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## **TRANSEUROPA OUTSTANDING DEBT**

To: **Extraordinary Cabinet – 29 May 2013**

Main Portfolio Area: **Financial Services**

By: **Sarah Martin, Financial Services Manager**

Classification: **Unrestricted**

Ward: **All**

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**Summary:** **To clarify the outstanding debt position in relation to Transeuropa and to seek approval to use the sources of funding identified to deal with the debt.**

### **For Decision**

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#### **1.0 Introduction**

1.1. Following the news of the termination of business by the ferry operator Transeuropa NV and its subsequent filing for insolvency, the council has reviewed its debt position with the company. The outstanding debt now stands at circa £3.3m and given that the operator is no longer trading, it will now be necessary to make full provision for the debt within the 2012/13 statement of accounts.

#### **2.0 Background**

2.1 Detailed discussions began with Transeuropa about its financial viability back in November 2010. At this time the company advised the council that it wished to review the tariff agreement as escalating fuel prices were causing them financial difficulties. These discussions culminated in a meeting in Ostend in March 2011 with both Transeuropa and the council's Ostend counterparts. Transeuropa made it clear at this time that they needed temporary support from both the council and Ostend to ensure the ongoing future of the business. The company had started making substantial losses due to continued high fuel prices and to the price war being waged between the cross channel operators as a result of the French government's deficit funding for Sea France. At this time the company had also recently reduced to two vessels operating instead of the previous three. The council was keen to ensure the continuation of Transeuropa's business, whilst also protecting its own financial position. It therefore agreed to a three month deferral of fees which would be added to the existing debt. A payment plan for the existing debt was also agreed to 2014. At the same time, Ostend also agreed to waive an element of their charges. Through close contact with Ostend, officers were confident that the council's offer of credit was both necessary and reasonable.

2.2 Subsequent discussions with Transeuropa showed that they were in talks with potential investment partners to help secure their future. As a result of this, Transeuropa requested that the deferral of fees be extended until an investment partner was in place. Payments of around £80k per month in respect of the outstanding debt were received from July 2012 through to September 2012, which was seen as a positive sign that the position was improving.

- 2.3 Discussions with potential investors continued throughout 2012 and council officers had regular updates from Transeuropa on the progress of these discussions. Ultimately in November 2012, agreement was reached with an Italian investment company. It was hoped that this investment would secure the financial viability of the company, thereby ensuring the recovery of the council's outstanding debts. Indeed, a third vessel, the Ostend Spirit, commenced sailings in February 2013 which was taken as a positive sign that the company's fortunes had taken a turn for the better.
- 2.4 Throughout the negotiations, the course of action with regards to the management of the debt was shared with the Cabinet Leader and Finance Portfolio holder in administration at that time.
- 2.5 On 17 April 2013, to the council's great disappointment, the Ostend Spirit had to be returned to P&O in accordance with the charter arrangement as the promised funding had not been released to Transeuropa by the Italian investors. This was seen as a sign of the company's failing financial position by some of its creditors who took the opportunity to seize the company's two remaining cross channel vessels within Ostend Port, thereby causing them to cease operations and prompting insolvency proceedings.

### **3.0 The Current Position**

- 3.1 The council has now reviewed its outstanding debt position with Transeuropa and can confirm that the debt stands at circa £3.3m. Although the council has lodged its debt with the company administrators and intends to take whatever action it can to chase the debt, good accounting practice means that the council needs to provide for the debt in full within its 2012/13 statement of accounts. It is proposed to use the following sources within 2012/13 to fund this debt:

- A sum of £1m has been identified in respect of prior year adjustments to housing benefit subsidy. This is a highly volatile budget due to the impact on the subsidy of increases in caseloads and errors in benefit calculations and so normally any underspend would be put into the Customer Services Reserve to mitigate any future overspends. However, the current balance in this reserve is considered appropriate for this purpose and therefore this budget underspend can be utilised to offset the Transeuropa debt position;
- Unallocated unringfenced grants of £92k have been identified;
- A balance of £43k remains on the Housing and Planning Delivery Grant reserve which is unallocated;
- A sum of £1m will be drawn down from the New Homes Bonus;
- Savings in the cremator project of £196k will be utilised;
- Carry forward budgets of £257k from prior years have not been utilised and will therefore be taken to offset this debt;
- A sum of £200k will be taken from the Priority Improvement Reserve which will still leave a balance of £405k to support invest to save and one-off initiatives;
- A sum of £196k will be taken from the VAT Reserve;
- The bad debt provision has been reviewed and a sum of £200k can be taken to contribute towards this debt.

The above funding sources give a total of £3,186k. It is anticipated that there will be an underspend for 2012/13 over and above that already reported to Members and it is recommended that the balance required to offset the outstanding debt position be taken from any such underspend.

#### **4.0 Options**

4.1 Members agree the proposed sources to fund the debt.

4.2 Members identify alternative sources of funding.

#### **5.0 Next Steps**

5.1 Officers will continue to make every effort to recover the outstanding debt.

5.2 Talks are progressing to identify a new ferry operator to mitigate the ongoing budget impact. In the meantime, significant day to day operational savings have already been made at the port and harbour and a wider moratorium on discretionary spending has been implemented to address the budget gap as a result of Transeuropa ceasing operations.

#### **6.0 Corporate Implications**

##### **6.1 Financial and VAT**

6.1.1 A sum of circa £3.3m has had to be identified to offset the outstanding debt that has been accumulated as highlighted in paragraph 3.1 above. The exact final figure will be recognised within the accounts as part of the closure of accounts process.

6.1.2 Throughout the accumulation of the debt and up to the current time, officers have shared information with the council's external auditors to ensure proper accounting practice has been followed.

##### **6.2 Legal**

6.2.1 The Legal team will endeavour to take whatever action is available to chase the outstanding debt.

##### **6.3 Corporate**

6.3.1 Corporate priorities can only be delivered with robust finances. This report has identified how the Transeuropa debt position can be addressed without impacting on the delivery of the council's priorities.

##### **6.4 Equity and Equalities**

6.4.1 There are no equity or equality issues arising directly from this report.

#### **7.0 Recommendation**

7.1 That Members approve the sources identified in paragraph 3.1 to fund the outstanding debt.

Contact Officer:	Sarah Martin, Financial Services Manager
Reporting to:	Sue McGonigal, Chief Executive and S151 Officer

#### **Annex List**

None	N/A
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**Corporate Consultation Undertaken**

Finance	
Legal	