

Ports of Jersey

25 Year CAPEX Validation

Capita/Validus Presentation
October 2013

CAPITA SYMONDS

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LEADERSHIP + MANAGEMENT

Introduction

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Introduction

- Validate Harbours and Airport capex programmes for Shadow Board
- 2014-2038 [25 year forecasts received]
- Major capex i.e. £100k>
- No surprises
- Excludes commercialisation ('Defined Event')
- Review of forecasts, supporting data, interviews and application of consultant's expertise.
- *Note: We have assumed the demand at both the harbours and airport remain relatively static over the plan with no appreciable increase in the busy hour/day profiles.*

Intent

- Validation of Airport's and Harbour's proposed capital investment plan 2014-38.
- This Report is supplemental to an original validation exercise undertaken in 2011 and provides a review of the intended investments in summary terms. It remains subject to the terms and limitations of our Consultancy Contract, dated June 2011 and, in accordance with this, the States of Jersey may rely on this for the immediate programme of capital expenditure to 2019 but it must not be disclosed to, published, copied to, or relied upon by any other party.
- The Report does not, in any way, replace or represent an Engineer's or Surveyor's Detailed Asset Condition Survey, nor does it obviate the need for all usual Business Case Approvals or financial exercises and enquiries associated with the decision to invest in individual projects. It is assumed that proposed projects and investments will still require such Approval in accordance with the respective normal financial procedures of the Airport and Harbours.
- Expressions of opinion, assessments and forecasts are given in the context of our professional duty, but they do not represent and shall not be implied as representing guarantees or warranties of the subject matter thereof.

Context

Strategic Gateways

- *Important, publicly sensitive infrastructure and operation to be physically & financially safeguarded.*

Capex

- *Capex, by its nature at Harbours and Ports, is generally predictable:*
 - *Demand, and therefore required capacity, can be modelled,*
 - *Asset degradation can be monitored,*
 - *Regulations are mature.*

Harbours

- *After years of relatively low investment, aged harbour assets have benefitted from increased refurbishment and replacement capex— this programme continues.*
- *Demand is relatively stable with modest growth hence investment has been low.*

Airport

- *‘First generation’ airport requiring significant renewal capex on all long term assets – programme remains very significant.*
- *Demand has stabilised ($\pm 1\%$ p.a.) with ‘busy hour’ the dominant influence.*
- *Other influencing factors are CICZ and level of aero charges*

Scope

The Scope of Works for this re-validation exercise is as follows:

- *to validate the content and phasing of the revised capital programmes;*
- *to extend the previous validation work to cover the programme to 2038;*
- *optimise the phasing to obtain maximum benefit from economies-of-scale;*
- *to validate the cost estimate of all significant (>£100,000) capital items*
- *to summarize findings for the Shadow Board*

To determine adequacy, timing and cost levels satisfying the following criteria:

- *Safe unhindered operations in compliance with pertinent legislation, directives and other relevant legislation.*
- *Maintenance of both assets as strategic gateways for the island*
- *Operation of the Channel Islands Control Zone.*
- *Commercial viability.*

This Review relates to the following investment plans being:

- *Port of Jersey: SMT Harbour.xls received 04 Sept 13*
- *Jersey Airport: SMT Airport.xls received 09 Sept 13*

Approach

We have continued the following approach;

- *Prioritisation – priority of the driver and project*
 - *Safety*
 - *Regulatory compliance*
 - *Operational efficiency (single point of failure etc)*
 - *Demand capacity*
 - *Commercial return*
 - *Improvement*
- *Demand driven – traffic forecasts*
- *Linked and inter dependant projects*
- *Grouped by asset type*
- *Cyclical renewals – lifespan, insurance requirements, modern IT upgrades*

We have considered:

- *Individual locations and as a Harbours/Airport whole*
- *Unexpected failure – need for backup – some assets degrade some just break*

Important Note:

- *Values in this review are stated at current cost levels in £'000s therefore **un-inflated***

Harbours

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Harbours Capex Context

Factors

- *Strategic gateway*
- *Safety critical*
- *Basic technology*
- *Dispersed & varied asset & operation*
- *Legacy physically un-optimised*
- *Heritage assets*
- *Leisure facility*
- *In-town attraction*
- *Commercial pressure for land surrender*

Investment

- *Limited equipment renewal*
- *Generally not capex hungry*

Growth

- *Steady supported volume (population) & commercial craft growth - inherent capacity*
- *Leisure growth and improved standards*

Harbours Capex Factors

Safety Critical projects are underway

- *Ro-Ro ramps and regular harbour structural repairs*
- *St Helier & Albert remedials*

Regulatory Compliance (& good practice)

- *Some security improvements*

Operational Continuity

- *Cyclical renewal – obsolescence, maintenance reduction, single point failure enhanced risk*
- *Vessel sizes are generally predictable and within capability (70RoRo:30LoLo)*

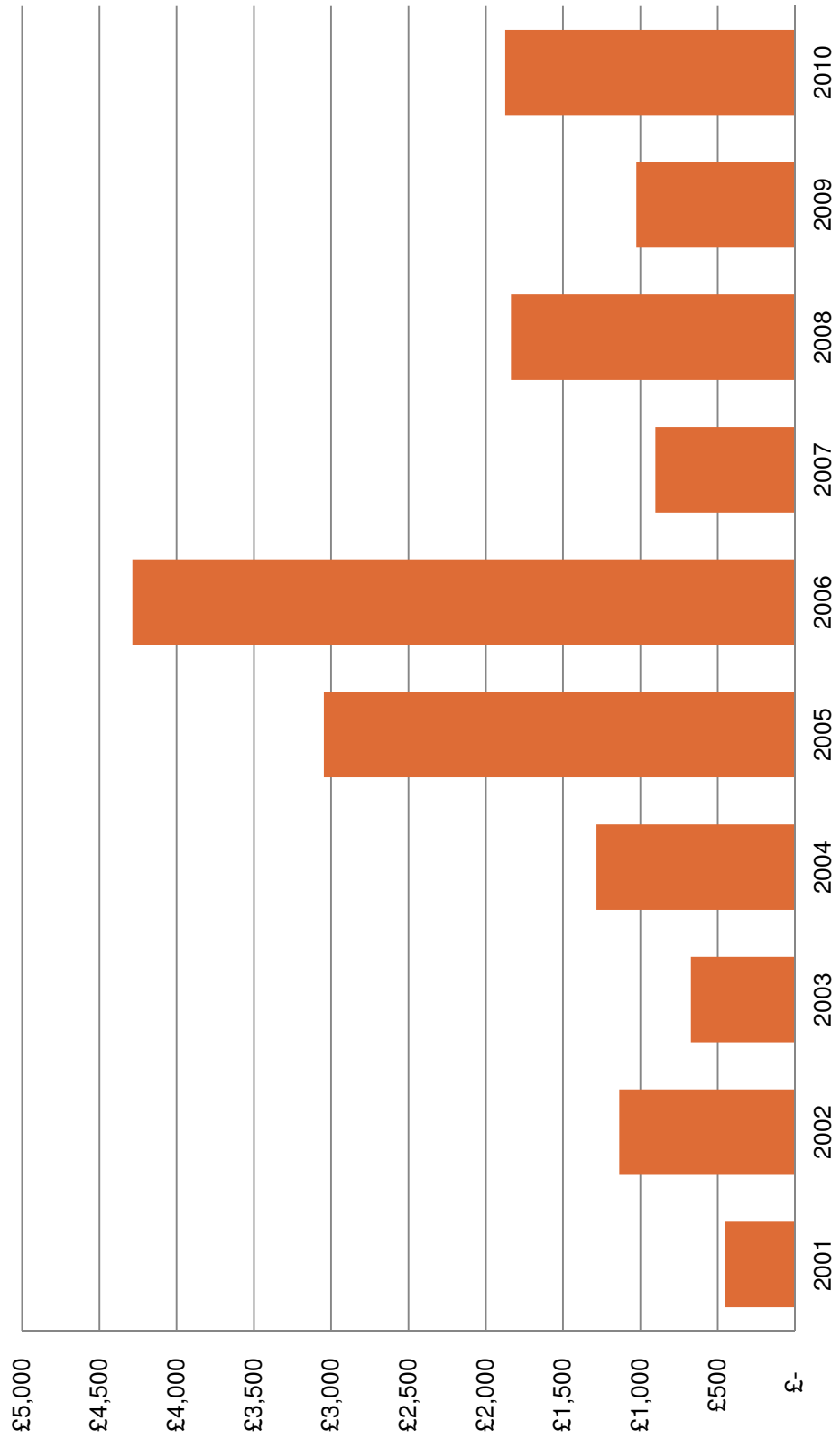
Commercial & Improvement (no validation requirement)

- *Capture leisure potential*
- *Physical improvements – optimise location of functions*
- *Valuable landbank*

Mainly long term duty of care consideration – safeguarding for the future

Harbours Historic Trend

Harbours



Harbours Capex Major Projects

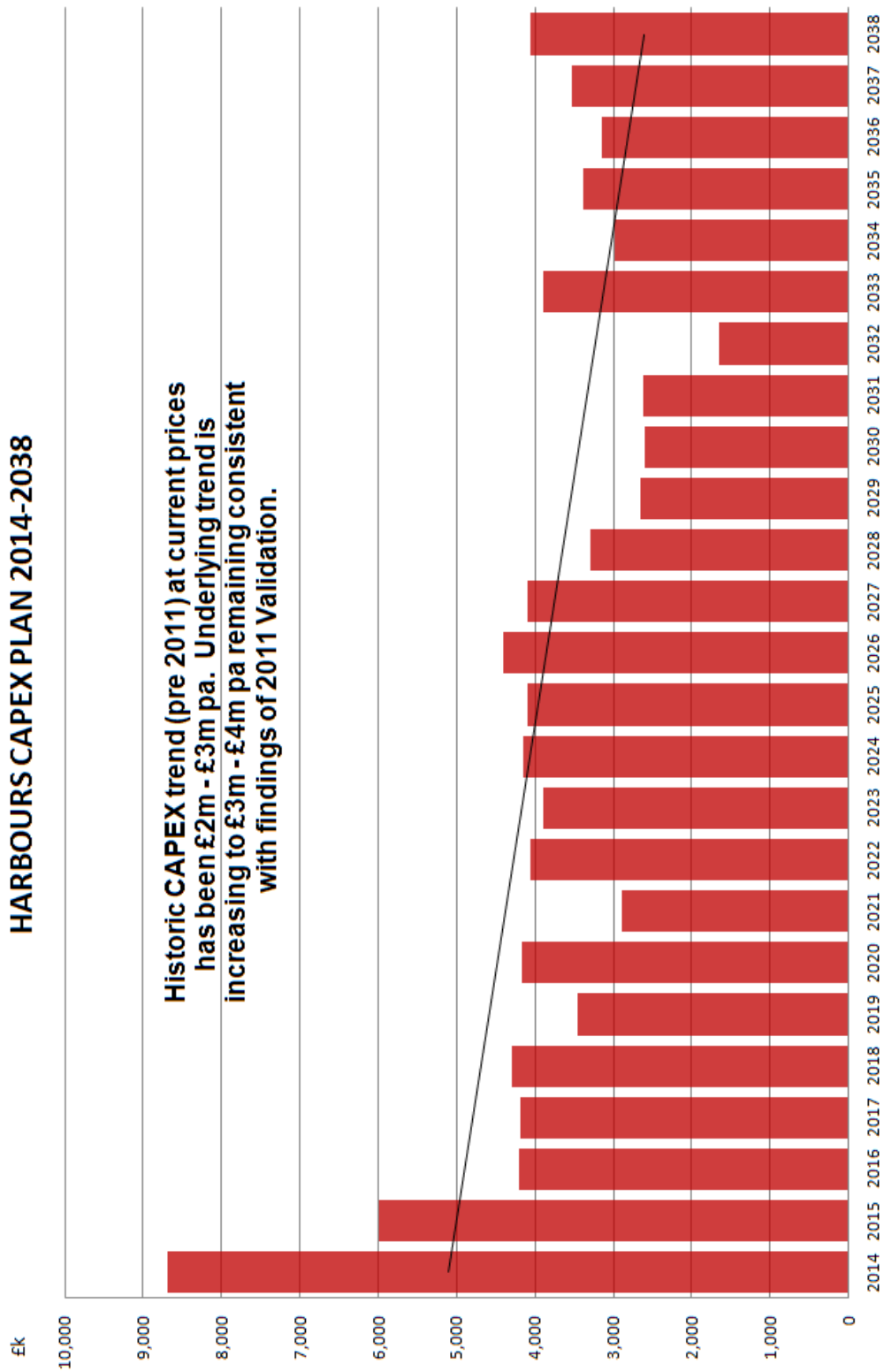
Historic expenditure

- *Capex has been modest*
- *A degree of ‘catching up’ evident*
- *Recent deferrals have resulted in increased expenditure in the immediate future*

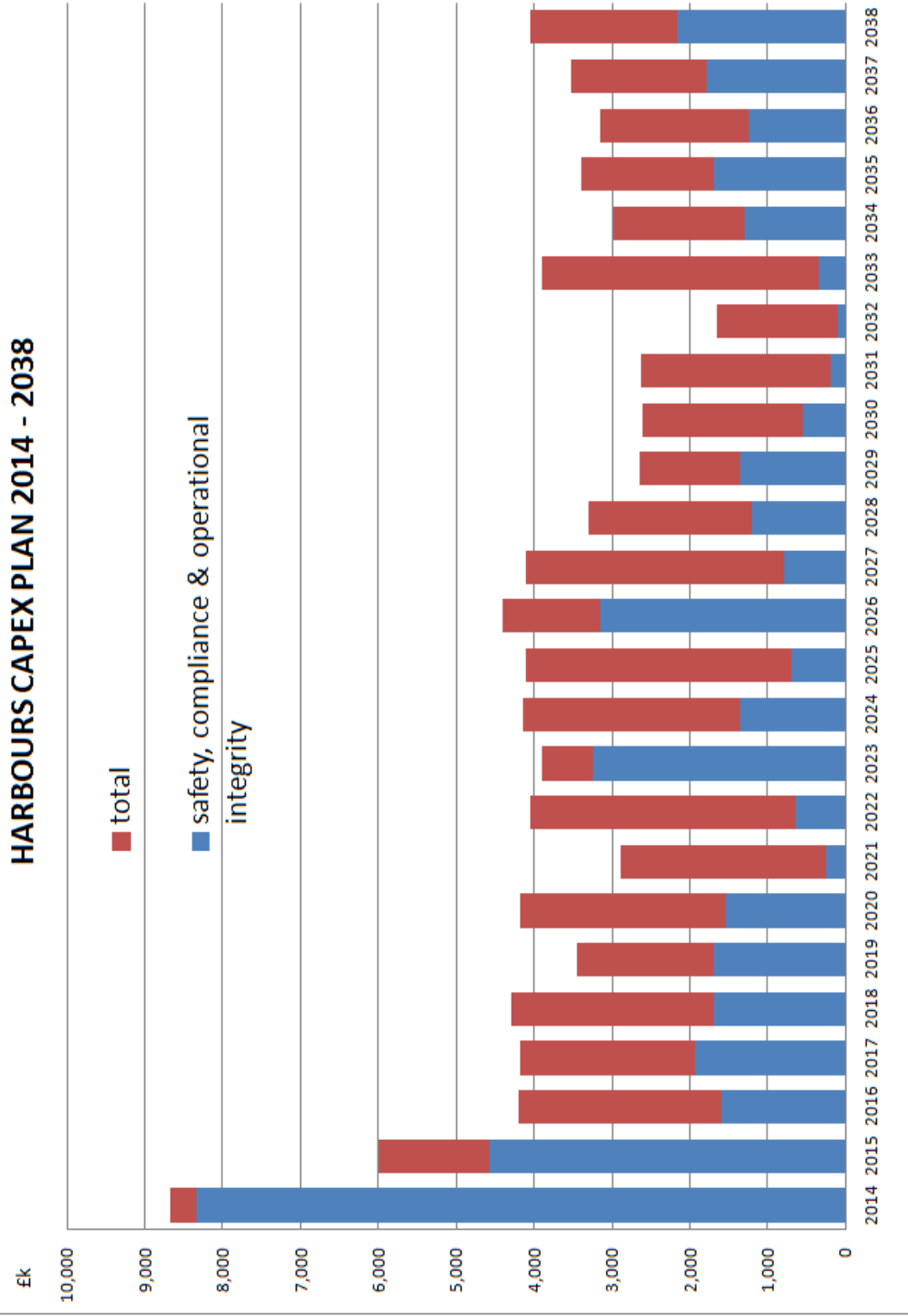
Future Programme

- *Operationally protecting rather than expanding/improving*
- *West Berth Ro-Ro – underway.*
- *Catch up on harbour structural repairs – Gorey Pier Head next priority*
- *Breakwater improvements – tend to be medium term and deferred*
- *Environmental considerations in the longer term*
- *Otherwise all commercially driven – ‘Defined Event’ - to be judged on strength of business case (Old Harbour Development, New Offices, East of Albert etc)*

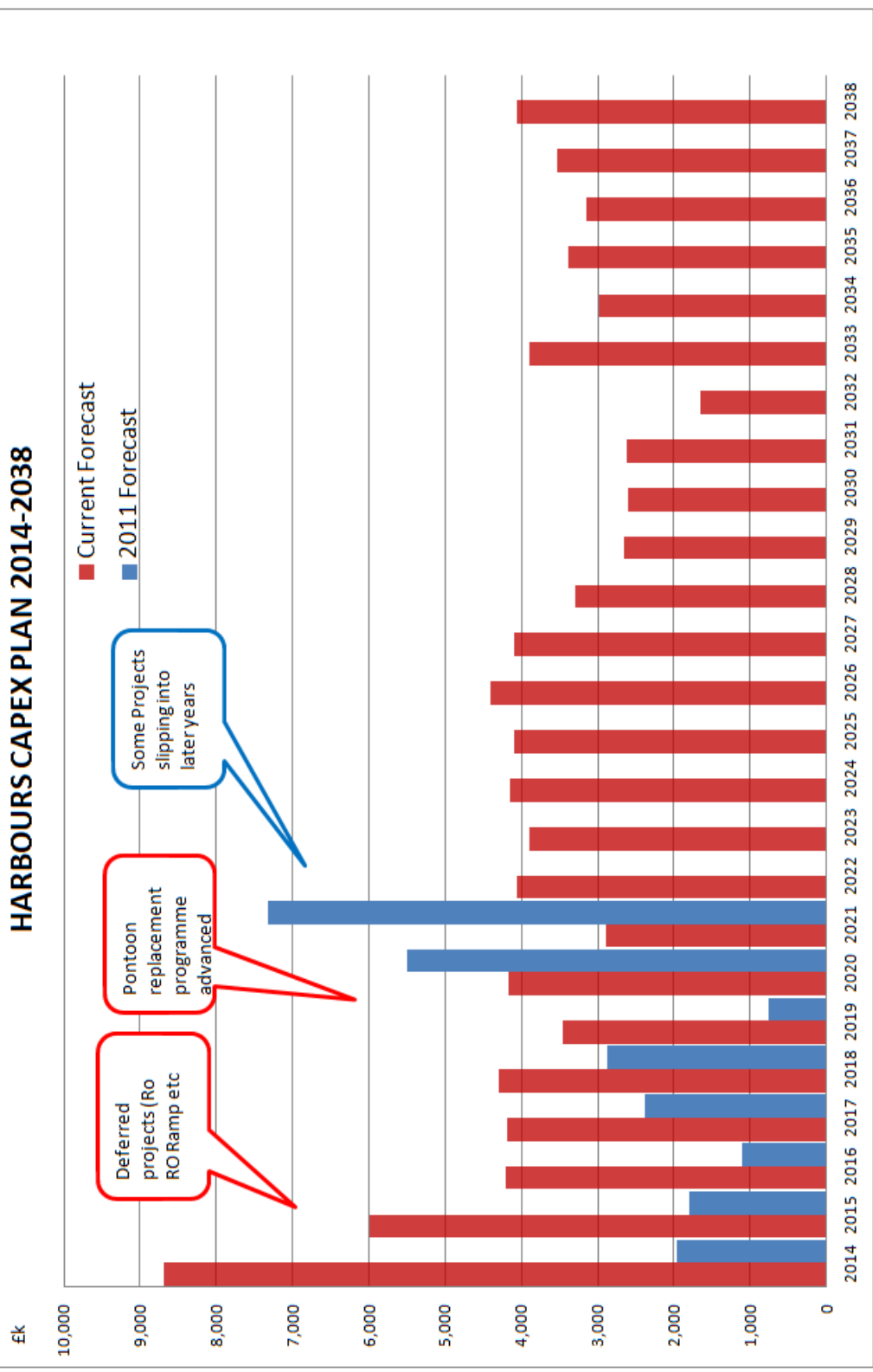
Harbours Capex - 25 year plan



Harbours Critical – Necessary expenditure



Harbour Comparative Projection



Harbour Capex Comparison

Prudent

- *Generally concur with projection except as follows:*

Proposed adjustments

- *General review of estimates & timing*
- *Omit new offices and continue renting (allowance included to reconfigure & upgrade VTS/Coastguard)*
- *Consider tendering dredging framework to local contractors*
- *Energy efficiency – potentially Opex*
- *Projects considered to be Defined Events:*
 - *Elizabeth Marina Pontoons*
 - *New build offices*
 - *St Helier quay & La Folie commercial developments*
- *A number of projects are subject to planning approval*
- *Allowance for additional projects & risk of contamination included in period 2028 to 2036 (+£8m)*

Harbour Capex Risks & Opportunities

Single point of failure

- *Principal gateway for freight – strategic importance*
- *No compromise - safety and also operational resilience:*
 - *Maintain dual assets (main & back-up)*
 - *Protect port entry routes*
- *Marina gates require replacement / renovation*

Longer term consideration should be given to environmental issues:

- *Best practice projects (potentially pollution control, energy efficiency, etc)*
- *Changing weather conditions – exceptional may no longer be the case resulting in improved defences and exceptional levels of expenditure*

Safeguard future zoning

- *Current approach considers freight operation to be robust over long term – there remains a risk that operators may adjust fleet and hence harbour requirement – considered low probability*
- *Release of landbank for development is a risk if ill-considered*

Harbour Conclusions

Conclusions / Recommendations

25 year plan is £96m (slightly increased through validation with some adjustment to individual projects and timings)

- *Forecast are well considered and prudent*
- *Robust with no obvious omissions from the forecast*
- *Operationally appeared sensible and considered*
- *It is recommended that the full maritime asset survey is updated*
- *It is recommended that a strategic scour protection review study is commissioned*
- *Projects are generally deferrable resulting in programme contingency*
- *There remains scope smooth expenditure further if desirable*
- *Commercially a challenging task due to external influences especially in response to adjoining commercial development opportunities.*

Airport

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Airport Capex Context

Factors

- *Strategic gateway*
- *Safety critical*
- *Highly regulated*
- *Multi asset environment*
- *Degree of short cycle investment (technology, CICZ, Fire safety, etc)*

Investment

- *Significant recent and current investment in infrastructure & equipment*
- *Building renewal needed*
- *Capex hungry*
- *Peer pressure*

Growth

- *Significant busy hour growth unlikely (pax increase = shorter stays + shoulders)*
- *Aircraft size growth unlikely*
- *Airline/passenger requirements reflect technology but no great change*

Airport Capex Factors

Safety Critical

- *No immediate beyond current projects – risk log suggests well into the future?*
- *Runway degradation and ends – a future issue now further deferred*
- *Regular Fire & Rescue vehicle expenditure*
- *Normal H&S but minor capex with good maintenance*

Regulatory Compliance (& good practice)

- *Passenger segregation – increased international, more stringent regs, inflexible building = a future high capex risk with significant expenditure included*
- *CAP168 (obstructions) – semi-discretionary in progress*

Operational Continuity

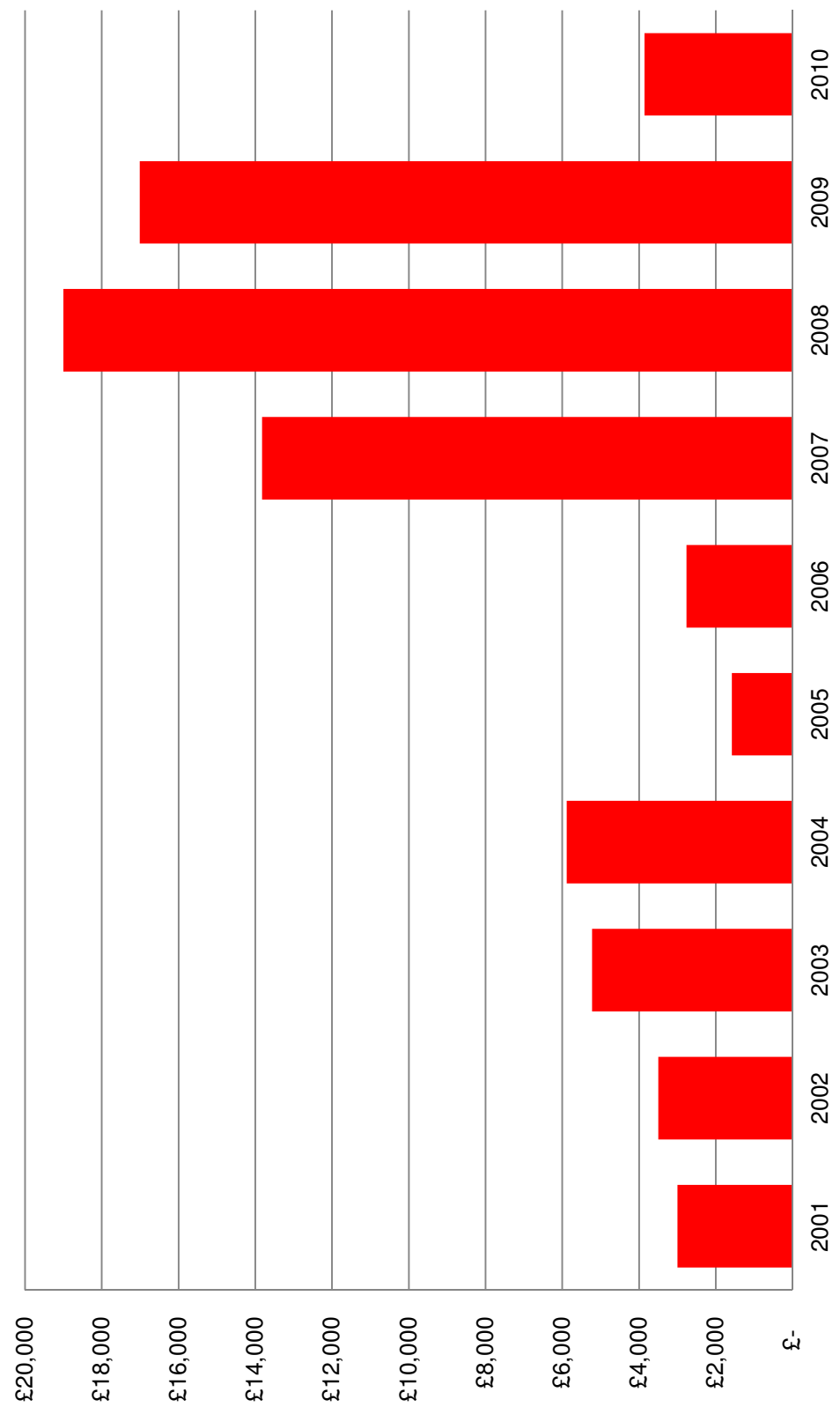
- *Passenger growth/airline requirement not an issue like big airports*
- *Cyclical renewal – obsolescence, maintenance reduction, single point failure enhanced risk*

Commercial & Improvement (no validation requirement)

- *No imperative: Potential to maximise value – non aero revenue, landside development*
- *Poor appearance and experience – pier, arrivals, forecourt, H4 etc all addressed*

Airport Historic Trend

Airport



Airport Capex Major Projects

Buildings

- *Sequence of renewals – inter-linked/inter-dependent to a degree:*
 - *Cargo Centre & Eng building*
 - *Relocate Eng/ remove H4*
 - *ARFFS*
 - *Arrivals building*
 - *Forecourt/Car Park*

- *Commencement of one potentially triggers the sequence*

Infrastructure

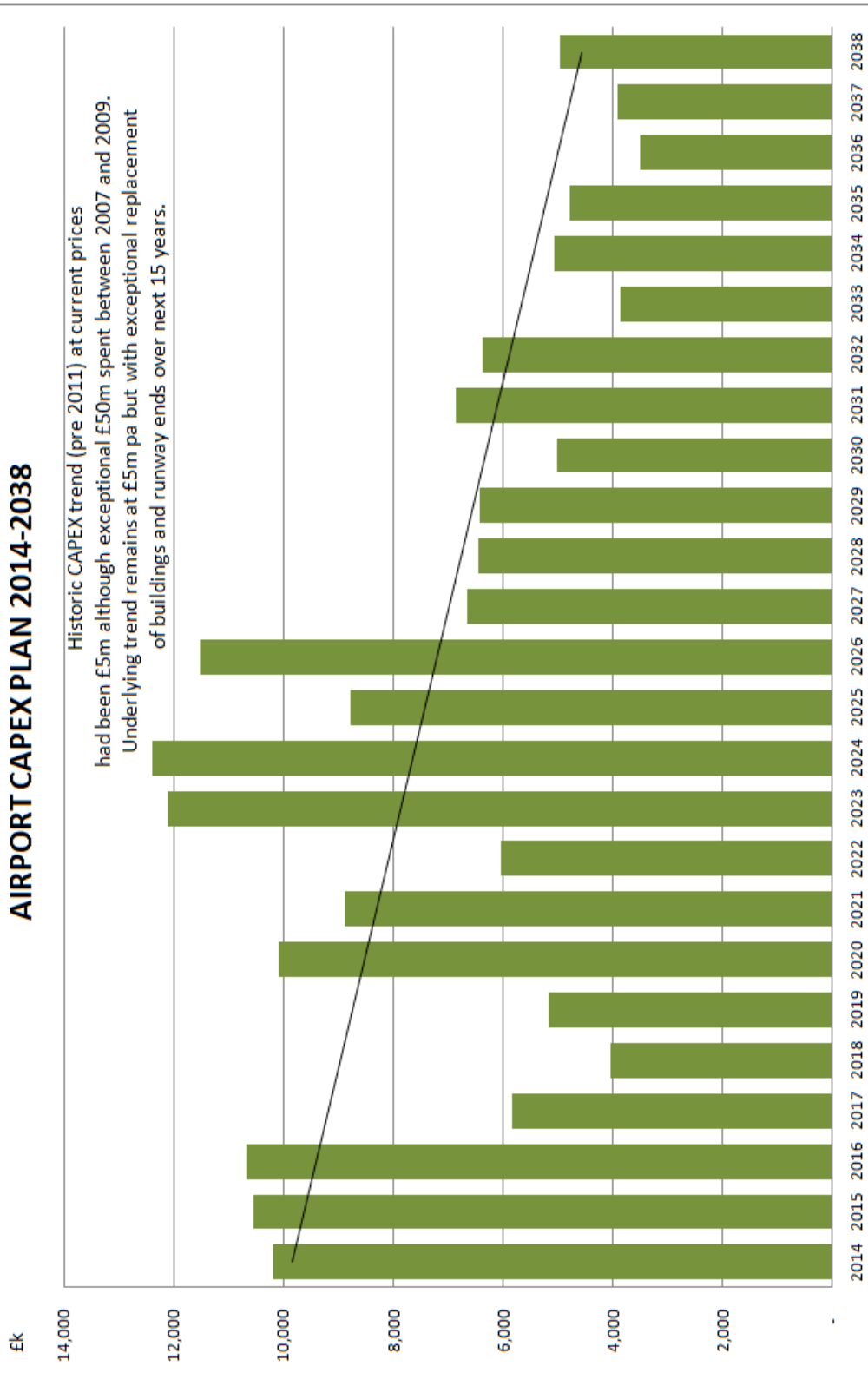
- *Remnants of airfield renewal – south apron, alpha realignment, etc*
- *Runway ends/extension/resurface*

Equipment

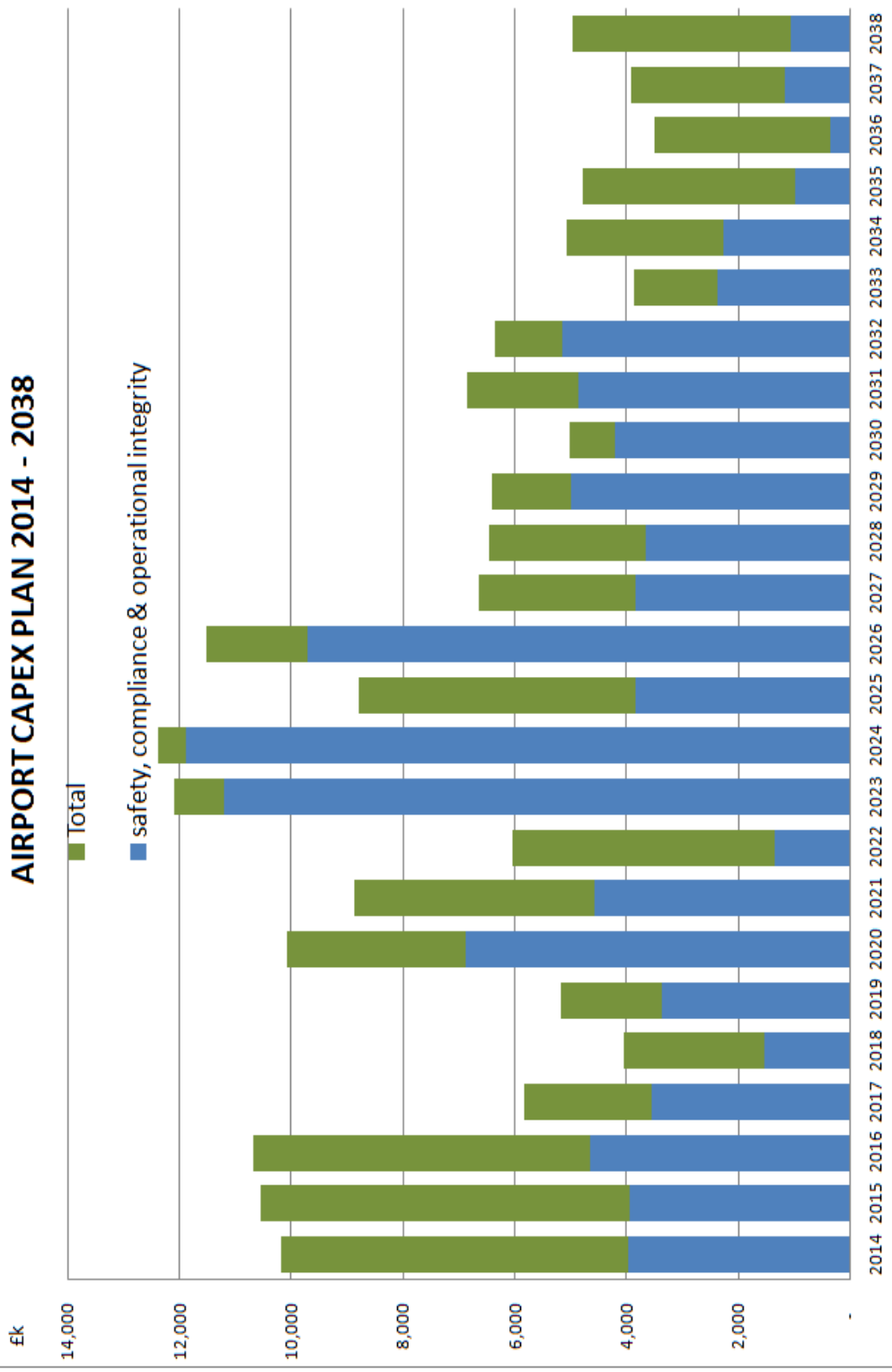
- *Cyclical renewals - predictable*

Airport Capex Type

AIRPORT CAPEX PLAN 2014-2038



Airport Critical Projects



Airport Capex Comparison

Buildings

- Requirement is generally agreed – overall allowances broadly similar
- Variance in cost and time allowances on individual buildings
- Dependent upon value engineering and well considered masterplan for Arrivals, Forecourt and Support (linked sequence)
- Car park adjustments excluded (driven by commercial landbank development)

Infrastructure

- Generally agreed although deferrable to an extent

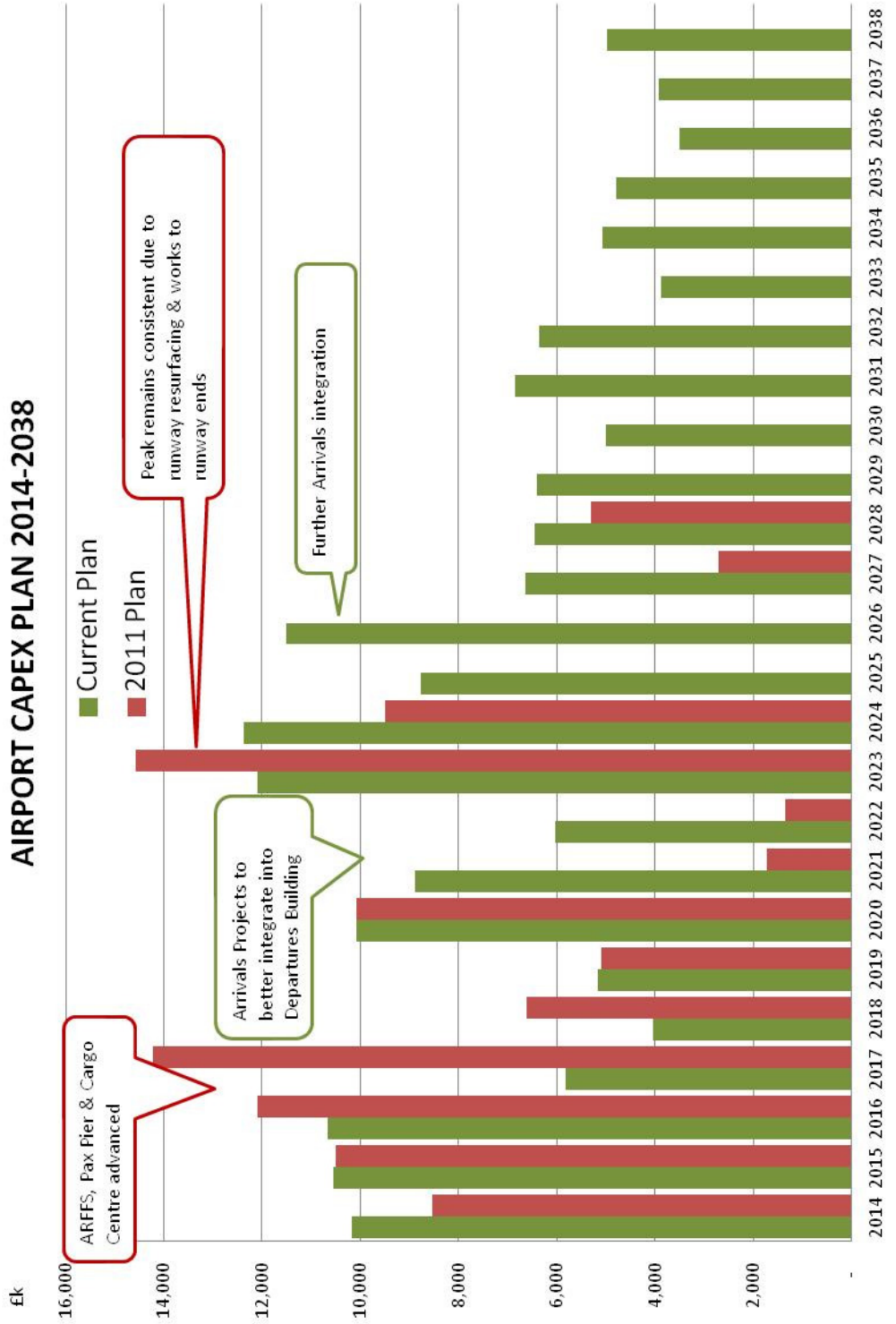
Equipment

- Cyclical renewals - predictable

Projects considered to be Defined Events:

- Airline specific gates e.g. Blue Islands
- Replacement Executive lounge
- Air bridges

Airport Comparative Projection



Airport Capex Risks & Opportunities

Age expired assets

- *Age expired assets – ARFFS, Pier upgrade & Cargo Centre*
- *Pier & Arrivals will eventually need to be better integrated into Departures building potentially with some airbridge service (see Compliance below)*
- *Further taxiway/apron renewals & in the longer term runway works*

Dependencies

- *Building related Capex tends to represent linked projects hence a decision to proceed triggers a programme rather than a project*
- *Renewal of landside assets presents both a risk (multi faceted) and an opportunity (improvement of passenger experience and release of land for development)*

Capacity

- *There is little foreseeable risk from capacity pressures – ‘shoulder’ improvements rather than peak hour growth. Aircraft size unlikely to increase.*

Compliance/Segregation

- *An expensive and challenging risk exists should increased international traffic or enhanced security demand segregation beyond bussed arrival lounges*

Airport Conclusions

25 year plan is £180m (some adjustment to individual projects and timings)

Programme

- *Comprehensive and reasonably robust – variation likely – possibly deferrable*

Estimate

- *Potentially a little light but savings possible through value engineering*

Size

- *Demand v capacity in balance – little need for expansion and predictable*

Mature Assets

- *Further significant expenditure required to replace age expired buildings*
- *Challenging decision on landside redevelopment – linked projects*
- *Possible relocation of some assets and functions*
- *Future safeguarding during landside redevelopment will be key*

Compliance

- *Case remains for further expenditure relating to compliance but deferrable*

Combined

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Combined Programme & Capex

Summary of Principal Adjustments

Authority combined projection = £272m v Capita/Validus = £276m

Harbours:

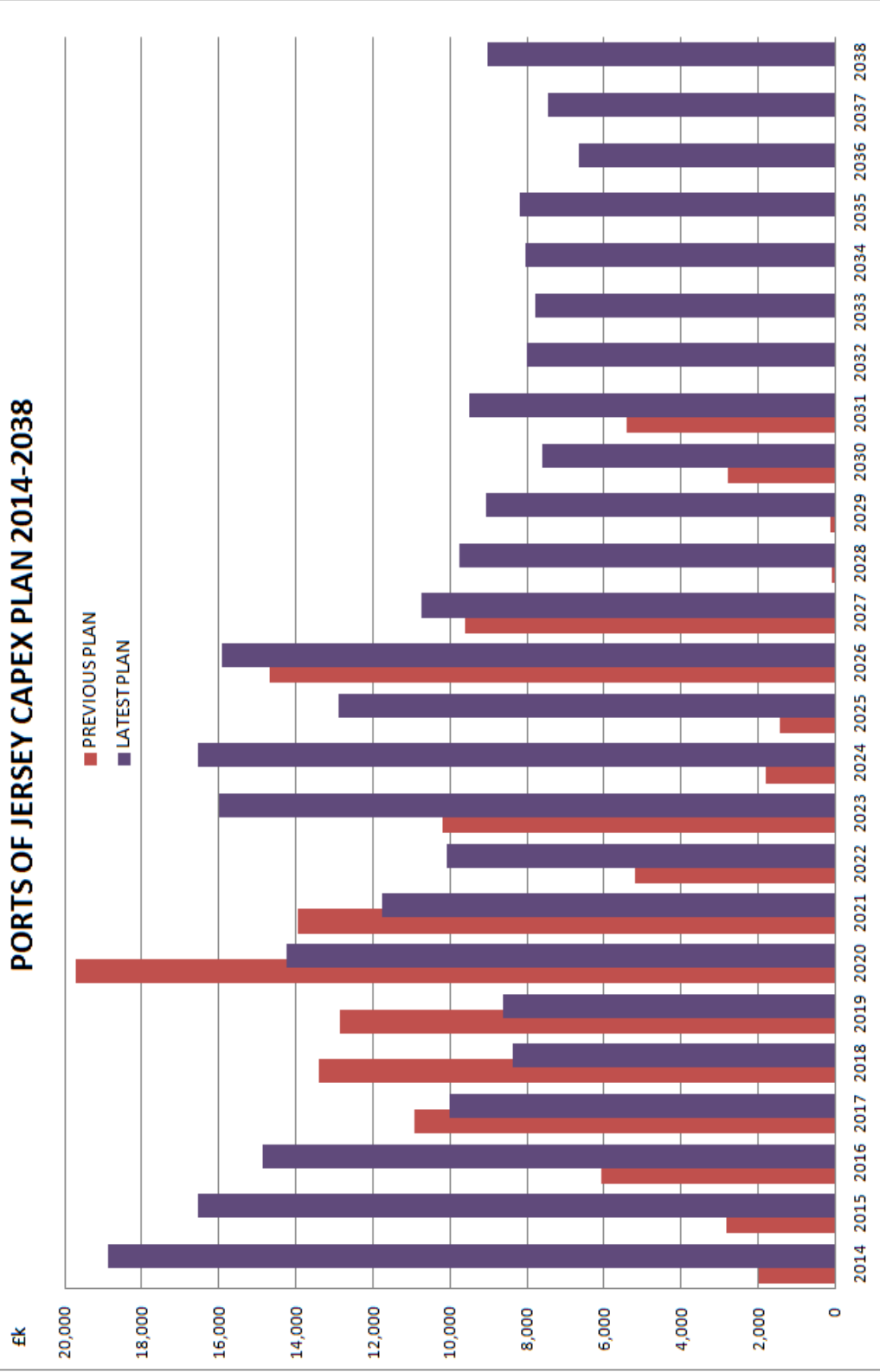
- *Significant omission of commercially related projects 'Defined Events'*
- *Omission of new Harbours Office*

Airport:

- *Adjusted building cost allowances but total similar*
- *Significant deferrals in many projects*
- *Arrivals building allowance subject to Masterplan study*

Combined Validation

PORTS OF JERSEY CAPEX PLAN 2014-2038



Combined Risks & Opportunities

Risks

- *Unpredictable climatic conditions*
- *Single point entry for shipping*
- *Vessel sizing (although predictable as peers same)*
- *Building failure through degradation*
- *Apron/Runway closure through unpredictable degradation*
- *Customer experience compromised (sub-standard facilities [pier, forecourt, etc])*

Opportunities

- *Cost savings through value engineering*
- *Common support facilities*
- *Commercial opportunities – retail, landbank, etc.*
- *Condition survey required of all building assets (Harbours & Airport)*