

EXECUTIVE COUNCIL

PUBLIC

Title: Development of New Port Facilities
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Under Executive Council Standing Order 23(2), Executive Council must have regard to the categories of exempt information in Schedule 3 to the Committees (Public Access) Ordinance when determining if information should be withheld

*The categories which are potentially relevant to this paper are:
Paragraph 9: Information about others' financial and business affairs*

Previous papers: 259/12: FIPASS Action Plan 2012 – 2018
75/14: Development of the Business Case for a new port for the Falkland Islands
171/14: The Financial Business Case for a New Port for the Falkland Islands

List of Documents: None

1. Recommendations

Honourable Members are recommended to:

- (a) Confirm that new port infrastructure is needed to serve the needs of traditional industries and facilitate growth – and that the priority objectives agreed by ExCo in 2014 remain valid today;

- (b) Note that the investigative work conducted in the last two years (e.g. UTM survey) has revealed that the corrosion and general state of FIPASS is worse than had been thought previously and that its utility cannot be assured beyond 2021;
- (c) Agree that new port facilities are required to serve the needs of the traditional industries and support economic growth by the first part of the 2020s (with or without a sanctioned oil project);
- (d) Approve that a programme of work is launched to develop the final business case for construction of new port facilities that involves consultation with relevant industries over the next four months and engagement of potential private sector partners through a soft market test starting Q3 of 2017 and that the overall programme and timetable should be reviewed again by July;
- (e) Approve the establishment of a programme board to oversee the development and delivery of new port infrastructure, with a full business case brought back to ExCo in Q2 2018;
- (f) Note that dedicated programme resource and access to commercial, technical and engineering expertise is required to drive the programme forward: and refer the approval of £400,000 to engage this resource to Budget Select Committee;
- (g) Note that Premier Oil have stated that the TDF berthing face and draught is sufficient for **the majority** development and production of Sea Lion Phase 1a; and
- (h) Approve that TDF is retained beyond the end of the current licence period and utilised by the oil industry for Sea Lion Phase 1a – subject to necessary approvals from FIG and environmental impact assessments – should the project be sanctioned;

2. Additional Budgetary Implications

- 2.1 A dedicated programme manager will be required to drive this work forwards and access to external advice on commercial, technical and engineering aspects is needed which will also require additional funding.

	2017/18	2018/2019
Capital Budget	£ 200,000	£200,000

3. Executive Summary

- 3.1 Suitable port facilities are an essential enabler for the economy of the Falkland Islands: both to sustain traditional industries and for future economic development. The Islands have long relied upon FIPASS, while acknowledging that the structure has a finite life.
- 3.2 Recognising the need to build a new port, a substantial body of work was conducted between 2012 and 2014 to explore in detail the technical and commercial feasibility of

a deep water port at Port William. This included a range of surveys, detailed costing work, architect support, and consultancy advice.¹

- 3.3 However, in August 2014 work on a new deep water port was halted, following the conclusion that there was no business or economic case for construction of new facilities at Port William. This was largely due to the prohibitively high capital costs for the programme, which were estimated at around £200 million (expected outturn costs in 2014 and not including road construction).²
- 3.4 Over the past few years, capital investment has been made in essential maintenance activities at FIPASS to prolong the operational life of FIPASS. Even with this investment, recent assessments of the deterioration of FIPASS have concluded that its structural integrity cannot be assured beyond 2021: due to major structural issues with the north-west barge and the Ro-Ro barge in particular.
- 3.5 This paper synthesises the substantial volume of previous work performed in relation to ports and also incorporates new analysis and assessment. Potential options are outlined alongside an analysis of the pros and cons of each one.
- 3.6 The key conclusions of this paper are as follows:
 - The capital investment required, even at the lower range of scale and costs, indicate that Government will need to work with partners to attract the necessary investment affordable
 - Given what we already know a facility in Stanley is likely to be the most feasible, however notwithstanding this view it is important to encourage and consider a wider range of options and locations
 - Any port facility is likely to require some form of Government subsidy: either through shared capital investment and/or revenue guarantee
 - Additional project management capacity and technical expertise will be required to develop a full business case and support any ongoing procurement
 - Initial expressions of interest and concept designs should be sought from the private sector through a soft market test, before moving to a formal competitive process.
- 3.7 This series of activities would lead to a final business case decision in the first half of 2018.
- 3.8 The main part of this paper is structured into five main sections:
 - Section 4 provides a summary of relevant background and context
 - Section 5 describes the current demand for berthing and other port services at FIPASS and outlines potential future demand from traditional and emerging industries
 - Section 6 is high level options appraisal of possible infrastructure solutions

¹ This information will be made available to interested private sector partners through a data room to be established later in 2017

² This figure includes some provision for risk, uncertainty and 'optimism bias' as advised by PWC and in accordance with HM Treasury guidance on major capital projects. The total figure including road and other infrastructure was estimated to be higher than this at around £250 million.

- Section 7 provides the likely commercial model and financing structure for a new port facility
- Section 8 sets out the next steps and way forward towards a full business case and final decision

4. Background and Context

- 4.1 The need to invest in a new port facility for the Islands has long been recognised. There have been a variety of internal and external studies commissioned that stretch back over twenty years; with a range of proposals and options developed. A brief summary of recent history is provided below in order to set the context.
- 4.2 In 2012, Executive Council approved Port William as the designated location for new port infrastructure (paper 259/12) but gave no approval to build a port at that time. It also allocated funding to progress the design, operation and funding models for a new port. In total, over £2 million was spent on these activities in the period to August 2014.
- 4.3 In February 2013, Executive Council then approved a number of initiatives relating to the development of a port infrastructure programme and business case. At this time, a policy preference was given to a Public Private Partnership (PPP) model given the likely size of the required capital investment and nature of risk.
- 4.4 In April 2014 (paper 75/14), Executive Council approved the prioritisation of a number of objectives for the development of any new port infrastructure, namely:
- Priority 1. Minimise public sector investment
 - Priority 2. Maximise return for any public sector investment
 - Priority 3. Ensure appropriate risk transfer [to party best able to manage the risk]
 - Priority 4. Maximise private sector investment
 - Priority 5. Develop a port to meet the needs of the Islands and all industries
 - Priority 6. Ensure flexibility to meet future needs
- These priorities are equally valid today as in 2014.
- 4.5 In August 2014 (paper 171/14), Executive Council considered a wide-ranging report from the global advisory firm PWC relating to the business case for infrastructure at Port William. The key finding that PWC presented was unequivocal: that there was no business case for major investment at Port William without making a series of very optimistic assumptions on both construction costs and future revenue sources.³

³ In fact, the business case for Port William investment has weakened further in the period since 2014 with the reduction in oil price and revised assumptions on the pace and scale of oil development in the Falklands. At the time the original Port William business case was prepared the scenario used by Regeneris (assuming \$100/bbl oil) was a combined royalty and corporation tax benefit to FIG of £1.4bn in the first five years of the project and total direct revenues for FIG of approximately £4.5bn over 30 years.

Fast forwarding to mid-March 2017, the current oil price is \$51/bbl. Data is not available in the same format because the development concept has changed radically in the intervening period but it is possible to make a high-level comparison. An independent report prepared for Premier in late 2016 estimated that at \$55/bbl oil, total royalty and corporation tax revenues for the Sea Lion Phase 1a would be approximately £1.1bn: in other words about a quarter of the original estimate by Regeneris.

- 4.6 The paper effectively brought to an end all work relating to Port William; while recommending that other locations be considered.
- 4.7 Since then, the Temporary Dock Facility (TDF) was opened in November 2014 and has supported oil activities during the oil campaign of 2015-2016. Fortuna has also made small-scale development of the berthing facilities on the Camber to provide additional berthing face for certain fishing vessels.
- 4.8 Over the past few years, efforts have been made to investigate in detail the corrosion present on FIPASS and to ascertain more accurately the likely lifetime of the structure. This survey work indicates that elements of FIPASS could not be assured beyond 2021, with the remaining structure unlikely to be viable much beyond 2030.
- 4.9 There is now a pressing need to progress work towards long-term permanent port infrastructure to meet the current and future needs of the Islands industries. This paper presents an options appraisal that draws on all of the previous work conducted; and concludes with a set of recommendations and outline programme of work.
- 4.10 Finally, the need to invest in port facilities presents a major opportunity to significantly improve the port infrastructure of the Islands and support economic growth and future sustainability. This is further outlined in this paper pending the completion of the economic development strategy and other assessment work of future growth.

5. Demand for Port Facilities

5.1 This section covers three sub-sections:

- First, the current FIPASS usage and revenue. This provides a brief summary of recent statistics on revenues from various activities.
- Second, the projected demand from the oil industry in relation to development of Sea Lion and possibly subsequent oil field developments.
- Third, the latent demand and possible future demand for port facilities in support of traditional industries.
- **BAS Requirements**

Current FIPASS usage and revenue

5.2 FIPASS has a number of revenue streams covering traditional port charges, warehousing and land rentals, with an average yearly revenue of £454,000 in the period between July 2013 and September 2016 (3.25 years). This is illustrated in Figure 1.

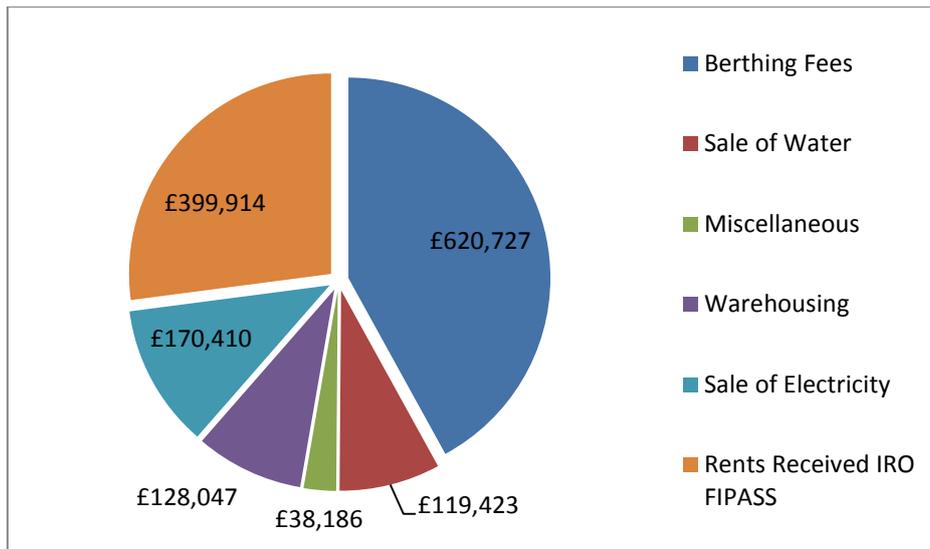


Figure 1 - FIPASS Revenue Breakdown: Jul 2013 - Sep 2016

- 5.3 During the 2015 exploration campaign the oil industry utilised the TDF for the majority of offshore supply operations, and only used FIPASS for bunkering and taking on potable water. As such, the drop in exploration activity only had a limited impact on FIPASS revenue, and did not affect revenue streams beyond water and berthing fees. The estimated foregone revenue for berthing at FIPASS was captured in the TDF licence fee which has an annual value of £220,000.
- 5.4 Generally speaking, FIPASS has had sufficient berthing face to meet the core needs of the traditional industries – but with no spare capacity for growth or for landing and transhipping larger volumes of fish. During peak times of the year, careful management is required to ensure that demand can be met and this had resulted in the need to prioritise certain vessels over others at peak times; which can lead to tension. At other periods of the year there is significantly less demand for berthing space. There are issues regarding loading capacity due to the fatigued nature of FIPASS, which limits certain activities.
- 5.5 The 2014 report from PWC highlights that berthing fees for FIPASS are considerably lower than berthing fees elsewhere. The proposal in their report would be to double the current berthing fees following the development of new port facilities, while recognising the need to be competitive with alternative options for vessels in the South Atlantic.
- 5.6 The current fee is £0.52 per Net Tonne (NT) per day or part thereof. The ports of Lerwick (Shetland) and Orkney, for example charge £0.40 and £0.51 per Gross Tonne (GT) respectively. Although the relationship between net and gross tonnage is not a straightforward one, by way as an example Table 1 shows the difference in fees for five cruise vessels that regularly visit Stanley.

Vessel	NT	GT	Stanley fee	Lerwick Fee	Orkney Fee
Hanseatic	2554	8378	£1,328	£3,351	£4,272
NG Explorer	1942	6471	£1,010	£2,588	£3,300
L'Austral	3427	10944	£1,782	£4,378	£5,581
Akademik Ioffe	1935	6450	£1,006	£2,580	£3,290
Polar Pioneer	526	1753	£274	£701	£894

Table 1 - FIPASS Berthing Fee Comparison

5.7 The merits of charging by NT and GT notwithstanding, the above shows that current berthing fees are considerably lower at FIPASS than UK comparators. Therefore, there is some scope to increase revenue by bringing those fees closer to market averages; particularly so with a more modern facility.

Projected demand for Sea Lion development and production

5.8 The PWC report assumed that the majority of the revenues for a new port would be derived from the development of the Sea Lion field. The base case was for Sea Lion Phases 1 and 2 to proceed. PWC advised strongly that no final investment decision on a new port be taken until after project sanction for Sea Lion.

5.9 Since the PWC analysis, the scale and speed of projected oil development activity has been reduced significantly.

5.10 Discussions with Premier Oil have confirmed that the TDF would provide ~~sufficient~~ **the majority** berthing space for the development of Sea Lion Phase 1a (and also for subsequent phases). The outline proposal from Premier is to install water, fuel and drilling muds facilities to serve TDF. In fact, there would be some spare capacity on TDF on the current assumptions.

5.11 The estimated Sea Lion Phase 1a vessel movements are illustrated in Figure 2 (shown per quarter). The current assumption from Premier is that vessel movements would commence around the end of 2018. By way of comparison, the vessel movements during the development phase are broadly similar to those during the exploration campaign of 2015/16.

Figure 2 – Estimated Vessel Movements for Sea Lion Phase 1a (Source: Premier Oil 2017) - REDACTED

Latent demand and scope for growth

5.12 The subsequent sections consider the potential opportunities for economic growth based around a larger, more modern port facility. Such latent demand is almost impossible to quantify with any accuracy but can be assessed using different assumptions.

Potential growth areas for a Stanley harbour facility – fishing industry

5.13 The possible demand for increased use of a port facility by the fishing sector is primarily driven by two potential activities:

- Increased landing, transshipment and containerisation of squid and finfish (rather than transport to Montevideo on reefer vessel and containerisation there)
- Basing and berthing of vessels in the Falklands (rather than in Montevideo or Spain). This could also include engineering services and other technical and non-technical support services.

It is also possible that a new port facility could generate new economic activity around shipping, warehousing and containerisation.

Landing and containerisation of fish

5.14 Reefer containers are increasingly preferred by the industry worldwide, as they allow for species and size separation upon landing, and can therefore be delivered to the buyer without any further handling or de-stuffing, reducing costs and limiting damage to the catch.

5.15 The main limitation for growth of containerisation and export from the Falklands is operational berth availability; at present, only the centre berth of FIPASS can feasibly be used to unload catch and stuff containers. Although this limitation applies to all fisheries, there are different considerations for different species as indicated in Table 2 (overleaf).

5.16 The assessment from SAAS is that there is significant opportunity to increase containerisation and export of fish – creating additional berthing revenues and reducing or removing any need for FIG subsidy to SAAS. It is not unrealistic to project a £0.5 million revenue stream from landing and containerisation of product per annum (based on around 40 vessel calls). There would also be other benefits in terms of employment (for example stevedores) and greater opportunities for resupply and crew change of fishing vessels in the Falklands rather than in Uruguay.

5.17 However, ultimately the key drivers for the fishing industry will be cost and availability.

5.18 This topic requires further work and formal engagement with both the fishing industry and with SAAS in order to scope likely demand – should port facilities be available – and associated revenues for both the port and for SAAS.

Product	Current export	Potential for FI containerisation	Potential Limiting Factors
Illex squid (Jig-caught)	The majority of jig-caught Illex is transhipped into bulk-reefer vessels in Berkeley Sound. It is suited to reefer export due to the reduced need to separate and being a low-value catch, therefore less sensitive to handling damage of reefer transport compared to containerisation. Current effort is time-bound (Feb - June). Mostly exported to the Far East	Medium. The time-bound nature of the Illex season means vessels are more likely to tranship in the Falklands. This already takes place with reefers in Berkeley Sound. A dedicated marketing campaign has been launched to attract more transhipments from Illex jiggers. The sheer size of the jigging fleet means a fraction of the fleet would make a considerable impact.	<ul style="list-style-type: none"> - Cost - Availability of berthing/containerisation space
Loligo/Doryteuthis squid	Although traditionally Loligo was transhipped to bulk reefers, containerisation has increased in recent years. Loligo effort is time-bound to two 6-8 week seasons per year, and may be cut short for stock management purposes. Swift transhipment is critical, particularly during high catch periods. Loligo is a high value catch, and therefore benefits from less handling. Vessels that do not have significant fishing effort for the rest of the year often return to Spain with full holds as a more economical alternative to transshipping and laying the vessel up in Montevideo, fishing on the high seas, or to dry-dock.	Medium – High. The time critical aspect of the Loligo squid season means that operators will always seek to tranship in the Falklands mid-season. The high-value nature of Loligo means it benefits more from reduced handling.	<ul style="list-style-type: none"> - Availability of berthing/containerisation space at short notice (particularly bearing in mind most Loligo vessels tend to be of similar size and fill up at the same time) - Cost - Requirement for other services (end of season)
Finfish and Illex (Trawled)	Finfish and trawled Illex effort is divided into 3 types of licences covering a number of species, including: hake, kingclip and red cod (medium-high value); hoki and Southern Blue Whiting (low-medium value), and rock-cod and Illex (low value). With the exception of the Illex and finfish licences, finfish fisheries are open throughout the year, but effort is limited according to vessel size and assigned quota. The majority is containerised in Montevideo, but containerisation of finfish in the Falklands has increased in recent years. Vessels will normally take on fuel and stores in Montevideo while transshipping	Medium – High. Multi-species fisheries favour containerisation, as it allows for easier separation and direct shipment to buyer. This is particularly useful for higher value catches.	<ul style="list-style-type: none"> - Dockside space. Species separation requires several containers to be open and stuffed simultaneously - Berth availability - Cost of fuel in Stanley - Cost of export - Cost / availability of services compared to Montevideo
Toothfish	A large proportion of toothfish caught in the Islands and South Georgia is exported from and/or verified in the Islands. Some is verified in Uruguay or South Africa.	Low-medium. There is little scope for allowable efforts to increase, and therefore limited room for growth.	<ul style="list-style-type: none"> - Existing fleet/effort - Cost of export - Berth availability - Cost / availability of services compared to Montevideo

Table 2 – Qualitative Assessment of Potential for Fish Containerisation

Potential growth areas for a harbour facility – cruise vessels

- 5.19 Cruise vessel berthing fees and water sales accounted for 9% and 15% of FIPASS revenue in 2015 and 2016 respectively. Cruise vessels normally only come alongside at FIPASS to carry out day landings and excursions and passenger or crew exchanges; the latter often being timed to meet the LATAM flight.
- 5.20 The potential increased use of a port facility by cruise vessels is limited by several factors, perhaps the most important of which being that tender/zodiac landings are considered as a key part of the experience and expedition brand that some of these vessels offer. This is all the more important towards the start of the season or following crew exchanges, where Stanley Harbour provides a relatively safe harbour for new crew to hone their zodiac skills prior to landing in South Georgia and Antarctica. For some vessels the use of tenders is an intrinsic part of their design and wider business model, and therefore it is simply more efficient to move passengers by tender regardless of the dock facilities available.
- 5.21 Nevertheless, for other vessels a quayside in close vicinity of Stanley provides a safer and more convenient facility to land passengers and provide transport and excursions from. Currently, the extent to which this can take place is limited by availability of berths; the East berth currently being the preferred option for cruise vessel visits due to the lack of working space on the west berth and port operations traffic and consequent safety issues on the centre berth.
- 5.22 While some companies prefer to carry out passenger exchanges by zodiac for the above reasons, it is far more practical to do so alongside. As such, this is a potential growth area but dependent on flight availability and reliability, as well specific company scheduling priorities.
- 5.23 The potential for increased cruise vessel docking in Stanley Harbour is limited ultimately by the number of vessels that are able and willing to enter Stanley Harbour in the first place. Therefore, the growth potential can be considered in terms of the number of vessels that currently anchor in Stanley Harbour and could potentially come alongside a dock facility. Figure 4 shows the potential increase in yearly revenue from cruise vessels to FIPASS were different proportions of anchoring vessels to use dock facilities.⁴
- 5.24 The figures suggest that even if all the vessels that pass through the Narrows were to utilise a dock facility, the increase in revenue at current berthing prices would be no more than around 100%. Figure 3 illustrates the increased annual revenue based on four scenarios (25%, 50%, 75% and 100% of all cruise ships berthing at FIPASS). This does not take into account the possible increased use of port or other services by vessels alongside compared to those at anchor, and the consequent positive impact on the economy.

⁴ Projections for berthing revenue have been made using the 2011-2016 yearly average of Stanley Harbour anchoring visits (35), average length of visit (1 day) and average Net Tonnage (1747), and current berthing charges (£0.52 per NT per day). Water revenue projections were simply increased by the respective increment.

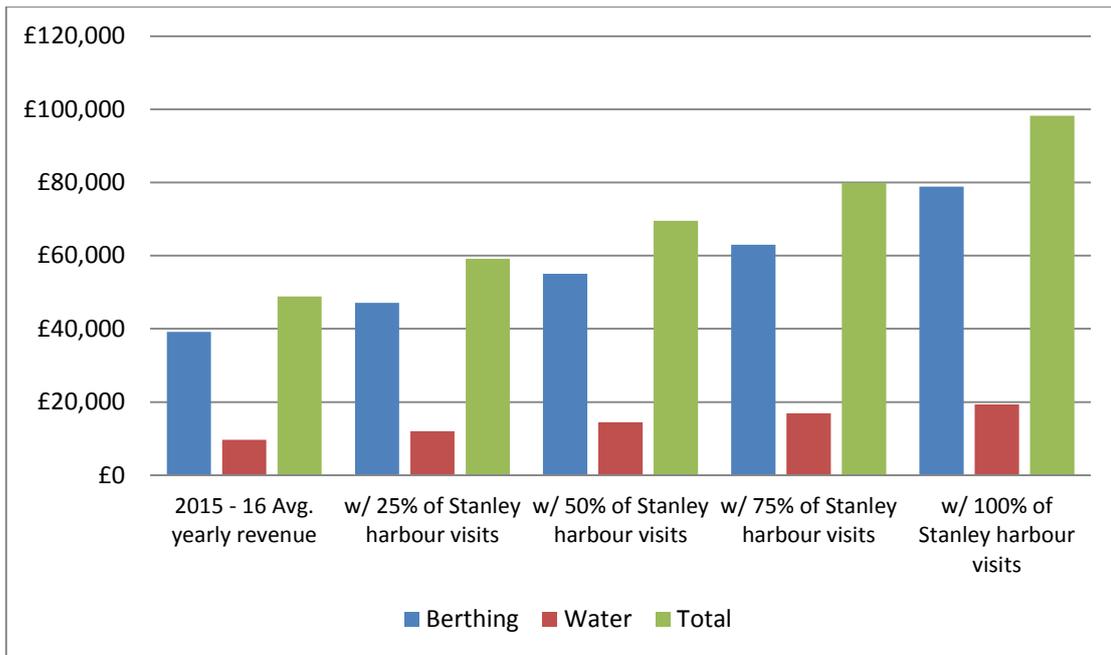


Figure 3 - Potential growth of cruise vessel dock revenue

5.25 Based on the evidence available and on informal discussions with members of the relevant industry, it is considered unlikely that a new port would increase the total number of cruise vessels visiting the Falkland Islands. There are other limiting factors that bear more relevance to that decision – including capacity of air links – and external factors such as the global cruise market. However, it is vital that Stanley is able to continue to offer berthing facilities for visiting cruise ships; particularly to facilitate an increase in passenger exchanges.

Summary of future demand and revenues

5.26 The PWC report recommended doubling berthing fees following commissioning of a new port facility. As part of the forward programme of work it will important to consider the charging policy through engage with the relevant industry and also in comparison with ports in South America.

5.27 There is certainly scope to increase direct revenue from increased activity on a new port facility through additional berthing face and load capacity. While forecasts are not possible at this stage, a reasonable assumption of direct revenues might be: £1.0 million from existing activity; £0.5 million from additional port fees due to increased landing and containerisation of fish; and £0.1 million from additional port fees associated with increased cruise ships berthing at a new port.

5.28 There would also be a range of other economic benefits from such increased activity: both direct benefits (e.g. reduced/eliminated SAAS subsidy; additional stevedore activity etc); and indirect benefits (e.g. marine engineering services; resupply for fishing vessels; bunkering; crew changes etc).

5.29 Assuming that the Sea Lion Phase 1a project is sanctioned, the expected demand would be similar to that experienced during the 2015-16 campaign and then dropping once the field moves into production phase.

6. Options Appraisal

6.1 Over recent years, there has been a substantial volume of concept design work conducted for port facilities at Port William and also for Stanley Harbour. Prior to commissioning TDF, Premier Oil and Noble Energy evaluated a number of options including rock fill as well as floating facilities. The two oil companies have made relevant information available to FIG which has been very helpful in considering potential options. Prior to this, there have been a variety of studies relating to port options in Stanley Harbour and in other locations.

6.2 A high level options appraisal has been conducted based on a meta-analysis of this information. This is designed to summarise what could be feasible, rough order magnitude (ROM) costs, and pros/cons.

6.3 Four broad options have been considered, namely:

1. **Extend FIPASS to 2030.** This would involve replacement of at least one barge and major work in re-fitting the remaining barges and structure.
2. **Replace FIPASS with permanent port facility in Stanley Harbour.** Construct concrete dock with increased berthing face (compared with FIPASS).
3. **Resurrect Port William plans.** It is likely that the original plans at Port William could be scaled down to reduce cost to some extent.
4. **Move majority of port operations to Mare Harbour.** There are potential economies of scale in combining the majority of port operations with MOD, while retaining a small-scale operation in Stanley.

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6.4 At this stage, it is assumed that TDF is retained in situ for the development of Sea Lion Phase 1a – with a longer-term plan to decommission TDF and bring all activity onto the new port facility. The design life of TDF would imply an expected lifetime of TDF until around 2030.

Option	Summary	Cost	Pros	Cons
1. Extend FIPASS life to 2030+	Replace 2 x barges and continue with maintenance programme. Decommission FIPASS around 2030 and replace with permanent structure.	REDACTED	<ul style="list-style-type: none"> • Should be affordable within existing capital programme • No major change to existing management arrangements • TDF sufficient for OilCo use if necessary 	<ul style="list-style-type: none"> • Delaying the inevitable replacement • Risk still exists of major failure of one of FIPASS elements (Ro-Ro barge) • No real improvement in berthing face or service • No additional revenue • Risk that additional issues found during replacement of barges
2. Replace FIPASS with permanent port facility in Stanley Harbour with 50 year+ lifetime	Construct concrete dock to replace FIPASS – potentially with some dredging to increase draught	REDACTED	<ul style="list-style-type: none"> • Opportunity to increase berthing face (and loading) and increased revenue generation • Could also add more space for yachts and other small craft • Could increase harbour dues • Long-term permanent solution • Lower ongoing maintenance costs 	<ul style="list-style-type: none"> • Would require capital reserves/borrowing/PFI project • Major change programme and would require dedicated senior effort and attention from FIG
3. Permanent deep water facility in Port William	Construct facility along plans developed in 2012-14	REDACTED	<p>As option 3 plus:</p> <ul style="list-style-type: none"> • Opportunity to create new industrial zone outside Stanley • Deep water port without dredging • Outside of Narrows increases potential for large vessels 	<ul style="list-style-type: none"> • Very expensive option – equal to entire capital reserves • Poorer navigation option than Stanley Harbour as more exposed • Significant project risk due to major uncertainties around construction
4. Move majority of port activity to Mare Harbour	Preserve cruise ships in Stanley Harbour (probably anchored) and move all else to Mare Harbour	REDACTED	<ul style="list-style-type: none"> • Economies of scale with MOD • Jetty extension and availability • Depth • RoRo Berth 	<ul style="list-style-type: none"> • Insufficient berthing space at Mare Harbour and lack of other infrastructure • Likely need to fit around MOD priorities • Workforce outside Stanley would either require substantial housing nearer Mare Harbour and/or acceleration of MPA road surfacing

Table 3 – Summary of options appraisal

7. Commercial Model and Financing

7.1 It is worthwhile re-stating the policy objectives described in Section 4 and previously agreed by ExCo, namely that any port programme should:

- Minimise public sector investment
- Maximise return for any public sector investment
- Ensure appropriate risk transfer [to that party best able to manage the risk]
- Maximise private sector investment
- Develop a port to meet the needs of the Islands and all industries
- Ensure flexibility to meet future needs

With these objectives in mind, a public-private sector partnership (PPP) remains the preferred financing, delivery and operating model for the long-term port programme. The commercial arrangement recommended by PWC in their report of 2014 is shown in Figure 5.

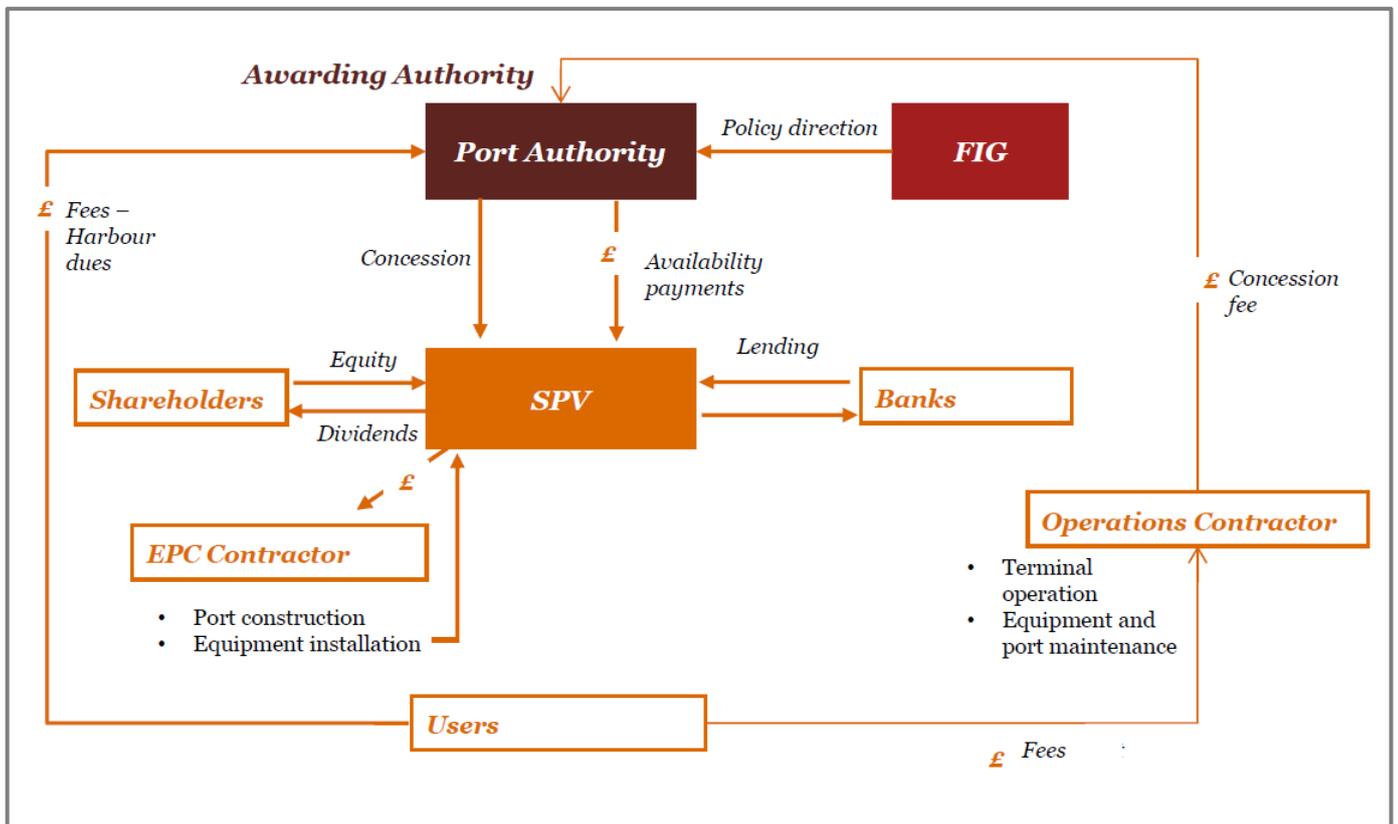


Figure 5 – Schematic of possible commercial configuration for port financing, delivery and operation (Source: Adapted from PWC report 2014)

- 7.2 A detailed exposition of the rationale for this model is provided in the PWC report but in short this model leverages private sector financing; transfers construction and operating risk to the private sector; but has FIG retaining the demand/revenue risk through an availability payment.

8. Way Forward

- 8.1 The purpose of this paper is to summarise the current position in terms of port facilities and synthesise previous work on future port investment. It makes no pretensions of being a comprehensive exposition of the state of FIPASS, nor does it provide a detailed investigation into costs, risks and benefits of potential options. Effectively, this paper is designed to articulate the strategic business case for a new port and outline the economic and commercial case. Furthermore it is intended to re-set the port programme and chart a way forward towards an investment decision.
- 8.2 The proposed approach is geared towards an investment decision in Q2 2018. In order to progress a project to a sufficiently mature stage there are a number of key activities to be undertaken, which are outlined below with intended start dates.
- a) **Establish suitable programme resource and focus [start now].** Arguably, there has been a lack of progress on this project over the last 12 months due a lack of dedicated resource. Ensuring dedicated focus is vital to moving the project forwards. It is proposed that a programme board is established as soon as possible, chaired by the Chief Executive and involving relevant FIG Directors (DCS, DMR, DNR); relevant Portfolio Holders (MLAs Rendell and Cheek); and project support. Key to making progress is a dedicated project manager for a fixed two-year period. Further technical resource may be required as the programme is developed; if this is the case then further ExCo approval will be sought.
 - b) **Conduct structured consultation with industry [start May 17].** Establishing future demand for port facilities and willingness to pay is critical in terms of confirming the physical characteristics (berthing face, draught etc) and any navigation support (tugs etc) for a new port. There is a view from the fishing industry that there was a lack of consultation with regard to the original Port William work. It is proposed that this document is used as the basis for initial consultation with the relevant industries (primarily fishing, cruise and oil). This activity should be led by members of the programme board and conducted over the next four to six months.
 - c) **Engage commercial support to advise FIG [start July 17].** For major public projects of this nature, a commercial support partner is often engaged to provide strategic advice over a period until contracts are signed. It is proposed that such a commercial support is sought to assist the FIG programme board in its planning and decision-making over the next two years.
 - d) **Commission engineering and technical support [start October 17].** Technical assistance will be required to assist FIG in the construction of the soft market test and in the evaluation of concept designs from potential partners. It is proposed that a technical partner is procured by the programme board to provide this technical support and advice.

- e) **Initial engagement with potential private sector partners [start October 17].** As part of their review in 2013-2014, PWC discussed the outline Port William project with potential private sector partners to gauge interest. The programme board should refresh and broaden this engagement – through a soft market test. This will be advertised through a Prior Information Notice in relevant publications and websites.⁵ A data room would also be established to provide interested parties with the wealth of previous work FIG has commissioned and any other relevant information that can be made available.

9. Resource Implications

9.1 Financial

Funding is required to provide dedicated programme support and external expertise on technical, engineering and commercial elements.

	2017/18	2018/2019
Capital Budget	£ 200,000	£200,000

This is estimated using the following assumptions:

- Recruitment of a programme manager at Grade A on contract terms. Total costs including salary, gratuity, flights and on-costs @ £100K p.a. = £200K
- Engagement of a suitable commercial partner to provide expertise, advice and delivery support for the commercial construct, procurement and negotiation with potential construction and operating company @£100K
- Provision of technical and engineering support @ £100K

9.2 Human Resource Implications

Recruitment of 1 FTE for a two-year fixed period.

9.3 Other Resource Implications

Senior officer time and focus to progress this programme.

10. Legal Implications

10.1 None

11. Environmental & Sustainability Implications

11.1 None at present, but as the programme develops there will be a need for full environmental impact assessments and other planning consultations.

⁵ For example, Penguin News, the Official Journal of the European Union (OJEU) and Tenders Electronic Daily (TED)

12. Significant Risks

12.1 During the course of the next six months, a full risk register will need to be developed.

13. Consultation

13.1 Structured consultation will take place with industry in terms of the future requirements of relevant industries and the physical characteristics of the port infrastructure to meet those requirements.