
Report To:	Environment and Regeneration Committee	Date:	18 January 2018
Report By:	Corporate Director Environment, Regeneration & Resources	Report No:	E+R/18/01/03/SJ
Contact Officer:	Stuart Jamieson	Contact No:	01475 712402
Subject:	Glasgow City Deal – Project Heads of Terms		

1.0 PURPOSE

- 1.1 The purpose of this report is to seek Members' approval to agree Heads of Terms with Scottish Power for the Inverkip City Deal project and Peel Ports for the Greenock Ocean Terminal City Deal project.

2.0 SUMMARY

- 2.1 In 2013 the Clyde Valley Councils which together cover the 'City Region' of Glasgow collectively pursued a bid to the UK Government to establish a City Deal Agreement, similar to those established in England, with a view to bringing forward a major investment programme to stimulate economic growth for the benefit of residents and businesses in the Glasgow City Region.
- 2.2 Following approval by the Environment and Regeneration Committee in August 2014 to accept the offer of a City Deal, the Corporate Director Environment, Regeneration and Resources has been undertaking a number of activities including developing business cases for two of Inverclyde's three City Deal projects. Regular reports have been presented to Committee.
- 2.3 Members were made aware early in the process of the challenges associated with the projects proposed by Inverclyde, especially achieving agreement with private sector partners and complying with State Aid requirements. Inverclyde projects are true partnership projects in this respect where working successfully with the private sector is a prerequisite to success.
- 2.4 Project approval is a three stage process, initially Strategic Business Cases are submitted and if successful these progress to Outline Business Case with final approval only granted at Final Business Case. Inverclyde has three projects which are eligible to be considered for appraisal, Greenock Ocean Terminal (£14.177m), Inverkip (£3.25m), and Inchgreen (£9.47m). Following approval by the Committee in October, the Outline Business Cases for Greenock Ocean Terminal and Inverkip were approved by the City Deal Cabinet in October 2017.
- 2.5 In order to complete the final business case, key agreements need to be in place including statutory approvals and concluded partnership agreements between the interested parties. These agreements will ultimately be subject to both Committee approval as part of the Final Business Case submission and, in turn, Cabinet approval before contracts can be awarded. Heads of Terms of relevant commercial agreements are key components in the negotiation process.

3.0 RECOMMENDATIONS

- 3.1 That the Committee:-
- A) Agree with the terms set out in the report;
 - B) Delegate authority to the Corporate Director Environment, Regeneration and Resources to enter into negotiations with both Peel Ports and Scottish Power to agree Heads of

Terms for the Capital expenditure of Greenock Ocean Terminal and the roads projects at Inverkip identified in paragraph 5.16;

- C) Delegate authority to the Corporate Director Environment, Regeneration and Resources to enter into negotiations with both the George Wylie Foundation and the Dunard Trust in respect of Heads of Terms for the Capital expenditure of Greenock Ocean Terminal; and
- D) Delegate authority to the Corporate Director Environment, Regeneration and Resources to enter into negotiations with both Peel Ports and the George Wylie Foundation for the use of the visitor facility at Greenock Ocean Terminal.

Scott Allan
Corporate Director Environment, Regeneration & Resources

4.0 BACKGROUND

- 4.1 In 2013 the Clyde Valley Councils which together cover the 'City Region' of Glasgow collectively pursued a bid to the UK Government to establish a City Deal Agreement, similar to those established in England, with a view to bringing forward a major investment programme to stimulate economic growth for the benefit of residents and businesses in the Glasgow City Region.
- 4.2 The City Deal is a grant mechanism worth up to £1 billion over twenty years funded by the UK and Scottish Governments, on the basis of agreed milestones including increased economic activity being achieved.
- 4.3 The Infrastructure Fund consists currently of 20 projects across the City Region. The projects range from road infrastructure projects to tourism and business infrastructure works with a total programme value of £1.13bn. As a result of the funding of £1 billion awarded by the UK and Scottish Governments, the seven participating authorities in the Infrastructure Fund element are required to contribute the remaining £130m.
- 4.4 Inverclyde has three projects within the Infrastructure Fund Programme i.e. Greenock Ocean Terminal (£14.177m), Inverkip (£3.25m), and Inchgreen (£9.47m).
- 4.5 Following approval by the Environment and Regeneration Committee in August 2014 to accept the offer of a City Deal, the Corporate Director Environment, Regeneration and Resource has been undertaking a number of activities including developing business cases for Inverclyde's three City Deal projects.
- 4.6 The Council cannot progress any of the three sites in isolation and progress has involved partnership with Peel Ports/Clydeport for the Greenock Ocean Terminal and Inchgreen projects whilst Iberdrola/Scottish Power has been engaged over the Inverkip project. Through regular Officer reports to Committee, Members have been made aware of the challenges associated with developing physical regeneration projects; particularly due to the challenging location of projects, the level of unknowns associated with industrial dockland, establishing state aid compliant joint venture agreements with the private sector and cash flowing projects where funding can be made subject to economic performance.
- 4.7 In October 2017 the Committee approved submission of the Outline Business Cases for both Inverkip and Greenock Ocean Terminal and, following approval, the City Deal Cabinet invited Inverclyde Council to proceed to final business case.
- 4.8 As part of the Final Business Case approval as well as having tendered costs, all statutory approvals and partnership agreements need to be in place, albeit subject to both Council and Cabinet approval. In order to satisfy this requirement relevant commercial agreements need to be in place.
- 4.9 Officers have had regular engagement with the State Aid Unit from the Scottish Government. There are no State Aid issues to be considered in respect of the Inverkip project. Advice is being sought from specialist advisors in respect of the Greenock Ocean Terminal which will be incorporated into the final agreement between Peel Ports/Clydeport and the Council.

5.0 CURRENT POSITION

Greenock Ocean Terminal - Peel Ports/Clydeport

- 5.1 The Greenock Ocean Terminal project seeks to create a dedicated cruise berth with visitor facility at the eastern end of the Port of Greenock enabling the Glasgow Metropolitan City Region and indeed wider Scotland to realise its potential as a marquee cruise destination within northern European waters and service international cruise based tourists visiting Scotland's central belt.
- 5.2 Whilst the project components have remained the same, berthing, dredging and building, the delivery locations have moved slightly. Due to issues with hydrology, extending the existing quay wall was not feasible. An innovative floating pontoon has been developed with linkspans to the

quayside. Where once the intention was to locate the visitor facility within the Port, the proposed location is now to extend the International Ship and Port Security (ISPS) zone and construct the facility adjacent to the waterfront cinema. This decision has allowed for 365 day a year use of the facility and has resulted in interest to develop an externally funded Museum and Gallery space along with restaurant.

- 5.3 The project still comprises three components namely:- dredging a pocket in the river bed for the cruise liners, along with re-alignment of the navigation channel in the River Clyde; a floating pontoon; and a visitor centre allowing embarkation and disembarkation of passengers. City Deal funding is based on the Gross Value Added (GVA) from the expected increase in cruise traffic and in turn passenger numbers for the Metropolitan City Region.
- 5.4 The Strategic Business Case the Greenock Ocean Terminal project identified a total project cost of £14.137m without confirming any contribution from Peel Ports. As the project developed to Outline Business Case the costs of the three components have been firmed up as dredging costing £3m, pontoon and marine links costing £7.1m, the building costing £4m and external landscaping costing £693,000. The Outline Business Case provided the Committee with an update on the project costs which highlights a current cost estimate £8.793m of funding from City Deal along with a contribution of £6m from Peel to support infrastructure investment totalling £14.793million to deliver a new Cruise Terminal Facility.
- 5.5 Based on discussions from the State Aid Unit and our independent advisors Deloitte, the Council is able to fund up to €5m (approx. £4.3m depending on exchange rates) of grant to the project following the 2017 changes to the General Block Exemption Rules. For business planning purposes within the Outline Business Case, a grant of £4m was being made available to Peel for marine works, subject to Peel paying a Commercial Rate for their use of the visitor facility.
- 5.6 Members are aware that interest from the George Wylie Foundation and the Dunard Trust is ongoing to develop an externally funded Museum and Gallery space along with restaurant and a parallel design process is ongoing. The uses proposed for the George Wylie Foundation are complementary to the visitor facility and any increase in building costs, up to a total of £9m would be funded by the Dunard Foundation.
- 5.7 Whilst a number of variables still exist, it is important as part of the development of the Final Business Case that Officers have the authority required to reach agreement in principle with the interested parties. Heads of Terms in relation to a Funding Agreement require to be developed with Peel for the Capital Investment in the Marine works, with a proposal that they contribute £6.1m and the Council, via City Deal, contributes £4m. Heads of Terms in respect of a Commercial Lease require to be developed for Peel's use of the visitor facility for embarkation and disembarkation purposes.
Heads of Terms in connection with a Funding Agreement and a Commercial Lease all need to be developed with the George Wylie Foundation and Dunard Trust for the use of the remainder of the visitor facility.

Inverkip- Iberdrola/Scottish Power

- 5.8 The Outline Business Case provided the Committee with an update on the project costs which highlights a current cost estimate of £3.250million of funding to support infrastructure investment in excess of £100million re-developing the brownfield site of the former Inverkip Power Station and providing business space, leisure and housing. Off-site Infrastructure constraints impact adversely on the capacity to advance the development of this Major Area of Change site restricting economic investment capable of supporting sustainable settlement growth of the two local centres at Wemyss Bay and Inverkip.
- 5.9 The project consists of four roads infrastructure components, three of which are at locations remote from the site, namely the A78 junction with Main Street, Inverkip, the Brueacre Northbound on slip, the Brueacre Southbound on slip. The component adjacent to the site is a five leg roundabout with access to the site at the Brueacre junction.
- 5.10 The cost breakdown of the project between SBC and OBC showed no change on the basis that this project is a grant, which given the works are predominantly on the public highway State Aid does not apply.

- 5.11 Heads of Terms need to be negotiated and agreed in relation to a Funding Agreement with Scottish Power on the basis that the Council, via City Deal funding, will pay Scottish Power up to £3.25m to deliver the four roads components identified. In turn, Scottish Power will complete the identified roads works, as well as developing the former Inverkip Power Station site, including roads and drainage, infrastructure plus housing and commercial space of a 15 year gestation period.
- 5.12 Part of the agreement requires provision of incremental clawback. The liability for Scottish Power will remain at £3.25m until the roads and drainage infrastructure on the Power Station site are complete, at which stage the liability will reduce by £1m. On completion of 300 houses the liability will reduce by a further £1m and the liability will reduce to zero on completion of the balance of housing and commercial property.
- 5.13 Whilst a number of variables still exist, it is important as part of the development of the Final Business Case that Officers have the authority required to reach agreement in principle with the interested parties. Heads of Terms in order to develop a Funding Agreement require to be negotiated and agreed with Scottish Power for the Capital Investment.

6.0 FINANCE

6.1 Financial Implications

One off costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (if Applicable)	Other Comments
N/A					

Legal

- 6.2 There are no legal implications arising from this report.

Human Resources

- 6.3 There are no human resources implications arising from this report.

Equalities

- 6.4 Service provision will facilitate diversity and equality in recruitment, all procedures will fall within the policy and practice of Inverclyde Council.

Repopulation

- 6.5 The delivery of the projects will provide key opportunities that will contribute to a reversal in population decline. It is recognised, however, there is no quick fix to this issue and continued investment in the most successful initiatives will be required to ensure continued progress.

7.0 CONSULTATIONS

- 7.1 Consultations with Departments have included all Heads of Service and appropriate Finance Officers.

8.0 BACKGROUND PAPERS

8.1 None.