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## NORTH AYRSHIRE COUNCIL

17<sup>th</sup> February 2021

### North Ayrshire Council

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**Title:** Ardrossan Harbour Update

**Purpose:** To provide an update on progress with the redevelopment of Ardrossan Harbour.

**Recommendation:** That Council notes:

- a) Progress on the development of designs for the marine and landside infrastructure;
- b) The current projected budget position and business case for the Council's investment;
- c) Progress on funding and legal agreements;
- d) The review of the mainland port for the Arran and Kintyre services during the construction works; and
- e) The intention to engage with the Arran and mainland communities on the project.

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### 1. Executive Summary

- 1.1 This report provides an update on the redevelopment of the marine and landside infrastructure at Ardrossan Harbour.
- 1.2 Scottish Ministers confirmed Ardrossan as the mainland port for the Brodick and Campbeltown ferries in 2017. Subsequently, Transport Scotland concluded that to secure the long-term resilience of Ardrossan Harbour, a more comprehensive redevelopment of the harbour was required including the realignment of the Arran Berth.
- 1.3 A draft design for the landside works is nearing completion and following public engagement, the designs will be used to procure the works through a joint procurement exercise with Peel Ports Group. This will also require the conclusion of associated legal and funding agreements to protect the Council's investment in the project.
- 1.4 The current project programme indicates a construction period of two years from autumn 2022, with the new Glen Sannox vessel due to come into service in late 2022. While a long-term commitment to Ardrossan is in place, Transport Scotland are currently giving consideration to whether the service may operate from an alternative mainland port (Troon) during the construction period through consideration of issues including service reliability, cost, service and economic impacts.

- 1.5 The report provides an update on design, funding and legal agreements, the project programme and the intention to undertake public engagement on the proposals.

## **2. Background**

- 2.1 Previous reports have provided updates on the redevelopment of Ardrossan Harbour, with the project seeking to deliver improved marine and landside infrastructure and improved resilience on the Arran and Kintyre ferry routes. Officers continue to work with partners from the Ardrossan Harbour Task Force to develop the project and lead on the landside works.

### Design Development

- 2.2 In November 2019, a design team was appointed to prepare an exemplar design for the landside works. The design process which has since been undertaken has been informed by:
- An earlier review which confirmed the general layout of uses through a site Masterplan (confirmed that parking, marshalling space and the terminal building would continue generally in their existing locations);
  - Lessons learned in relation to the redevelopment of Brodick Ferry Terminal;
  - A Sponsor's Requirement Statement (SRS) prepared by Transport Scotland; and
  - Input from Ardrossan Harbour Task Force partner organisations.
- 2.3 The design process has been led by the Council and Peel Ports Group (PPG), as the harbour authority and landowner. It has been informed by input from key stakeholders including Transport Scotland (TS), Caledonian Maritime Assets Limited (CMAL) and CalMac Ferries Limited (CalMac). It has considered how the design can respond to operational requirements including the introduction into service of the new Glen Sannox vessel and the increasing passenger numbers on the route.
- 2.4 While the design of the marine works has been concluded, the development of the landside designs is yet to be completed. Substantial progress has however been made in reviewing the design to:
- Minimise the length of the Passenger Access System to maximise accessibility for passengers.
  - Confirm arrangements for the provision of the Liquified Natural Gas (LNG) facilities by CMAL including consultation with the Health and Safety Executive
  - Review the internal space within the terminal building to accommodate sufficient space for passenger queuing and waiting.
- 2.5 Appendix 1 includes a general layout drawing, which will be accompanied by additional detail and allow public engagement on the project.

## Budget and Funding

- 2.6 During the Save Our Ferry Campaign, the Council and PPG submitted a costed proposal for the improvement of the harbour, which was accepted by TS in April 2017. The subsequent decision by the Task Force in April 2019 to pursue a realignment of the Arran berth led to a review of project costs with the overall scheme increasing in cost from £15M to around £35M.
- 2.7 For the landside elements for which the Council will contribute financially and jointly procure with PPG, the January 2017 base case originally identified a project cost of £9.3M, with the most recent cost projections indicating an increase on this to over £11.6M. The issue of increased cost emerging through the landside design process and emerging from the decision to depart from the base case was raised with TS in early 2019. This led to a claim for the following additional costs:
- Additional landside works relating to the realignment of the Arran berth;
  - Construction cost inflation;
  - Additional contract management costs; and,
  - Officer and consultancy costs relating to the design process.
- 2.7 The costs were agreed in principle by Transport Scotland in early January 2020. An associated Grant Offer Letter (GOL) subsequently received in November 2020 and this is currently under review.
- 2.8 The business case for the Council's investment continues to be reviewed, with the most recent position reflected at 4.1. Current assumptions on cost and budget would allow the tender process to proceed.
- 2.9 That is however subject to resolution of the GOL with Transport Scotland and agreement in relation to the approach should projected costs be exceeded through tender returns. It is noted that a recent harbour redevelopment tender exercise in Scotland resulted in a single tender submission at a value substantially over budget. Despite several cost reduction exercises being undertaken, insufficient savings were identified to allow a contract award. This has resulted in the retender of the project with associated programme delays. Mitigation measures currently in place for such a risk in relation at Ardrossan include the ongoing review of budget estimates informed by independent advice, survey work to reduce contractors' risk allowances and ongoing liaison with the market to establish interest in tendering.

## Agreements

- 2.10 A range of legal agreements are being developed to confirm roles and responsibilities, to formalise governance arrangements and mitigate risk to the Council in relation to the project. Expert independent legal advice has been sought from Brodies LLP in relation to the funding agreements, procurement, leases and contract management. Progress with these agreements is summarised at 4.3.
- 2.11 Key in protecting the Council's investment in the project are the commitment by Transport Scotland to the retention of the Arran service operating from Ardrossan for a 25-year period, and the proposed lease of the terminal building to CMAL for a similar period.

### Operation of Service During Construction Period

- 2.12 It is envisaged that works will commence in autumn 2022 for a 21-month period. Within this, the Glen Sannox vessel which is currently under construction is due to commence service on the Arran route in late 2022.
- 2.13 Consideration has been given by the project steering group to the continuation of the Arran and Kintyre services during the construction works. This assessment is considering of the use of Ardrossan and an alternative mainland port (Troon), and of:
- Service resilience. It is projected by CalMac that operating from Ardrossan during the construction works would see an average winter cancellation rate of 20-25%. This is due to the service having to operate from the Irish berth, which is more exposed to the prevailing south westerly wind. The projected rate of cancellation assumes that one cancellation within a day would require all of that days sailings to be relocated;
  - Capital Cost, considering the capital cost investment required to support the operation of the service from Troon, and the provision of a temporary works package at Ardrossan;
  - Revenue Cost, considering the increased operating costs associated with a Troon service; and,
  - Economic Impact, which has identified that up to 100 jobs could be lost from within North Ayrshire, should the service be relocated from Ardrossan to Troon during the construction works. That would arise from the loss of spend in the Three Towns, a slight reduction in day trips to Arran given a longer journey time via rail, and the difficulty encountered by employees who currently access work on Arran from the Three Towns.

### Public Engagement and Next Steps

- 2.15 It should be noted that a Ministerial Task Force meeting is due to take place on 17<sup>th</sup> February 2021 and further updates may be available following this meeting.
- 2.16 The Scottish Government, as well as North Ayrshire Council, enter a 6-week purdah period in advance of the Scottish Parliamentary elections on 6<sup>th</sup> May. Ministerial approval to proceed with the project will therefore be required by late March to allow the programme referred to above to be met, i.e. a construction start in Autumn 2022. Significant progress of relevant funding and legal agreements will therefore be required at or immediately after the Ministerial Task Force Meeting to allow this, and otherwise further delay of around 3 months is likely to occur.
- 2.17 An information update was provided in December 2020 with input from Task Force partners to update communities and other interested parties on the progress of the overall project to date. This included updates on the progress of the Task Force, on the marine and landside works, on LNG and PAS facilities, and ferry timetabling and service continuity.
- 2.18 Further engagement on the draft designs for the marina and landside infrastructure will be undertaken once sufficient progress has been made on funding and legal agreements.

### 3. Proposals

3.1 It is proposed that Council notes:

- a) Progress on the development of designs for the marine and landside infrastructure;
- b) The current projected budget position and business case for the Council's investment;
- c) Progress on funding and legal agreements;
- d) The review of the mainland port for the Arran and Kintyre services during the construction works; and
- e) The intention to engage with the Arran and mainland communities on the project.

### 4. Implications/Socio-economic Duty

#### **Financial**

- 4.1 While costs are subject to the market response once the project is tendered, current cost projections for the landside infrastructure indicate a cost of up to £11.613M based on three separate cost estimates. Contributing sources of funding are outlined below:

Source	Value	Current Position
North Ayrshire Council	£3,650,000	Secured – formed part of the base case
North Ayrshire Venture Trust	£1,980,000	As above
Peel Ports Group	£2,196,000	Agreed in principle – formed part of the base case and subject to legal agreement with PPG
External Funding	£1,480,000	Secured through successful applications to Strathclyde Partnership for Transport's (SPT) and the ERDF
Transport Scotland	£390,000	Secured – Additional funding referred to at 2.6.
Transport Scotland	£1,067,000	Agreed in principle, subject to the terms of the TS and NAC funding agreement.
<b>Total</b>	<b>£10,763,000</b>	<b>(against projected cost of £11.613M)</b>

The commitment the Council made to the project in 2017 accepted a degree of risk in relation to the delivery of external funding support against the £9.3M cost projection. The risk of the Council having to cover any shortfall on the external funding projection contained within the base case scenario has been eliminated as outlined above.

In seeking to address the £0.85M projected cost overspend identified above, the following options will be considered:

- Additional survey work including in relation to asbestos, ground investigations, drainage and ground penetrating radar surveys. This will reduce the amount of risk the contractor prices within the project and potentially identify cost savings;
- Securing additional funding, with an application submitted to SPT's Capital Programme for additional funding towards the transport interchange element of the landside works; and
- Additional Council borrowing, with a degree of flexibility available based on income/borrowing assumptions

## **Human Resources**

### 4.2 None

## **Legal**

- 4.3 A range of legal agreements are being developed to confirm roles and responsibilities, formalise governance arrangements and deal with risk in relation to the project, and expert independent legal advice has been sought from Brodies LLP. The agreements will include:

Funding agreements. Negotiations with TS on the terms and conditions of the GOL are on-going. A simplified agreement was proposed by TS in late November and is being reviewed by Brodies. This cannot be concluded until further progress is made on negotiations on funding between TS and PPG.

Lease of land by NAC from AAHCL. Ardrossan Harbour Company Limited (AHCL) / PPG has secured a Harbour Revision Order from TS. This enables the lease of land at the Harbour to the Council and CMAL in excess of the previously permitted seven-year period. A lease is being developed between the Council and Ardrossan Harbour Company Limited / PPG for the extent of the landside works and for a 30-year period. This will be informed by the requirements of the GOL.

Lease of terminal building from NAC to CMAL. TS confirmed in August 2020 that CMAL would take on the lease of the terminal building, for a period equivalent to the Council's lease of land from AHCL. The building will be leased based upon a market rent, and this will enable the proposed investment by the Council and ability to service the borrowing repayment. The terms of the lease will be informed by the requirements of the AHCL lease, GOL and funding agreements.

**Procurement** – A procurement strategy identifying PPG as the lead for the procurement and construction phases of the project has been agreed between all parties. A Procurement Co-operation Agreement prepared by Brodies identifies the roles and responsibilities for all parties under this strategy. This is currently under review by PPG. A Construction Contract Agreement will also be prepared by Brodies. This will set out the responsibilities in terms of payments, risk and the management of contract variations for the construction phase.

Assurance is also being sought via TS that Ardrossan is formally confirmed as mainland terminal for Brodick and Campbeltown Services for a period of 25 years, removing any risk of the service being relocated. While that risk is low, the confirmation is required given the commercial nature of the investment. This assurance is critical to the project's delivery and negotiations are on-going to this end. These are currently being developed through the Appropriate Berthing and Direct Agreements between TS and PPG. Comparable assurances are being sought for the Council's investment.

### **Equality/Socio-economic**

- 4.4 The proposals will form part of a major capital investment programme in Ardrossan, with positive socio-economic impacts for the town. The design process has been informed by an Equality Impact Assessment.

### **Environmental and Sustainability**

- 4.5 Any environmental implications of the project will be addressed as part of the relevant regulatory processes. AHCL / PPG has secured Marine Scotland approval of the Harbour Modifications and dredging works.

### **Key Priorities**

- 4.6 The proposed investment will support the Council Plan outcomes of:
- We will provide well-maintained travel and transport networks, supporting alternative and sustainable transport; and
  - We will work with partners to make sure there is sustained investment in our roads, ports and harbour infrastructure to ensure that travel is resilient and reliable.

### **Community Wealth Building**

- 4.7 Local benefits in terms of employment and skills are being sought through the procurement process for the capital works. In addition, the proposed lease agreements illustrate how the use of land and commercial income can be used to secure investment for community benefit.

## **5. Consultation**

- 5.1 The design process to date has been informed by input from key stakeholders including TS, CMAL and CalMac. An information update was provided to local communities in December 2020 on the progress of the overall project to date. Wider stakeholder consultation is required and planned to allow a broader spectrum of interested parties to contribute to the design process and ensure that the final exemplar design meets users' needs and aspirations.

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For further information please contact **Alasdair Laurenson, Senior Manager, Growth and Investment Manager**, on **01294 324758**.

**Background Papers**  
N/A



## Appendix 1 – General Layout

