
Report To:	Environment and Regeneration Committee	Date:	2 May 2019
Report By:	Corporate Director Environment, Regeneration & Resources	Report No:	E+R/19/05/01/SJ
Contact Officer:	Stuart Jamieson	Contact No:	01475 712402
Subject:	Glasgow City Deal – Final Business Case Submission – Greenock Ocean Terminal (Marine Works)		

1.0 PURPOSE

- 1.1 The purpose of this report is to seek Members' approval to submit the Final Business Case for Greenock Ocean Terminal (Marine Works) to the City Deal Cabinet.

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 The City Deal Agreement comprises three elements: an Infrastructure Fund supported by parallel streams of activity in relation to Labour Market and Innovation measures. The UK and Scottish Governments agreed to fund £1billion towards the overall £1.13billion Infrastructure Fund, the balance of the funding being made up from seven of the eight Member Authorities, and further funding is being provided to enable the Innovation element as well as refocusing labour market initiative funding.
- 2.3 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 all of Inverclyde's City Deal projects. Regular reports have been presented to Committee.
- 2.4 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 pre-requisite to success.
- 2.5 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).
- 2.6 The Outline Business Case for Greenock Ocean Terminal was approved by the City Deal Cabinet in October 2017. Since then the design process has included the museum / gallery space and restaurant within the terminal building. Whilst there has been some slippage in both the marine works and the terminal building programmes, the marine works project is now sufficiently developed to be considered for submission to the Cabinet for approval to proceed to award of contract. Officers will continue to work on the Terminal Building element with a view to an early submission of the Final Business Case (Terminal Building) to the Committee and in turn the Cabinet.

3.0 RECOMMENDATIONS

3.1 That the Committee:-

- A) agrees to the submission of the Final Business Case for Greenock Ocean Terminal (Marine Works) and, if minded,
- B) delegates authority to the Corporate Director Environment Regeneration and Resources to continue to work with our project specific private sector partners in the implementation of the Marine Works if approved by Cabinet, and
- C) notes that Officers will continue to develop the Terminal Building element of the Final Business Case for progression;
- D) delegates authority to the Head of Legal and Property Services, the Chief Financial Officer and other relevant officers to take all necessary steps to conclude a Funding Agreement, Profit Share Agreement and a lease of part of the Ocean Terminal Building and any other agreements as are necessary with Clydeport Operations Limited.

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 £1billion 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 City Deal Agreement comprises three elements: an Infrastructure Fund supported by parallel streams of activity in relation to Labour Market and Innovation measures. The UK and Scottish Governments agreed to fund £1billion towards the overall £1.13billion Infrastructure Fund, the balance of the funding being made up from seven of the eight Member Authorities, and further funding is being provided to enable the Innovation element as well as refocusing labour market initiative funding.
- 4.4 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 £1billion awarded by the UK and Scottish Governments, the seven participating authorities in the Infrastructure Fund element are required to contribute the remaining £130m. It is proposed that two strategic projects, Glasgow Airport Rail Link and SPT's Bus Programme, which are deemed to generate pan City Region benefits, will be fully funded by grant funding. Glasgow and Renfrewshire will be responsible for cash flowing and delivering the rail project and covering/receiving any overspends/savings. In relation to the Bus Programme, this will also be fully funded, however all Councils will be responsible for cash flowing the project and covering/receiving any overspends/savings on a pro-rata basis.
- 4.5 Inverclyde originally submitted eight projects for consideration for inclusion within the Infrastructure Fund Programme and three were successful i.e. Greenock Ocean Terminal (£14.177m), Inverkip (£3.25m), and Inchgreen (£9.47m).
- 4.6 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.
- 4.7 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 Officer regular 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.
- 4.8 Officers have had regular engagement with the State Aid Unit from the Scottish Government. Advice has been sought from specialist advisors in respect of the Greenock Ocean Terminal which is 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 Final Business Case provides the Committee with an update on the project costs which highlights a current cost estimate £9.693m of funding from City Deal to support infrastructure investment totalling £18.543million to deliver a new Cruise Terminal Facility 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 The cost breakdown of the project between SBC and OBC are as follows however these figures have been subject to further negotiation and are confirmed in the final business case as:-

Investment Costs	Strategic Business Case Stage (SBC)	Outline Business Case Stage (OBC)	Final Business Stage (FBC)
City Deal Funding / IC	£14.137 million	£8.793 million	£9.693 million
Peel Ports Group	£0.00	£6.000 million	£8.000 million
Dunard	£0.00	£0.00	£1.500 million
TOTAL	£14.137 million	£14.793million	£19.193 million

- 5.3 Cruise tourism is one of the fastest growing sectors in international tourism. The current facilities at Greenock share berths with the Greenock container terminal and intermodal and general freight cargo activity. Greenock is the prime destination of choice for cruise vessels visiting Scotland and is unable to maintain current vessel visits due to freight conflicts and berth capacity.
- 5.4 The project demonstrates a strong fit with national, regional and local economic policies and is a major element within Inverclyde's Economic Strategy that seeks to diversify the economy, build sustainable growth through tourism and support inclusion.
- 5.5 The project will make a significant contribution to economic growth and international tourism across the City Region. The Terminal facility will allow Scotland and Inverclyde to continue to offer cruise access and increase cruise liner visits to Scotland. The facility will capture additional international visitor-spend and support higher value economic activities and spend across the City Region.
- 5.6 The Cruise Terminal project and the support from The Glasgow City Region – City Deal Infrastructure Fund provides the opportunity to address core elements of both the economic and tourism strategies for the region and create new and significant additional economic activity for Inverclyde and the City Region.
- 5.7 Peel Group operates the Greenock Container Terminal. The terminal operates as a container port with limited general/bulk freight. Since we have developed the proposal in 2014, Peel have sought to increase the amount of cruise traffic visiting Greenock from a base line of forty nine ships. Growth has been steady and it is anticipated that seventy five vessels will visit Greenock in 2019. Passenger numbers vary from forty nine to four thousand six hundred and ten per vessel. Container growth into Greenock is growing at circa 5% annum and logistics space and berth capacity is limited. Peel Group have advised that current levels and future growth in cruise vessel demand is incompatible with growth in the prime port container terminal business and have not sought to increase cruise traffic for the last three years. The port is currently restricting the number of vessels using Greenock.
- 5.8 Inverclyde Council and Peel Ports Group have investigated a range of options to develop the facilities to sustain cruise activity on the Clyde. Options were assessed for locations offering deep-water berthage and supporting infrastructure considered capable of meeting the requirements of cruise operators. The main options include:
- Options for Shared Berthage/Facilities within Clydeport Container Terminal;
 - Options for a new deep-water berth and use of existing land-side facilities;
 - Options for a new pontoon berth and new or existing facilities within port;
 - Options for new pontoon berthing facilities and a new Cruise Terminal

outwith the port (Preferred option).

- 5.9 There is no other port in West Central Scotland that can provide comparable services for either freight or tourism, and therefore no intervention is not a viable option to sustain and grow economic activity related to both commercial port and cruise tourism, and a choice will need to be made between the two.
- 5.10 The scope of the project involves the development of new berth capacity delivered by a new dedicated cruise berth secured with a floating pontoon connected to new shore-based cruise terminal facilities (located to the east of the Waterfront Cinema). The project consists of:
- Pontoon berth;
 - Dredge pocket and channel;
 - Cruise Terminal Building;
 - Signage.
- 5.11 The project objectives are to:
- Safeguard and grow the cruise tourism market for West of Scotland – number of boats and passengers;
 - Safeguard and grow commercial port activity at Ocean Terminal;
 - Secure national/regional/local economic benefits (GVA/jobs/businesses) from tourism spend and commercial port activity;
 - Develop a facility of international quality standards offering long-term sustainability that will raise the perception of Scotland as a quality tourism destination.
- 5.12 It is anticipated that the project will directly contribute to the economic outcomes set out in the City Deal Infrastructure Fund: Economic Case by delivering a significant uplift in GVA, net additional employment and net additional tax revenues beyond that required to satisfy the City Deal GVA requirement and it will provide:-

200,000 visitors per annum

£45.6m net additional GVA for the preferred option – impact over 25 years from 2017

In determining the benefits, it is assumed that the major infrastructure works will start on site in 2019 with work completed in 2020 when the pontoons become operational.

- 5.13 Peel Ports will administer the works on an open book basis through a funding agreement with the Council providing grant funding (through City Deal) in arrears based on the agreed Port Business Plan. The funding agreement is State Aid compliant and has been verified by both Messr Deloitte, and Harper MacLeod.
- 5.14 Peel Ports completed the tender exercise which was compliant with both City Deal and European Procurement legislation. The original project value for the marine works was £10.1million however the returned tenders have resulted in an overall project value of £12.0m, the Board of Peel have underwritten the increase in value, with the City Deal contribution remaining at £4.0m.
- 5.15 Peel Ports have secured the necessary Harbour Revision Order from Scottish Ministers as well as appropriate licences from Marine Scotland for dredging and construction.
- 5.16 Delegated authority was granted to the Corporate Director, Environment, Regeneration and Resources in January 2018 to enter into negotiations with Peel Ports/Clydeport to agree Heads of Terms for the capital expenditure of Greenock Ocean Terminal. This has resulted in the following agreements being negotiated in order to conclude the legal arrangements for the marine works project:

Funding Agreement

This agreement sets out the terms and conditions upon which Inverclyde Council (IC) has agreed to provide a financial contribution to Clydeport Operations Limited (COL) towards certain eligible costs to be incurred by COL in respect of the marine works.

Profit Share Agreement

In terms of the Funding Agreement, COL and IC have agreed to enter into a Profit Share Agreement, in terms of which IC will be entitled to receive a share of certain profit earned by COL as a result of the marine works.

Ocean Terminal Building – Agreement for Lease and Lease

These agreements set out the terms and conditions under which COL will have rights of access over and will occupy part of the Ocean Terminal Building (once constructed) for the purposes of the provision of cruise terminal facilities to cruise ship passengers.

- 5.17 A full copy of the Final Business Case is available for Members from the Head of Regeneration and Planning.

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
City Deal		19-21	4,000		

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 The Head of Legal & Property Services has been consulted extensively in the production of this report as well as in the production of the various legal agreements, supported by external resource where necessary.

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 Final Business Case for Greenock Ocean Terminal (Marine Works).