



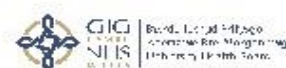
Swansea Bay City Region Joint Committee – 29 Oct 2019

## Pembroke Dock Marine Business Case

<b>Purpose:</b>	<p>To consider feedback from the Economic Strategy Board on the Pembroke Dock Marine project and approve the formal submission of the full five case business plan to the UK and Welsh Government for approval.</p> <p>To grant officers delegated powers to make any minor amendments necessary to obtain that approval.</p>
<b>Policy Framework:</b>	Swansea Bay City Deal
<b>Recommendation(s):</b>	<p>It is recommended that:</p> <ol style="list-style-type: none"> <li>1) The Joint Committee approve the formal submission of the Pembroke Dock Marine full five case business plan to the UK and Welsh Government for approval.</li> <li>2) The Joint Committee grant officers delegated powers to make any minor amendments necessary to obtain that approval.</li> </ol>
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### 1. Introduction

1.1 The Pembroke Dock Marine project is a key project within the £1.3bn Swansea Bay City Deal Programme. The project is seeking approval for £28m of Government Funds to deliver a £60.4m project. The project has



been approved by the Swansea Bay City Deal Programme Board on the 18<sup>th</sup> October 2019 and the Economic Strategy Board on the 8<sup>th</sup> October 2019 subject to resolution of the project funding package.

## 2. **Pembroke Dock Marine (PDM)**

2.1 The Pembroke Dock Marine (PDM) project comprises of four elements which will build on an existing energy cluster that has grown around the Pembroke Dock area, in order to develop a world class centre for blue economic development. PDM will act as a catalyst for what is a powerful suite of global markets, by offering unrivalled location, knowledge and expertise, supply chain and connectivity benefits. It will help to nurture developing technologies, most immediately acknowledging the real and immediate opportunity presented by the nascent marine energy sector, and minimises risk for investors in a fast-growing sector projected to be worth £76bn by 2050. The four elements are:

i) **Pembroke Dock Infrastructure (PDI) – delivered by the Port of Milford Haven.**

This element requires £21.55m from the City Deal and will use that to leverage a further £20m of public and private funding. The output will be the creation of an operational base in excess of 5.5ha suited to modern industrial needs - predominantly infrastructure, with some superstructure elements with a design life in excess of 80 years.

ii) **Marine Energy Engineering Centre of Excellence (MEECE) - delivered by ORE Catapult.**

This requires £4m from the City Deal that will leverage a further £7.2m of funding, made up from European, core Catapult funds and the academic sector. This will focus on creating a dedicated, long-term Catapult base onsite unlocking innovation by bringing together academia and business. The presence of a Catapult operation in the region provides a strong link into the UK's Industrial Strategy, and would be a key Pembrokeshire asset, attracting further funding into the county.

iii) **Marine Energy Test Area (META) – delivered by Marine Energy Wales.**

This is a £2.7m element requiring £783k of City Deal funding. All of the match funding has been secured, with the last £400k provided by WEFO under their Targeted Match Funding portfolio. This is a result of wanting to de-risk other technology development funding operations with WEFO totalling in excess of £45m who are either based in Pembroke Dock or are seeking to set up their operations here and use META. The output will be the creation of a range of pre-consented zones on the Waterway for testing of component and small scale devices.

iv) **Pembrokeshire Demonstration Zone (PDZ) – delivered by Wave Hub Limited.**

This will further develop the technology demonstration zone off the Pembrokeshire coast in readiness for testing wave and floating wind arrays. The scope of this element has always been subject to the results

of a feasibility study, which is now complete. By carrying out environmental consenting and detailed engineering design works, PDZ will remove many of the barriers that device developers normally face when trying to deploy their technologies. Working with MEECE, META and through enhanced infrastructure at Pembroke Dock, device developers can also share in the knowledge and experience developed by the whole sector, making their deployments in PDZ less risky, more reliable and, therefore, cheaper to finance.

### 3. The Business Case

- 3.1 As required by the HM Treasury Green Book Model, a full five case business plan for Pembroke Dock Marine has been developed for the City Deal funding. This comprises the following elements;
- i) **Strategic Case** - describes the status quo, case for change and expected outcomes. In doing so, it indicates the direction of travel and demonstrates project alignment with, and contribution to, key national, regional and local strategies/legislation, including the Well-being of Future Generations Act 2015.
  - ii) **Economic Case** - presents the economic rationale for developing the Pembroke Dock Marine, focusing on multi-sector job creation and Gross Value Added (GVA). This section also includes a detailed health outcomes appraisal and outlines how the project was determined.
  - iii) **Financial Case** - examines capital and revenue costs of the City Deal funding elements and their component parts, assumptions around space requirements and the projected occupancy and business needs over the 15 year period.
  - iv) **Commercial Case** - focuses on the competitive dialogue procurement exercise to identify development partner/s.
  - v) **Management Case** - sets out the governance structure in place to deliver the Pembroke Dock Marine.
- 3.2 The Joint Committee Agreement for the Swansea Bay City Deal which provides the legal framework for the Deal was unanimously approved by the four Councils of the region in summer 2018. The agreement stipulates that in order to release City Deal funding for projects a full five case business plan, based on the HM Treasury Green Book Model, must be submitted by the Joint Committee to the UK and Welsh Governments for formal review and approval.
- 3.3 The full five case business plan for Pembroke Dock Marine has been subject to a detailed review process by the UK and Welsh Governments. This has involved a series of question and answer exercises that have supported the development of the business plan to the required standard. The business case was considered at the Economic Strategy Board

meeting on 8<sup>th</sup> October 2019 and feedback from the meeting is attached for the Joint Committees consideration.

- 3.4 As a result it is recommended that the attached full five case business plan for Pembroke Dock Marine be submitted to UK and Welsh Government for formal review and that the Joint Committee grant officers delegated powers to make any minor amendments necessary to obtain that approval.

#### **4. Financial Implications**

- 4.1 Financial implications are detailed within the within the business case (Table 3.5 Main Business and Service Risks).
- 4.2 Currently Welsh and UK Government are providing grant funding over a 15 year term. Borrowing undertaken as a result of this funding profile will be the obligation of the Lead Authority with which responsibility is held for project delivery. It is the responsibility of the Lead Authority to ensure appropriate governance structures are in place for the payment of grant to third party providers.
- 4.3 Discussions have taken place in respect of the cashflow situation of the project, and the pressure of the interest payments. Options in terms of support in respect of the cashflow requirements are being considered elsewhere on the agenda today, which is aimed at assisting Pembrokeshire County Council with the financial pressures incurred in delivering the PDM project. These recommendations require formal approval by the Joint Committee on 29<sup>th</sup> October 2019.
- 4.4 European funding is attached to the project with a tight timescale imposed due to the political climate. This could be jeopardised if a resolution is not found in respect of the borrowing arrangements, potentially having a detrimental effect on the project.

#### **5. Legal Implications**

- 5.1 Project leads will be responsible for managing legal requirements associated with the project.
- 5.2 Any programme level legal requirements will be managed by the Accountable Body in accordance with the arrangements set out in the Joint Committee Agreement.
- 5.3 No City Deal monies will be released until a funding agreement is in place with the project lead.
- 5.4 Public Interest Test
- 5.4.1 Although the public interest would normally favour transparency and openness and the publication of reports, this is outweighed in this instance by the public interest in maintaining confidentiality because the

report includes the Business Case which is to be submitted to the UK and Welsh Governments for approval and contains indicative costs estimates, and disclosing those indicative costs estimates in advance of procuring a works contractor could prejudice the procurer's position

**Appendices:**

**Appendix A** Economic Strategy Board Report to Joint Committee

**Appendix B** Pembroke Dock Marine Five Case Business Plan

**Appendix C** Business Case Appendices

*Note: Appendices B & C are very large documents and are available via the following electronic link:*

<https://carmarthenshire.sharefile.eu/customlogin.aspx>

*Joint Committee Members have permissions to access the system. Follow link and then drill down as outlined below:*

**Shared Folders > City Deal > Project Leads > Pembroke Dock Marine > FBC\_V7.1**

*You may have to reset your password to view the documents.*

## Appendix A

### Economic Strategy Board Report to Joint Committee on Pembroke Dock Marine business case.



#### Background:

This report contains specific Economic Strategy Board (ESB) feedback on the Pembroke Dock Marine project. The ESB attended a tour of the onshore Pembroke Dock Marine site on the 26<sup>th</sup> February 2019 which was followed by a detailed discussion on the business case. In addition the ESB held individual sessions with the project lead for each project element followed by a collective session with the project group and Pembrokeshire County Council on 29<sup>th</sup> April 2019. This enabled the ESB to engage in focused discussions with project delivery and authority leads around the opportunities and concerns that the ESB has identified in relation to the project. The ESB, in their advisory capacity to the Joint Committee, is dedicated to offering further support and assistance in addressing these opportunities and concerns, drawing on their specialist knowledge and expertise to ensure maximum impact of the City Deal is realised. The ESB will monitor the progress and impact of the project and report as required to the Joint Committee.

#### Conclusion:

##### Fundamental Issues:

- Without resolution of the funding gap for the borrowing costs associated with the scheme the Pembroke Dock Marine business case cannot be progressed for approval by the Joint Committee and the UK and Welsh Government.

The Economic Strategy Board (ESB) is fully supportive of the ambitions of the Pembroke Dock Marine project and enthused by its transformational aspirations. The ESB feel there are clear synergies between project elements and that the project will diversify and enhance the existing skills base within the regions energy sector. The ESB are confident that the project offers considerable potential to deliver significant outcomes for the region and to support the growth of the marine energy sector. The ESB recognise the unique opportunity presented by the geographical location and existing skills and expertise in both the primary energy sector and local supply chains which the project seeks to capitalise on in order to future proof the regional economy and generate growth in this key regional sector.

The ESB concludes that the vast majority of concerns detailed in this report do not prevent or significantly impede the delivery of the project and is encouraged by the additional opportunities to work collectively to identify innovative solutions and further the positive impacts of the project. The ESB would encourage further work to improve academic links and legacy planning, particularly around the Pembrokeshire Demonstration Zone which they view as a key risk. The ESB also recommends that, should there be resolution of the funding gap for borrowing costs for the project, the Pembroke Dock Marine business case should only be progressed for approval by the Joint Committee and the UK and Welsh Government either with a formal lead partner and partnership agreement in place or with a caveat that a formal lead partner be identified and formal partnership agreement put in place before funding is released.

Ultimately however the ESB considers that the project cannot progress without agreement on how the funding for City Deal expenditure will be front loaded. The ESB is aware that there are ongoing discussions between the project delivery lead, project authority lead and the Region to identify a solution to the cash flow issue and are encouraged by this and support a local approach to reaching a resolution. The ESB understands that these discussions are yet to reach a conclusion and that therefore the funding package for the project is not fully confirmed at this point. As a

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result the ESB recommends to the Joint Committee that the business case should not be submitted for approval to both the UK and Welsh Government until this issue has been resolved and the full funding package for the project has been secured.

### Pembroke Dock Marine

#### Opportunities:

##### General:

- Clear synergy and cohesion between projects.
- Project elements could be delivered independently but each elements success is significantly accelerated and enhanced by bring them together.
- Delivered by the private sector.

##### META:

- Good project with clear potential to support development of regional industry.
- Strong links with all other elements of the PDM project.
- Opportunity to aspire to give standard certifications.

##### MEECE:

- Links with academia could be strengthened to help improve sustainability and legacy of the project. For example;
- There is opportunity to influence the curriculum within universities to enhance and develop a pipeline of learning and skills in the field i.e. developing “engineers of the future”.
- Direct sponsorship from universities into MEECE would improve proposals by enabling closer working relationships between device developers and academia and long-term sustainability.

##### Pembroke Dock Infrastructure (PDI):

- Identifying private sector partners would strengthen the current case.
- Ensuring cohesion and integration with other project elements will help to generate future demand for facilities.

#### Concerns:

##### Urgent:- The ESB recommendations that the following issues form part of the terms and conditions associated with release of funding to the project lead:

- Arrangement between partners is formalised, as intended, as a matter of urgency including detail on what happens if one party defaults in order to ensure sustainability and cohesion through project delivery.
- An overarching visionary lead for the project is identified and named to champion and guide the ambition and support coordinated delivery. As with the above point this presents a potential risk for silo working to occur.

##### General:

- Limited sustainability and legacy associated with the current proposals. These elements could be strengthened to ensure ongoing benefits to the region and sector.
- Need City Deal funding secured to hit WEFO delivery timescales.

##### MEECE:

- Lack of sustainability and clear, robust plan for delivery beyond four year WEFO project.
- Current proposal is inconsistent with best practice of successful Catapults in other areas where specialist innovative equipment is provided to small businesses creating a USP for the Catapult.

##### Pembroke Dock Infrastructure (PDI):

- Currently no proposals to provide fabrication facilities due to industry feedback however these facilities have been successful in other areas.

##### Pembrokeshire Demonstration Zone (PDZ):

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- Links to schools and colleges would significantly strengthen the proposals.

### Pembrokeshire Demonstration Zone (PDZ):

- Given the apparent interest from the private sector the proposal would benefit significantly for an agreement in principle (pending City Deal approval) with one / some of the main interested parties.
- Joint Venture for future licensing with PCC

- Lack of any physical facilities build or delivery of any concrete benefit.
- Consents may not be granted and therefore project cannot proceed.
- Lack of sustainability in current proposals.
- Limited job creation
- Dependent on future elements to enable developers to locate and grow in the area on a longer term basis