



**Harbour Board
Policy and Resources Committee
Shetland Islands Council**

**7 October 2015
26 October 2015
4 November 2015**

Scalloway Harbour – Strategic Options – Progress and Next Steps

PH-14-15-F

**Director of Infrastructure
Acting Executive Manager- Ports and Harbours**

**Infrastructure Services
Department**

1.0 Summary

- 1.1 This report summarises the work done to date on the strategic options for the future operation of Scalloway Harbour and makes recommendations about further activity.

2.0 Decisions Required

- 2.1 That the Harbour Board and Policy and Resources Committees (i) NOTE the information contained in this report, concerning the strategic options for Scalloway Harbour, (ii) Comment on those areas within their remit and inform the Council of their views; and
- 2.2 RECOMMEND that the Council RESOLVES, (i) to consider the views of the Harbour Board and Policy and Resources Committee and (ii) to instruct the Director of Infrastructure, or her nominee, to further examine the options recommended for short-listing in section 3 and provide recommendations once more economic, commercial and financial information on those options has been established.

3 Detail

- 3.1 The Council is seeking to understand the strategic development required to sustain a 21st century port so that it best contributes effectively to the Councils strategic goals, maximises economic and social benefits, is most commercially viable with customers and partners, is affordable within the Councils financial policies and can be implemented. The development of options is intended to consider the 2015-2030 period, focus and grow its core business areas based on the quality of service support, facilities and infrastructure whilst diversifying into new areas of opportunity.

3.2 The long list of options for this project

There were two main questions which emerged during option generation conducted through a number of workshops supported by an external facilitator.

- Firstly what activity/products/services/markets should Scalloway Harbour seek to offer or serve into the future and;
- Secondly, whether the ownership and/or governance of Scalloway Harbour should be changed.

These are both legitimate questions which may affect each other and both need to be considered in taking practical projects forward.

3.3 Activity / Products & Services / Scale and Investment Cost

- **“No investment”** is not a practical proposition for running a business like a Port. There are a range of safe operating requirements and unavoidable commercial demands which have to be met and will require ongoing expense as long as the Harbour operates.
- There would not appear to be any real evidence of demand and/or income streams from the pursuit of **“alternatives uses”** such as significantly expanded leisure or other non marine commercial activities that would justify the displacement of maritime service activity.
- While there would probably be a demand for **“affordable housing”** in the area occupied by the harbour there are a range of commercial and legal contracts that make it impossible to release the whole site for development even if harbour activity was ceased. In addition evidence from other waterfront housing developments is that they are typically premium units rather than at the affordable end of the market.
- **“ Limited Investment”** would seek to maintain current facilities and services but not extend or enhance these significantly. It would cover items such as;
 - Essential maintenance
 - Sheet piling – cathodic protection
 - Maintenance of West pier as a breakwater but not a berthing pier
 - Lights, fenders – general maintenance, bollards surfaces, Nav Aids etc.
 - Fishmarket – fabric repairs and limited refurb
- **“ Significant Investment”** would include the potential provision of additional berthing space, lay down areas, a fully refurbished or new Fishmarket, additional or enhanced port services such as bunkering facilities etc. It would include all the limited investment matters but also scope out to significant capital works within the

harbour and potentially to road transport access and associated facilities if appropriate funding or partners could be identified.

3.4 Ownership & Governance

- There would not appear to be any likelihood that a **“buyer for the whole operation”** will be found at this time therefore that option can be discounted.
- In terms of a some shared model of **“ownership and governance”** it may be that the enabler or catalyst for the delivery of any investment might be the widening of partnership in the operation, and potentially ownership, of the port. That could include private sector participation in projects or developments or might also include community involvement in governance.

That leaves the options highlighted on the grid below recommended for short-listing and further investigation in this project.

3.5 Short-List recommendations

	Council ownership and operation	A wider partnership in ownership and operation	Non-Council ownership and operation
No investment			
Limited investment	SHORT LIST	SHORT LIST	
Significant Investment	SHORT LIST	SHORT LIST	
Focus on alternative uses			

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – The relevant priorities and key objectives from the Councils updated Corporate Plan, “Our Plan” are

utilised within this review to generate options and to inform the appraisal of those options.

- 4.2 Community /Stakeholder Issues – Consultation with customers and other stakeholders is on-going as an integral part of each aspect of service delivery.

- 4.3 Policy And/Or Delegated Authority –

Harbour Board

Strategic oversight and direction in all aspects of the operation of the Council's harbour undertaking in accordance with overall Council policy and the requirements of the Port Marine Safety Code. Act as Duty Holder required by the Port Marine Safety Code and ensure that the necessary management and operational mechanisms are in place to fulfil that function. Consider all development proposals and changes of service level within the harbour undertaking; including dues and charges, and make appropriate recommendations to the Council.

Policy and Resources Committee

Advise the Council in the development of its strategic objectives, policies and priorities.

Shetland Islands Council

Determining the overall Goals, Values and Strategy Framework Documents, or matters of new policy/strategy or variation of existing policy/strategy.

- 4.4 Risk Management – This strategic review includes considerations of how to balance the management of safe and secure operations of a busy harbour and all the attendant environmental and health and safety considerations with financial risks around optimising profitability and community benefit over time.
- 4.5 Equalities, Health And Human Rights – Scalloway Harbour is a significant industrial operation which must manage potential health and safety risks to staff working there and the public. All options within this review acknowledge that responsibility and all appraisals include maintain safe operations at the highest level as critical objectives.
- 4.6 Environmental – Scalloway Harbour is a significant industrial operation which must manage environmental risks to the local area and the South West of Shetland.

Resources

- 4.7 Financial – Income from Scalloway Harbour has been very significant recently due to the siting of accommodation vessels there. That will come to an end at some point and it is important that future financial contributions are maximised and that any financial risks are properly managed, these are key objectives of this review.

The review has been supported to date by external advisors at a cost of £4,000 so far. The next phase would expect to utilise external input again from the same source. The anticipated additional cost to the Council will be a further £5,000 which will be funded by an additional draw on Reserves in 2015/16. The full costs of this exercise will however be factored into the setting of the Harbour Dues in the 2016/17 budget exercise to ensure cost neutrality over the two year period.

- 4.8 Legal – Specialist legal advice may be required for some options being investigated in this review, particularly relating to the legal position of the Council in relation to variation of harbour ownership or operations. That advice will be obtained through existing Infrastructure budgets.
- 4.9 Human Resources - Some of the options within the scope of this review could have staffing implications. Care will be taken to ensure that staff are involved and informed about plans that might affect them, that relevant Unions are part of any consultation processes, that HR are closely involved throughout and that relevant Council organisational change policies are followed.
- 4.10 Assets And Property – There are a number of actions and projects that have significant asset implications, particularly in relation to the ownership of piers and other harbour infrastructure. Close attention is being paid to making sure relevant policy requirements are being met and that Capital Programme Services is involved early in the discussion of all proposals.

5.0 Conclusion

- 5.1 The Council has a duty to demonstrate that it is achieving Best Value in all its activities. Part of meeting that duty is the thorough review of all substantial activities from time to time and the rigorous evaluation and comparison of alternative ways of achieving outcomes and meeting objectives.
- 5.2 Shetland Islands Council has owned and operated the Scalloway harbour effectively and safely for a long period and can help ensure that the best environmental, social, economic and financial performance continues into the future by looking at strategic options in a systematic and professional manner.

For further information please contact:

John Smith

Tel: 01595 744201 E-mail: jrsmith@shetland.gov.uk

29 September 2015

Appendices

Appendix 1 – Business Case Overview

Background Documents

Scalloway and Sullom Voe Masterplans + Covering Report and Minute – Harbour Board, 8th October 2014

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16728>

1 Initiation Phase *(this phase is complete for this project)*

This phase sets out an overview of the project, provides some background information and its records its key elements. Projects would typically be prompted by an objective of a Council strategy or would be an action included in a Directorate or Service Plan to deliver a Council priority. (Initiation documentation it is usually prepared by, or on behalf of, the Project Executive and approved by the relevant Director).

- **Background** - Scalloway Harbour is owned and operated by Shetland Islands Council.
- **Summary of Objectives** - The Council is seeking to understand the strategic development required to sustain a 21st century port so that it best contributes effectively to the Council's strategic goals, maximises economic and social benefits, is most commercially viable with customers and partners, is affordable within the Council's financial policies and can be implemented. Development is intended to consider the 2015-2030 period, focus and grow its core business areas based on the quality of service support, facilities and infrastructure whilst diversifying into new areas of opportunity.
- **Desired Outcomes** - The project is intended to develop and agree the preferred option by the 1st half of 2016 so it can be planned and implemented.
- **Scope & Exclusions** - All matters relating to Scalloway Harbour strategic development are in scope, essential maintenance work is outside scope and will be progressed through normal channels.
- **Constraints & Assumptions** – There are no specific constraints or assumptions at this stage, normal Council procedures and policies will be applied.
- **The user(s) and any other interested parties** – SIC Ports & Harbours are the current owner and operator of Scalloway Harbour. The Whitefish industry, Aquaculture Industry, Oil & Gas Industry are Scalloway Harbour's main customers. Scalloway & Shetland marine services businesses are supply partners. The Scalloway community is a directly interested party and the wider Shetland Community are a generally interested party. Lerwick Port Authority is the other Shetland port operator.

2 Strategic Business Case *(this stage is live for this project)*

This phase examines the rationale for the project, draws up a long list of possible options that could deliver on the desired objective (circa 12) and drafts criteria for appraising these options. It then carries out an initial option appraisal and drafts a report that recommends which options should be short-listed for more detailed consideration (circa 4). (That report is usually produced by the Project Executive / Project Manager / Project

Appendix 1 - Scalloway Harbour Strategic Development – Project Brief

Team and approved by the relevant Council Committee, unless that authority has been delegated to a Director).

- ***The reasons why the this project is needed; strategic fit and the case for change*** – Shetland Islands Council is committed to being a properly led and well managed organisation, dealing with challenges while living within its means. Effective business organisation requires a periodic examination of arrangements, opportunities and issues to ensure the right plans are identified and developed for the future. Shetland is an island and fundamentally depends on its ports and harbours for economic and social well-being. It is important that Shetland Islands Council consults and plans for the future of the ports it owns and operates. Business opportunity and technology both move quickly so a periodic review of arrangements is good practice and is particularly relevant at this time.
- ***The key objectives/ success criteria to be used to option appraise this project*** – The project team has worked up a draft set of proposed “critical success factors” for this project to be discussed and agreed for use in option appraisal to inform decision making.

Table 1 – “Critical Success Factors” / Option Appraisal

DRAFT	Relevant Corporate Plan Priorities	Possible “Critical Success Factors” for this project	How can we appraise options using this factor?
Strategic	<p>We will be investing development funds wisely to yield maximum benefit for Shetland's economy.</p> <p>Opportunities will exist for people at all skills levels and there will be a close match between the skills that are demanded by businesses and those that the trained workforce possess</p> <p>Increase the supply of affordable housing in Shetland.</p>	<p>We have a thriving, active and proud community that celebrates our sense of identity</p> <p>People are able to live in their local community with access to appropriate, high quality employment and training opportunities</p>	<p>Estimated effects on housing, jobs and training opportunities</p> <p>Test options through community stakeholder engagement</p> <p>Test options through community engagement</p>
Economic	<p>We will have an enterprising economy, based on making full use of local resources, skills and a</p>	<p>supports changes to the structure of the industries and facilitates diversity and resilience</p>	<p>Estimated impact of proposals on the structure, diversity, innovation, competitiveness and</p>

Appendix 1 - Scalloway Harbour Strategic Development – Project Brief

	desire to investigate new commercial ideas.	supports innovation through infrastructure and transport links supports businesses (existing and/or emerging and/or new) to be more competitive	resilience of businesses (existing and/or emerging and/or new)
Financial	We will be working in a more effective way allowing us to cope with reduced resources. Processes that add no clear value will have been replaced with more proportionate approaches based on the effective management of risks.	We have a financially secure and sustainable approach	Capital and revenue implications are understood and affordable
Commercial	The council will be an organisation that encourages creativity, expects co-operation between services and supports the development of new ways of working.	There is suitable and appropriate business partner and community support for what the Council is proposing	Market and stakeholder testing of options
Managerial	High standards of governance will mean that the council is operating effectively and the decisions we take are based on evidence and supported by effective assessment of options and potential impact.	we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland.	Risk assessment of successful delivery of options

The long list of options for this project

There were two main questions which emerged during option generation conducted through a number of workshops supported by an external facilitator.

- Firstly what activity/products/services/markets should Scalloway Harbour seek to offer or serve into the future and;
- Secondly, whether the ownership and/or governance of Scalloway Harbour should be changed.

These are both legitimate questions which may affect each other and both need to be considered in taking practical projects forward.

Activity / Products & Services / Scale and Investment Cost

- **“No investment”** is not a practical proposition for running a business like a Port. There are a range of safe operating requirements and unavoidable commercial demands which have to be met and will require ongoing expense as long as the Harbour operates.
- There would not appear to be any real evidence of demand and/or income streams from the pursuit of **“alternatives uses”** such as significantly expanded leisure or other non marine commercial activities that would justify the displacement of maritime service activity.
- While there would probably be a demand for **“affordable housing”** in the area occupied by the harbour there are a range of commercial and legal contracts that make it impossible to release the whole site for development even if harbour activity was ceased. In addition evidence from other waterfront housing developments is that they are typically premium units rather than at the affordable end of the market.
- **“ Limited Investment”** would seek to maintain current facilities and services but not extend or enhance these significantly. It would cover items such as;
 - Essential maintenance
 - Sheet piling – cathodic protection
 - Maintenance of West pier as a breakwater but not a berthing pier
 - Lights, fenders – general maintenance, bollards surfaces, Nav Aids etc.
 - Fishmarket – fabric repairs and limited refurb
- **“ Significant Investment”** would include the potential provision of additional berthing space, lay down areas, a fully refurbished or new Fishmarket, additional or enhanced port services such as bunkering facilities etc. It would include all the limited investment matters but also scope out to significant capital works within the harbour and potentially to road transport access and associated facilities if appropriate funding or partners could be identified.

Ownership & Governance

- There would not appear to be any likelihood that a **“buyer for the whole operation”** will be found at this time therefore that option can be discounted.
- In terms of a some shared model of **“ownership and governance”** it may be that the enabler or catalyst for the delivery of any investment might be the widening of partnership in the operation, and potentially ownership, of the port. That could include private sector participation in projects or developments or might also include community involvement in governance.

Appendix 1 - Scalloway Harbour Strategic Development – Project Brief

That leaves the options highlighted on the grid below recommended for short-listing and further investigation in this project.

Table 2 – Short-List recommendations

<i>Long List / Short List</i>	Council ownership and operation	A wider partnership in ownership and operation	Non-Council ownership and operation
No investment			
Limited investment	SHORT LIST	SHORT LIST	
Significant Investment	SHORT LIST	SHORT LIST	
Focus on alternative uses			

The Strategic Outline Case, critical success factors, long-list options, option appraisal method and short-list options will be discussed with Councillors in the October meeting cycle.

3 Outline Business Case Phase *(this phase is still to come for this project)*

This phase evaluates the agreed short listed of options in detail, and then prepares a report to recommend the preferred option and procurement approach based on the economic case, commercial viability, financial affordability and our capacity to implement it. This report will also have to meet all the requirements of the “Service Needs Case” as defined by the Capital Programme Service . (This report is usually produced by the Project Executive / Project Manager / Project Team and approved by the relevant Council Committee, unless that authority has been delegated to a Director).

Appendix 1 - Scalloway Harbour Strategic Development – Project Brief

The “Outline Business Case” report and all required option appraisal information will be generated by the Project Team between November 2015 and March 2016.

4 Full Business Case Phase (*this stage is still to come for this project*)

This phase will take the agreed “Preferred Option”, do any further work necessary to prepare for procurement such as the development of a specification or invitation to tender, run the appropriate procurement exercise, evaluate tenders etc. conclude the final deal, develop and agree the implementation plan, implement and hand over to operational management. (Regular progress reports will be provided to Council produced by the Project Executive / Project Manager / Project Team and decisions sought on any matters which the Council decides not to delegate to the responsible Director).

The “Full Business Case” will use all Prince Project management standards and draw its overall timetable, resourcing and other arrangements from the information provided in the “Outline Business Case” for that option.

5 Outline Timetable (*updated as the project progresses*)

Put best estimate dates against the project phases being specific about target Council/Committee meeting which the project is aiming to report to.

Table 3 - Timeplan

Milestone / Gateway / Target	Group or Committee	Target Date
Initiation (Gateway 0 / Strategic Context)	Approval of Infrastructure Directorate Plan by Council	March 2015
Staff Stakeholders Consultation	P&H Scalloway Staff	TBA
Strategic Business Case (Gateway 1 / Business Justification / Short List)	Report to Harbour Board and Policy & Resources (unless delegated)	October meeting cycle
Strategy Stakeholders Consultation	Harbour Board + local Ward members as sounding board?	November 2015 to March 2016
Business Stakeholders Consultation	SFA/ SFPO/ Aquaculture/ Oil&Gas/ Engineering	November 2015 to March 2016
Staff Stakeholders Consultation	P&H Scalloway Staff	November 2015 to March 2016
Community Stakeholders Consultation	Scalloway Ward Members and/or Scalloway Community	November 2015 to March 2016

Appendix 1 - Scalloway Harbour Strategic Development – Project Brief

	Council?	
Outline Business Case (Gateway 2 / Procurement Strategy / Preferred Option)	Report to CMT meeting requirements of “Service Needs Case” for Capital Programme Report to Harbour Board Report to Policy & Resources	1st Quarter 2016/17
Full Business case (Gateway 3 / Investment Decision / Contracts Signed)	Director of Infrastructure (unless not delegated)	By end 2016
Transfer to operations (Gateway 4 / Readiness for Service)		TBA
Benefits Evaluation (Gateway 5 / Post Implementation Review)		TBA

6 Product Description(s). *(Can be completed at any stage but must be completed to support the “Outline Business Case” at the latest)*

Describe the key product(s) including costs & income, reference to quality standards, user expectations, legislation, operating requirements etc.

Summary Product Description(s) for items of recommended significant investment. In this project potentially new piers, new buildings etc. and/or changes in ownership or board of management or new operations contracts etc.

7 Project Management and Project Team Arrangements *(to be updated as the project progresses)*

Project Executive – John Smith

Project Manager – Ken Duerden for Strategic Business Case and Outline Business Case phases, later phases depend on whether we end up with engineering or a change of governance project.

Project Team – As per membership of Building Better Business Cases – Scalloway Case Study Team but also to include reps from the Planning Service and the Economic Development Service.

8 Communications and Stakeholder Engagement *(to be updated as the project progresses)*

Strategy Group – Group of members from Harbour Board / Local Ward

Business Stakeholders – Either convene a new group with representatives of Fishermen / Fish Processing / Salmon / Shipping Agents / local businesses or use existing groups.

Community Stakeholders – Central Ward Members and/or Community Council?

Staff Stakeholders – Affected staff and their representatives.

9 References *(to be updated as the project progresses)*

[Associated background documents, strategies and plans, linked projects, relevant Council Reports, ideally online links]

Appendices

Background documents

- Scalloway and Sullom Voe Masterplans + Covering Report and Minute – Harbour Board, 8th October 2014

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16728>



**Harbour Board
Policy and Resources Committee
Shetland Islands Council**

**7 October 2015
26 October 2015
4 November 2015**

Port of Sullom Voe - Strategic Options – Progress and Next Steps

PH-13-15-F

**Director of Infrastructure
Acting Executive Manager- Ports and Harbours**

**Infrastructure Services
Department**

1.0 Summary

- 1.1 This report sets out the strategic options for the future operation of the Port of Sullom Voe and makes recommendations on further activity.

2.0 Decisions Required

- 2.1 That the Harbour Board and Policy and Resources Committees, (i) NOTE the information contained in this report, concerning the strategic options for the Port of Sullom Voe, (ii) COMMENT on those areas within their remit and inform the Council of their views; and
- 2.2 RECOMMEND that the Council RESOLVES, (i) to consider the views of the Harbour Board and Policy and Resources Committee and (ii) to instruct the Director of Infrastructure, or her nominee, to further examine the options described in section 3 with additional support from Price Waterhouse Coopers LLP and provide recommendations once more economic, commercial and financial information on those options has been established.

3.0 Detail

- 3.1 A set of projections, commissioned by the Council in 2014, states that income from the Port of Sullom Voe would peak around 2022 and then decline significantly over the period to 2050 if no changes are made to the current business arrangements.
- 3.2 While net income from the Harbour account is projected to be £338m (nominal) up to 2035, it will then become negative and there is a £180m (nominal) funding gap beyond this point to 2050.

- 3.3 Price Waterhouse Coopers (PwC) were asked to look at the business case around future options for the Port of Sullom Voe and assess these options against the Council's current arrangements and objectives. Appendix 1 describes the structure of the Business case review.
- 3.4 The following objectives were identified, with input from SIC, against which each option will be assessed.

Environmental objectives:

- Protection of Shetland marine environment
- Maintaining biodiversity, geo-diversity, and protecting the built environment
- Compliance with health & safety obligations

Economic & Social objectives:

- Creating employment opportunities and benefitting the local economy
- Supporting social cohesion and maximising community benefits

Financial objectives:

- Maximise existing revenue and identify new sources of revenue from the Port of Sullom Voe and adjoining oil terminal
- Reduction in fixed asset base
- Maximise long-term value of asset by maximising oil opportunity and exploring new sectors
- Optimise exposure to financial risk, including:
 - Minimise downside risk of major incidents
 - Retain potential upside from port operations

- 3.5 Four main options for the future of Sella Ness Port have been explored and further two sub-options. The options vary the level of control the Council could continue to exert on assets and operations.

Sella Ness Port options

- 1) Continue current arrangements – The operating and governance structure of the port remains the same with change occurring through internal efficiency and improvement activity.
- 2) New operating model – An accountable arms length public body becomes responsible for port operations, followed by improvements in internal efficiency and effectiveness.

3) Outsource operations

3a. Management Contract – A 3 to 70 year contract is awarded to an outsource contractor to run the port on a commercial basis.

3b. Concession – A 20 – 35 year concession is granted to a concessionaire following a procurement process with an anticipated refocus on commercial operations.

4) Asset Sale

4a. Joint Venture (JV) – SIC would transfer port into a limited company and sell a share to a JV partner, while retaining an interest. This would also be expected to generate commercial focus through working with a private sector partner.

4b. Freehold sale – SIC sells its entire stake at the Port of Sullom Voe and has no further on-going influence over the port but would obtain a one off income which could be invested in other ways.

3.6 Under options 1, 2, 3 and 4a Council retains a greater degree of direct control, which it could use to influence its environmental, social and economic objectives but would depend on internally driven change to generate higher profits.

3.7 Options 3 and 4 potentially provide for increased income / reduced cost through deeper private sector involvement which could support the Councils financial objectives. Securing environmental, social and economic objectives would depend on effective contracting with any commercial partners.

3.8 All options appeared to have potential as models for future operations, in part if not in whole which would be better understood through some further analysis and market consultation.

4.0 Implications

Strategic

4.1 Delivery On Corporate Priorities – The relevant priorities and key objectives from the Councils updated Corporate Plan, “Our Plan” are utilised within this review to generate options and to inform the appraisal of those options.

4.2 Community /Stakeholder Issues – Consultation with customers and other stakeholders is on-going as an integral part of each aspect of service delivery.

4.3 Policy And/Or Delegated Authority –

Harbour Board

Strategic oversight and direction in all aspects of the operation of the Council's harbour undertaking in accordance with overall Council policy and the requirements of the Port Marine Safety Code. Act as Duty Holder required by the Port Marine Safety Code and ensure that the necessary management and operational mechanisms are in place to fulfil that function. Consider all development proposals and changes of service level within the harbour undertaking; including dues and charges, and make appropriate recommendations to the Council.

Policy and Resources Committee

Advise the Council in the development of its strategic objectives, policies and priorities.

Shetland Islands Council

Determining the overall Goals, Values and Strategy Framework Documents, or matters of new policy/strategy or variation of existing policy/strategy.

- 4.4 Risk Management – This strategic review includes considerations of how to balance the management of safe and secure operations of a major oil terminal and all the attendant environmental and health and safety considerations with financial risks around optimising profitability and community benefit over time against the long terms risks of responsibility for reinstatement of the harbour operation should it cease.
- 4.5 Equalities, Health And Human Rights – The port of Sullom Voe is a major industrial operation which must manage potential health and safety risks to staff working there and the public. All options within this review acknowledge that responsibility and all appraisals include maintaining safe operations at the highest level as critical objectives.
- 4.6 Environmental – The port of Sullom Voe is a major industrial operation which must manage environmental risks to the local area, Shetland as a whole and the wider North Sea / North Atlantic. All options within this review acknowledge that responsibility and all appraisals include maintaining safe operations at the highest level as critical objectives.

Resources

- 4.7 Financial – Surpluses generated by the port of Sullom Voe have been very important in establishing the Councils reserve Fund and have paid for much of the infrastructure and service development by the Council over the past 30 years. It is critical that the future financial contribution from the port of Sullom Voe is optimised and that any financial risks are properly managed. These are key objectives of this review.

The review has been supported to date by external advisors (Price waterhouse Coopers LLP) at a cost of £40,000 so far. The next phase would expect to utilise external input again from the same source. The anticipated additional cost to the Council will be a further £50,000 which will be funded by an additional draw on Reserves in 2015/16. The full costs of this exercise will however be factored into the setting of the Harbour Dues in the 2016/17 budget exercise to ensure cost neutrality over the two year period.

- 4.8 Legal – Specialist legal advice may be required for some options being investigated in this review, particularly relating to the legal position of the Council in relation to variation of port ownership or operations. That advice will be obtained through existing Infrastructure budgets.
- 4.9 Human Resources - Some of the options within the scope of this review have staffing implications. Care will be taken to ensure that staff are involved and informed about plans that might affect them, that relevant Unions are part of any consultation processes, that HR are closely involved throughout and that relevant Council organisational change policies are followed.
- 4.10 Assets And Property – There are a number of actions and projects that have significant asset implications, particularly in relation to the ownership of boats, piers and other harbour infrastructure. Close attention is being paid to making sure relevant policy requirements are being met and that Capital Programme Services is involved early in the discussion of all proposals.

5.0 Conclusion

- 5.1 The Council has a duty to demonstrate that it is achieving Best Value in all its activities. Part of meeting that duty is the thorough review of all substantial activities from time to time and the rigorous evaluation and comparison of alternative ways of achieving outcomes and meeting objectives.
- 5.2 Shetland Islands Council has owned and operated the Port of Sullom Voe very effectively and safely for a long period and can help ensure that the best environmental, social, economic and financial performance continues into the future by looking at strategic options in a systematic and professional manner.

For further information please contact:

John Smith

Tel: 01595 744201 E-mail: jrsmith@shetland.gov.uk

1 October 2015

Appendices

Appendix 1 – Business Case Overview

Background Documents

Scalloway and Sullom Voe Masterplans + Covering Report and Minute – Harbour Board, 8 October 2014

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16728>

1 Initiation Phase *(this phase is complete for this project)*

This phase sets out an overview of the project, provides some background information and its records its key elements. Projects would typically be prompted by an objective of a Council strategy or would be an action included in a Directorate or Service Plan to deliver a Council priority. (Initiation documentation it is usually prepared by, or on behalf of, the Project Executive and approved by the relevant Director).

- **Background** – The Port of Sullom Voe is owned and operated by Shetland Islands Council primarily to service Oil & Gas production and the Sullom Voe Oil Terminal.
- **Summary of Objectives** - The Council is seeking to understand the strategic development required to sustain the port so that it best contributes effectively to the Councils strategic goals, maximises economic and social benefits, is most commercially viable with customers and partners, is affordable within the Councils financial policies and can be implemented. Development is intended to consider the 2015-2050 period and identify the best ownership, governance and operational arrangements for the Port across that time.
- **Desired Outcomes** - The project is intended to develop and agree a preferred option by the 2nd half of 16.
- **Scope & Exclusions** - All matters relating to the Port of Sullom Voe strategic development are in scope, current essential maintenance work is outside scope and will be progressed through normal channels.
- **Constraints & Assumptions** – There are no specific constraints or assumptions at this stage, normal Council procedures and policies will be applied.
- **The user(s) and any other interested parties** – SIC Ports & Harbours are the current owner and operator of Port of Sullom Voe. The Oil & Gas Industry are Sullom Voe's main customers. Shetland marine and engineering services businesses are supply partners. The residents of the North Mainland electoral ward may be considered to be the most directly interested geographical community but the wider Shetland community is clearly also a generally interested party.

2 Strategic Business Case *(this stage is live for this project)*

This phase examines the rational for the project, draws up a long list of possible options and sub-options that could deliver on the desired objective (circa 12) and drafts criteria for appraising these options. It then carries out an initial option appraisal and drafts a report that recommends which options should be short-listed for more detailed consideration (circa 4). (That report is usually produced by the Project Executive / Project Manager / Project Team and approved by the relevant Council Committee, unless that authority has been delegated to a Director).

- **The reasons why the this project is needed; strategic fit and the case for change** – Shetland Islands Council is committed to being a properly led and well managed

Appendix 1 - Project Overview – Port of Sullom Voe Strategic Development

organisation, dealing with challenges while living within its means. Effective business organisation requires a periodic examination of arrangements, opportunities and issues to ensure the right plans are identified and developed for the future. Shetland is an island and fundamentally depends on its ports and harbours for economic and social well-being. It is important that Shetland Islands Council consults and plans for the future of the ports it owns and operates. Business opportunity and technology both move quickly so a periodic review of arrangements is good practice and is particularly relevant at this time.

- ***The key objectives/ success criteria to be used to option appraise this project*** – The project team has worked up a draft set of proposed “critical success factors” for this project to be discussed and agreed for use in option appraisal to inform decision making. They are summarised below in Table 1 with a fuller analysis set out in Appendix 2.

Table 1 – “Critical Success Factors” / Possible Option Appraisal Criteria

- **make a robust case for change – the Strategic Case;**
- **will optimise value for money – the Economic Case;**
- **are commercially viable – the Commercial Case;**
- **are financially affordable – the Financial Case; and,**
- **can be delivered successfully – the Management Case.**

<i>DRAFT</i>	Relevant Corporate Plan Priorities	Possible “Critical Success Factors” or “Objectives” for this project	How can appraise options using this factor?
Strategic (there is a case to consider change in this area to better meet our priorities)	People in Shetland will be feeling more empowered, listened	Residents are able to live in the local community with access to appropriate, high quality employment and training opportunities We have a thriving, active and proud community that celebrates our sense of identity	Estimated effects on housing, jobs and training opportunities Test options through community stakeholder engagement

Appendix 1 - Project Overview – Port of Sullom Voe Strategic Development

	<p>to and supported to take decisions on things that affect them and make positive changes in their lives and their communities.</p>	<p>Supporting social cohesion and maximising community benefits</p> <p>Ensure protection of the environment in line with the Shetland Marine Spatial Plan and associated documents.</p> <p>Ensuring compliance with health and safety obligations</p> <p>Maintaining biodiversity, geo-diversity and protecting the built environment</p> <p>Employment and maximising benefit to the local economy</p>	<p>Test options through environmental stakeholder engagement</p> <p>Estimated impact of proposals on the structure, diversity, innovation, competitiveness and resilience of businesses (existing and/or emerging and/or new)</p>
<p>Economic</p> <p>(how will be best optimise value for money – the best balance of benefits against costs)</p>	<p>We will be working in a more effective way allowing us to cope with reduced resources.</p> <p>Processes that add no clear value will have been replaced with more proportionate approaches based on the effective management of risks.</p>	<p>Supports development of the industries related to the port and facilitates innovation, diversity and resilience</p> <p>Supports businesses (existing and/or emerging and/or new) to be more competitive</p> <p>Maximising the long term value of the harbour asset to SIC.</p>	<p>Estimated impact of proposals on the structure, diversity, innovation, competitiveness and resilience of businesses (existing and/or emerging and/or new)</p> <p>modelling cost and income (capital and Revenue) projections for the Council</p>

Appendix 1 - Project Overview – Port of Sullom Voe Strategic Development

<p>Financial</p> <p>(can we afford it within our financial constraints)</p>	<p>We will have clarified the council's future role in the port of Sullom Voe, and, after having taken a robust business model approach, we will be seeing the best possible returns from our investments.</p>	<p>Optimising exposure to financial risk, including minimising downside risk of major incidents while retaining potential upside risk from port operations</p> <p>Increase net revenue and / or identify new revenue streams for Sella Ness Port and/or SIC</p> <p>Reduction of fixed asset base</p> <p>We have a financially secure and sustainable approach</p>	<p>Capital and revenue implications are understood and affordable</p>
<p>Commercial</p> <p>(can we find a viable commercial arrangement)</p>	<p>The council will be an organisation that encourages creativity, expects co-operation between services and supports the development of new ways of working.</p>	<p>There is suitable and appropriate business partner and community support for what the Council is proposing</p>	<p>Market and stakeholder testing of options</p>
<p>Managerial</p> <p>(can we actually deliver the change)</p>	<p>High standards of governance will mean that the council is operating effectively and the decisions we take are based on evidence and supported by effective assessment of options and potential impact.</p>	<p>we want to be known as an excellent organisation that works well with our partners to deliver sustainable services for the people of Shetland.</p>	<p>Risk assessment of successful delivery of options</p>

Appendix 1 - Project Overview – Port of Sullom Voe Strategic Development

- ***The long list of options for this project*** – The main questions which emerged during option generation were mostly concerned with ownership and governance.
 - Do nothing / do minimum
 - New Operating Mode under Council management
 - Outsource Operations – Management Contract
 - Outsource Operations – Concession
 - Outright Sale – Joint Venture
 - Outright Sale – Freehold Sale

A fuller discussion of the options is attached as appendix 1 and recommendations for next steps in the main report.

3 Outline Business Case Phase *(this phase is still to come for this project)*

This phase evaluates the agreed short listed of options in detail, and then prepares a report to recommend the preferred option and procurement approach based on the economic case, commercial viability, financial affordability and our capacity to implement it. This report will also have to meet all the requirements of the “Service Needs Case” as defined by the Capital Programme Service . (This report is usually produced by the Project Executive / Project Manager / Project Team and approved by the relevant Council Committee, unless that authority has been delegated to a Director).

The “Outline Business Case” report and all required option appraisal information will be generated by the Project Team between November 2015 and February 2016 so that members can decide on the “Preferred Option” for this project. It is expected that recommendations will be presented to meetings in the 1st Quarter of 2016.

4 Full Business Case Phase *(this stage is still to come for this project)*

This phase will take the agreed “Preferred Option”, do any further work necessary to prepare for procurement such as the development of a specification or invitation to tender, run the appropriate procurement exercise, evaluate tenders etc. conclude the final deal, develop and agree the implementation plan, implement and hand over to operational management. (Regular progress reports will be provided to Council produced by the Project Executive / Project Manager / Project Team and decisions sought on any matters which the Council decides not to delegate to the responsible Director).

The “Full Business Case” will use all Prince Project management standards and draw its overall timetable, resourcing and other arrangements from the information provided in the “Outline Business Case” for that option.

5 Outline Timetable (*updated as the project progresses*)

Put best estimate dates against the project phases being specific about target Council/Committee meeting which the project is aiming to report to.

Table 2 - Timeplan

Milestone / Gateway / Target	Group or Committee	Target Date
Initiation (Gateway 0 / Strategic Context)	Approval of Infrastructure Directorate Plan by Council	March 2015
Staff Stakeholders Consultation	P&H Staff	11 th August 2015
Strategy Stakeholders Consultation	All Members Seminar	12 th August 2015
Strategic Business Case (Gateway 1 / Business Justification / Short List)	Report to Harbour Board and Policy & Resources and Full Council	HB - 7th October 2015 P&R 26 October 2015 Council 4th November 2015
Business Stakeholders Consultation	Oil&Gas/ Engineering	Nov 2015 – Feb 2016
Government Stakeholders Consultation	UK Oil & Gas Authority & other relevant bodies	Nov 2015 – Feb 2016
Strategy Stakeholders Consultation	All Members Seminar or Harbour Board as Sounding Board?	Nov 2015 – Feb 2016
Staff Stakeholders Consultation	P&H Staff	Nov 2015 – Feb 2016
Outline Business Case (Gateway 2 / Procurement Strategy / Preferred Option)	Report to CMT meeting requirements of “Service Needs Case” for Capital Programme Report to Harbour Board Report to Policy & Resources	CMT – At least 2 weeks before clearance for committee HB – Q1 2016 P&R – Q1 2016 Council – Q1 2016
Full Business case (Gateway 3 / Investment Decision / Contracts Signed)	Director of Infrastructure (unless not delegated)	By March 2017
Transfer to operations (Gateway 4 / Readiness for Service)		By September 2018
Benefits Evaluation (Gateway 5 / Post Implementation Review)		By July 2019

6 Product Description(s). *(Can be completed at any stage but must be completed to support the “Outline Business Case” at the latest)*

Describe the key product(s) including costs & income, reference to quality standards, user expectations, legislation, operating requirements etc.

Summary Product Description(s) for items of recommended significant investment. In this project potentially new piers, new buildings etc. and/or changes in ownership or board of management or new operations contracts etc.

7 Project Management and Project Team Arrangements *(to be updated as the project progresses)*

Project Executive – Director of Infrastructure

Project Manager – Executive Manager – Ports & Harbours

Project Team – Ports & Harbours staff, other stakeholder representatives + PWC + Finance + HR + Legal + Planning Service and the Economic Development Service.

8 Communications and Stakeholder Engagement *(to be updated as the project progresses)*

Strategy Group / Sounding Board – Group of members from Harbour Board + Local Ward

Business Stakeholders – Either convene a new group with representatives of Oil & Gas, Agents, Marine Service providers or use existing groups.

Community Stakeholders – represented by members or specific engagement with local or whole Shetland community?

Staff Stakeholders – All affected staff and/or their representatives.

9 References *(to be updated as the project progresses)*

[Associated background documents, strategies and plans, linked projects, relevant Council Reports, ideally online links]

Appendices

- Appendix 2 – PWC Options and initial appraisal

Appendix 1 - Project Overview – Port of Sullom Voe Strategic Development

Background documents

- Scalloway and Sullom Voe Masterplans + Covering Report and Minute – Harbour Board, 8th October 2014

<http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=16728>

**Harbour Board****7 October 2015****Service Needs Case Applications – Ports and Harbours****PH-15-15F****Team Leader – Port Engineering****Infrastructure Services Department****1.0 Summary**

- 1.1 This report updates the Board on the current list of proposed projects which have been submitted as Service Needs Cases, for consideration for inclusion on the Councils Capital Programme.

2.0 Decision Required

- 2.1 That the Harbour Board resolves to:
- 2.1.1 Note the contents of the report; and
- 2.1.2 Discuss and highlight any areas of concern.

3.0 Detail

Ports and Harbours currently has the following Service Needs Cases submitted for consideration by the Council:

Sullom Voe

- 3.1 Hydrographic survey – Sullom Voe.

This project will map the seabed along the tanker approaches and Jetty area within Sullom Voe Harbour. Industry good practice recommends that this work is carried out every five years. The Jetty area was last surveyed six years ago, and the approach information is older than that. Due to the lack of significant siltation encountered in Shetland waters, there is not expected to be any change in water depth from previous surveys carried out. A new survey will confirm this and indicate a realistic schedule of surveys for the future.

Estimated cost: £100k.

3.2 Sullom Voe VTS Radar Replacement

The Sullom Voe radar system has now reached the end of its working life. Spare parts are either unavailable or are extremely difficult to source with long delivery times. To ensure the continued safe and efficient operation of Sullom Voe Harbour, a new system must be installed as soon as possible. It is likely that a lease option will be sought, over a contract period of between ten and twenty years.

Estimated cost: £175k per annum.

3.3 Tug Jetty - Cathodic Protection

The existing original cathodic protection system on the Tug Jetty has reached the end of its working life, and the structure is now unprotected from the effects of corrosion. With the increased lifespan of the Sullom Voe Oil Terminal, the extension of life for Port assets is critical to ensure that operations can continue in a safe and efficient manner.

Estimated cost: £1 million.

3.4 Navigation Aids

This project will allow for a phased replacement of all navigation aids around Shetland. Recent upgrades to LED light technology have brought great increases in efficiency and availability, coupled with reductions in energy usage and maintenance requirements.

Estimated cost: £70k per annum.

3.5 Plant Vehicles and Equipment

This project allows for the major maintenance and replacement of plant, vehicles and machinery connected with the safe and efficient operation of all SIC owned Ports around Shetland.

Estimated cost: £70k per annum.

Small Ports

3.6 Scalloway Fish Market – Refrigeration and Door Maintenance

The refrigeration system at Scalloway Fish Market has reached the end of its working life, and the refrigerant gases employed in the system have now been banned from use. A replacement chilling system will be installed to ensure the continued efficient operation of the market. In addition to this, some of the insulated access doors will be replaced, removing health and safety hazards to market users.

Estimated costs: £180k.

3.7 Scalloway Old Fish Market Quay Repairs

This steel sheet piled quay on the West side of the harbour at the root of the old West Pier is now heavily corroded, and requires repair to ensure its structural abilities are not reduced. Diving surveys and thickness measurements of the steel have confirmed that welded plates are an ideal repair solution, followed by the installation of cathodic protection anodes to protect the structure thereafter.

Estimated costs: £250k.

3.8 Toft Pier

At the last meeting of the Board on 18 August 2015 (Min Ref 21/15), it was decided that a fully costed business case for the replacement of Toft Pier with a structure of similar size be created. This work is now in progress, albeit at an early stage. The results of future discussions with industry, coupled with more detailed design will inform the case further.

Estimated cost: £1.5 - £2 million.

3.9 Baltasound Pier – Pile Repairs

This project is for the maintenance and repair of existing steel sheet piling on the old section of Baltasound Pier. The piles are heavily corroded, and investigation is underway to confirm suitable repair methods.

Estimated cost: £250k.

3.10 Small Ports Cathodic Protection

A report on this subject (PH-16-14F) was presented to the 19 August 2014 (Min Ref 28/14) meeting of the Board. This report detailed the current condition of steel sheet piled structures throughout Shetland, and recommended a priority ranking of five areas to be addressed over the next five years. The works will include the installation of cathodic protection to halt the corrosion cycle, and extend the useful lifespans of the piers for up to twenty five years.

Estimated costs: £1.1 million.

Ferry Terminals

3.11 Toft, Ulsta and Hamarsness Terminals

These ferry terminals are all of similar age, and the paint systems on the structural steelwork are starting to degrade. To ensure that the steel is protected, it is proposed to blast clean and re-paint all of the above water steel work at each of these locations.

Estimated cost: Unknown at present.

4.0 Implications

Strategic

- 4.1 Delivery On Corporate Priorities – Shetland has always been and will remain a group of islands. “Our Plan” identifies transport links to and from, and within, the islands are our life blood. We recognise that they are critical for the young and old and critical for business, jobs and well being. Providing quality transport services within Shetland, and pushing for improvements in services to and from Shetland is one of the Top five priorities in “Our Plan”.

“Our Plan” highlights the fortunate position the Shetland economy has been in recently, largely as a result of construction work in the oil and gas industry. It also recognises the challenges and opportunities we have in coming years Shetland’s Ports and Harbours have been the conduit for most wealth creating activity in the past. They still are in the present, and given our maritime situation they will continue to be into the future. People, products, goods and supplies go in and out of Shetland and move around the islands by sea. If we do not have the right Ports & Harbours infrastructure in place that cannot happen and new business opportunities and wealth creation cannot take place.

If we are to continue to enjoy a strong economy with well-paid jobs we will have to make sure we have the Port infrastructure required to support key business sectors, especially those depending on the utilisation of local resources. By investing in Shetland’s Ports & Harbours we will be using development funds wisely to produce the maximum benefit for Shetland’s economy. Those modern Ports & Harbours will let us put the transport arrangements in place that meet individual and business needs and deliver economic growth.

- 4.2 Community /Stakeholder Issues – The community and stakeholders of the Ports and Harbours operation have an interest in ensuring that new capital projects are properly monitored and ensuring that they are completed within budget and on schedule.
- 4.3 Policy And/Or Delegated Authority – The Scheme of Administration and Delegations states that the role and authority of the Harbour Board is:
- 4.3.1 Strategic oversight and direction in all aspects of the operation of the Council’s harbour undertaking in accordance with overall Council policy and the requirements of the Port Marine Safety Code;
 - 4.3.2 Act as Duty Holder required by the Port Marine Safety Code and ensure that the necessary management and operational mechanisms are in place to fulfil that function; and

- 4.4.3 To consider all development proposals and changes of service level within the harbour undertaking, including dues and charges, and make appropriate recommendations to the Council

4.4 Risk Management – None arising from this report.

4.5 Equalities, Health And Human Rights – None arising from this report.

4.6 Environmental – None arising from this report.

Resources

4.7 Financial – The projects presented in this report have cost implications ranging from £70k to £2m and an estimated combined total cost of over £7m. The projects are being progressed as fully costed business cases for consideration under the Council's Gateway Process for capital project prioritisation. It should be noted that even though these proposals will proceed to be assessed under the Gateway Process they may not ultimately be progressed if deemed not to be sufficiently high in the Council's priorities against other capital projects.

4.8 Legal – There are no known legal issues arising from this report. Governance and Law provide advice and assistance on the full range of Council services, duties and functions including those in this report

4.9 Human Resources – None arising from this report.

4.10 Assets And Property – None arising from this report.

5.0 Conclusions

5.1 Projects in this report will be considered for inclusion on the Council's Capital Programme in line with Council procedures and guidelines.

For further information please contact:
Andrew Inkster – Team Leader – Port Engineering
01806 244 264
andrew.inkster@shetland.gov.uk
29 September 2015

List of Appendices

None

Background documents:

None