

**Associated British Ports
Port of Southampton
Fifth Cruise Terminal
Full Business Case – MHCLG Funding**

Contents

1	Executive Summary.....	3
2	Strategic Case.....	4
3	Project Proposals	7
4	Economic Case	8
4.1	Options Considered.....	8
4.2	Methodology for CBA.....	9
4.3	Economic assumptions of additional calls	12
4.4	Investment costs and benefits	13
4.5	Cost Benefit Analysis.....	14
4.6	CBA Sensitivities.....	14
4.7	Solar Benefits	15
4.8	Methodology for Job Creation	16
4.9	Job Creation Figures.....	17
5	Financial Case.....	18
5.1	Project cost breakdown	18
5.2	Spend Profile.....	18
5.3	Revenue and Affordability Information	19
5.4	Funding Contribution	22
6	Management Case	23
6.1	Procurement route	23
6.2	Project Plan	23
6.3	Project Management.....	24
6.4	Internal Governance	24
6.5	Monitoring Performance	25
6.6	Statutory consents and legal agreements	26
7	Risk Management	27
7.1	Project Construction Risk.....	27
7.2	Project Finance Risks.....	28

1 Executive Summary

The Port of Southampton is one of the world's leading cruise ports and is a major economic generator in the Southampton and Solent region. The Port typically handles over 500 cruise ship calls a year and over 2 million passengers. The Port operates in a globally competitive marketplace and competes hard for ship calls with ports in Europe and around the world.

The cruise sector has been growing strongly for a number of years - both in terms of the number and, in particular, size of cruise ships operating. Southampton is the only port in the UK equipped to accept the new generation of large cruise ships (over 5,000 passengers).

The Port has been working to grow market share at the expense of other mainland European ports [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] The project to construct a new cruise terminal was signed off by the ABP Board in Summer 2019 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Whilst the [REDACTED] ship calls of [REDACTED] lines guarantee have a value to the wider UK economy of over £80million in the first year alone, the value to ABP of these [REDACTED]

[REDACTED]

There is very a high confidence level in the medium and long term future of cruise sector, notwithstanding the very real impact the current global pause of cruise is having on the city of Southampton and the wider economy.

The prospect of support from the government's *Getting Building* programme was sufficient for ABP [REDACTED]

[REDACTED] whilst the grant is being considered.

ABP is seeking funding of £8million in order to allow the fifth terminal [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]. If this funding is confirmed, the project [REDACTED]

[REDACTED], securing the benefits [REDACTED]

[REDACTED] for the Solent and wider area.

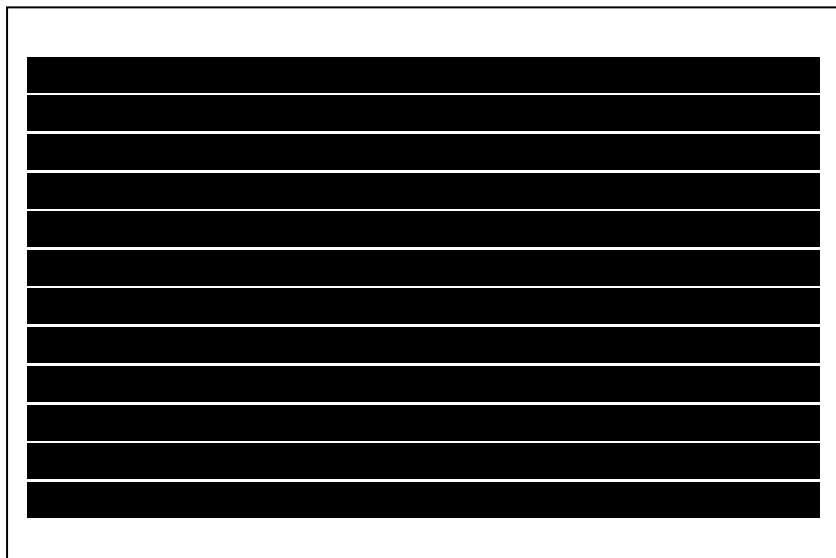
This report considers the economic benefits, affordability and management of the proposed terminal which is assessed to generate a BCR of 112 to 1 over the lifetime of the project and a BCR of 10:1 for the public funding element in the first year alone.

2 Strategic Case

The Port of Southampton is Europe's leading embarkation cruise port, typically welcoming around 2 million passengers per annum on 500 cruise calls.

The Port of Southampton operates in the global cruise market. Some 85% of UK cruise embarkations (Home Port Call) are through the Port of Southampton, facilitating in the order of 14,000 jobs in the Solent region. Each cruise vessel call is worth on average £2.7 million to the economy through passenger and line spend with more than half of these benefits estimated to stay in the Solent area¹.

No other UK port can handle the large cruise vessels and liners that call in Southampton. Cruise activity at Southampton mirrors that of the global cruise market. The long-term future for cruises in Southampton is positive. Southampton's geographical location means that it is ideally placed to take advantage of voyages to the Mediterranean and Baltic areas, as well as transatlantic cruises. Over the longer term to 2040, ABP forecasts that [REDACTED], sustaining existing employment numbers and generating growth in both employment and gross value added (GVA).



For the UK to secure this increased activity, additional terminal capacity is required to ensure that Southampton retains its place as a primary embarkation port as well as one that is increasingly attractive to [day] calling cruises.

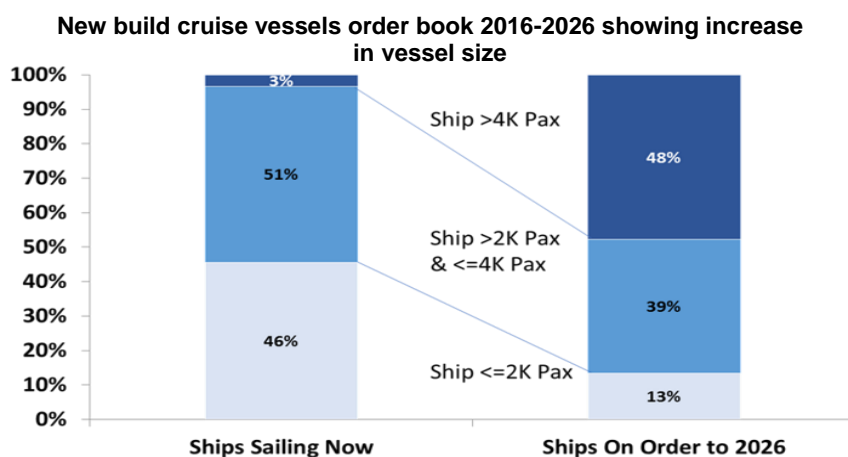
The Port must continue to innovate and provide world class infrastructure if we are to retain these global brands, the benefits to the local economy and the transition to zero emissions in the maritime economy.

In addition, the Cruise Lines International Association (CLIA), which represents 95% of the global cruise capacity, notes that 19 new build ships are due to enter service in the next few years². New builds show a shift towards larger vessels, which deliver higher yields and increase port infrastructure challenges. Globally, cruise travel makes up less than 3% of the

¹ Economic Significance of the Port of Southampton (2019) Deloitte and Ekosgen (Internal Report)

² CLIA 2019 State of the Cruise Industry Outlook <https://cruising.org/-/media/research-updates/research/state-of-the-cruise-industry.pdf>

holiday market. With c 25.3 million passengers sailing in 2017, compared to 15.8 million in 2007, supported by new vessel build investment of c.\$53bn to 2026, strong growth is expected to continue.



ABP wishes to capitalise on this increased demand, to grow passenger volumes and maintain both our strong UK market position and our Europe leading turnaround cruise status.

The development of a fifth cruise terminal enables Southampton to cater for new business from new larger ships and to secure and sustain existing cruise business which is at risk of moving to competing ports [redacted] if terminal capacity cannot be secured by lines for peak [weekend] periods.

Southampton has a strong record of delivering cruise infrastructure supporting industry growth. Recent investments in all four existing terminals with Royal Caribbean Cruise Line and Carnival Corporation include building Ocean Terminal in 2009; the redevelopment of City, QEII, Ocean and Mayflower Cruise Terminals completed in 2015, and the current redevelopment of Ocean for deployment of P&O Iona (2020).

The travel and tourism sector has been particularly hard hit by Covid-19. The cruise sector in particular which generates over £10 billion³ to the national economy each year has not yet announced when the full cruising programme will resume. Clearly the easing of restrictions throughout the whole of the travel and tourism sector is not yet confirmed and thus the situation remains fluid.

The Port has remained operational throughout the Covid-19 lockdown period and ABP has implemented appropriate working procedures and measures to keep staff and port users safe. ABP does not see any impediment to resuming full operational functionality when the cruise market resumes.

Working with the cruise lines, ABP has identified a number of key drivers that point to a strong recovery in 2021.

³ CLIA 2020

Table 1 Cruise Sector Recovery Drivers

Recovery Driver	Evidence
Pent-up Demand	A high proportion of 2020 cancellations have taken vouchers rather than refunds and rebooked for 2021. For example: [REDACTED] [REDACTED]
Strong Cruising Sentiment	CLIA Survey data on likelihood to return to cruising showed only a decline of just 1% from 80% in December 2019 to 79% in April 2020
Favourable Break Even Points	[REDACTED]
Positive Marketing	Lines are promoting positive marketing and putting in place measures to reassure passengers such as pre-boarding screening, free medical checks, re-configuration of air handling and tighter destination procedures.

86% of UK Home Port calls (embarkation and disembarkation) take place in Southampton. Southampton is the only UK port capable of handling the larger cruise vessels that will increasingly dominate the cruise market. We are confident that the market will return to passenger numbers seen in the past few years [REDACTED].

With the offer of a fifth cruise terminal, Southampton can safeguard the UK’s market position by delivering suitable capacity to lines that do not regularly call at present. This is a forward-looking decision based on belief in medium and long term prospects of the cruise industry. By taking this step, all major and medium sized cruise lines will see Southampton as the port of choice for years to come in a very important north European market, and with a fleet composition that continues to welcome larger vessels to the fleet.

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]. MHCLG

funding is imperative to release the economic benefits to the wider economy that are generated by this proposal. The shareholders and the ABP Board have agreed that construction to completion [REDACTED] if the funding is secured

If ABP is unable to secure funding the economic opportunity of £85M will be lost in year 1 alone.

NB Effects of shore power have not been included in this appraisal document

3 Project Proposals

This scheme will deliver a fifth cruise terminal in Southampton capable of supporting single large ship (c. 6,500 passengers) Home Port Calls (HPCs) or dual small/medium ship (c. 3,000 passengers) Port Calls (PCs).

The facility is scoped to deliver an agile, customer centric, handling capability for a wide range of current and planned cruise ships. The building will also be constructed with a solar installation that is designed to be a net contributor in terms of energy generated compared to predicted energy consumption.

A new cruise terminal (“the proposed development”) is proposed immediately adjacent to Berth 102 in the Western Docks. The Terminal will comprise of a high quality designed building that will provide an internal floorspace of approximately 8,900m² and with a height of approximately 10m above the surrounding ground level.

The proposed building will provide the operational requirements of a modern day cruise terminal, and will have the ability to accommodate the new generation of cruise vessels. The building will be served by a delivery area, and by access facilities for coaches and cars.

The access facilities include:

- Vehicle access routes to and from the Terminal building and associated facilities from Dock Gate 10;
- new and improved pedestrian and cycle access from Dock Gate 10;
- coach parking – to enable in the order of 60 coaches to park in close proximity to the terminal building;
- a passenger drop-off area located immediately adjacent to the terminal building; and
- 330 parking spaces for use by passengers located in close proximity to the terminal building – with charging facilities for electric vehicles.

4 Economic Case

The aim of this section is to demonstrate that the proposed investment in new cruise facilities delivers high value for money. We can demonstrate that the project is expected to deliver as least 112.6:1 benefit to costs ratio (BCR) in the considered scenario.

The analysis in this section has been conducted in accordance with the recommendations of HM Treasury Green Book on appraisal and evaluation.

4.1 Options Considered

In accordance with Green Book Guidance, options were considered at the preliminary stage by ABP in order to identify the preferred option. Subsequently, detailed societal cost benefit analysis (CBA) was undertaken for the preferred option.

A review of the future infrastructure required to accommodate the future demand for cruise travel identified the following long list of options:

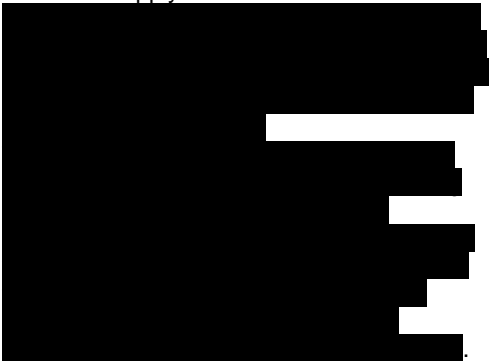
Option 1 – Business as usual or no action taken.

Option 2 - Consider intensifying the use of existing terminals on days when there is currently reduced demand, eg midweek.

Option 3 – Operation of a temporary terminal to facilitate demand

Option 4 – Construction of a new landmark terminal building that would enable increased numbers of cruise calls to Southampton.

Table 2 Long List of Options

Option	Advantages	Disadvantages
Option 1 – Business as usual or no action taken	None identified	No additional cruise activity. Loss of existing cruise customers as existing cruise lines with preferential berthing intensify use of weekend peak capacity. Consequence is loss of cruise activity to non UK ports.
Option 2 – Consider intensifying the use of existing terminals on days when there is currently reduced demand, eg midweek	This option would intensify the efficiency and throughput of an individual terminal and we continue to pursue this with calling cruises.	This option would lead to a loss of cruise activity and corresponding economic value within the supply chain. 
Option 3 - Operation of a temporary terminal to facilitate demand	Provides a short term solution for a small proportion of cruise calls that can physically be operated through a temporary facility if the cruise line will accept a lesser guest experience.	As cruise ships new builds are increasingly larger vessels, temporary terminals are not suitable for the majority of vessels resulting in vessel bookings being rejected. This situation has occurred with bookings from existing and new cruise lines. Even if cruise ships can be operated through a temporary terminal, they provide a lesser

Option	Advantages	Disadvantages
		guest experience and are not desired by cruise lines and guests. Cruise lines such as Saga, which can technically be operated through a temporary terminal, have rejected use of temporary terminals due to the lower guest experience. Consequence is loss of cruise activity to non UK ports.
Option 4 - Construction of a new landmark terminal building	Provides additional and dedicated berth and terminal capacity; increases ABP revenue and significantly enhances GVA to the city and region.	Capital Cost

Option 4 emerged as the preferred option as this is the option that would be most effective as accommodating increased demand and present the most attractive solution for cruise line customers.

4.2 Methodology for CBA

Social cost benefits analysis for the preferred option is presented below and is based on net present value of economic costs and benefits include investment and its multiplier effects, economic impacts that additional calls bring to the economy with multiplier effects.

The economic and environmental costs and benefits have been monetised, with their respective assumptions and detailed results presented below. The Net Present Value (NPV) of costs and benefits as well as Benefits to Costs Ratio (BCR) are calculated in and discounted to year 2020.

The total costs and benefits have been compared under the following two scenarios:

- **Baseline scenario:** Business as usual with no additional cruise passenger berths or facilities.
- **Option 4 scenario:** the construction and operation of a new terminal meaning that the Port will be able to attract around [REDACTED] per annum.

The impacts calculated within this social cost benefit analysis are relative to the Baseline scenario stated above.

Baseline scenario

Our Baseline scenario assumes no increase in the number of calls per annum.

[REDACTED] Whilst it may be possible for a small number of additional calls to be accommodated under the Baseline Scenario, all four existing cruise terminals are in use for the duration of the main cruise season which extends from March through to October. Thus additional call volumes have been discounted from further analysis.

New Cruise Terminal scenario

ABP expects the number of additional cruise ship calls in Southampton Port to follow the profile below.

Table 3 Base assessment case illustrating the predicted number of calls over the asset's lifetime

Year	Year	No. Additional Ships during year
1	2021	█
2	2022	█
3	2023	█
4	2024	█
5	2025	█
6	2026	█
7	2027	█
8	2028	█
9	2029	█
10	2030	█
11	2031	█
12	2032	█
13	2033	█
14	2034	█
15	2035	█
16	2036	█
17	2037	█
18	2038	█
19	2039	█
20	2040	█
21	2041	█
22	2042	█
23	2043	█
24	2044	█
25	2045	█

Assumptions

- The model is set up using real 2019 prices. Impacts are discounted at a rate of 3.5%, as recommended for social appraisal in the Green Book, and are discounted to the year 2020.
- The evaluation period is set to 25 years in operation to reflect the full life of assets, which is estimated to be between 25 and 30 years.
- The facility is assumed to be open for business in May 2021.
- The business case assumes that █ are signed up to operate from the terminal in 2021 if the terminal is completed for █ calls per annum █
█
█
- The split of Home Port Calls and Port of Calling or Calling Cruises is estimated to be 90/10. There are currently around 500 cruise calls at Southampton each year, 90% of which are Home Port Calls (HPC). The composition of calls between HPCs and “Port of Call” calls (PC) is assumed to stay constant. An HPC is where a ship will have a

high turnover of passengers, while also restocking supplies, whereas, a PC is a mid-journey stop.

- The average economic value generated by a cruise vessel is £2.7M. A HPC vessel is stated to be worth £3.0m to the economy and a PC vessel £1.5m⁴.

Interdependencies

There are no identified interdependencies associated with this project.

Additionality considerations

The following groups of actors are expected to be affected by the project:

- **The Ministry of Housing, Communities and Local Government (MHCLG)**, as the party providing £8M of funding.
- **Associated British Ports (ABP)**, as the party providing the remainder of funding requirement (£34M) and being responsible for annual maintenance costs.
- **Vessel owners/ operators**, as the parties who will be able to identify Southampton as part of their cruise itinerary.
- **Suppliers of infrastructure providers**, including construction sector, who will see an increase in demand for their services triggered by the activity of infrastructure providers.
- **The service-oriented economic sector of Solent area**, which would see an increase in its economic activity as a response to more passengers arriving to the region.
- **The Solent region**, the citizens of which will experience the economic effects of additional cruise activity.

Analysing these different groups of stakeholders and their potential intersections, the following additionality factors have been identified:

1. There have been a number of studies into the benefits of the cruise sector over time, which have also been used by the LEP in various source documents. The figure which is regularly referenced is the average £2.5 million benefit per call which originated in an Atkins 2011 report. We have recently commissioned an internal review (Deloitte / Ekosgen, 2019) which estimates this figure as being £2.7 million per call on average.
2. The Cruise Lines International Association (CLIA) has produced figures estimating the value of cruising to the UK economy (June 2020). With Southampton representing 86% of the home port call market, our data is consistent with that produced by CLIA. CLIA information highlighted that a 90 day shutdown in UK cruise activity has an economic loss of £888 million representing 5,525 jobs and £287 million in wages. Given Southampton's importance in the UK cruising market, much of this impact will be reflected in the Southampton and Solent area.

⁴ Economic Significance of the Port of Southampton (2019) Deloitte and Ekosgen. Internal Report for ABP



3. With the wider economic benefits felt within the regional area, there are significant opportunities as a result of this proposal to create employment and value in the supply chains of port services, general maritime services, marine engineering as well as the wider leisure and tourism sector.
4. The costs and benefits included in the analysis are considered to be part of the net impacts, as the effects correspond to different agent groups or are not compensated or double-counted. An example of the latter is the service-oriented economic sector of the Solent area that would enjoy benefits due to: higher economic activity during the construction period; higher economic activity if the Port hosts more cruise calls when the project becomes operational; and also as a part of the City of Southampton who will enjoy environmental benefits of the project.

As stated above, economic benefits comprise economic impacts of additional calls, additional employment and benefits associated with investment.

4.3 Economic assumptions of additional calls

The main scenario examined includes the assumption that an investment in additional terminal capacity results in additional calls from cruise ships. These calls include both HPC and PC, of which HPCs make up 90% of total calls and PCs account for 10% of calls according to ABP projections.

The economic benefit of these additional calls is calculated by applying Gross Value Added (GVA) economic multipliers to the number of additional calls to capture the benefits to local businesses or increased passenger footfall, and the resulting increase in demand. These economic multipliers were calculated on the basis of data on the economic significance of the Port of Southampton, which estimated the direct and secondary impacts of cruise ship calls separately for HPCs and PCs.

The HPC GVA multiplier is £3m per call, with 53% of this value estimated to stay in the Solent region. The PC GVA multiplier is £1.5m, with 51% of this value estimated to stay in the Solent region. These multipliers, and estimations of the percentage of the benefit of additional calls accruing to the local area, are based on estimations by Deloitte (2019)⁵.

⁵ Economic Significance of the Port of Southampton (2019) Deloitte and Ekosgen. Internal Report for ABP

Table 4 Economic impact assumptions

Assumption	Value	Source
Home Port Calls		
HPC share of calls	90%	ABP
HPC national GVA multiplier (per call)	£3 million	Deloitte (2019), ABP confidential
Benefit (GVA) accruing to local Solent region	53%	Deloitte (2019), ABP confidential
HPC FTE multiplier (FTEs/call)	60.26	Deloitte (2019), ABP confidential
Benefit (FTE) accruing to local Solent region	53%	Deloitte (2019), ABP confidential
Port Calls		
PC share of calls	10%	ABP
PC national GVA multiplier	£1.5 million	Deloitte (2019), ABP confidential
Benefit (GVA) accruing to local Solent region	51%	Deloitte (2019), ABP confidential
PC FTE multiplier (FTEs/call)	20.12	Deloitte (2019), ABP confidential
Benefit (FTE) accruing to local Solent region	43%	Deloitte (2019), ABP confidential

Upon delivery of the new cruise terminal project when the additional calls are realised, supplies for the cruise ship (e.g. food, equipment and general consumables) are available within the region for purchase by the cruise line. To account for supply chain effects that do not necessarily take place locally, our calculations assume that only a share of the economic benefits due to additional calls will stay in the Solent area, according to estimations by Deloitte⁶.

4.4 Investment costs and benefits

A total investment of £42.0M is assumed to be spent to open the terminal in time for the 2021 cruise season with a total spend of ██████ in the calendar year 2020 and ██████ in the calendar year of 2021.

Although these investment costs represent a fixed-price quote by suppliers, one of the sensitivities presented in section 4.6.4 considers a case where investment costs are 10% higher (lower bound for capital expenditure optimism bias adjustment for Equipment / development, according to the optimism bias guidance in the Green Book).

As this is a project that has already commenced but placed on hold because of Covid-19, ABP has undertaken on going dialogue with suppliers and contractors during the lockdown period and adjusted pricing and timeframes to reflect the present economic and employment conditions.

In the sensitivity analysis, we also explore the consequential benefit that this investment will have through the supply chains of the construction sector. The benefit of the investment to the local economy is calculated by calculating the GVA multiplier effect to the investment total. These benefits are a result of higher economic activity in the supply chain as a result of investment, including job creation.

To capture the impact on the Solent area only, these benefits have been adjusted to reflect the expected proportion of the economic benefits that would remain in the local economic area. In this sense, the calculations assume that 90% of the suppliers would come from the local/regional area.

⁶ Economic Significance of the Port of Southampton (2019) Deloitte and Ekosgen. Internal Report for ABP.

4.5 Cost Benefit Analysis

In this section we present the NPV of costs, benefits and benefit to cost ratios (BCRs) for the project. [REDACTED]

[REDACTED] cruise ships visiting Southampton in the first year of operation alone would result in £81.0m in GVA benefits to the UK economy assuming an average benefit of £2.7m per call, for a cost to the UK of £8M in funding.

Over the 25 year lifetime of the project the total GVA in benefits is £4,731M equating to a BCR of 112.6:1.

4.6 CBA Sensitivities

Having considered the main business case with [REDACTED] additional calls in year 1 and [REDACTED] calls per annum by 2031, this section considers how the benefits and BCR are affected by changes in some of the assumptions.

The GVA of the benefits and the BCRs for a range of scenarios are presented in the table below.

Table 4 Sensitivity analysis for CBA

No.	Scenario	Description	Total Project costs	G'ment Investment	GVA benefits	BCR Total Investment	BCR G'ment £8M Investment
1	Main case	Base case number of calls and adjustment of GVA benefits to £3.0M for HPCs and £1.5M per PC	£42.0m	£8.0m	£4,731m	112.6	591
2	Adjustment of HPC and PC GVA	[REDACTED] additional calls starting in 2021 with average GVA per call of £2.7m	£42.0m	£8.0m	£4,482m	106	560
3	Higher capital costs due to adverse prices	Investment / construction costs are 10% higher than expected; 30 additional calls starting in 2021 with £3.0M for HPCs and £1.5M per PC	£46.2m	£8.0m	£4,731m	102.4	591
4	Fewer calls than business model assumptions	[REDACTED] additional calls per annum between 2021 - 2024	£42.0m	£8.0m	£4,266m	101.6	533
5	Lower GVA per vessel call	Reduction in average benefits per call to £2.2M GVA	£42.0M	£8.0m	£4,356m	103.7	544
6	Fewer calls than main case and extension of	[REDACTED] additional calls per annum between 2021 - 2024 investment scenario	£42.0m	£8.0m	£5,346m	127.3	668

No.	Scenario	Description	Total Project costs	G'ment Investment	GVA benefits	BCR Total Investment	BCR G'ment £8M Investment
	building lifespan	Evaluation period is adjusted to 30 years					
7	Adjustment of HPC and PC GVA	Assumes main case number of calls and adjustment of GVA benefits to £2.0M for HPCs and £0.75M per PC	£42.0M	£8.0m	£3,112.5m	74.1	389
8	Adjustment of calls and GVA per call	■ additional calls per annum 2021 – 2024 and adjustment of GVA to £2.0M for HPCs and £0.75M per PC	£42.0M	£8.0m	£2,962.5m	70.5	370
9	Adjustment of GVA per call	Adjustment of GVA to £1.0M for HPCs and £0.4M per PC	£42.0M	£8.0m	£1,560.4m	37.2	195

Sensitivity analysis shows that in all scenarios considered the BCR is 37.2 to 1 or higher when considering total investment. This equates to a BCR of 195: when just the £8M government investment is taken into consideration.

This lowest case scenario assumes a significantly lower GVA per call of £1.0M per HPC and £0.4M per PC.

4.7 Solar Benefits

ABP is committed to extending our portfolio of solar generation projects on the Port estate. Currently around 20% of ABP electricity usage is generated by solar and our ambition is to increase this figure to >40% by end 2021.

The fifth terminal will be designed to accommodate a 850kW system on its roof structure generating nearly 700,000 kWh of electricity per annum. The terminal will use an estimated 200,000 kWh per annum which means that it will be a net generator of power for other port activities over the course of a year. This equates to a net saving of approximately 142,000kg of carbon (142tCO₂e) per annum.

The monetary damage avoided by not emitting a tonne of CO₂ is expressed through carbon price projections in £ per tonne of CO₂e published by BEIS⁷. Traded prices are applied to electricity consumption in those scenarios where the electricity emission factor differs from zero (electricity is sourced from the grid).

The value of carbon is applied using the information published in BEIS's Updated Short-term Traded Carbon Values Used for UK public policy appraisal⁸. The low value per tonne of carbon is £2.33; central case is £12.76 and the high case values carbon at £25.51. Thus the monetary value placed on carbon savings ranges from £330 – £3,622 per annum.

⁷ <https://www.gov.uk/government/publications/valuation-of-energy-use-and-greenhouse-gas-emissions-for-appraisal>

⁸ <https://www.gov.uk/government/collections/carbon-valuation--2>

4.8 Methodology for Job Creation

The local economic benefits that arise due to investment in a new cruise terminal include the creation of additional employment opportunities that would not exist under the Baseline scenario. These jobs include those jobs created *directly* as a result of investment, including construction jobs and maintenance jobs, and jobs created *indirectly*, due to the multiplier effect of the investment within the local economy.

Job creation has been estimated for each year separately and then averaged out and expressed as FTE per year for presentation purposes. Only jobs based in the Solent area are considered for this analysis. That is, the project will have a higher impact on employment, if this indicator is viewed on national scale.

Construction jobs

The number of construction full-time (FTE) jobs created is estimated for this business case according to the assumption stated in the Explanatory Note included in the Solent Prosperity Fund's *Technical Guidance: Large Projects and Programmes*⁹. The guidance states that projects should estimate that for every £1 million invested, this will result in 12.5 construction jobs (FTE).

Port (ABP) jobs

The number of direct jobs (FTE) related to the ongoing maintenance of the cruise terminal is estimated to be 5 FTEs per annum by ABP. This estimation is based on the information available at this stage and ABP's experience of operating existing cruise terminals at the Port.

Additional jobs that are an indirect result of the investment are calculated by applying a multiplier to the FTE maintenance jobs estimated to be created by the investment, according to the average port sector FTE multiplier of 2.66 for Solent area¹⁰. The resulting additional jobs are then adjusted to reflect the expected percentage that will remain within the area assuming again 90% of local jobs. This equates a total of 13 FTEs.

Additional employment

Additional calls will not only bring a higher economic activity to the Solent area, but also additional employment growth to support this activity.

Deloitte¹¹ calculated that around 13,000 FTEs are associated with cruise activity regionally rising to over 27,000 nationally based on 500 cruise calls and 1,800,000 passengers (DfT 2017 port throughput data) annually in Southampton. These figures are weighted by the dominance of Carnival UK cruise activity at the Port also noting the presence of its headquarters based in Southampton.

Assuming an increase of [REDACTED] passenger movements per annum associated with the development of a fifth cruise terminal; adopting the Deloitte methodology and discounting by 80% (to account for smaller HQ activity for other lines) indicates an increase of 1,244 FTEs or if discounted by 90% equates to an additional 622 FTEs regionally. A precautionary

⁹ <https://solentlep.org.uk/media/2724/spf-large-projects-tech-guidance.pdf>

¹⁰ The 2.66 Total Jobs multiplier is taken from figure 19 of "The economic role and contributions of the maritime sector in the Solent LEP area", a report for the Solent LEP and Maritime UK published in May 2018 by Cebr.

¹¹ Economic Significance of the Port of Southampton (2019) Deloitte and Ekosgen. Internal Report for ABP.

estimate of 622 FTEs which will comprise employment opportunities associated with the shipping line, marine services and the wider supply chain has been assumed.

4.9 Job Creation Figures

The project is expected to create the following number of jobs during the lifetime of the project:

- 525 construction FTE during 2020/2021;
- 13 direct and indirect port-related FTEs; and
- 622 FTEs due to additional calls from 2021 onwards.

5 Financial Case

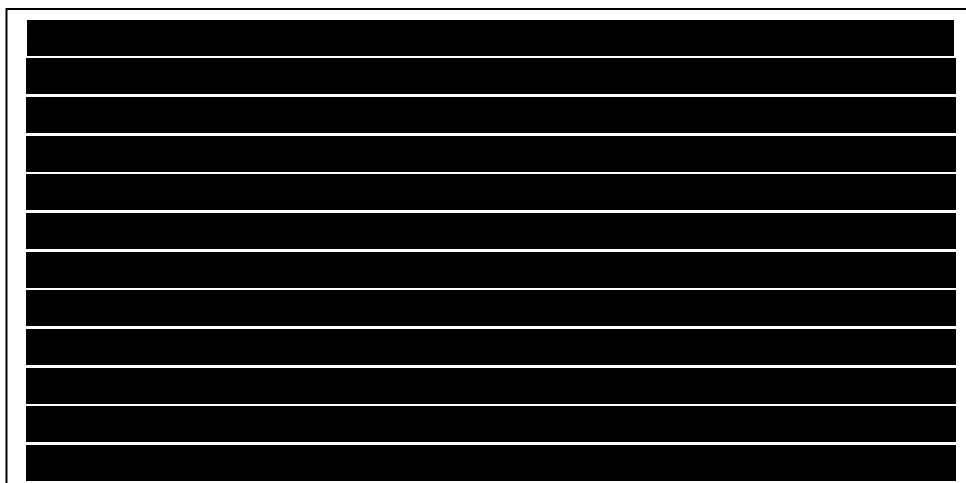
5.1 Project cost breakdown

The details of the project cost breakdown are presented below.

Month	Terminal construction (£)	Enabling Works (£)	Air bridges (£)	Third Party Suppliers (£)	Solar (£)	Others (£)	Total (£)
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]			[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]		[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]							
[REDACTED]							
[REDACTED]	[REDACTED]						[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

5.2 Spend Profile

The following is a cumulative spend profile for the project costs.



5.3 Revenue and Affordability Information

ABP has assessed the return from the project if additional customers are secured would be [REDACTED] if ABP was to fund in totality. ABP's internal hurdle rate is at least [REDACTED] and at this level, it has indicated that completion of the project would not proceed. With an £8M contribution, the project return rises to [REDACTED] - still well below ABP's internal hurdle rate - but given the strategic nature of the project, ABP has indicated that it would proceed with the project.

If funding is confirmed, ABP's shareholders have indicated their commitment to this proposal that will ensure the fifth cruise terminal is open for business in time to support cruise in 2021.

Table 5 refers to the project revenue assuming grant funding.

Table 6 refers to the project revenue assuming no grant funding.

Redacted Version

Table 5 Project revenue assuming grant funding

Table Redacted

Redacted Version

Table 6 Project revenue assuming no grant funding

Table Redacted

5.4 Funding Contribution

ABP has applied for funding contribution of £8M to enable the terminal to be open in time for the 2021 cruise season.

Table 7 Expenditure Profile by Calendar Year

	Year 2020 (£)	Year 2021 (£)	Total (£)
MHCLG Funding Required (Capital)	4,000,000	4,000,000	8,000,000
ABP Contribution (Capital)	██████████	██████████	██████████
Total (£)	██████████	██████████	42,000,000

Table 8 Expenditure Profile by Percentage

	Year 2020	Year 2021	Total
MHCLG Funding Required (Capital)	████	████	19%
ABP Contribution (Capital)	██████	██████	81%
Total %	██████	██████	100%
Total (£)	██████████	██████████	42,000,000

We suggest that the funding is drawn down from the LEP at the end of quarters 3, 4, 1 and 2 such that the total value does not exceed 19.05% of the total project cost or up to a maximum of £8M whichever is the lower.

6 Management Case

6.1 Procurement route

Public Procurement (Utilities Contract) Regulations 2016, also known as OJEU, apply to projects and activities relating to developments for the purpose of the provision of airports or maritime or inland ports or other terminal facilities to carriers by air, sea or inland waterway.

A competitive tender process has been undertaken throughout this process under the Public Procurement Regulations.

ABP's standard procedure is to tender the works on a design and build basis under the OJEU process. As this is a project that was paused following commencement because of Covid-19, ABP has maintained a dialogue with suppliers and sub-contractors during the lockdown period and adjusted pricing and timeframes to reflect the present economic and employment conditions.

[Redacted text block]

6.2 Project Plan

The key project milestones as a result of the adjusted programme as a result of the impact of Covid-19 is presented in the table below.

Table 9 Project Milestones

Project Milestones/ Key Stages	Start Date	Milestone / Completion Date
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

6.3 Project Management

Procurement Strategy

We have a dedicated group procurement strategy in place which covers all processes concerned with the planning, purchasing and managing ABP's supply chain portfolio which includes:

- Planning and specification of requirements
- Sourcing, tender evaluation and negotiation
- Contract formation, administration and management
- Requisition, purchase and receipt
- Payment to suppliers
- Stores and logistics management
- Contract performance management
- Supplier performance and risk management

Collectively these activities are known as Group Procurement function and they are directed by the office of our Chief Financial Officer which owns all policies, process and procedures relating to procurement activity across the ABP Group.

Project Team

We have considerable experience of managing and delivering large scale port infrastructure projects including other cruise terminals, capital dredging, container terminal quays, new warehousing and large-scale solar installations.

A dedicated Project Delivery Manager is assigned to manage specification and contractor supervision to ensure the project is delivered on time and on budget.

A Project Team Organogram is illustrated below.

Redacted

6.4 Internal Governance

ABP's Project Governance processes align with the Association of Project Management guidelines, whereby:

- A Project Sponsor will be identified from the outset (a Director or member of the senior management team) who will be accountable for the project achieving its intended objectives. For this project, the Project Sponsor is Port Director, Alastair Welch.
- A Project Manager will be assigned from the outset responsible for leading the project team. For this project, the Project Delivery Manager is [REDACTED].
- Minimum monthly updates are scheduled to review programme, cost control, quality, risk/issues and H&S.
- A clear change control procedure is in place.

All major capital projects within the ABP Group are subject to the company's project governance procedures which provide for:

- Planning, costing and scheduling expertise with, where appropriate, independent challenge from ABP's group resource.
- Structured sourcing and tendering.
- Contract management capability.
- Careful control of contractual correspondence.

ABP will work with the LEP to meet any necessary audit requirements.

6.5 Monitoring Performance

Performance of the scheme will be tracked through standard project management and governance processes during the construction phase. This process involves representation from the Head of Projects and Procurement.

The Project Delivery Manager produces a monthly report which is presented to the Project Steering Committee that covers the exact programme, risk and financial position each month. Any changes to scope, cost or project variations are discussed at this meeting and can only be undertaken if the Steering Committee agree.

The outcomes to track our monitoring framework and evaluation framework are presented in the tables below.

Table 10 Project Milestones, Monitoring Performance Indicators and Owners

Milestone / Desired outcome	Indicator	Anticipated timeframe	Named owner responsible
Award of Contract	Contract signing	Completed	ABP Project Sponsor
Re-commencement on Site	According to Programme	TBC by main contractor	ABP Project Manager
Programme	Progress on site measured against project delivery programme	Throughout project	ABP Project Manager
Budget	Progress measured against project delivery programme	Throughout project	ABP Project Manager
Go Live Data	According to Programme	[REDACTED]	ABP Project Manager
No. of calls	No. vessels per annum using facility	Annual basis	ABP
No. of passengers	No. passengers per annum using facility	Annual basis	ABP

Following completion by the main contractor, the terminal and its facilities will be tested to ensure compliance with positioning and pre-commissioning of all equipment including:

- Functioning of equipment / plant rooms.
- Mechanical installation of equipment.
- Site testing and pre-commissioning.

During operation, the scheme's success will be monitored and evaluation by:

- Number of vessels per annum using facility.
- Number of passengers using the facility per annum.

6.6 Statutory consents and legal agreements

The project will be delivered by virtue of general permitted development powers under Part 8 of Schedule 2 of The Town and Country Planning (General Permitted Development) (England) Order 2015 SI 2015/596.

7 Risk Management

7.1 Project Construction Risk

The main construction risks of the project are summarised in the table below and have been agreed by the Project Sponsor, Alastair Welch, Port Director.

Table 11 Project Risks, Likelihoods, Potential Impacts and Mitigation Measures

Risk	Likelihood	Potential Impact	Responsibility	Mitigation Measures
Delivery Schedule cannot be met	Low	Delay of installation; loss of business	ABP / Contractor	Scheduling of works; Project Meetings with the contractor to identify risks at an early stage.
Cost Increase	Low	Increased costs of installation	ABP / contractor	Fixed price tendering
Design Risk	Low	Unsuitable facility; Delay of installation and increased costs	ABP	Detailed preparation of specification; Design and Build contract Fixed price contract
Build Risk	Low	Delay and increased costs of installation	ABP / Contractor	Project Meetings with the contractor to identify risks at an early stage.
Environmental Risk during Construction	Low	Contamination and localised emissions during ground works	ABP / Contractor	Ground investigations; dust suppression measures, wheel washes, construction plant switched off when not in operation
Disruption to Port activities during construction	Low	Disruption to port operations	ABP / Contractor	Forward planning and engagement with port operational planning team
Service Risks	Low	Disruption to operations and capability	ABP	Regular maintenance, servicing
Performance / Volume Risk	Unknown	Underutilised facility due to effects of Covid 19 on cruise passenger confidence and take up of cruises	ABP	Fixed guarantees with cruise companies
Regulatory Risk	Low	Change in government policy	ABP	The proposal is wholly consistent with Government and local authority ambitions and plans
Contractual Risk	Low	Delay of installation and cost increase	ABP	Detailed preparation of specification; Design and Build contract
Delay in scheme delivery due to manufacturing supply chain delays and/or available personnel	Low	Delay to Terminal opening	ABP / Contractor	Daily dialogue with main contractor. [Suppliers have confirmed that accelerated programme can be achieved to operate facility in May 2021.]

7.2 Project Finance Risks

Cost overruns will be minimised by closely defined project specification informed by port engineering specialist knowledge and expertise. ABP has gone out to tender on a fixed cost basis and the risk of any cost overruns will be borne by the main contractor.

The main project risks and their impact on project finances is presented below.

Table 12 Project Finance Risks, Potential Impact and Mitigation

Risk	Likelihood	Potential Impact on Cost	Mitigation / Control Measures
Project costs are higher than previously estimated	Low	None	Detailed specification provided within tender documents. Contractor to bear cost overruns – fixed price tender
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Exchange rate fluctuations have a bearing on tender prices	Negligible	None	Fixed price contract
Increased costs during installation	Unknown	Unknown	Fixed price contract; Cost Control Manager; variance analysis; audit process; defined change approval process; alignment of contractual commitments with project costs and schedule
Changes to the design throughout project delivery	Low	Increase in costs	Change control to be implemented for all future potential changes from RIBA Stage 2 onwards. A design reserve will be included in the budget (in addition to a project contingency)
Construction period longer than anticipated (e.g. unforeseen challenges identified on site)	Low	No impact on cost but wider GVA benefits lost	Detailed Master Programme will be prepared setting out realistic and achievable timescales for the Project. Daily dialogue with main contractor
Cost estimates prove to be inaccurate	Low	Increase in costs	Professional cost consultants appointed to determine costs and risks. Costs will include a contingency and design reserve Risks to cost increases will be included in main Risk Register and subject to risk management procedures Fixed price tender