

ABERDEEN CITY REGION DEAL:

Powering Tomorrow's World

BUSINESS CASE

Project name	Aberdeen Harbour Expansion – Supporting Infrastructure
Theme	Internationalisation
Lead	John-Paul Cleary
Date	20 February 2017

THE STRATEGIC CASE

Aberdeen Harbour is a key commercial port serving the North East of Scotland and one of Europe's leading marine support centres for offshore energy. In order to accommodate existing and future demands for harbour services in the area including support for decommissioning, offshore renewables, large cruise liners and a larger Northern Isles ferry, Aberdeen Harbour Board (AHB) is expanding the Harbour into Bay of Nigg, south of the existing harbour.

The Aberdeen Harbour Expansion project is listed in the Scottish Government's National Planning Framework 3 (June 2014) as one of "Scotland's Key Gateways". The Scottish Government has said that the project has regional and national significance and its expansion will "strengthen its key role in supporting the economy in the North East".

In addition, the Regional Economic Strategy recognises the importance of investment in the region's ports and harbours. This contributes the "internationalisation" theme of the strategy, with the following stated objectives:

- Improve attractiveness for international trade and investment
- Support companies in the oil and gas supply chain to internationalise in key global markets.

The Aberdeen City Region Deal is one delivery mechanism of the Regional Strategy and includes a commitment of up to £25m from both the UK Government (£12.5 million) and the Scottish Government (£12.5m) towards off-site non-operational road infrastructure improvements and £11m from Aberdeen City Council (£5.5m) and Aberdeenshire Council (£5.5m) for supporting infrastructure.

The Scottish Government approved the Marine Licenses and Harbour Revision Order (HRO) for the Aberdeen Harbour Expansion during the final quarter of 2016 and the project was officially sanctioned by Aberdeen Harbour Board on 19th December. The construction contract with its preferred bidder, Dragados UK Ltd, was signed on 20th December.

Land-based construction and road strengthening work began in February 2017, with breakwater construction scheduled to start in May 2017. The project's target completion date is June 2020.

The Nigg Bay Development Framework was agreed by Aberdeen City Council in January 2016, which considers the opportunities presented by the potential investment in the new harbour for the wider Nigg, East Tullos and Altens area. This is being taken forward alongside the emerging Aberdeen Local Development Plan.

Planning Permission in Principle was obtained from Aberdeen City Full Council on 11th May 2016 for construction of the inland infrastructure components required to facilitate the creation and provision of the harbour:

- Road Realignment - Coast Road, Greyhope Road & St Fitticks junction.
- Potential Temporary Construction/Site Establishment Areas.
- Off-road Cycle Path Improvements.

The Proposal and Objectives

The overall cost of the core harbour project (excluding any major road improvements) is expected to be around £350m. This will mostly be privately funded but in order to support the overall funding position, the Aberdeen City Region Deal includes a commitment of up to £11m Council funding (£5.5m Aberdeen City Council; £5.5m Aberdeenshire Council) will contribute to the £350m budget for the core harbour project by funding supporting infrastructure.

The objectives of this supporting infrastructure project are as follows:

- Fund the core Harbour Expansion Project by up to but not exceeding £11m
- Support the maximisation of economic benefits to the City Region
- Adhere to State Aid regulations

THE ECONOMIC CASE

According to the report 'Economic impact of Aberdeen Harbour Nigg Bay (Biggar Economics, 19th December 2014) commissioned by Scottish Enterprise, the expansion of the harbour is estimated to provide the following benefits* by year 20:

Benefits to Aberdeen City and Aberdeenshire

- 5,550 additional jobs
- £0.8b GVA to the local economy per year

Benefits to Scotland

- 7,160 additional jobs

- £0.9b GVA to the Scottish economy per year

**Assumes the Full Development Scenario including improvement to external roads infrastructure, also supported by Aberdeen City Region Deal under a separate but related workstream and business case(s).*

Benefits from Cruise Ship Visits

Of the benefits to Aberdeen City and Aberdeenshire, the facility to support significantly larger cruise ships (up to 3000 passengers) is expected to provide the following benefits:

- By 2025 – 9.6m Euros
- By 2030 – 12m Euros
- By 2035 – 13.5m Euros.

This is based on the following assumptions:

Cruise Vessel visits:

- 2025 – 60
- 2030 – 75
- 2035 – 85

Average passenger number per vessel - 1,800 with approximately 680 crew.

Average spend per head (source - Cruise Scotland website):

- Passengers - €80
- Crew members - €23

This gives an average spend into the local economy of 160,000 Euros per cruise ship visit.

Environmental Impacts

During its consultation of the HRO, AHB in discussion with Aberdeen City Council, identified a number of environmental and community issues related to the development of the new harbour. A programme of mitigations is being concluded by AHB and Aberdeen City Council to address these issues and these will be delivered during the life of the project. The Environmental impact of this work is covered under the review of the Aberdeen Harbour Expansion Harbour Revision Order.

Related Projects

The City Region Deal project to improve the external roads infrastructure supporting the harbour expansion through £25m UK Government / Scottish Government funding is not included in the £350m budget for the core harbour project. That is considered to be a

separate project and will be the subject of separate business case(s).

THE COMMERCIAL CASE

Market appetite and procurement strategy are not relevant to this business case, as neither market involvement nor procurement will be taking place under this business case. It is envisaged that procurement, implementation work and associated management will be carried out by Aberdeen Harbour Board, with the costs claimed back through an agreed process.

Key Risks

- If the Harbour Expansion Project is cancelled at any time then investment through this project made would potentially be lost. However clawback clauses will be considered as part of the grant funding agreement between Aberdeenshire Council (on behalf of the City Region Deal) and Aberdeen Harbour Board.

THE FINANCIAL CASE

Aberdeen City Region Deal will provide £11m of funding under this business case, split 50:50 between Aberdeen City Council (£5.5m) and Aberdeenshire Council (£5.5m). The forecast expenditure is shown in Table 1 below.

Table 1 – Forecast Expenditure

Forecast Expenditure (£'000s)			
Year:	2017/18	2018/19	2019/20
Expenditure:	3,000	4,000	4,000

State Aid Assessment

A £20m programme of work has been provided by Aberdeen Harbour Board as potentially state aid compliant. These items are currently undergoing a state aid assessment by Aberdeen City Council and Aberdeenshire Council with support from Scottish Enterprise. Each Council will need to formally identify its own state aid position.

There are four possible avenues through which funding can be provided. These are all currently being explored:

1. No aid – those items in the programme of work that have been assessed as state aid compliant.
2. GBER - Article 17 – Investment Aid to SMEs – Up to 7.5m Euros of funding (£6.4m)
3. GBER – Article 56 – Investment Aid for Local Infrastructures – Up to 10m Euros of funding (£8.5m)
4. GBER – Article 56b – Investment Aid for Maritime Ports – max aid up to 50% of eligible costs where eligible costs are between 50m Euros and 100m Euros (£42m). This is a new regulation that is still in draft and so could change. It is not due to come into force until the end of March 2017.

Funding Agreement and Technical Accounting Considerations

A grant funding agreement and associated financial process for movement of money will be agreed between Aberdeen Harbour Board and Aberdeenshire Council (as the City Region Deal financial lead). Consideration will be made as to the inclusion of key milestones to be achieved for release of funding and review points to ensure project progress in line with expenditure forecasts.

THE MANAGEMENT CASE

As agreed by the Aberdeen City Region Deal Joint Committee (“Programme Approach Report”, Aberdeen City Region Deal Joint Committee, 22nd April 2016), responsibility for delivery for each Project in the City Region Deal will be under each of the themes (innovation, digital, housing, transport). Each workstream group has an identified lead officer who will work with and be supported by the Programme Manager. Supporting development and implementation, the Aberdeen City Region Deal stakeholders will commit to ensuring that the relevant resource is allocated to these specific projects.

A Workstream Group to manage this project will be set up with membership from Aberdeen City Council, Aberdeenshire Council, Aberdeen Harbour Board and the Aberdeen City Region Deal Programme Manager.

The Workstream Group will act as the de facto Project Board, reporting to the Aberdeen City Region Deal Programme Board on an operational basis with the Aberdeen City Region Deal Joint Committee providing approvals of key project stages.