36,407
Fish Cargo - tonnes	17,398	15,314	13,809	16,836	19,484	14,714	12,423
Tankers - tonnes	38,333	39,536	41,292	39,750	38,747	34,261	25,967
Cruise - Passengers	2,808	4,390	4,350	5,100	3,117	2,227	3,182

Business and Operations Review

FINANCIAL HIGHLIGHTS

£3.913 Million Turnover	£1.086 Million Profit before Tax	£6.180 Million Net Current Assets	£654,000 Capital Expenditure
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Financial year 2019-20 was a further strong trading period for the Trust. Turnover for the year amounted to £3.913 Million, almost identical to the 2018-19 figure. When property revenues are included, the total Trust revenues rose to £4.10 Million, a decrease of £24,000 on the previous year's record high. Profit before tax amounts to £1.086 Million, a decrease of £177,000 on the previous year. The financial performance was achieved across a range of port activities with ferry, energy and general cargo being the best performing sectors partly offset by declines in fish and shellfish revenues.

The Trust balance sheet remains very strong. At 31st March 2020, the Trust had net current assets amounting to £6.180 Million compared with £5.568 Million in the previous year. The strong balance sheet has allowed the Trust to progress the Ola redevelopment project and secure the necessary financing for the works.

Vessel arrivals totalled 2,291, a decrease of 9% compared with last year with the majority of the reduction being fishing vessels. The gross registered tonnage (GRT) through the port for the financial year to 31st March 2020 was 8.390 Million tonnes, a decrease of 1.5% on the previous year.

From March 2020, the spread of Covid-19 has impacted the UK and Scottish economy. The measures taken to contain the spread of the virus has resulted in serious disruption to businesses and economic slowdown. Scrabster Harbour Trust is not immune to these effects with its revenues, profitability and cash flow being impacted. The results for the first quarter of financial year 2020-21 show the Trust has managed to maintain profitability and positive cash flows from operations but at significantly lower levels than recent years and approved budgets.

Ferry and Cruise revenues have been badly impacted by the travel restrictions put in place to combat the virus. Other revenues and activity are continuing at or near forecast levels. As essential infrastructure the port has continued to operate throughout with appropriate safety guards in place to protect our staff and users. Limited use has been made of the government Coronavirus Job Retention Scheme

SECTOR REVIEW

Ferry

Ferry revenues remain the Trust's largest revenue stream. Passenger numbers on the lifeline ferry service totalled 155,461 an increase of 1.12% compared to the previous year's figures.

There were no disruptions to the ferry service during the year other than due to weather. MV Hamnavoe was out of service from 13th January to 26th January 2020 for statutory survey. Cover was provided again during this period by the freight vessel MV Helliard.

Ferry timetable and travelling restrictions were put in place in March as part of the public health measures to deal with the Covid-19 epidemic.

The next Northern Isles Ferry Services contract award had been delayed due to legal challenge. The next contract was awarded to the incumbent provider, Serco Northlink. The new contract was signed on 22nd April 2020, commenced on 30th June 2020 and will run for six years with the option of an extension of two years if appropriate

The Trust remains disappointed regarding the lack of progress in introducing Road Equivalent Tariff on the Pentland Firth route.

Fishing

Fishing activity, as measured by box landings, totalled 280,224 boxes. This was a considerable contraction compared to 2018-2019 but was in line with average landings over the last five years. Consigned landings fell by 21% compared with the previous year with landings through the local market reducing by 20%. Overall port fishing revenues reduced by 19% from last year's record levels. Shellfish revenues fell by 25% in the year.

Despite the uncertainty brought about by the Covid-19 crisis, the Trust has continued its practice of paying a loyalty rebate to whitefish and shellfish vessels making more than 15 landings in the year. A rebate totalling over £30,802. was paid out in respect of financial year 2019-20.

Uncertainty remains regarding the fishing policies, regulations and the trading arrangement that will be in place in future periods.

Oil Related and Renewables

Oil and Gas vessel arrivals rose by three vessels compared to 2018-2019. However the vessel tonnage increased by 7.6 % to 559,514 tonnes, the second best annual tonnage over the past seven years. There was an 18% increase in Oil related cargoes.

The Trust is in dialogue with a number of parties' interested bidding in the Scotwind Offshore wind leasing round. The names of the parties successful in securing lease sites will be known during the first half of 2021.

Cruise Ships

There were ten cruise ship arrivals, with a total vessel tonnage of 164,177 tonnes, during the summer of 2019. Cruise passenger numbers totalled 2,808 down 1,528 on the 2018 season.

Due to the Covid-19 there is unlikely to be a 2020 cruise season. The Trust, through its membership of Cruise Scotland, is in dialogue with the cruise lines regarding future plans and arrangements.

General and Other Cargo

General Cargo activity increased by 57% during the period with 52,048 tonnes of cargo passing through the port compared to 33,073 tonnes in the previous year. The increase being explained by an increase in timber shipments. Cargo commodities handled included timber, rock salt, offshore wind equipment, fish farm supplies and nuclear. Fish cargo tonnages from Faroes increased by 14 % to 17,398 tonnes. A second weekly fish cargo service by Smyril Line commenced in January 2020 to add to the service already operated by Eimskip. Oil imports, at 38,333 were 3 % down of the 2018-2019 figures.

Property

Property revenues increased by 2.5% in the year due to increased storage income.

Sandy Mackie
Trust Manager



Strategic Planning (Approved by the Board in May 2020)

Scrabster Harbour Trust business strategy is focused on:

- Growth in energy related port activity (oil and gas, marine renewables) and cruise ship activity:
 - For oil and gas, Scrabster seeks to become an integrated supply base supporting activity in West of Shetland and in the Northern North Sea.
 - For marine renewables, the port seeks to be an operations and maintenance base for offshore renewable activity.
 - For the cruise industry, Scrabster seeks to accommodate larger vessels and contribute to the continued growth of Scottish cruise tourism.
- The retention and growth of ferry, fishing, general cargo and cruise activity:
 - For the ferry service, the Trust will endeavour to maintain the life-line classification of the service and lobby to ensure that the interests of Scrabster are promoted in the tendering process.
 - For fishing, the Trust will seek to maintain and improve on the landings at Scrabster through modern infrastructure.
 - For the seafood sector, processing and other value-added activities will be encouraged.
 - For general cargo activity the Trust will work with stakeholder partners to provide an efficient service to port users to promote the use of the harbour.

The strategy seeks to deliver:

- Higher quay and laydown utilisation;
- Increased quay and laydown area space;
- Increased vessel numbers and cargo throughput.

All of this will result in increased port revenues that can be re-invested in the harbour for the commercial benefit of harbour users and the wider Caithness economy.

Property and Estate Strategy 2020

The Trust's property and estate strategy aligns with and complements overall port strategy. It also aligns with the aims of the Caithness and North Sutherland Regeneration themes of diversification away from an economy dependent upon Dounreay.

The Harbour Estate consists of the port area extending to 10.42 hectares and development land at Scrabster Farm extending to 14 hectares. The port area is a mixture of outright ownership and leasehold tenure from the Crown Estate Commissioners. The land at Scrabster Farm is owned outright by the Trust and is currently classified as an enterprise area by Scottish Government.

The Trust derives income from a diverse property portfolio

- Ground rents
- Residential property
- Storage and storage areas
- Office and business accommodation
- Industrial units

Current vacant space at the port, extends to only 4,300 square metres, is very limited and keenly sought.

Strategy and Policy Going Forward

- Property strategy aligns with overall business strategy. Any property and estates proposal needs to be assessed, not in isolation, but with regard to overall port strategy.
- Property strategy looks to the medium to long term (5-10 year timeframe) rather than short term revenue maximisation.
- The limited availability of quayside laydown areas needs protection and careful management.
- Additional space is required at and nearby to the port.
- Experience elsewhere emphasises keeping laydown areas as clear and flexible as possible.
- Experience at other ports has demonstrated that longer term port revenues are maximised through ports owning and developing their own land and buildings. Scrabster will seek to follow the same model subject to affordability and funding restraints.
- For marine renewable activity there has been limited activity to date, however, the Trust needs to be in a position to respond as the requirements of the sector becomes clearer. Scrabster seeks to be an O&M (Operations and Maintenance) base for the sector but remains open to any opportunity to support fabrication activities.
- For Oil & Gas activity – Scrabster offers shorter steaming time, congestion free and fast vessel turnaround. This requires available and flexible quayside and back up space.

Delivering the Strategy

The property and estate strategy will be delivered through the following work streams and through partnership working with interested parties and public agencies:

- 1. Port Infrastructure** – the maintenance and improvement of port infrastructure will continue to be progressed. A construction contract has been awarded for the redevelopment of the St Ola Pier commencing summer 2020.
- 2. Property acquisition** - The Trust has previously acquired property to support port activity and continue will seek to secure additional properties at the Harbour.
- 3. Land reclamation** – The feasibility of additional land reclamation will be pursued.
- 4. Reconfiguration** - The existing harbour estate layout will be examined to ensure space is best configured.

All property related requests and applications will be assessed with reference to the above policy.

Infrastructure Progress in 2019-20

The Trust spent £654,000 on capital expenditure in the year. This covers property related expenditure and loading improvements to the Jubilee Pier.

In line with its strategy, the Trust has acquired additional premises at the port. The property has been leased out as a marine and agricultural engineering business.

Prior to the financial year end, agreement was in place for the transaction to acquire, the St. Ola Pier leased area and the additional seabed required for redevelopment, from Crown Estate Scotland.

With agreement of the fuel operator, the Jubilee Pier fuel loading arms were removed and replaced with a flexi-hose arrangement with the pumping apparatus protected by a steel cage. This gives greater loading flexibility on this pier.

The major focus, as in the previous year, was progression of the plans to repair and redevelop the St. Ola Pier. Following a negotiated procurement process RJ McLeod (Contractors) Limited were selected as the preferred bidder. The NEC4 Engineering and Construction Contract, with a value of £18,567 Million, was signed on 1st April 2020.

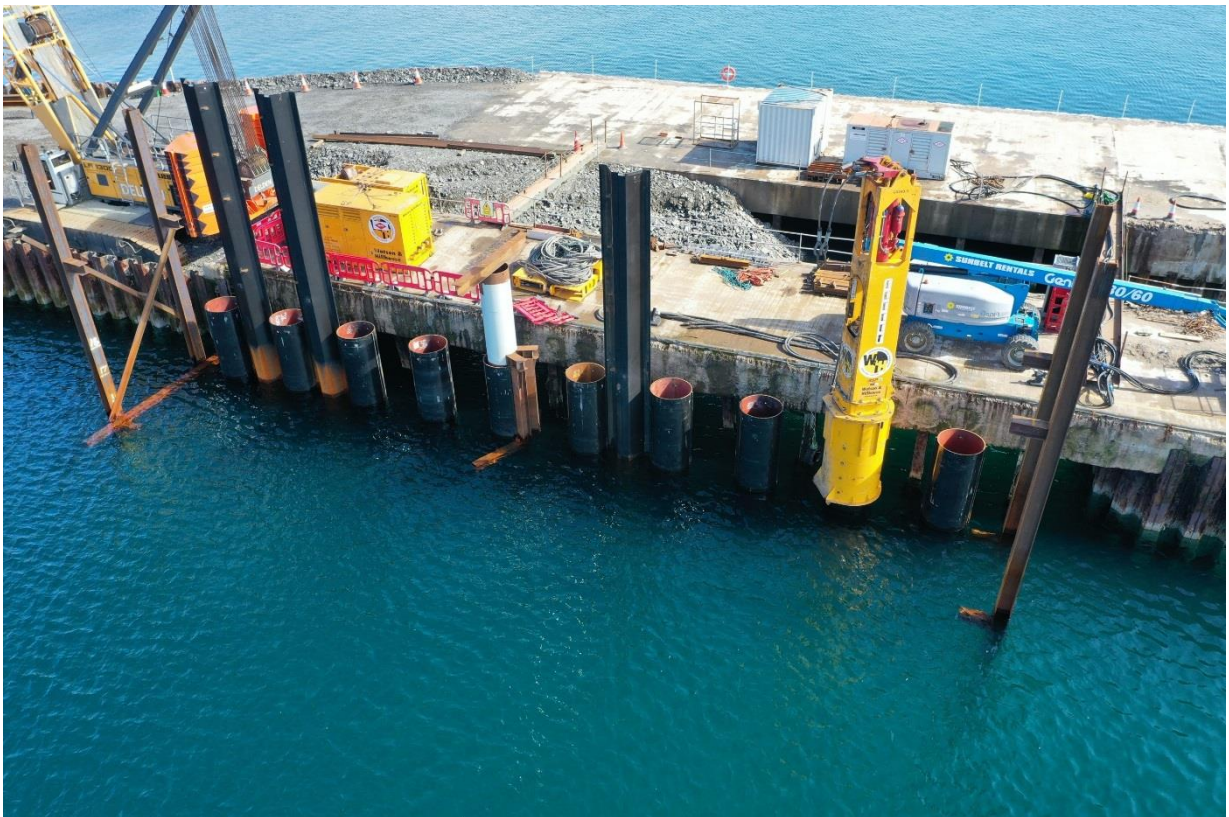
The Marine Scotland Licences for the construction works and dredging activities were obtained in February 2020. Amended licences, reflecting the final project scope, were approved in April 2020.

The final element of the project funding package, the banking facilities, was agreed with the Clydesdale Bank in March 2020. The facilities agreement provides a development facility during the construction period with the facility converting to term loan on completion of the works.

Large infrastructure projects are challenging and the complexities in progressing the project were added to by the emerging Covid-19 situation and the associated restrictions.

The contractor mobilised to site in June and has made good progress with the demolition and preparatory stages. Piling activities began in August and will continue until spring 2021. The dredging activity is expected to take place in springtime. The current programme forecasts that the work will be complete in October 2021.

The construction contract places certain community benefit obligations on the contractor. The development will provide local economic benefit and stimulus throughout the construction period.



Compliance & Competence

SAFETY, SECURITY AND ENVIRONMENTAL

Scrabster continues to regard health and safety as a vital element in ensuring the safe and efficient operation of the port. We aim to ensure our operations do not harm any people, property or the environment. Compliance with the Port Marine Safety Code remains a top priority of the Board and health and safety is considered at each of the Board's monthly meetings. The Trust is a member of the Port Skills and Safety Group.

Ian Scott of First Safety Solutions, who is the Trust's Designated Person as required under the Port Marine Safety Code, visited the Harbour in February 2020 to undertake the annual compliance audit of our performance against the Code. There were no major or minor non-conformances arising from the report.

During the year there were five health and safety adverse events and one incident under the Port Marine Safety code. None of the adverse events were reportable. All events and incidents were fully investigated with any actions implemented and communicated.

Scrabster continues to meet the security standards required under the International Ship and Port Facility Security (ISPS) code and the Port Security Committee meets 6-monthly to discuss current issues. The April 2020 meeting was cancelled due to the Coronavirus restrictions. The meetings are normally attended by senior inspectors from Maritime Security & Resilience Division who oversee port security across the UK. As part of the ISPS compliant process the plan has to be reviewed, updated and approved every three years. Scrabster Harbour's plan was reviewed, updated, submitted and approved in 2018.

In compliance with the Port Marine Safety Code, Scrabster Harbour Trust continues to meet the targets set by the International Association of Lighthouse Authorities for the provision of Local Aids to Navigation.

In the three years from 1st January 2017 to 31st December 2019, SHT achieved 100% performance of its Category 1 lights against the required target of 99.8% and 99.70% performance for its category 2 lights against the required target of 99.0%.

Under the Merchant Shipping Act 1995 (Sections 193 and 198), the Northern Lighthouse Board (NLB) has the duty of superintendence over all 'Local Lighthouse Authority' and 'Third Party' Aids to Navigation (AtoN). In June 2019 the NLB carried out an audit of our AtoN Management System against the requirements of the Port Marine Safety Code (PMSC), supported by International Association of Lighthouse Authorities (IALA) recommendations. There were no non-conformances, due to some legislated changes the NLB made some recommendations that the Trust has now adopted.

There is a statutory requirement under the Merchant shipping (Port Waste Reception Facilities) Regulations 2009 for the port to have an approved Waste Management Plan. The updated plan was reviewed and approved by the MCA during the year.

STAFF AND TRAINING

The Board continues to recognise the need for continuous professional and personal development of all members of staff. Our annual training programme is focused on ensuring compliance with statutory requirements and the codes of practice applicable to the Trust's activities. Trust employees are now using an eLearning online system for some courses. The online training is more efficient and flexible in terms of time and cost with all the training being undertaken within the Harbour Office.

The Trust offers work experience opportunities for the unemployed and for schools. This allows the person to gain skills in communication, teamwork, problem solving, motivation and time management; these are all soft skills which are essential to have in the workplace and are highly valued by employers. The Trust is fully supportive of these schemes and see it as assisting the local community. Such opportunities are currently constrained by the continuing coronavirus situation.

As an essential service the port has continued to operate throughout the Covid crisis. The Trust has made limited use of the Government's furlough scheme. Core activities have been maintained but in as safe a manner as possible. To do this the Trust minimised the numbers on duty and physically at the Harbour.

