



Item: 9

Policy and Resources Committee: 27 November 2024.

Strategic Offshore Energy Development.

Joint Report by Chief Executive and Corporate Director for Enterprise and Sustainable Regeneration.

1. Overview

- 1.1. The Council's approach to the economic development opportunity afforded by Offshore Wind and the ScotWind and INTOG seabed leasing rounds has concentrated significantly on the delivery of new harbour infrastructure including a deep-water quay in Scapa Flow and an expansion of the existing Hatston Pier facility.
- 1.2. This concentration of effort and resources has raised a variety of concerns including the following:
 - i. There has been too much focus on individual capital projects to the extent that existing assets and the local supply chain have not received the marketing attention they merit and therefore business opportunities are being missed.
 - ii. The wider opportunities for the Orkney economy under the ScotWind and INTOG seabed leasing rounds beyond new harbour infrastructure have not been championed to the extent they have in other areas.
 - iii. Elected Member involvement and oversight has not been sufficient for all Members to feel confident that the direction and pace of travel accords with the overall positioning of Council support.
 - iv. There is a limited level of understanding in the community of the impact and scale of the Harbour Masterplan proposals.
 - v. The Harbour Masterplan proposals would be financed through the Council taking on significant levels of debt with the consequent risk to debt servicing that would be reliant on significant new offshore wind business being secured.

- 1.3. The combination of concerns as outlined above and the stage of development which the Harbour Masterplan projects for the Hatston expansion and a deep-water quay has reached, has led officers to the conclusion that a revised strategic approach would be beneficial. An Offshore Energy Development Strategy focused on what Orkney can offer to developers, the supply chain and the community is therefore proposed.
- 1.4. Through a strategic, informed approach, the Council can position the islands as a leading player in the offshore wind industry, bringing long-term economic, environmental, and social benefits to the community.

2. Recommendations

- 2.1. It is recommended that members of the Committee:
 - i. Endorse the draft Outline Strategic Offshore Energy Development Strategy for Orkney, attached as Annex 1 to this report, for further development with a final version being submitted to the Policy and Resources Committee in early 2025.
 - ii. approve the establishment of a budget of £4 million, from current resources within the existing Marine Services budget areas, in order to deliver the Offshore Energy Development Strategy in the period up to May 2027.
 - iii. Delegate powers to the Chief Executive, in consultation with the Corporate Director for Enterprise and Sustainable Regeneration, the Leader, Depute Leader, and Chair and Vice Chair of the Development and Infrastructure Committee, to authorise spend from the budget, referred to at paragraph 2ii above, in the period up to May 2027, thereby ensuring Elected Member oversight of this budget.
 - iv. Endorse the three red line commitments to all Elected Members on the strategy as set out in section 4.4 of this report.

3. The need for an Offshore Energy Development Strategy

- 3.1. The Flotta Oil Terminal, operational since 1974, has been a cornerstone of Orkney's economy for fifty years. It has provided substantial revenue flows through the community by the creation of well-paid jobs, local contracting, and local purchasing, enhancing the community's prosperity. This economic boost has extended beyond direct employment, supporting public sector investment in infrastructure, private investment in housing, and public services across the islands through the surpluses accrued in the Strategic Reserve Fund.

- 3.2. Additionally, the terminal has attracted skilled workers and supported secondary businesses, from hospitality to transport and engineering. However, as the terminal approaches end of life with dwindling North Sea oil reserves, Orkney faces a significant economic risk. The loss of jobs, revenue, and associated industries could create an economic gap that may be difficult to fill, putting pressure on the community to diversify its economy and seek alternative industries, such as renewable energy, to sustain its financial health.
- 3.3. Orkney is well-positioned to capitalise on the growth of offshore wind, tidal power, and the broader maritime sector, as well as the transition to a Net Zero economy. With a strong history of maritime expertise, access to consistent wind and tidal resources, and existing infrastructure from the oil and gas sector, Orkney can pivot toward these emerging opportunities in several ways.
- i. Infrastructure Development: Leveraging existing facilities such as Hatston Pier, Lyness, and Copland's Dock, the Council could create assembly, maintenance, and support bases for offshore wind and tidal energy projects. Upgrading these facilities could make Orkney a hub for large-scale energy projects, attracting investment and creating jobs.
 - ii. Skills and Training: By partnering with the educational institutions currently based in Orkney and leveraging additional resources from renewable energy companies, Orkney can develop specialised training programmes in renewable energy and marine technology, ensuring a skilled local workforce and reducing the need to bring in outside labour.
 - iii. Supply Chain and Local Enterprise: Supporting more local businesses to become part of the renewable energy supply chain could amplify the economic impact, ensuring that the benefits of these sectors are felt across the community.
- 3.4. A considered response for Orkney to capitalise on the opportunities and tackle the challenges presented by offshore renewable energy and other future industries will involve a comprehensive, multi-faceted strategy.
- 3.5. For the Council to make informed decisions in the offshore energy sector, Members need a clear, structured understanding of the potential options, offers, and associated impacts. This can be supported through:
- Meetings with Offshore Wind Developers: by inviting key players in offshore wind and other energy sectors to present their current project plans, infrastructure needs, and the planned community benefits from their projects.

This will help the Council understand specific project demands and potential local benefits and opportunities.

- Technology and Innovation Briefings: updates on the latest offshore wind and energy technology advancements, including floating wind and deepwater installations, which could be particularly relevant given Orkney's marine environment.
- Harbour and Port Assessments: Review the capabilities of local harbours like Lyness, Hatston, and Copland's Dock to serve as bases for offshore wind operations. This includes identifying any upgrades or expansions needed.
- Community Feedback Sessions: Hold sessions to gather input from residents, local businesses, the local supply chain and community organisations on their views, concerns, and expectations regarding offshore wind.

3.6 A budget commitment will be required to fully develop and deliver an Offshore Energy Development Strategy that will entail significant activity including:

- i. Member attendance at relevant seminars, events, site visits and conferences.
- ii. Local supply chain and developer events and engagement activities
- iii. Necessary work to ensure all options and assets are understood and marketed effectively to relevant developers, industries, governments and partners
- iv. Necessary work to ensure that all options, including proposals for a deep water quay and Hatston Pier expansion are kept as viable options until such time as the Council determines that they are no longer required to support the Offshore Energy Strategy.
- v. Lobbying and engagement with partners of governments to leverage in additional external resources to support the Council deliver its Offshore Energy Strategy.

4. Active involvement of Elected Members

- 4.1. Attendance by Members alongside the officer team at relevant conferences, seminars and events will be invaluable in allowing Members to gauge the level of interest from industry in undertaking developments in Orkney and the value of what Orkney has to offer to industry.
- 4.2. Familiarisation visits to the Council's local assets and the sites for any proposed development along with attendance at Supply Chain events will provide Members with a comprehensive understanding of the resources, opportunities, and potential challenges associated with these assets and projects.

- 4.3. It is recommended that all budget decisions within the identified Offshore Energy Development Strategy for Orkney will be overseen by the Leader, Depute Leader, Chair and Vice Chair of the Development and Infrastructure Committee.
- 4.4. A number of red lines are also proposed to provide reassurance that significant commitments will not be made without Elected Member oversight:
- i. No borrowing or financial commitment from the Council that is not fully understood and agreed by Members to be affordable and sustainable.
 - ii. Development decisions around any asset to be clearly flagged and understood by Elected Members and taken transparently by Members with access to all relevant information and data.
 - iii. Control over use of assets to be retained by the Council so that activities and use can be understood now, and in the future

5. Finance

- 5.1. The Miscellaneous Piers and Harbours Account carried an accumulated surplus balance position of £3M as of 31 March 2024.
- 5.2. The Revenue Expenditure Monitoring report presented to the Harbour Authority Sub-committee on 29 October 2024 presented an encouraging position with a budget surplus position of £2,307,500 for the reporting period 1 April to 30 September 2024 across the Scapa Flow Oil Port and Miscellaneous Piers and Harbours Account.
- 5.3. There is therefore scope to utilise prior year balances together with current year earnings to establish the £4 million budget that is recommended.
- 5.4. The Financial Regulations state that Corporate Directors can incur expenditure within approved revenue and capital budgets. Such expenditure must be in accordance with the Council's policies and objectives and subject to compliance with the Financial Regulations.

For Further Information please contact:

Oliver Reid, Chief Executive, extension 2101, Email oliver.reid@orkney.gov.uk

Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration, extension 2521, Email gareth.waterson@orkney.gov.uk

Implications of Report

1. **Financial** – contained in the body of the report.
2. **Legal** – None directly arising from the recommendations in this report.
3. **Corporate Governance** – the report is recommending enhanced levels of oversight of decision making around development and progression of activity related to offshore energy.
4. **Human Resources** - None directly related to the recommendations in this report.
5. **Equalities** – an assessment has not been carried out for the draft outline strategy but will be considered before presentation of the final version.
6. **Island Communities Impact** - an assessment has not been carried out for the draft outline strategy but will be considered before presentation of the final version.
7. **Links to Council Plan** - the proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - Growing our economy.
 - Strengthening our Communities.
 - Developing our Infrastructure.
 - Transforming our Council.
8. **Links to Local Outcomes Improvement Plan** - the proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - Cost of Living.
 - Sustainable Development.
 - Local Equality.
9. **Environmental and Climate Risk** – None
10. **Risk** – None
11. **Procurement** – None
12. **Health and Safety** - not applicable.
13. **Property and Assets** - not applicable.
14. **Information Technology** - not applicable.
15. **Cost of Living** - not applicable.

List of Background Papers

None.

Annex

Annex 1 - Outline Strategic Offshore Energy Development Strategy for Orkney

Outline Strategic Offshore Energy Development Strategy for Orkney

Introduction

Orkney's geographic location, rich natural resources, and established infrastructure offer a unique position to lead in offshore energy development. As North Sea oil production declines and alternative energy sources grow in importance, Orkney faces both challenges and new opportunities. This strategy sets out a roadmap for advancing Orkney's role in the renewable energy sector—particularly offshore wind and tidal energy—while optimising existing assets for remaining oil and gas opportunities. Our approach emphasises harnessing local strengths and growing a sustainable workforce to support a resilient energy economy for Orkney.

1. Offshore Wind Energy

Offshore wind energy presents one of the most promising avenues for Orkney's future energy landscape. With the West of Orkney Wind and other projects advancing in northern waters, Orkney has a prime opportunity to serve as a hub for offshore wind assembly, deployment, and maintenance.

Objectives:

Develop Assembly and Maintenance Facilities: Evaluate the potential of Copland's Dock, Hatston Pier, and Lyness as assembly bases, while addressing any constraints. With 20 hectares of land available at Lyness, this location could support large-scale assembly and storage of wind turbine components.

Utilise Scapa Flow for Storage and Staging: Leverage Scapa Flow's position as the largest natural harbour in the Northern Hemisphere to facilitate the staging of offshore wind assets, from turbine nacelles to maintenance vessels.

Retain a deep-water quay proposal for Scapa Flow as set out in the Harbour Masterplan as a viable option, developing it to a shovel ready state that would serve as one option for the Council to consider as a final integration port for offshore wind developers if the Council were to determine that this was required to unlock the potential of Scapa Flow as a national and local asset and capitalise on the key strength of the Orkney location through the Strategic Investment Model.

Strengthen Local Supply Chain: Work with local suppliers to meet demand for fabrication, vessel support, and maintenance services, ensuring Orkney businesses are well-positioned within the offshore wind supply chain.

2. Tidal Energy Potential

Orkney's strong tidal flows make it an ideal location for tidal energy generation, building on existing initiatives such as the European Marine Energy Centre (EMEC).

Objectives:

Expand Tidal Energy Projects: Support the expansion of tidal energy projects and testing facilities, utilising local expertise developed through EMEC.

Leverage Infrastructure for Tidal Maintenance: Use Lyness, Copland's Dock, and Hatston Pier to support the maintenance and deployment of tidal energy technology, with Lyness providing onshore storage and logistics for tidal generators.

Integrate with Energy Storage Solutions: Encourage partnerships with energy storage solutions to balance intermittent tidal generation, potentially coupling with hydrogen production at EMEC's facilities to strengthen Orkney's energy resilience.

3. Oil and Gas Services

While traditional North Sea oil is in decline, Orkney's strategic position remains valuable for supporting remaining oil and gas activities, particularly in Scapa Flow and at Hatston Pier.

Objectives:

Ship-to-Ship Transfers: Continue providing ship-to-ship (STS) transfer services in Scapa Flow to support remaining oil transport requirements. Pursue the establishment of a tax warehouse status for STS operations.

Oil Platform Storage: Utilise available space in Scapa Flow to support the storage of oil platforms and related infrastructure, creating and supporting jobs in maintenance and supplying services.

Oil Platform decommissioning: conduct an analysis of the opportunities afforded by oil platform decommissioning.

Support Services for Offshore Vessels: Ensure provision and resupply services are available for oil supply boats, accommodation rigs, and other offshore vessels, using Hatston Pier and Lyness as potential staging areas.

4. Harbour Operations and Diversification

With the eventual cessation of production at the Flotta Oil Terminal, Orkney needs alternative revenue streams to sustain harbour operations.

Objectives:

Expand Harbour Services to Offshore Renewable Sectors: Develop harbour services specifically tailored to offshore wind and tidal sectors, including specialized vessel support and maintenance capabilities.

Attract Marine-Based Tourism: Leverage Scapa Flow's historical and natural appeal to develop marine-based tourism offerings as a supplementary revenue source.

Promote Orkney as a Testbed for Marine Energy Innovations: Continue Orkney's position as a world-leading marine energy test site, attracting global innovators and researchers.

5. Workforce Development and Demographic Strategy

To fully leverage offshore energy opportunities, Orkney must address demographic challenges, including a shortage of working-age residents and limited housing for new workers.

Objectives:

Invest in Local Training Programs: Collaborate with local schools, and Orkney Colleges, to create training pathways in renewable energy, engineering, and marine services, fostering a homegrown workforce.

Develop Targeted Apprenticeships and Internships: Work with offshore energy companies and marine industries to offer apprenticeships, internships, and early-career roles for young residents, providing them with valuable industry experience.

Expand Housing for Workforce: Partner with local developers to create affordable housing solutions tailored for incoming energy-sector workers and their families, helping mitigate housing shortages.

Attract Talent through Quality-of-Life Initiatives: Promote Orkney's quality of life and career opportunities in renewable energy to attract young professionals interested in meaningful work in an inspiring environment.

6. Community and Environmental Stewardship

Orkney's unique environmental heritage and strong community ties must be central to any development strategy.

Objectives:

Engage Community Stakeholders: Regularly consult with local stakeholders, including residents, environmental groups, and local businesses, to align development efforts with community needs and values.

Adopt Sustainable Practices: Emphasise environmentally conscious practices across all projects, minimising the ecological footprint of energy infrastructure and protecting Orkney's coastal and marine ecosystems.

Benefit Sharing with Local Community: Ensure that economic benefits from renewable energy projects are reinvested into the Orkney community, supporting public services and creating a positive social impact.

Conclusion

Orkney stands at a critical juncture in its energy and economic future. By leveraging offshore wind and tidal opportunities, adapting its oil and gas services to meet new demands, and addressing demographic and workforce challenges, Orkney can create a resilient and sustainable energy economy. Through collaboration with local stakeholders and a commitment to innovation and stewardship, Orkney can solidify its position as a leader in the offshore energy sector, ensuring long-term prosperity for its community.

Next Steps

Using this outline strategy as the starting point, Council Officers will prepare a draft offshore energy development strategy for consideration by the Council.