

28 March 2022

Wards: Drypool / St Andrews and
Dockland

New Cruise Port: Next Steps Appointment of Preferred Partner
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Report of the Assistant Director Major Projects and Infrastructure

This item is not exempt
Therefore exempt reasons are not applicable

This is a key decision. The matter is in the Forward Plan
0019/22

1. Purpose of the Report and Summary

- 1.1 To seek approval to close dialogue with the prospective private sector partner, Associated British Ports (ABP), thereby accepting the terms set out at section 6 of this report and appoint ABP as Preferred Partner for the purpose of establishing and entering into a Public Private Partnership.
- 1.2 In summary the new cruise port will be a major transformative regeneration project for Hull delivering almost £87 million GVA to the region over fifteen years and generating more than 2800 jobs. The project would create a purpose-built cruise port to bring an estimated 30,000 cruise visitors per year directly into Hull's city centre waterfront and support objectives of the Local Plan and the Humber Estuary Plan. Capital cost are estimated at £72m (this being at 75% additionality and including optimism bias at £16m). The BCR currently = 1.23.
- 1.3 Capital costs include approx. £9m for installing shore side electricity capability, a state-of-the-art green infrastructure. Over the next five years, cruise vessels will undergo immense transformation as part of the industry's pursuit of sustainability. By 2027, Cruise Lines International Association reports that, there will be a 66% increase in ships with shoreside power connectivity. Furthermore, the North Sea is part of an existing emissions control area established under MARPOL Annex VI. This means there are strict rules applying for emissions of sulphur oxides and particulate matter for the prevention of pollution from ships.
- 1.4 A procurement via Competitive Dialogue commenced in April 2019 seeking interest for a private sector partner.

- 1.5 Following the first stage of dialogue Associated British Ports (ABP) became sole bidder. ABP derives its powers from legislation and as such is the Statutory and Competent Harbour Authority for the Humber with responsibility for ensuring the safety of marine operations within the ports and estuary. As Harbour Authority, the ABP Board of Directors delegates the roles of Harbour Authority to ABP Humber Estuary Services (HES). ABP's responsibilities also include the appointment of the Harbour Master, who is responsible for the day-to-day management and safety of all marine operations undertaken in the estuary. With such extensive statutory powers, experience and expertise ABP would make an ideal partner.
- 1.6 An expert engineering review of the existing cruise operation at King George Dock was conducted for the changes and costs required to allow for target market vessels in the future (vessels up to 275m in length). The works would have required widening the lock gates and undertaking additional dredging. The design solution involved very significant cost and complexity that were deemed uneconomic and impractical. In addition, there would be continuing risks and restrictions with locking in/out, and an increased risk of damage; specifically, in safely navigating a lock for the larger vessels.

2. Recommendations

- 2.1 That the Assistant Director Major Projects & Infrastructure is authorised to close dialogue and appoint Associated British Ports to the status of preferred partner for the operation of new cruise port infrastructure for the City of Hull.
- 2.2 That subject to all remaining outstanding and detailed terms being included in ABP's final tender and subsequently finalised and agreed to the satisfaction of the Assistant Director Major Projects and Infrastructure, in consultation with Director of Legal Services and Partnerships (Monitoring Officer) and the Director of Finance and Transformation (Section 151 Officer) and there being no material changes to the terms offered by ABP during dialogue, the Council enters into such agreements and ancillary documentation as may be necessary to formalise a joint venture/public-private partnership with ABP
- 2.3 That all other procurement and commercial matters related to capital funding and construction of the new cruise infrastructure be first referred to Cabinet for approval.
- 2.4 That as the land and building maintenance and security liabilities will not be transferred into the public private partnership, the Assistant Director Major Projects and Infrastructure is authorised to develop a management arrangement within existing resources of the Council using existing budgets prior to release of any capital funding for infrastructure works.

3. Reasons for Recommendations

- 3.1 Dialogue has been comprehensive, and the Council officer team which conducted the dialogue can confirm that ABP has responded satisfactorily to all requirements set out in the procurement documents.
- 3.2 During procurement Associated British Ports has developed a design (see Appendix 1), and business case for a new cruise port at Sammy's Point which meets all the requirements of the Council including Policy 35 of the Local Plan. Policy 35 sets out important conditions subject to support for a cruise terminal. The infrastructure should be in the form "of a floating pontoon and simply supported linkspan bridge adjacent to The Deep"
- 3.3 Policy 35 sets out conditions that the infrastructure "would not have a significant adverse direct and/or indirect impact during all phases of construction, operation and de-commissioning" on the integrity of the Humber Estuary, the intertidal habitats, vessel traffic, the amenities enjoyed by nearby residents, existing users, flood defences, heritage assets, air quality or highway congestion and safety.
- 3.4 During the extended procurement process the Council dialogued with ABP to ensure full compliance with Policy 35. In doing so ABP has drawn upon its considerable expertise and advised the Council on development of key elements of both design and the Environmental Impact Assessment (EIA). An extensive hydrodynamics study has been completed, navigations simulation studies and sound and vibration reports have been compiled as evidence of compliance. Key dredging studies, benthic and bird studies as well as motion and berthing studies and mooring analysis have been completed. A fire strategy and a vehicle geometric review has been carried out. A ship to shore power facility design is complete. All studies show no significant constraints to development.
- 3.5 The Council and ABP have consulted the cruise market on business viability and ABP has submitted a sustainable business case. Dialogue also considered the potential for other sites including the viability of using existing port land at Alexandra Dock and King George & Queen Elizabeth Dock as well as Albert and William Wright Docks.

4. Impact on other Executive Committees (including Area Committees)

- 4.1 The new cruise port will deliver improvements to the site, respecting the South Blockhouse as a scheduled ancient monument. The outcomes will contribute towards the delivery of the Visitor Destination strand of the City Plan as supported by local Members, and the Humber Estuary Plan.

5. Background

- 5.1 Work to develop a new cruise port followed on from Jura Consultants and the Yellowbook report for City Leadership Board on HMS Illustrious business case, Feb 2014. The Travelyields 'City Centre Cruise Terminal Feasibility Study' was completed in February 2015 and a Key Decision of Cabinet 29th June 2015 (Minute 15) gave approval to commence a procurement process and set out a requirement for certain matters to be referred back to Cabinet. A Travelyields 'Feasibility Review' was completed in 2018. A procurement via Competitive Dialogue commenced in April 2019 seeking interest for a private sector partner.
- 5.2 Following interest from only two bidders, Associated British Ports became the sole bidder (the second bidder having removed themselves from the process), submitting their Outline proposal in July 2019. Detailed Dialogue meetings took place during 2020/21 to refine the Heads of Terms based on acceptable risk allocations, agreed design and business case. Dialogue stalled during mid 2021 due to COVID 19 issues.

6. Issues for Consideration

- 6.1 Through dialogue ABP has agreed a design (Appendix 1) with the Council which incorporates a linkspan bridge to 3 floating pontoons (to future-proof for larger ships from the outset), ship to shore power, and a temporary terminal building. APB provided a security consultant's analysis to ensure the design conforms to the International Ship and Port Facility Security Code requirements.
- 6.2 The commercial terms agreed through Dialogue for constructing, managing and operating are fully set out in Exempt Appendix 2. In summary:
- 6.3 A) ABP would become the Harbour Authority and would apply to extend its jurisdiction to Sammy's Point through the Harbour Revision Order process.
- B) HCC would secure funding to construct the infrastructure and thereafter own the infrastructure. If required and called upon, ABP would make capital funding available to HCC under terms set out in dialogue. As owners the Council would be responsible for:
- I) Insuring the capital assets.
 - II) Capital replacement risk at Year 25.
 - III) Risk of funding clawback.
 - IV) Erection/removal and security of temporary terminal facility all year round.
- C) ABP would become a member of a Limited Liability Company (LLP) with the Council and would take full operational

responsibility and management of the cruise operation. The business case is based upon both transit and turnaround vessels from the outset for initially 10 to 15 calls per year, increasing to approx. 40 calls at Year 15. The average vessel size would be 217m, the typical number of passengers per vessel approx. 1,150. The number of passengers range from 500 to a maximum case scenario of 1,940 per vessel.

- D) Dredging cost over the 25 year business cycle will be shared between the Council and ABP.
- E) HCC would be responsible for infrastructure repairs and maintenance costs, which will be covered by a combination of extended construction and manufacturing warranties and latent defects insurance, the cost of which are built into the capital costs.
- F) A Public Private Partnership Joint Venture company would be set up between ABP and the Council to share responsibility for strategy and policies around health and safety, compliance and for the purpose of public liability.

7. Options and Risk Assessment

7.1 **Option 1: Do Nothing/Business As Usual (Not Recommended)**

This option would incur least risk and would be the least expensive for the Council, requiring no capital or internal resources. Consideration of a missed opportunity for significantly increased Hull and Yorkshire cruise tourism, and the associated social and economic benefits, is the trade-off for doing nothing. Cruise ship tourists who would stop in Hull and its Old Town would bring not only increased spending, but tremendous national, European and International recognition for the city and region. Ports in south, Liverpool in the west and Newcastle to the north would benefit from growth in the cruise sector, while Hull would not take advantage of this dynamic sector, which is continuously expanding its offer of products and services.

7.2 **Option 2: Decline the Associated British Ports offer and either proceed with Option 1 or commence a new procurement. (Not Recommended)**

Given the context of the constrained market the ABP offer is believed to be the best position achievable. Experience from a past Liverpool local authority procurement exercise showed that the market for operators is small and operators are highly risk averse. The Liverpool procurement failed to appoint a partner/operator which resulted in the authority itself developing a business case and taking all capital, resource, operational and revenue risks.

7.3 Option 3: Accept the Associated British Ports offer as proposed and appoint as Preferred Partner (Recommended)

This option has a number of benefits to the Council:

- A) Partnering with Associated British Ports, an experienced and competent cruise operator, the Council is more likely to realise the ambition for Hull and the Yorkshire region to become an internationally recognised tourist destination with cruising encouraging repeat visits.
- B) Whilst the Council are a long way from a funded position, having a Preferred Partner such as ABP with their continued interest and expertise during future planning processes, will give valuable impetus to the design, keeping the project commercially grounded and in a real 'off-the-shelf' delivery position. Such a position affords credibility with potential public and private funders.
- C) The infrastructure would belong to the Council and the Council would be able to schedule and take income/benefits on non-cruise days from events and tourism.
- D) There would be potential to collaborate with The Deep and The Deep Business Centre on the use of the infrastructure on non-cruise days.
- E) Cruising would become a new gateway to Yorkshire and contribute to significant long-term growth in the region's tourist economy

7.4 Risk Assessment

7.5 *Market.*

The risk of poor cruise market recovery post COVID 19 is low. The cruise market is showing increasing confidence for continued growth.

- 7.6 The risk of in-year unanticipated cost to the Council in relation to the infrastructure once constructed may be mitigated by revenue for increased activity in the city centre and business economy.

7.7 *Site constraint – the South Blockhouse*

The South Blockhouse is a scheduled ancient monument sitting within a parcel of land wholly owned by Hull City Council. Historic England has been consulted on plans designed to protect and enhance the site as a tourist attraction.

7.8 *Site constraints - The Deep leasehold*

The project site sits within a broader area of The Deep's leasehold. Negotiation with The Deep will be required. Consideration has been given to the impacts on The Deep during dialogue. The Deep will be

a key stakeholder although they have not expressed their support for the project.

7.9 *Victoria Dock*

The site is adjacent to the Victoria Dock housing estate. Consultation with residents will be undertaken as part of the planning processes and city-wide engagement activity.

8. Consultation

8.1 Early engagement for this project has included meetings with cruise market operators, cruise itinerary planners, cruise market experts, Key Stakeholders, Marine Management Organisation, the Planning Authority, Historic England, The Deep, HCAL, VHEY and Hull Civic Society.

8.2 Further engagement is planned to run alongside the planning processes with city-wide engagement arranged including with Victoria Dock residents.

9. Comments of the Monitoring Officer (Director of Legal Services and Partnerships)

9.1 As summarised in the report, the Council invited potential bidders for the operation of local cruise infrastructure using the competitive dialogue procedure in the Public Contracts Regulations 2015 (PCR2015). ABP's was the only response to proceed to completion of outline submissions and consequently has been the sole party in dialogue for almost all of the procedure. Whilst the outcome to date has been a satisfactory response to all of the questions posed by the procurement documentation, it is recommended that the dialogue stage is closed and status of preferred partner only is conferred upon ABP pending approval of a final tender and any negotiations required to achieve this. Therefore a formal contract will not be entered into at this point, but both parties are committed to the main terms in accordance with Regulation 30. Regulation 30(17) allows final tenders to be clarified, specified and optimised at the request of the Authority. The solution offered by ABP has to be considered as the best that the market can offer to the City, but the level of documentation submitted to reach dialogue close will now need to move into development of detailed terms, which may be negotiated in accordance with Regulation 30(20). In the event that there are any material changes such as could pose a risk to the transparency of the procurement, the procedure provides the flexibility to return to the dialogue stage to resolve this, rather than have to immediately abandon the process.
[CA]

10. Comments of the Section 151 Officer (Director of Finance and Transformation)

10.1 The Director of Finance & Transformation supports the proposal to close dialogue with, and appoint, Associated British Ports as Preferred Partner. Appointment of ABP will allow this project to be

taken forward to the next stage, based on the proposals as set out at 6.3. The costs that would fall on HCC as part of this development are set out at 6.3 (b), (e) & (f).

It should be noted that, whilst some indicative costs have been worked up as part of the dialogue, all the assumptions were pre-pandemic and it is possible that there are longer term implications that may need to be reflected in the final business case. In particular the level of material price inflation and availability as well as the costs of specialist labour may have changed the quanta of costs. The longer term revenue implications for HCC are thus not yet known with any degree of certainty.

The current capital programme allocations support the initial project development stages, however, significant external funding will be required to make the project deliverable.

11. Comments of Assistant Director of HR & OD and compliance with the Equality Duty

11.1 I am content that at this stage there are no HR or Equality issues raised by this decision. Equality and HR issues will be considered during all subsequent stages of the programme. KH

12. Comments of Overview and Scrutiny

12.1 The Forward Plan entry relating to this decision will be considered by the Overview and Scrutiny Management Committee (OSMC). OSMC will decide if the decision should be subject to pre-decision scrutiny, and if so, which commission should carry out that work. (Sc6706 – AS)

13. Comments of the Portfolio Holder for Land, Property and Assets; Economic Investment and Regeneration; Major Projects with Relevant Portfolio Holder; Tourism

13.1 I am delighted that the procurement process will secure Associated British Ports as the Council's Preferred Partner. The Council is very much looking forward to working with ABP who will play a vital role in shaping, developing and operating Hull's first dedicated cruise port. Together we will expand cruise tourism in Hull and the Yorkshire region, making it a sustainable and successful heritage and cultural cruise destination, creating new jobs and businesses.

Garry Taylor, Assistant Director for Major Projects and Infrastructure

Contact Officer: Susan Edwards Telephone No.: 01482 61(2566)

Officer Interests: None

Background Documents:

Appendix 1 Visualisations Exempt Appendix

Implications Matrix

This section must be completed and you must ensure that you have fully considered all potential implications

This matrix provides a simple check list for the things you need to have considered within your report

If there are no implications please state

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant Assistant Director	Yes
I have included any procurement/commercial issues/implications within the report	Yes
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	Yes
Any Health and Safety implications are included within the report	Yes
Any human rights implications are included within the report	Yes
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	Yes
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	Yes

I have included information about how this report contributes to the City Plan/ Area priorities within the report	Yes
I have considered the impact on air quality, carried out an appropriate assessment and included any resulting actions or opportunities necessary to improve air quality in the report.	Yes
I have considered the impact on Children Looked After and Care Leavers and any resulting actions/implications have been included within the report.	Yes