

## **Item: 22**

**Policy and Resources Committee: 20 June 2023.**

**Orkney Harbours Infrastructure – Update.**

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

### **1. Purpose of Report**

To provide an update on the proposed projects being considered to support economic growth through the development of Orkney Islands harbour infrastructure.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

The appointment of Harper Macleod as legal advisers on the Orkney Harbours Masterplan Phase 1 projects of Scapa Deep Water Quay and Hatston Reclamation and Pier Extension.

#### **2.2.**

The attendance by officers at the Wind Europe event at the Bella Center in Orestad, Copenhagen between 25 to 27 April 2023 and at All Energy in Glasgow between 10 and 11 May 2023.

#### **2.3.**

That the United Kingdom Government's Floating Offshore Wind Manufacturing Investment Scheme (FLOWMIS) has opened for applications, with a deadline of 25 June 2023, and that an application is under development.

#### **2.4.**

That the Strategic Investment Model (SIM) has opened and that an initial application has been submitted.

#### **2.5.**

The intention to amend proposed procurement documentation into stages, to allow the Council to keep its options open, as follows:

- Stage 1 being for the performance of pre-construction services, the outcome of which would be preparation of a detailed design for the development and including a potential alternative outcome to the pre-construction phase.

- Stage 2, allowing the Council the option of appointing the successful tenderer to build the facility or as a development partner to jointly progress the development with the Council.

**It is recommended:**

## **2.6.**

That the Chief Executive be requested to submit, on behalf of the Council, the following applications for funding:

- UK Government – Floating Offshore Wind Manufacturing Investment Scheme (FLOWMIS) in respect of the proposed Scapa Deep Water Quay.
- Scottish Government – Low Carbon Vacant and Derelict Land Investment Programme in respect of proposed improved laydown facilities at Lyness.

## **3. Introduction**

### **3.1.**

This report provides an update on current progress on proposed harbour infrastructure projects featured in the Orkney Harbours Masterplan Phase 1 and the developing options for key infrastructure provision. An indicative project timeline is attached as Appendix 1.

### **3.2.**

The Scapa Deep Water Quay is one of several proposed project options currently being developed and worked on by the Council, that can help support the Orkney economy in a sustainable way. The chart of Scapa Flow, attached as Appendix 2 to this report, demonstrates the breadth and scale of opportunity that exists in Scapa Flow. It depicts options including the proposed location for a Deep-Water Quay, current ship anchorages, a potential site on Flotta for a deep-water facility, possible designated locations for wet storage of floating wind turbines and a potential location for floating construction to take place. Overall, the chart demonstrates the viability of Scapa Flow and Orkney of being able to deliver a full range of options to support future energy and offshore markets alongside each other and the potential for developers and their local supply chain to access the facilities and support on the scale that they require.

### **3.3.**

Progress with developing the Harbour Masterplan projects to a state of shovel readiness has continued in line with previous Council decisions, with a specific focus on the procurement, technical and legal aspects. Alongside this, marketing of Orkney as an opportunity for offshore wind farm integration has continued. The specific options contained in the Harbour Masterplan have continued to receive a significant level of interest, with increased interest coming from supply chain companies that are expressing enthusiasm for specific technical and operational elements that can be accommodated in Scapa Flow.

## **4. Activity**

The following sections provide updates on activities since the previous report submitted to Committee in April 2023. Commercially sensitive information is detailed in Appendix 3 to this report.

### **4.1. A961 Road Realignment**

The A961 road realignment is an integral part of the project to deliver the Scapa Deep Water Quay. It is not unusual for a roads authority not to own the land on which a road is situated. Officers in Legal Services have investigated whether the Council owns the land on which the existing road is situated and have confirmed that it does not. Accordingly, any areas of existing road not required post-realignment will become available to the current landowners.

### **4.2. Appointment of Legal Advisers**

Following a competitive procurement process, Harper Macleod LLP have been appointed as external legal advisers on the Orkney Harbours Masterplan Phase 1 projects of Scapa Deep Water Quay and Hatston Reclamation and Pier Extension.

### **4.3. HIE Report Progress Update**

#### **4.3.1.**

As previously noted, Highlands and Islands Enterprise (HIE), supported by Orkney Islands Council and Offshore Wind Partners Ltd (OWP), are seeking to commission an independent scrutiny report of the Harbour development proposals, the role that they can play in supporting offshore and maritime industries in the region and the potential impacts and benefits for Orkney. It is expected that this report will play a key role in supporting the development of an investable proposition for the offshore wind market and will be complimentary to the outputs of the Strategic Investment Model. The HIE report is a critical piece of work that is required to help inform Members for any final investment decisions and options appraisal process.

#### **4.3.2.**

HIE have continued to progress the procurement process and the Council has been feeding into the specification for the report along with other funding partners.

### **4.4. Attendance at Wind Europe in Copenhagen**

#### **4.4.1.**

The Head of Marine Services Transportation and Harbour Master, the Head of Enterprise and Economic Growth and the Business Development Manager attended the Wind Europe event at the Bella Center in Orestad, Copenhagen between 25 to 27 April 2023. This large event was very well attended with over 13,000 visitors announced as being in attendance across the 3 days.

#### **4.4.2.**

Prior to the event a series of meetings had been arranged with companies that had engaged with the Council previously. This gave the opportunity to update them and discuss their future requirements. At this event it became clear that the confidence of industry is growing and that there is increasing clarity and involvement of the supply chain as well as main developers which in turn will help to solidify the technical and operational requirements of the industry in terms of infrastructure and capacity:

#### **4.4.3.**

During the conference there was an open Question and Answer session arranged by the North Sea Energy Co-operation Group with a panel consisting of turbine and monopile manufacturers, Amsterdam, Esbjerg and Rotterdam ports. At this session there was a lot of discussion around the fact that ports do not have a sales portfolio of offshore projects due to the fact the developers are only signing contracts late on in projects due to the Contract for Difference (CfD) process and are waiting for clarity on CfD before making final investment decisions. It was repeatedly stated that port investment is difficult to finance without a long order book as business cases are then based on assumptions. This indicates that other ports are in a similar position to Orkney Harbours in seeking confirmation of developer intentions.

#### **4.4.4.**

Importantly, there was also a discussion around port infrastructure requirements and that floating wind will require larger, deeper, stronger quays capable of handling 20T per square metre for the heavy lifts compared to 10T per square metre commonly found in existing ports. This provided useful confirmation of the technical specifications that have been proposed for Scapa Deep Water Quay and highlighted the lack of capacity in the region with this capability.

### **4.5. Attendance at All Energy in Glasgow**

The Head of Enterprise and Economic Growth and the Business Development Manager attended All Energy in Glasgow between 10 and 11 May 2023 which was another very well attended event. This conference had a much broader scope than the Wind Europe event but still had a very good presence from offshore wind developers and suppliers.

### **4.6. Floating Offshore Wind Manufacturing Investment Scheme**

#### **4.6.1.**

Recognising that the United Kingdom needs more investment to facilitate capacity and capability to deploy and service the scale of the floating offshore wind pipeline and meet offshore wind ambitions the UK Government through the Department for Energy Security and Net Zero (DESNZ) has announced that up to £160 million in grant funding will be made available for certain investments for the floating offshore wind sector.

#### **4.6.2.**

The Floating Offshore Wind Manufacturing Investment Scheme (FLOWMIS) is open to applications until 25 June 2023. The application process requires a high degree of project detail and, to ensure that the Council's application is as robust as possible, the services of AMION Consulting have been engaged through Hub North Scotland to complete an application to FLOWMIS.

#### **4.6.3.**

Due to timescales this report recommends that the Chief Executive be requested to submit the funding application prior to the deadline on 25 June 2023.

### **4.7. Strategic Investment Model (SIM)**

#### **4.7.1.**

Scotland's [Strategic Investment Model](#) (SIM) has been co-developed by the Scottish Government and the offshore wind industry.

#### **4.7.2.**

The SIM process seeks to overcome the catch 22 situation of uncertainty in the timing and requirements in the market which makes it difficult for ports to get a clear picture of industry needs while developers need clarity on consent, grid and revenue before they can reach a Final Investment Decision, meaning contracts are concluded late in the process and very close to delivery date. If the sector waits until projects can individually contract with ports, ports cannot be made ready in time for ScotWind delivery.

#### **4.7.3.**

Stage 1 involves an assessment of investment proposals taken forward by industry, the supply chain, enterprise agencies and other interested parties. The aim is to secure agreement on priorities and needs. Depending on the results of Stage 1, developers and stakeholders can choose to opt in to Stage 2.

#### **4.7.4.**

Stage 2 takes forward the findings of the SIM. Groups of developers will work alongside the public sector, ports and other relevant supply chain members to develop a full commercial business proposition around individual investment proposals. Proposals will be taken forward separately on a case-by-case basis.

#### **4.7.5.**

The SIM aims to create certainty and agreement between Scottish Government and offshore wind developers on investment priorities for offshore wind deployment and supply chain growth. This certainty would build confidence to support earlier investment, catalyse supply chain growth, and de-risk ScotWind project delivery.

#### **4.7.6.**

The SIM opened to applications on 11 May 2023 and the first-round application window closed on 2 June 2023. The application process for the SIM was relatively light touch and an application has been submitted on behalf of the Council.

### **4.8. Planning Applications**

A planning application for the A961 road realignment was submitted in November 2022 and approved by the Planning Committee on 31 May 2023.

### **4.9. Low Carbon Vacant and Derelict Land Investment Programme**

#### **4.9.1.**

The Scottish Government's Low Carbon Vacant and Derelict Land Investment Programme (VDLIP) offers funding to transform long-term vacant and derelict sites. It is open to applications from local councils and applicants can bid for grants from an available £15 million in 2024/25 as part of a two-stage application process. The deadline for Stage 1 applications is 23 June 2023.

#### **4.9.2.**

The only area of land in Orkney on the government register for vacant and derelict land and therefore eligible to bid into this fund is Lyness, for which 32 hectares are registered by government as being derelict land since pre-1980.

#### **4.9.3.**

It is felt that a bid to provide additional hardstanding/concrete laydown would fit with the scheme, noting that the overall ambition of the proposal would need to match the likely level of funding available. Initial work indicates that investing £6 million in improving lay down facilities at Lyness would be desirable. While the fund can provide up to 100% funding, there are very few instances of more than £2 million being awarded to any single project, so it may be necessary to tailor the ambition of the bid to maximise potential for success.

#### **4.9.4.**

Limited detail is required for a stage 1 application, and it is intended to submit a stage 2 application should the stage 1 application be successful.

## **5. Procurement**

### **5.1.**

A number of procurement documents have been prepared on the assumption that the Council will be the project developer for the Scapa Deep Water Quay.

- Scapa Deep Water Quay Procurement Plan.
- Commodity Procurement Strategy.
- ECI Appendix 1 to Scottish Procurement Document.
- OIC Proposed Evaluation Team.

## **5.2.**

At the inaugural meeting with Harper Macleod on 12 May 2023 the advisers suggested that the Council could consider additional options to deliver the deep-water quay facility. Up to that point officers had been preparing to procure a design and build contract for the facility. However, the advisers have noted that this may require the Council to commit to a construction contract before having a guaranteed end user for the facilities. Harper Macleod identified that partnering with the private sector might provide an attractive additional option to deliver the project that would mitigate some of the risks associated with the Council choosing the design and build route.

## **5.3.**

Harper Macleod suggested a number of potential additional procurement options, including “income strip” finance and “Build Operate Transfer” (“BoT”) type structures. These would involve the Council identifying a suitable development partner, potentially leading to the formation of a joint venture between the Council and that partner.

## **5.4.**

The principal benefits of this approach would be the sharing of risk through the development partner assessing the project on a commercial basis and investing capital funds in the project, along with the ability to attract a marine contractor with experience of delivery of major construction projects and the management capacity to do so. The potential additional delivery model identified by Harper Macleod that appears to be most attractive to officers is a BoT type structure. This would involve the Council granting a long sub-lease to the Development Partner to design and construct and subsequently operate the Scapa Deep Water Quay, which on termination would see the facility revert fully to the Council’s ownership. The Development Partner may or may not be a joint venture between a developer and the Council.

## **5.5.**

A joint venture with the Council holding a 49% share would allow the Development Partner to take the lead in the procurement of the main construction contractor, which could potentially simplify the procurement process for the Council.

## **5.6.**

The principal disadvantage of a Development Partner approach would be the loss of overall control of the facility for a period of years and the sharing of revenue streams with the Development Partner including the likely requirement to provide them with a preferential proportion of the revenues from the quay for a period of years to provide them with a return on their capital invested. However, Harper Macleod have highlighted that the Development Partner Agreement and/or joint venture agreement could be negotiated to ensure that a certain level of control is retained by the Council, and that an appropriate level of income is received by the Council during the operational phase.

## **5.7.**

Early advice from Harper McLeod is that if the Council were to issue the contract notice solely on the basis of design and build and (due to affordability constraints) it subsequently became necessary for the Council to seek a development partner for the project, this is likely to amount to a substantial change to the procurement and require the process to be stopped and restarted. This may cause nervousness in the market about the Council's intentions for the project and would carry reputational risk for the Council. Accordingly, it is proposed that the draft procurement documentation be amended to include a defined requirement for pre-construction services (Stage 1), followed by two options at the construction stage (Stage 2).

## **5.8.**

At Stage 1, the Council would appoint a contractor to undertake a pre-agreed scope of pre-construction services (to include developing the design, progressing key statutory consents, and building up detailed construction costs) in return for payment of an identified fee. This work package would remain the same regardless of what option was selected by the Council at Stage 2. The Council's contractual commitments would be similar to those involved in appointing a consultant. The Council would not commit to proceeding to Stage 2/construction.

## **5.9.**

Stage 2 would permit the Council, at its sole discretion, to progress to construction either by:

- Appointing the Stage 1 contractor under an industry-standard Engineering and Construction Contract; or
- The Stage 1 contractor being appointed instead by the development partner (which may or may not be structured as a joint venture with the Council), with a view to the partner building and operating the facilities under a lease from the Council. If the development partner was structured as a joint venture, the Council's return during the operational phase would likely be participation in an agreed portion of profits. If not, the Council may seek fixed payments from the development partner during the operational phase under a concession agreement type structure.

## **5.10.**

Officers are continuing to work with Harper Macleod and the Council's technical advisers, Arch Henderson LLP, to finalise the procurement documentation with a view to settling on the options which best meet the Council's needs whilst retaining market confidence in the project. Every effort is being made to ensure that amending the draft documentation to include two stages as described above is done in a manner which has as little impact as possible on the overall timescale for delivery of the project, should the Council decide to progress the project.



## **6. Equalities Impact**

An Equality Impact Assessment will be undertaken as part of the Business Case/options appraisal to be prepared for the Council and submitted to Committee in due course.

## **7. Island Communities Impact**

An Island Communities Impact Assessment will be undertaken as part of the Business Case/options appraisal to be prepared for the Council and submitted to Committee in due course.

## **8. Environmental Implications**

### **8.1.**

The Orkney Harbours Masterplan was subject to a Strategic Environmental Assessment (SEA). Scapa Deep Water Quay and Orkney Logistics Base development proposals exceed the threshold in Schedule 2 of the Environmental Impact Assessment Regulations and so an Environmental Impact Assessment is required to accompany both planning applications. The Strategic Environmental Assessment underwent public consultation along with the Orkney Harbours Masterplan Phase 1, and the responses received were taken into account in a Post-Adoption Statement.

### **8.2.**

Environmental Impact Assessments ensure that Statutory Regulators think about the likely effects on the environment at the earliest possible time and aim to avoid, reduce or offset those effects.

### **8.3.**

Engagement with the Statutory Regulators (the Council as Planning Authority and Marine Scotland) through submission of screening and scoping opinions has already been undertaken to agree the scope and approach of the Environmental Impact Assessment Reports work to be undertaken. The technical studies will provide baseline details of the current environmental conditions and a technical assessment of potential impacts during the construction and operational phases of each development.

### **8.4.**

The Environmental Impact Assessment Reports will also identify where environmental enhancements and benefits can be delivered as part of the projects. These may be considered on and off site depending on feedback from the local community and statutory consultees. The Environmental Impact Assessment Reports will be completed taking on board comments received from the local community during the consultation process and are scheduled to be submitted to Development Management and Marine Scotland in June 2023 for the Orkney Logistics Base and July for Scapa Deep Water Quay.

## **9. Links to Council Plan**

### **9.1.**

The project proposals referred to in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Developing our Infrastructure.

### **9.2.**

The proposals in this report relate directly to Priority 14 – Supporting Economic Growth through Harbours Infrastructure (ensuring major harbours infrastructure is designed and developed to support economic growth and community benefits across Orkney with a focus on projects as set out and agreed in the Harbours Master Plan).

## **10. Links to Local Outcomes Improvement Plan**

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priority of Sustainable Development, particularly measurable progress towards Orkney's target of net zero emissions by 2030.

## **11. Financial Implications**

### **11.1.**

On 22 June 2021, the Policy and Resources Committee recommended approval of funding required to carry out further studies, investigations and preparing all the necessary documentation required for Stage 2 Capital Project Appraisals (CPA), as follows:

- Proposed Scapa Deep Water Quay – £2,628,675.
- Hatston Pier – Proposed Extension and Seabed Reclamation – £1,553,838.

### **11.2.**

The costs detailed above are funded from previously accumulated surplus balances on the Miscellaneous Pier and Harbours Account.

### **11.3.**

As at 31 March 2023, a total of £2,747,945 has been spent on the work to develop the Stage 2 CPAs, as follows:

- Proposed Scapa Deep Water Quay – £1,592,087.
- Hatston Pier – Proposed Extension and Seabed Reclamation – £1,155,858.

### **11.4.**

There is remaining approved budget of £1,434,568 available in financial year 2023/24.

## **11.5.**

Building the funding stack for the capital investment required to deliver projects of the scale of the Harbours Masterplan is a significant undertaking. The SIM and FLOWMIS applications present real funding opportunities while the Harper Macleod suggestion of exploring the opportunity to bring in a development partner with investment capital appears to be an option that has merit and can also be tested through the SIM model.

## **11.6.**

The Islands Deal project of a Future Fuels Hub providing a storage and distribution facility for low and zero carbon fuels, and a production plant for ammonia, and potentially hydrogen in the longer term, is proposed to be located at the Scapa Deep Water Quay. With £6.5m of (Scottish Government) Islands Deal funding attached to the future fuel hub the appetite for a commercial developer to take forward that project could also be explored in the SIM model.

## **12. Legal Aspects**

### **12.1.**

There are no legal implications arising directly from the recommendations in this report.

### **12.2.**

Under Section 50A(4) of the Local Government (Scotland) Act 1973, the public should be excluded from the meeting in respect of any discussion relating to Appendix 3 to this report. Appendix 3 contains exempt information as defined in paragraphs 6, 8 and 9 of Part 1 of Schedule 7A of the Act.

## **13. Contact Officers**

Oliver Reid, Chief Executive, Email [oliver.reid@orkney.gov.uk](mailto:oliver.reid@orkney.gov.uk)

Gareth Waterson, Corporate Director for Enterprise and Sustainable Regeneration  
Email [gareth.waterson@orkney.gov.uk](mailto:gareth.waterson@orkney.gov.uk)

## **14. Appendices**

Appendix 1: Indicative project timeline

Appendix 2: Scapa Flow locations chart.

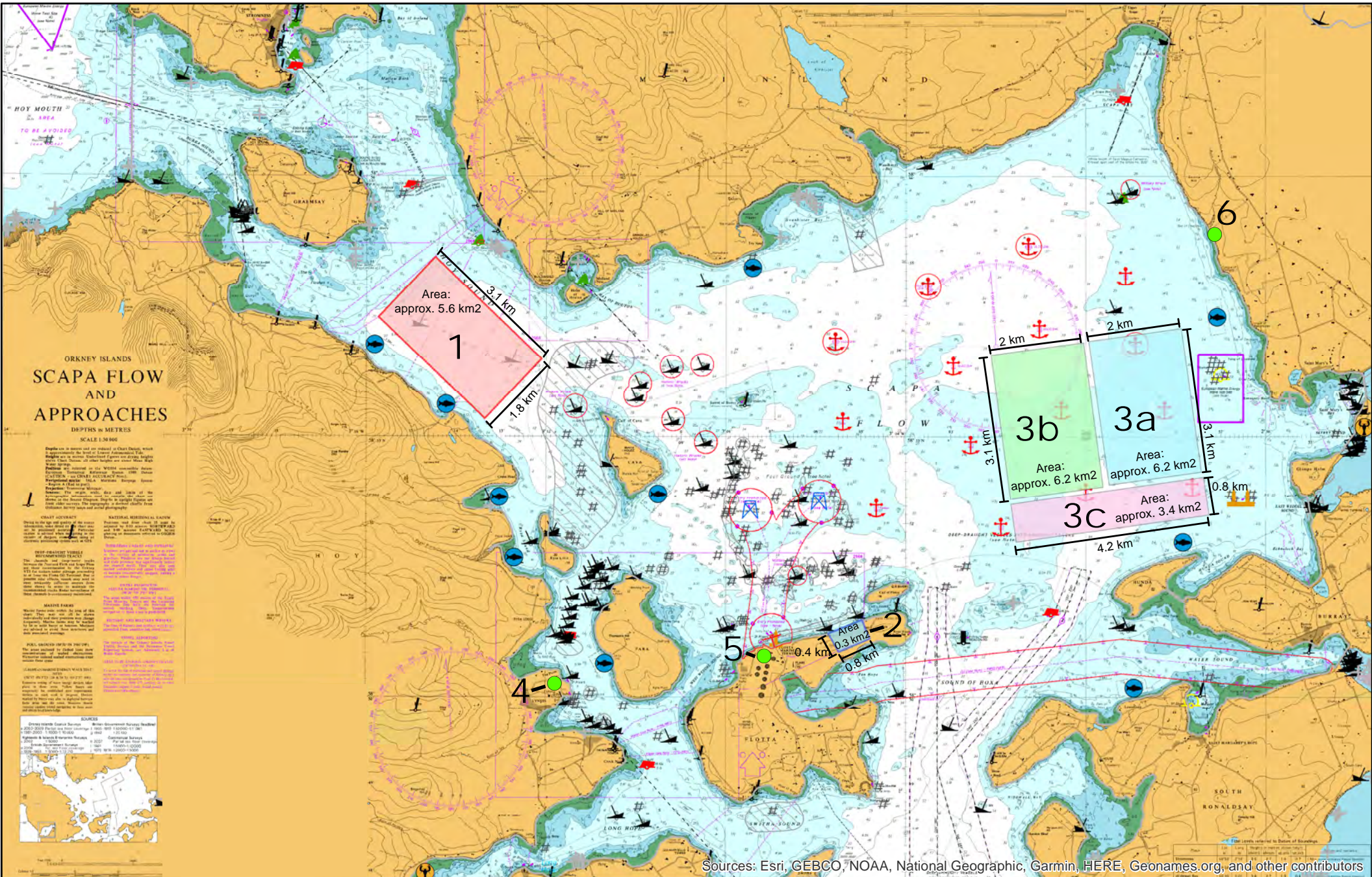
Appendix 3: Activity Update.

## Project Plan

Task Name	Duration	Start	Finish
OIC SPD Approval(s)	15 days	Mon 01/05/23	Fri 19/05/23
Release of SPD to Market	25 days	Mon 22/05/23	Fri 23/06/23
SPD Return	0 days	Fri 23/06/23	Fri 23/06/23
SPD Evaluation	15 days	Mon 26/06/23	Fri 14/07/23
ITPD Preparatory Works	85 days	Mon 03/04/23	Fri 28/07/23
OIC Procurement Sign Off	30 days	Mon 01/05/23	Fri 09/06/23
ITPD Release	0 days	Mon 31/07/23	Mon 31/07/23
ITPD Stage 1 (Competitive Dialogue)	65 days	Mon 31/07/23	Fri 27/10/23
ITPD Stage 1 Evaluation	25 days	Mon 30/10/23	Fri 01/12/23
ECI	85 days?	Mon 04/12/23	Fri 29/03/24
ECI Stage	85 days?	Mon 04/12/23	Fri 29/03/24
OIC Governance/ Meetings	286 days	Mon 02/01/23	Mon 05/02/24
OIC Decision for Project to Proceed	0 days	Mon 05/02/24	Mon 05/02/24
EIA, PLANNING AND CONSENTS	348 days	Mon 03/10/22	Wed 31/01/24
SDWQ: Produce EIA Information for Planning/Consent Applications	151 days	Mon 03/10/22	Mon 01/05/23
SDWQ Design Freeze	0 days	Fri 04/11/22	Fri 04/11/22
PAC Event	0 days	Wed 08/02/23	Wed 08/02/23
SDWQ: Submit DRAFT EIA to OIC (no Chapter 5)	0 days	Fri 12/05/23	Fri 12/05/23
SDWQ EIAR Initial Review Period	16 days	Fri 12/05/23	Fri 02/06/23
SDWQ Full EIAR Submission	0 days	Wed 31/05/23	Wed 31/05/23
SDWQ Full Review Period	7 days	Wed 31/05/23	Thu 08/06/23
SDWQ: Submit EIA to OIC	0 days	Fri 30/06/23	Fri 30/06/23
SDWQ Submission to MS-LOT/ Planning	5 days	Mon 03/07/23	Fri 07/07/23
SDWQ: Consultation	240 days	Mon 31/10/22	Fri 29/09/23
SDWQ: Obtain EIA Approval	0 days	Fri 01/12/23	Fri 01/12/23
SDWQ: Obtain Planning and Marine Consents	109 days	Fri 01/09/23	Wed 31/01/24

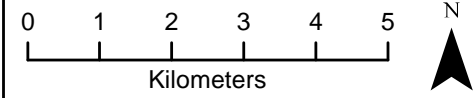


# Scapa Flow: Initial Draft Harbour Use (29th May 2023)



Sources: Esri, GEBCO, NOAA, National Geographic, Garmin, HERE, Geonames.org, and other contributors

- 1 Possible floating construction area
- 2 Possible Flotta deep water facility
- 3a Proposed floating wind turbine storage area
- 3b Reserve proposed floating wind turbine storage area
- 3c 2nd reserve floating wind turbine storage area
- 4 Lyness pier and shore side storage area
- 5 Flotta terminal
- 6 Proposed site for Scapa Deep Water Quay





All measurements are approximate and displayed in kilometers unless indicated otherwise. Map is for indicative purposes only and measurements should be taken where necessary.





## Key






### Aquaculture

-  Fish
-  Shellfish








### Anchor berths

-  Designated anchor berth
-  Designated STS anchor berth








### Administrative areas

-  Harbour area (administrative)
-  Restricted areas
-  EMEC wave energy lease site
-  Harbour facility, Mooring/Warping facility, Mooring buoy
-  Offshore platform




### Wrecks and obstructions

-  Obstruction, Foul area
-  Obstruction, Foul ground
-  Obstruction, Undefined
- # Obstruction, Foul area
- # Obstruction, Foul ground
- # Obstruction, Ground tackle
- # Obstruction, Snag or stump
- # Obstruction, Undefined
- + Obstruction, Underwater rock
-  Wreck, Dangerous wreck
-  Wreck, Other
-  Wreck, Non-dangerous wreck
-  Wreck, Undefined
-  Wreck, Wreck showing any portion of hull or superstructure
-  Wreck, Wreck showing mast/masts

### Beacons and buoys

-  Beacon, Isolated danger
-  Beacon, Special purpose/general
-  Buoy, Isolated danger
-  Buoy, Lateral, Port
-  Buoy, Lateral, Starboard
-  Buoy, Safe water
-  Buoy, Special purpose/general

### Navigation routes

-  Navigation line, Leading line
-  Route, Recommended, Track
-  Route, Fairway