

**LORN ARC TAX INCREMENTAL FINANCE PROGRAMME – OBAN AIRPORT BUSINESS
PARK – OUTLINE BUSINESS CASE**

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides an update on the progress of the Oban Airport Business Park project and how it fits within the wider Lorn Arc Tax Incremental Finance (TIF) Programme.
- 1.2 An outline business case has been developed seeking funding of £8.05m from the TIF Programme for the development of roads, infrastructure, servicing and site works and is attached as Appendix 1.
- 1.3 Ongoing work is also progressing in relation to other funded investment in the business park including the UAV (Drone) Hub under the Rural Growth Deal and the development of commercial buildings for lease utilising Levelling Up funding or direct council investment.

RECOMMENDATION

- 1.4 That the Policy and Resources Committee:
 - 1.4.1 Note that discussions are ongoing with the Scottish Government in relation to varying the TIF agreement to maximise the benefit from the scheme and that progression of this project is subject to the Scottish Government agreeing to amend the date by which works must be completed.
 - 1.4.2 Approve the submission of the Outline Business Case (OBC) to the TIF Executive seeking funding of £8.05m (including 15% fees and 10% contingency) for the development of roads, infrastructure, servicing and site works at Oban Airport Business Park.
 - 1.4.3 Subject to approval by the TIF Executive, approve the drawdown of borrowing for a total of £1.6m (20% of total cost) for the development of a Full Business Case and associated fees to progress the Oban Airport Business Park project.
 - 1.4.4 Note the additional resources that will be required to deliver this project in the form of the establishment of a Project Management Office (PMO) with Hub North Scotland providing strategic support.
 - 1.4.5 Note that the Full Business Case will be reported to a future Policy and Resources Committee before moving to the implementation stage.

**LORN ARC TAX INCREMENTAL FINANCE PROGRAMME – OBAN AIRPORT
BUSINESS PARK – OUTLINE BUSINESS CASE**

2.0 INTRODUCTION

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- 2.3 Ongoing work is also progressing in relation to other funded investment in the business park including the UAV (Drone) Hub under the Rural Growth Deal and the development of commercial buildings for lease utilising Levelling Up funding or direct council investment.

3.0 RECOMMENDATION

- 3.1 That the Policy and Resources Committee:
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 - 3.1.4 Note the additional resources that will be required to deliver this project in the form of the establishment of a Project Management Office (PMO) with Hub North Scotland providing strategic support.
 - 3.1.5 Note that the Full Business Case will be reported to a future Policy and Resources Committee before moving to the implementation stage.

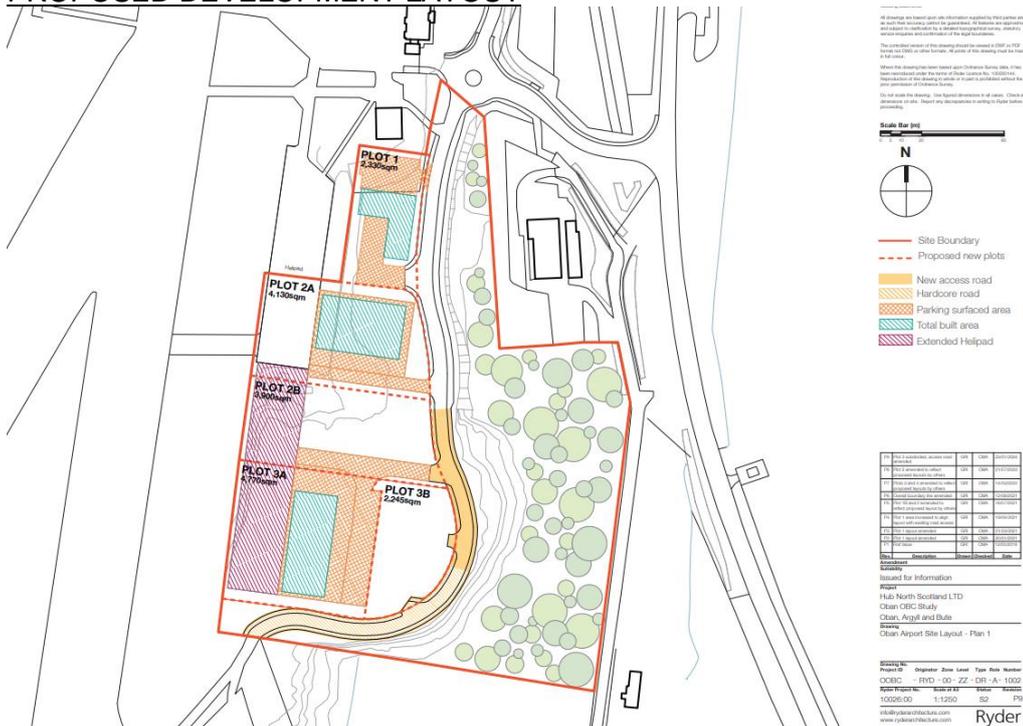
4.0 DETAIL

4.1 The initial investment at Oban Airport was for the installation of a road link and services to enable the development of a new business park adjacent to the airport. Following this, Estates have instructed site investigations, service assessments and costings and generated serious interests in the site from aviation related businesses. The existing site and proposed layout is shown below:

EXISTING SITE



PROPOSED DEVELOPMENT LAYOUT



- 4.2 Officers have been working with Stantec and other specialist consultants to develop an Outline Business Case (OBC) to seek funding from the TIF Programme of £8.05m (including 15% fees and 10% contingency) for the development of roads, infrastructure, servicing and site works and the OBC is attached as Appendix 1. It should be noted that the Council's internal costing of the project is £0.46m higher than the OBC. The difference is due to the inclusion of an additional £0.14m for scoping work and increased inflation costs based on the estimated time to complete the works.
- 4.3 The outline business case demonstrates that the proposal will support strategy and policy objectives, deliver value for money, and that its risks can be appropriately managed. Consistent with HM Treasury Green Book (2020) guidance, this OBC has been structured around the 'five-case model', comprising the Strategic Case, Economic Case, Financial Case, Commercial Case and Management Case.
- 4.4 The key objectives identified within the business case are to:
- Deliver infrastructure to enable a fully accessible Oban Airport Business Park.
 - Promote private sector investment and establishment of an aviation, engineering and logistics cluster.
 - Contribute towards reducing the population decline in Argyll and Bute and increasing the level of higher paid employment accessible to residents.
 - Use the TIF business rates retention mechanism to fully finance the development and infrastructure cost.
- 4.5 The outline business case notes that there is strong demand for the site (as outlined later in the report) but that there is Market Failure due to the high costs involved in developing the project. This supports using public funds to unlock the site to generate the wider benefits.
- 4.6 Having already lined up two firms to make use of some of these sites, through construction, helicopter and air-logistics operations, it will create skilled jobs for residents and promote economic growth in the area through more business at the airport. Enhanced services at the airport will make use of Argyll and Bute's and the Islands' unique characteristics for air services operation and retain working age residents through job creation. Creation of skilled jobs for workers and increased economic activity will help reverse negative socio-economic trends faced in the region. It also aligns with policy at local, national and international levels and will deliver benefits to the local area and beyond.
- 4.7 Stantec have developed a bespoke economic impact model to appraise the likely benefits of the proposed OABP. The approach will quantify the economic benefits seen as a result of the investment into the airport. It focuses on capturing and monetising several key elements of the project, these are as follows:
- Net additional employment, created by the commercial floor space on the business park, impacting labour supply levels.

- Net additional employment causing an increase in the local GVA levels.
- Land Value Uplift from the development of the site from its current use and value.

Based on the above a Value for Money assessment has been conducted. Benefit cost ratios (BCRs) help inform investment decisions by summarising the overall relationship between the relative costs and benefits. A **BCR above one** indicates a positive return on investment, and a **BCR above two** represents high Value for Money. A Net Present Social Value (NPSV) calculation shows how much greater the benefits of a proposal are than the outlined costs. **A positive NPSV represents a good return on investment.**

- 4.8 At the outline business case stage Stantec have appraised two options to compare with the Option 1 'Do-nothing' baseline. Option 2 is where the companies fund and develop their own premises and Option 3 is where the council invests in delivering the buildings. Although the TIF funding is only required for the infrastructure it will catalyse the creation of the buildings and result in benefits associated with the commercial spaces being realised. Options 2 and 3 scored similarly with Option 3 then being selected for the full 'Value for Money' testing.
- 4.9 Based on this analysis, at Argyll & Bute level, the project will result in Gross Value Added (GVA) of £30.1 million. The present value sum of benefits (including the UAV Hub) is £49.8 million. Stantec have also assessed that there would be 72 net additional jobs created across the 3 sites proposed to be developed (including the UAV Hub).
- 4.10 Therefore, the NPSV at Argyll & Bute level is £23.7 million with a BCR of 1.91. It is considered that the NPV will increase above 2 as the project costs become more refined and so the project represents good value for money and return on investment. Similarly, sensitivity testing indicates the project is robust to changes in costs, benefit and optimism bias.
- 4.11 Officers have also undertaken modelling of the TIF fund to confirm that the project is affordable. Based on the current assumptions, it is estimated that the debt involved in completing the business park infrastructure works would be repaid around 2033/34.
- 4.12 Discussions are ongoing with the Scottish Government in relation to the wider TIF programme. This includes extending the date by which works require to be completed and also extending the end date of the overall TIF programme. The initial discussions with the Scottish Government have been positive but these issues still require to be concluded. As noted above the airport business park can be completed within the original programme but the programme extension will be required to undertake the Dunbeg Corridor project which was previously outlined to the Policy and Resources Committee on 8th December 2022.
- 4.13 The business case also considers delivery options for the buildings proposed to be erected on the site. The council could lease the ground to the occupiers and they would fund the construction or alternatively the council could fund the buildings. This would require a higher initial capital outlay but would generate a larger ongoing rental income. The proposed occupiers of sites 1 and 2A have

indicated a preference for the council to fund the buildings and for them to rent the completed properties.

- 4.14 The latest costings are noted below and the preferred option is to seek the following split of funds:

TIF Fund - £8.05m for infrastructure costs (figures below do not include inflation.)

UK Government Levelling Up Partnership Fund - £7.7m for buildings. (not including inflation.)

Argyll & Bute Council
Oban Airport Business Park



Feasibility Cost Review

27/03/2024

Ref	Site / Scope	Building	Infrastructure	Total Combined
1	Plot 1 (Site 1 - TSL) - 2,330m ²	£ 2,449,150	£ 480,000	£ 2,929,150
2	Plot 2A (Site 2A - Bristows) - 4,130m ²	£ 3,640,000	£ 1,080,000	£ 4,720,000
3	Plot 2B (Site 2B) - 3,900m ²	£ -	£ 840,000	£ 840,000
4	Plot 3A (Site 3A - proposed UAV Hub) - 4,770m ²	£ -	£ 1,020,000	£ 1,020,000
5	Plot 3B (Site 3B) - 2,245m ²	£ -	£ 420,000	£ 420,000
6A	Phase 1 Access Road	£ -	£ 600,000	£ 600,000
6B	Phase 2 Access Road	£ -	£ 450,000	£ 450,000
6C	Surplus Cut & Fill	£ -	£ 690,000	£ 690,000
7	Substation Provision - 500kVA HV substation	£ -	£ 150,000	£ 150,000
	Nett Total	£ 6,089,150	£ 5,730,000	£ 11,819,150
8	Allowance for Fees - 15%	£ 913,373	£ 859,500	£ 1,772,873
	Sub-Total	£ 7,002,523	£ 6,589,500	£ 13,592,023
9	Allowance for Contingency - 10%	£ 700,252	£ 658,950	£ 1,359,202
	Overall Total	£ 7,702,775	£ 7,248,450	£ 14,951,225

NB1) Economic Development are assessing the suitability of the UK Government Levelling Up Partnership Fund to fund the buildings.

NB2) Rural Growth Deal funding is already proposed for the development of the UAV (Drone) Hub on plot 3A but this is the subject of a separate, but linked, business case.

PROPOSED OCCUPIERS

- 4.15 Site 1 - TSL Contractors Limited (TSL)

TSL Contractors Limited (TSL) <https://www.tslcontractors.co.uk/> are the first interested party. The company has been operating in Argyll for over 35 years and operates from Mull and Oban delivering building, construction and civil engineering services and also operates helicopters and undertakes road haulage. Employing over 90 people the company is a significant local employer



PLANNING CELL		
No.	Description	Date

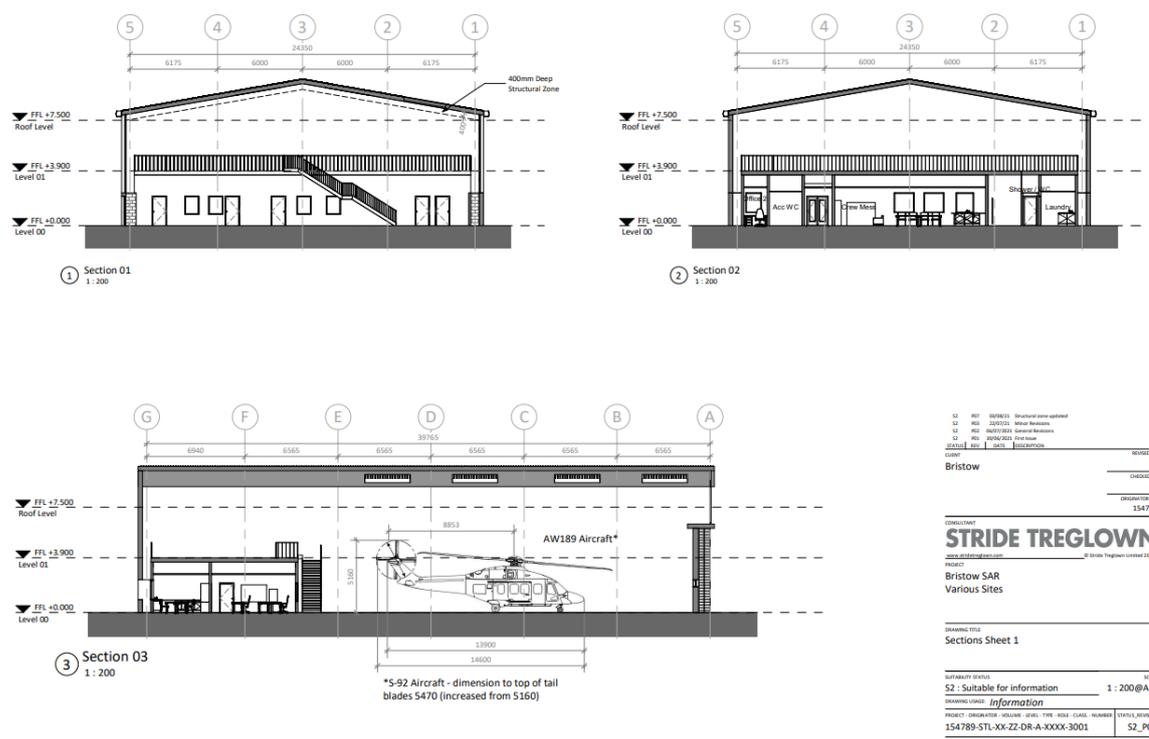
TSL Contractors Ltd	
Oban Airport Depot	
Volume	
Date	15.08.22
Drawn by	gjs
2021 010 - 011	
Scale	
<small> This drawing is the property of the Architect and is not to be used for any other purpose without the written consent of the Architect. </small>	
	

4.17 Site 2A - Bristow Helicopters Ltd (BHL)

During 2022 the Estates team had been working with a helicopter company who were bidding for the UK Search & Rescue second generation contract (UKSAR2G). Ultimately they were not successful but following the contract award Estates approached the successful bidder Bristow Helicopters Ltd (BHL) to promote Oban Airport. This has resulted in Oban Airport being selected as their preferred option for the new base.

4.18 BHL have now signed a legally binding letter of intent for Site 2A as the location for their new Search and Rescue base and intend to be operational by 2026. An indicative layout of their proposal is shown below.

4.19 BHL are also one of the world's leading providers of vertical flight solutions and have advised that they are keen to participate in the UAV Hub which the council is developing a business case for as outlined below.



4.20 Site 3A - Unmanned Aerial Vehicle (UAV) HUB

As part of the Rural Growth Deal officers from Economic Development are working with Stantec on the outline business case for the development of infrastructure to allow the airport to become a leading innovative research and development centre for Unmanned Aerial Vehicle (UAV) technologies and a new marine compliance base on the west coast of Scotland. This would create the UK's first dedicated drone training centre with indoor facilities specialising in developmental, test and operational facility for (UAV) technologies. This could also be a joint venture with Scottish Association for Marine Science located close to the airport.

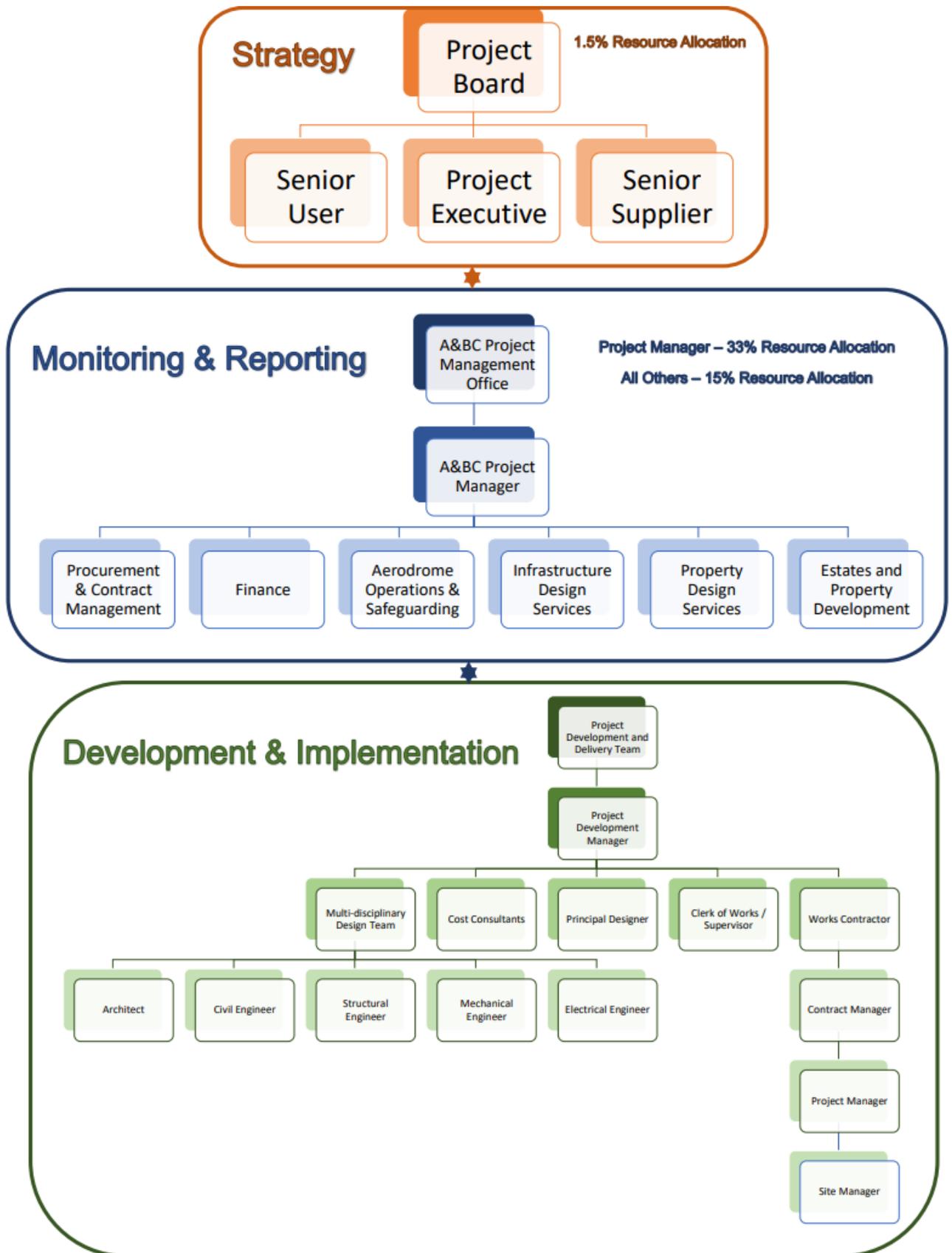
4.21 While there will be a number of common issues between this project and the other plots such as shared servicing, utilities and access roads the funding for the actual building is not proposed to come from the council, as it is part of the Rural Growth Deal. Therefore, it will not form part of any potential business case for investment in buildings proposed for plots 1 and 2 but will be part of the infrastructure business case.



5.0 PROJECT RESOURCES

- 5.1 Additional resources will be required to deliver this project in the form of the establishment of a Project Management Office (PMO) with Hub North Scotland providing strategic support. The request for drawdown of borrowing of £1.6m for the development of a Full Business Case and associated fees will assist to deliver this function but also contribute to early project costs.
- 5.2 The proposed arrangement of the PMO is outlined below and outlines the significant resources which will be required to deliver a project of this scale. The intention is to follow a similar approach as was used to deliver other large projects such as Helensburgh Leisure Centre.
- 5.3 The proposal is to have the TIF Project Board retain overall strategic control over the project. Below this a Project Management Office (PMO) will be responsible for the Monitoring and Reporting level and will be led by a Project Manager with around 33% of his time allocated to the project. The Project Manager will be supported by Officers from the other relevant teams noted in the structure and it is anticipated that this will involve around 15% of their time on average.
- 5.4 The Delivery & Implementation of the project will be an external resource managed by Hub North Scotland. They will lead on the day to day delivery of the project and will procure the specialist services outlined in the structure below to implement the project. The PMO (council officers) will monitor and review the work of the delivery team based on each of their areas of specialism to ensure council oversight of the project and will report updates to the TIF Project Board.

OUTLINE STRUCTURE FOR OABP PROJECT MANAGEMENT



6.0 CONCLUSIONS

- 6.1 The development of Oban Airport Business Park is an ambitious project. The Outline Business Case outlines, that while there is demand from businesses to be located at the site, there is a market failure due to the high costs of development.
- 6.2 The Tax Incremental Finance (TIF) programme offers an opportunity to address this by providing the funding to develop the infrastructure to allow the site to be developed.
- 6.3 Alongside this investment in infrastructure officers will also progress the business case for further investment in the site to provide accommodation for the businesses outlined within the report alongside the UAV (Drone) Hub proposed to be funded through the Rural Growth Deal.

7.0 IMPLICATIONS

- 7.1 Policy – None.
- 7.2 Financial – The request for £8.05m of funding from the TIF programme is significant but the modelling demonstrates it is affordable as outlined in the report. Further funding from additional sources for other elements of the project will also require to be clarified.
- 7.3 Legal - The terms and conditions of transactions arising from this project are intended to be delegated to the Executive Director of Customer Services.
- 7.4 HR – There will be additional resource requirements as the project moves into the delivery phase as outlined in the report.
- 7.5 Fairer Scotland Duty
 - 7.5.1 Equalities – None.
 - 7.5.2 Socio economic Duty – None
 - 7.5.3 Islands – Oban Airport provides lifeline services to the islands and supporting the development of a Mull based business and services including emergency search and rescue response will enhance this. The development of UAV technology also has the opportunity to improve connections to the islands.
- 7.6 Climate Change – Aviation in general is increasingly viewed as a climate change risk. However the services proposed to be developed at Oban Airport are mainly lifeline services rather than recreational or tourism related and some of the new UAV technology under consideration could reduce the need for traditional aviation thereby reducing the carbon footprint of the airport. In addition Oban provides a central location for search & rescue functions which could reduce the flying time of operational activity.

- 7.7 Risk – There are risks from undertaking the development such as cost overruns, unforeseen abnormal costs, statutory approvals and timescale pressure. However there are also risks from not undertaking the development such as stagnating growth, the decline of the airport and the loss of grant funding.
- 7.8 Customer Service – None.
- 7.9 The Rights of the Child (UNCRC) – None.

Douglas Hendry, Executive Director with responsibility for Commercial Services
Kirsty Flanagan, Executive Director with responsibility for Development and Economic Growth
Councillor Ross Moreland – Policy Lead, Finance and Commercial Services
Council Leader Jim Lynch – Policy Lead, Rural Growth Deal & Strategic / Major Regeneration

9th April 2024

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APPENDICES

Appendix 1 – Outline Business Case

Appendices within Outline Business Case:

Appendix A – Property market review
Appendix B – Valuation report
Appendix C – Feasibility cost review

NB) Appendices D (Risk Register) and E (Subsidy control compliance) are still to be completed.