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Date: 8 September 2017

Dear Sir/Madam

You are invited to the following meeting:

Special Harbour Board
Boardroom, Port Administration Building, Sellaness
Thursday, 14 September 2017 at 2pm

Apologies for absence should be notified to Leisel Malcolmson, at the above number.

Yours faithfully

Executive Manager – Governance and Law

Chair: A Manson
Vice Chair: D Simpson

AGENDA

- (a) Hold circular calling the meeting as read.
 - (b) Apologies for absence, if any.
 - (c) Declarations of Interest - Members are asked to consider whether they have an interest to declare in relation to any item on the agenda for this meeting. Any Member making a declaration of interest should indicate whether it is a financial or non-financial interest and include some information on the nature of the interest. Advice may be sought from Officers prior to the meeting taking place.
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- 1. Business Justification Case – Purchase of Multratug 29
PH-12



Meeting(s):	Harbour Board	14 September 2017
Report Title:	Business Justification Case – Purchase of Multratug 29	
Reference Number:	PH-12-17F	
Author / Job Title:	John Smith, Acting Executive Manager – Ports & Harbours	

1.0 Decisions / Action required:

- 1.1 That the Harbour Board are asked to consider this report, and in particular the matters highlighted in section 4.6, in order to inform the Council's decision on exercising a purchase option for Multratug 29 within the bare boat charter contract for that vessel.

2.0 High Level Summary:

- 2.1 This report provides the Harbour Board with an opportunity to consider and comment on matters raised at the meeting of the Policy and Resources Committee on the 28th August 2017 relating to options to purchase Multratug 29.
- 2.2 The Harbour Board is asked to consider this development proposal within their remit of strategic oversight and direction of the operation of the Council's harbours to inform subsequent Council decisions.

3.0 Corporate Priorities and Joint Working:

- 3.1 'Our Plan 2016 to 2020' states;
- "We will have clarified the council's future role in the port of Sullom Voe, and, after having taken a robust business model approach, we will be seeing the best possible returns from our investments."

4.0 Key Issues:

- 4.1 On 29 June 2016 the Council approved a recommendation to
- "stabilise the short term towage fleet including arrangements for continuing the services provided by the two vessels which are now very close to their end of life"
- 4.2 The tug Multratug 29 was bare boat chartered on the 20th April 2017 following a competitive tendering exercise.
- 4.3 Multratug 29 was brought into service in May 2017 following a training and familiarisation programme with Towage staff, meets service specification and has demonstrated satisfactory performance, see Appendix 2 for further information.

- 4.4 After positive performance evaluation a Business Justification Case (see Appendix 1) was developed to examine whether, and if so when, it might be most advantageous for the Council to consider her purchase. The Bare Boat charter contract contained options for that at 6 months, 1 year, 2 years and 3 years from delivery and the Business Justification Case recommended exercising the 6-month option.
- 4.5 At a meeting on the 28th August 2017 the Policy and Resources Committee considered a report presenting the Business Justification Case and that recommendation. The Policy and Resources committee deferred that decision for further consideration and comment by the Harbour Board, which this report provides the opportunity to do.
- 4.6 Attention of the Harbour Board is particularly drawn to consideration of;
- Whether the Harbour Board has had sufficient opportunity to provide strategic oversight and direction in this aspect of the operation of the Council's harbour undertaking, consider this proposal and make observations to the Council.
 - Whether it has been demonstrated that Multratug 29 meets the Council's technical performance requirements adequately to be considered for purchase to the satisfaction of the Harbour Board.
 - Whether the proposal to buy Multratug 29 is satisfactory within the requirement for the Harbour Board to Act as Duty Holder as required by the Port Marine Safety Code, and ensure that the necessary management and operational mechanisms are in place to fulfil that function; most significantly in this case the requirement for tanker berthing's at the Port of Sullom Voe to be conducted utilising four suitable tugs.
 - Whether any risks associated with the purchase of a tug at this time are proportionate and can be managed satisfactorily in terms of any unresolved issues relating to the long term provision of towage services by the Council at the Port of Sullom Voe, when balanced against medium and long term cost and technical performance considerations.

5.0 Exempt and/or confidential information:

5.1 None

6.0 Implications:

6.1 Service Users, Patients and Communities:	The proposals described in this report will either enhance the quality and / or condition of the assets used by the Council in its delivery of services.
6.2 Human Resources and Organisational Development:	No implications arising directly from this report.

6.3 Equality, Diversity and Human Rights:	No implications arising directly from this report.
6.4 Legal:	Governance and Law provide advice and assistance on the full range of Council services, duties and functions including those included in this report.
6.5 Finance:	<p>Paragraph 7 of the Business Justification Case attached as Appendix 1 sets out the full details of the funding and affordability of the Tug purchase for the Council.</p> <p>The capital cost of the preferred option is £7.615m to be funded by external borrowing, and repaid through the fees and charges from the Harbour Account with no impact on the Council's financial sustainability.</p> <p>The estimated annual revenue repayments of £716k demonstrate a more cost-effective option to the current bare boat charter cost of £1.040m per year. All other revenue running costs are fully budgeted under the bare boat charter arrangement.</p>
6.6 Assets and Property:	The proposals described in this report will enhance the quality of the Council's existing asset base and improve the efficiency and cost of operation.
6.7 ICT and new technologies:	No implications arising directly from this report.
6.8 Environmental:	No implications arising directly from this report.
6.9 Risk Management:	<p>Failure to progress the most favourable financial arrangement will result in unnecessary additional expenditure in the future.</p> <p>The main risk transfer with purchase would be the ownership of a tug should Shetland Islands Council no longer require such a vessel. That would only likely to happen if the Council ceased to operate towage services at the Port of Sullom Voe. In that eventuality it would be expected that any contract for towage operations would include a requirement to purchase or charter the existing Tugs. No specific timetable has yet been set by the Council for the conclusion of a review of this area.</p> <p>The main risk mitigated by purchase would be certainty over the financial implications and technical characteristics of a long term component of the towage fleet. Should a re-procurement exercise be conducted it will require a repeat of procurement costs and unavoidably introduce an element of unpredictability in the price and technical suitability of the successful vessel tendered.</p>

6.10 Policy and Delegated Authority:	<p>Harbour Board</p> <p>Strategic oversight and direction in all aspects of the operation of the Council's harbour undertaking in accordance with overall Council policy and the requirements of the Port Marine Safety Code.</p> <p>Act as Duty Holder as required by the Port Marine Safety Code and ensure that the necessary management and operational mechanisms are in place to fulfil that function.</p> <p>Consider all development proposals and changes of service level within the harbour undertaking; including dues and charges, and make appropriate recommendations to the Council.</p> <p>Council</p> <p>Approval of the financial strategy and budget framework is a matter reserved for the Council.</p>	
6.11 Previously considered by:	Deferred by Policy & Resources – 28 th August 2017	

Contact Details:

John Smith, Acting Executive Manager – Ports & Harbours
jrsmith@shetland.gov.uk
7 September 2017

Appendices:

Appendix A – Business Justification Case – Multratug 29
Appendix B – Essential Requirements Verification – Multratug29

Background Documents: None

END



MultraTug 29:

Business Justification Case (BJC)

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1. Purpose
2. Strategic context
3. Case for change
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5. Preferred option
6. Procurement route
7. Funding and affordability
8. Management arrangements

Appendix A - Multratug 29 BJC

BUSINESS JUSTIFICATION CASE

1. Purpose

This Business Justification Case is to consider whether the financial case exists for purchase of the Tug – Multratug 29 on 25th October 2017 for £7,614,640.

2. Strategic Context

Shetland Islands Council – 29 June 2016 (full Council meeting).

44/16 Review of Strategic Options for the Ports of Sullom Voe - Progress & Next Steps

The Council considered a joint report by the Director of Infrastructure Services and the Acting Executive Manager – Ports and Harbours (PH-10-16-F) which described progress on the strategic review options for the future operation of the Port of Sullom Voe and proposals regarding further activity.

On the motion of Ms Manson, seconded by Mr Henderson, the Council approved the recommendation in the report.

“5.6 Stabilise the short term towage fleet including arrangements for continuing the services provided by the two vessels which are now very close to their end of life including their disposal and replacement. This should be based around a procurement exercise for bare boat charter to ensure medium term flexibility and should also allow for future purchase options to be included in the longer term should that become desirable.”

Decision:

The Council **RESOLVED**, having taken account of the views of Committees, to instruct the Director of Infrastructure, or her nominee, to progress the next steps set out in Section 5 within the report and report back to Council on their further findings

The Tug Multratug 29 was bare boat chartered on the 20th April 2017 following a competitive tendering exercise.

Shetland Islands Council – 8 March 2017 (full Council meeting)

24/17 Disposal of tugs Tirrick and Shalder

The Council considered a report by the Acting Executive Manager – Ports and Harbours that presented information relating to the disposal of the tugs Tirrick and Shalder.

The Acting Executive Manager – Ports and Harbours introduced the report.

Ms Manson advised that this report had been considered and approved by the Harbour Board and moved that the Council approve the recommendation contained in the report. Mr Robinson seconded.

Appendix A - Multratug 29 BJC

Decision:

The Council granted delegated authority to the Director of Infrastructure, or her nominee, to dispose of the tugs Tirrick and Shalder.

The tug Tirrick was sold to Greek buyers during June 2017 and has now left the Council fleet.

3. Case for Change

A. Business needs

The Port of Sullom Voe requires 4 tugs to perform all tanker berthings.

The fleet now comprises the Tystie, Dunter, Shalder and after sale of the Tirrick, Multratug 29, which is on bare boat charter for a period of three years.

That charter was designed with a series of purchase options built in to allow the Council to demonstrate satisfactory performance of the vessel before making any decision about buying.

Appendix 1 to this report sets out Multratug 29's compliance with our performance requirements which were demonstrated as part of the tendering and evaluation process.

Performance appraisal has also continued during the commissioning process since April 2017 which has been conducted between Ports and Harbours Management, Towage Staff and Marine Pilots with support from Multratug Training Masters and Engineers.

This report now provides an option appraisal of the financial implications between exercising one of those purchase options and continued charter.

B. Benefits

A full performance appraisal of the vessel has been undertaken and will continue to be updated as her time in service extends.

There have been no operational issues highlighted or suggestions that the vessel has not met our performance specification, rather that the vessel has in most cases exceeded both the specifications and expectations of sea staff.

As it has now been demonstrated that performance meets specification, the decision on whether or not to exercise a purchase option is primarily a financial consideration.

Appendix A - Multratug 29 BJC

C. Risks

The nature of Bare Boat charter already leaves the charterer with the responsibility for ongoing maintenance and repair of the vessel.

The only significant risk transfer with purchase would be the ownership of a tug should Shetland Islands Council no longer require such a vessel. That is only likely to happen if the Council ceased to operate towage services at the Port of Sullom Voe.

In that eventuality it would be expected that the contract for operations would include a requirement to purchase or charter the existing Tugs.

4. Available Options

In this appraisal there are two available options;

- 1) Continue the charter of Multratug 29 for the full three-year contract without purchase.

This would mean returning Multratug 29 at the end of the charter period. Assuming the Council was still undertaking towage operations at the Port of Sullom Voe, this would require a follow up procurement exercise. Indicative costs do not indicate that any significantly cheaper alternative purchase opportunity would be likely to be available at that time when purchase and re-procurement costs are taken into account.

- 2) Invoke one of the contract purchase options.

This would mean keeping Multratug 20 as a long term component of the Councils towage operation.

A financial appraisal for each of the contract purchase options is included below.

Daily Rate	£ 2,850	Charter Date	25/04/2017
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	Purchase Price	Charter Charge	Total Cost
Six months	£ 7,614,640	£ 521,550	£ 8,136,190
Year	£ 7,225,255	£ 1,040,250	£ 8,265,505
Two years	£ 7,095,460	£ 2,080,500	£ 9,175,960
Three Years	£ 6,965,665	£ 3,123,600	£ 10,089,265

Requirements for Notifications of Intent to Purchase and Purchase Option Dates

Days Notice	90	60	30	
	1st Notification	2nd Notification	3rd (and Firm) Notification	Date of Purchase

Appendix A - Multratug 29 BJC

Six months	22/07/2017	21/08/2017	20/09/2017	25/10/2017
Year	20/01/2018	19/02/2018	21/03/2018	25/04/2018
Two years	20/01/2019	19/02/2019	21/03/2019	25/04/2019
Three Years	21/01/2020	20/02/2020	21/03/2020	25/04/2020

5. Preferred Option

On the basis of the above, the financial analysis of the contract demonstrates that purchasing Multratug 29 after 6 months' operation on the 25th October 2017 for £7,614,640 is the most cost effective contractual situation. This is due to the purchase price being reduced by a lower value per day than the cost of the bare boat charter.

6. Procurement Route

This procurement would be within the scope of the existing Bare Boat charter with purchase options contract, which has been subject to full EU procurement processes.

To obtain Council approval for a firm 30-day notification before the 20th September for a purchase on the 25th October, reports will need to be taken to the August Cycle of Council meetings, after consideration by the Asset Investment Group.

60 and 90-day Intent to purchase will have to be notified in July and August to comply with the provisions of the contract, however these are not binding.

The 90-day intent letter which has been lodged on behalf of the Council is attached as Appendix 2 to this report.

Committee		Draft Reports	Cleared Reports	Meeting
Harbour Board		10-Aug-17	17-Aug-17	28-Aug-17
Policy and Resources		11-Aug-17	18-Aug-17	29-Aug-17
Council		14-Aug-17	21-Aug-17	30-Aug-17

7. Funding and Affordability

The proposed capital cost of the preferred option is £7,614,640.

In line with the Council's Medium Term Financial Plan and Borrowing Policy, the capital costs would be funded by external borrowing which would add to the Council's external debt.

Appendix A - Multratug 29 BJC

Interest rate forecasts suggest a higher rate of borrowing in the medium term (2 to 3 years), therefore it would be advantageous to borrow at the earliest six-month option.

The borrowing costs are estimated to be in the region of £716k per annum over a 20-year period which would be funded through the fees and charging structure within the Harbour Account and therefore not impact on the Council’s financial position.

The estimated borrowing costs of £716k per annum demonstrate a more cost effective option to the bare boat charter cost per annum of £1,040,250.

The Executive Manager – Ports and Harbours has estimated the residual value of the vessel at £2,000,000 based on a useful economic life of 20 years.

8. Management Arrangements

The suitability of the vessel will already have been established during the charter period and staff training completed as part of her integration into the fleet.

Change of ownership documentation and any associated registry updates will be completed as part of the purchase transaction and project managed by the Team Leader – Marine Engineering supported by the Councils Procurement, Finance and Legal services, the Councils shipbroker and specialist marine legal advisors as necessary.

John Smith
Acting Executive Manager – Ports & Harbours

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Appendix B - Essential Requirements – Multratug 29

Criteria	Essential Requirement	Fully Met	Cross Ref to Vessel Technical Specification	Verification
Main Dimensions				
Type:	<ul style="list-style-type: none"> Tractor or ASD type vessel 	Yes	Damen ASD 3212	Build specification alongside class and flag certificates
Age	<ul style="list-style-type: none"> ≤5 years 	Yes	Certificate of Registry	Build specification alongside class and flag certificates
Length	<ul style="list-style-type: none"> ≥27m ≤40m 	Yes	International Tonnage Certificate	Build specification alongside class and flag certificates
Gross tonnage	<ul style="list-style-type: none"> ≥350 ton ≤600 ton 	Yes	International Tonnage Certificate	Build specification alongside class and flag certificates
Freeboard	<ul style="list-style-type: none"> Commensurate with harbour limit operations; 30 knots wind, 2.5m swell with minimum water on deck 	Yes	She has an closed stern so minimum water on deck	Build specification alongside class and flag certificates. Open open water performance in Force 9 wind conditions verified as acceptable on delivery voyage.
Draught	<ul style="list-style-type: none"> ≥4m ≤6.5m 	Yes	International Tonnage Certificate	Build specification alongside class and flag certificates
Performance				
Min speed	<ul style="list-style-type: none"> ≥10 knots 	Yes	Specification Sheet	Verified on delivery with an average speed of 10.5-11.0 knots at economical speed
Endurance	<ul style="list-style-type: none"> Sufficient to reach range of mainland Scotland Dry Dock's – 4 days at economical speed 	Yes	Fuel use of 7m3 at economical speed. Fuel Tank capacity of 131.2m3	Max fuel confirmed as 131m3 24 hour economical speed trial: 7.4 m3 per day ≅ 308.3l/hr comparable with Tystie/Dunter class.

Appendix B - Essential Requirements – Multratug 29

Main propulsion machinery, auxiliary machinery and ancillary equipment	<ul style="list-style-type: none"> • Must be capable of being readily serviced and maintained by UK based service and part suppliers • Class UMS notation 	Yes	Damen UK	UK supplier verified
Propulsion	<ul style="list-style-type: none"> • Twin and independent propulsion. • If ASD, CP propellers 	Yes	Specification Sheet	Build specification alongside class and flag certificates
Bollard pull	<ul style="list-style-type: none"> • ≥55 tonne 	Yes	Bollard Pull Certificate	Class certificate in addition to winch readings
Main winch	<ul style="list-style-type: none"> • Appropriate to harbour operations for up to ULCC size vessels • Non-electrical drive 	Yes	Hydraulically Driven	Build specification
Class				
	<ul style="list-style-type: none"> • UK based Class surveyors 	Yes		Class transferred to BV UK. Contact: Owen Preece
Flag				
	<ul style="list-style-type: none"> • Owners to allow re-flag British Registry 	Yes		Vessel transferred to UK register
Wheelhouse equipment				
	<ul style="list-style-type: none"> • As Per Tonnage requirements • Area of Operation Near Coastal 	Yes	Unrestricted Navigation GMDSS Area A1+A2	Build specification alongside class and flag certificates
Design				

Appendix B - Essential Requirements – Multratug 29

	<ul style="list-style-type: none"> Proven standard design with good all round visibility from wheelhouse 	Yes		Build specification additional verification by sea staff during training and vessel operation at Sullom Voe
	<ul style="list-style-type: none"> If ASD latest keel configuration. 	Yes		Build specification
	<ul style="list-style-type: none"> Galley shuts off, in one location adjacent to galley 	Yes		Build specification alongside class and flag certificates
	<ul style="list-style-type: none"> Refrigerated cold store 	Yes	Portable Freezer(s) + Refrigerator(s)	Portable appliances provided
	<ul style="list-style-type: none"> Fully noise insulated ECR, if fitted 	Yes		Build specification alongside class and flag certificates. In addition, verified by in service operation
	<ul style="list-style-type: none"> Clearview panel in ER access door 	Yes	Will be fitted on delivery if flag state allows it. (free of charge).	Verified at vessel inspection and subsequent vessel operation in Sullom Voe
	<ul style="list-style-type: none"> Efficient heating in all areas 	Yes		Build specification as well as in service verification
	<ul style="list-style-type: none"> Shore power connection 	Yes		Auto shore power synchronisation fitted at pre contract dry dock
General:				
Accommodation	<ul style="list-style-type: none"> ≥500 GT in line with MLC 2006 <500 GT Berths for 6 person comprising 4 ensuite + Double Ships office 	Yes		Build specification alongside class and flag certificates
Delivery	<ul style="list-style-type: none"> Northern Europe 	Yes		Delivery voyage

Appendix B - Essential Requirements – Multratug 29

Oil pollution response	<ul style="list-style-type: none"> Dispersant deployment, handling and storage capability 	Yes	Will be fitted on delivery (free of charge).	Foam system as per build specification. Dispersant delivery system fitted during pre-contract dry dock
Other				
Documentation	<ul style="list-style-type: none"> All ships manuals and labels must to be in English All ships drawing to be in English All ships maintenance documentation to be in English Approved computer based maintenance system 	Yes	Currently only internal but will be changed to MARAD	Verified prior to delivery but additional verification during current vessel operations at Sullom Voe
MOB cradle	<ul style="list-style-type: none"> Approved design rescue cradle 	Yes		Build specification alongside class and flag certificates
Crane	<ul style="list-style-type: none"> 2 tonne capacity UK based service agents 	Yes		UK supplier verified
Deck Lighting	<ul style="list-style-type: none"> Suitable and sufficient illumination across working deck 	Yes		Verified during delivery voyage and subsequent vessel operations at Sullom Voe
Rescue Boat Davit	<ul style="list-style-type: none"> Self-slewing, lower and raise rescue davit 	Yes	Will be fitted on delivery (free of charge).	Installation delayed as awaiting Flag decision on exemption
ER Fire Suppression	<ul style="list-style-type: none"> Appropriate own vessel fire containment systems 	Yes		Build specification alongside class and flag certificates
Fire-fighting capability	<ul style="list-style-type: none"> 	Yes	FiFi1	Build specification alongside class and flag certificates
Life-saving appliances	<ul style="list-style-type: none"> UK based service agents for SOLAS approved: Breathing apparatus Immersion suits Liferafts (if not on hire) 	Yes		UK suppliers verified

Remarks:

In addition to the above, the vessel's visibility, handling characteristics, engine and equipment performance have all been subject to extensive testing during not only throughout the initial training programme initiated on the vessel's arrival at Sullom Voe but subsequently now that the vessel is in service.

There have been no operational issues highlighted or suggestions that the vessel has not met the specification outlined above but rather that the vessel has in most cases exceeded both the specifications and expectations of sea staff.

David Hopwood. CMarEng, CEng
Team Leader: Marine Engineering

Ends.....