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Argyll and Bute Council
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SUPPLEMENTARY PACK 1

ARGYLL AND BUTE COUNCIL - BY MS TEAMS on THURSDAY, 30 JUNE 2022 at 10:30 AM

I enclose herewith **item 10 (Levelling Up Fund)** which was marked to follow on the Agenda for the above meeting.

Douglas Hendry
Executive Director

ITEM TO FOLLOW

10. LEVELLING UP FUND - BUSINESS CASE AND BID SUBMISSION UPDATE

Report by Executive Director with responsibility for Development and Economic Growth (Pages 3 - 14)

Argyll and Bute Council

Contact: Sandra Campbell Tel: 01546 604401

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ARGYLL AND BUTE COUNCIL**COUNCIL****DEVELOPMENT AND
INFRASTRUCTURE****30 JUNE 2022**

UK LEVELLING UP FUND – BUSINESS CASE AND BID SUBMISSION UPDATE

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform members of the Council on the final position and key principles concerning the Levelling Up Business Cases for both of the council's levelling up bids. The report confirms the different elements of each of the bids being submitted to the UK Government and looks for council agreement regarding the principle of match funding in the event that one or both of the bids being successful.
- 1.2 The bids have been prepared across a range of council services, working with partners, and consultants. Public consultation has been taken forward through stakeholder groups and further refinement of the projects will be necessary if either of the bids are successful through the finalisation of designs and regulatory processes.
- 1.3 The council has chosen to prepare packaged bids to better reflect the economic, population and geographic challenges of Argyll and Bute as a predominately rural region. It is considered that these bids could be potentially transformational for our economy, as a place to live, invest and visit. The bids take account of strict delivery deadlines of the fund spending profile and the need to reach net zero. The fund is highly competitive with no guarantee of success however all of the work to date has helped to develop the different project elements of each bid package to a shovel ready status.
- 1.4 There is a need to indicate where a minimum of 10% of match funding will come from and this is detailed in **Table 1** of the report. Individual elements of the projects have been identified in **Tables A to D**. Due to the dependency on attracting external funding elements for the regeneration bid, a phased approach may need to be taken.
- 1.5 The deadline for submission of the respective business cases is 6th July 2022. One bid will be for an area regeneration town centre project, maximum £20m and the second a Transport Bid, up to £50m.

RECOMMENDATIONS

It is recommended that the Council:

- a) Consider and approve the individual elements of the bids being submitted.

- b) Consider and approve in principle the identified match funding for each bid.
- c) Agree that the final approval of the business case and submission of the Council's LUF application be delegated to the two Executive Directors in consultation with the Leader and Depute Leader of the Council and the Leader of the largest Opposition Group by the deadline of 6th July 2022.

UK LEVELLING UP FUND – BUSINESS CASE AND BID SUBMISSION UPDATE

2.0 INTRODUCTION

- 2.1 This report provides an update on the Levelling Up Bids respective Business Cases and following approval their proposed submission of two bids, one concerned with regeneration and one concerned with transport, to the UK Government.
- 2.2 The UK Government's Levelling-Up Fund was announced by the Chancellor at the 2020 Spending Review. It is a fund jointly managed by HM Treasury, the Department for Levelling Up, Housing and Communities and the Department for Transport. It is worth £4.8 billion and is intended to support capital investment projects in town centre and high street regeneration, local transport projects, and cultural and heritage assets which must be bid for via a competition.
- 2.3 The fund focuses investment on regeneration projects that require up to £20m of funding. There is however no minimum bid level. For higher value transport schemes, there is also scope in securing investment in larger projects up to £50m by exception, but these will be subject to more detailed business case processes and will need to score highly overall across the bidding criteria. There are additional compliance requirements for the Public Sector Equality Duty and State Aid rules. This is therefore a highly competitive process with no guarantee of success.
- 2.4 All bids need to have the approval of the Council responsible for delivering them and the relevant Transport Authority (in our case the Council and Trunk Roads). There needs to be consultation with a range of local stakeholders, evidence of which has to be submitted as part of the application. Constituency MPs must also be consulted, although support from the local MP is not a necessary condition for a successful bid. The deadline for submission is 6th July 2022.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Council:
- a) Consider and approve the individual elements of the bids being submitted.
 - b) Consider and approve in principle the identified match funding for each bid.

- c) Agree that the final approval of the business case and submission of the Council's LUF application be delegated to the two Executive Directors in consultation with the Leader and Depute Leader of the Council and the Leader of the largest Opposition Group by the deadline of 6th July 2022.

4.0 DETAIL

- 4.1 Officers of the council, working across a number of services, have been collaborating with our partners, together with our consultants, to prepare two separate bids to the UK Levelling Up Fund.
- 4.2 Members have been regularly informed with progress concerning the bids following the initial member workshops that identified the Council's priority projects, with the most recent update provided at the May 2022 meeting of the Council and subsequent briefing updates. Given the extensive geography of Argyll and Bute, the council decided to submit two package bids involving a number of distinct geographical areas and not to focus on a single project for each bid. This approach reflects the specific challenges, and also the opportunities of a large rural Local Authority such as Argyll and Bute.
- 4.3 The Levelling Up Bids need to take account of the UK Government Business Case guidance which was only issued on 13th April 2022. This has been a very challenging process for the council to undertake. Each bid requires a considerable amount of supporting information and this has informed and substantially altered the content of our final proposals in order to make the best business case possible for this transformational capital funding. It should be noted that inflation has substantially reduced the scale of the bids and what can be achieved. Each bid has to take into account inflationary pressures for the next 3 years including specific island cost pressures.
- 4.4 It should be noted by members that each bid will require a minimum of 10% match funding and where possible we have utilised external funding sources from partners and existing council commitments. However, in respect of the regeneration bid, due to the dependency on attracting external funding elements, a phased approach may need to be taken. In some cases the bid seeks to add value to a complementary infrastructure investment. **Table 1** identifies proposed match funding sources. It should be noted that some of the figures presented in the tables are estimates and could be subject to change. The use of this identified match funding will depend on whether the bids are successful, or not. Individual elements of the Bids are included in **Tables A to D**. It is expected that the UK Government will make a decision on the bids in the Autumn albeit this may be subject to delays given the high number of bids anticipated.
- 4.5 You will see from Table 1 that the regeneration bid proposes to include a greater amount than the minimum 10% match funding required. The reason for this is due to the amount of works required to meet project objectives, adhere to bid criteria combined with exceptional inflationary pressures at this time, which require to be factored in to our bid, and in particular the costs associated with restoring the former Royal Hotel and Dunoon Pier. In regard to Dunoon, a lot of the match funding relates to works and investment that the

Council would be undertaking. It is hoped that the UK Government will see the overall objective and the significant return that they will gain from this investment. The council will look to attract additional external funding wherever possible to meet this match requirement.

Table 1

Regeneration Bid – Rothesay & Dunoon Marine Gateways					
Projects	Total £m	LUF £m	Match £m	Potential Source	Match %
Rothesay	11.4	8.0	3.4	RGD / RCGF* / Cycling Walking Safer Streets / IIF* / Existing project / HES* / NLHF*	
Dunoon	18.1	12.0	6.1	Existing project / Prudential Borrowing / RGD / HES* / Crown Estates	
Totals	29.5	20.0	9.5		32.2%
*subject to successful applications to external funders					

Transportation Bid - Connected Argyll and Bute					
Projects	Total £m	LUF £m	Match £m	Source	Match %
Port Askaig marshalling*	2.2	2.2			
Jura ferry replacement incl infrastructure upgrades at Feolin to accommodate ferry	9.0	9.0			
B8016 Port Askaig - Port Ellen LGV	12.0	12.0			
A846 Port Askaig - Port Ellen Active travel	Included in above				
Bowmore-Bridgend Active travel	5.8	5.2	0.6	Transport Scotland Places (to be secured)	
Dunbeg housing and commercial area - road and active travel infrastructure	14.3	11.4	2.9	TIF	

Commercial area platform (regeneration – must be less than 10% value)	Included in above				
UAV airside hanger; Non-airside tent or building (TBD); LED lights and solar panels	6.5	5.8	0.7	RGD	
Hydroban (garage adaptations; storage tanks; hydrogen dispensers; buses)	4.0	2.8	1.25	Private	
Totals	53.8	48.4	5.45		10.0%

4.6 The Bids are included in two separate programmes:-

- **The Regeneration Bid up to £20m – Argyll and Bute Western Seaboard Marine Gateways Initiative – Rothesay and Dunoon.**
- **The Transport Bid up to £50m – Connected Argyll and Bute – Whisky Islands; and North Lorn Economic Growth Zone.**

4.7 **The Regeneration Bid – Argyll and Bute Western Seaboard Marine Gateways Initiative – Rothesay and Dunoon.**

This bid focusses on Rothesay and Dunoon linked by the Clyde and their history as seaside holiday destinations. Both these communities have higher than average claimant counts and areas of deprivation that have proved difficult to address over a number of decades. There is a clear demonstrable need for investment in these communities building upon what the council and our partners have already taken forward in terms of place based investment.

4.8 In **Rothesay**, the focus of the bid is the restoration of the former Royal Hotel that dominates the main ferry entrance to the Island of Bute. The bid aims to establish key worker housing on the upper floors of the building creating 12 units for rent and a commercial space on the ground floor likely targeted at public/voluntary sectors given the central location of the building in the heart of the town centre. The remaining works relate to the upgrading of the adjacent Guildford Square and surrounding public realm areas with active travel routes. Unfortunately, the estimated costs of these works which have had to factor in inflation and other locational costs to minimise risk to the council. This approach has limited what we can do with the money available including possible match funding. Consequently, the submitted masterplan will have to take a phased approach to delivery with the Levelling Up Fund as the critical starting point.

Table A

Projects	Total £m	LUF £m	Match £m	Source
Royal Hotel	5.3	4.0(tbc as subject to state subsidy control)	1.3	RCGF* / Existing Project / HES* / NLHF*
Public realm enhancements, including: active travel and interventions to Guildford Square, Harbour Area, Esplanade, Royal Hotel Area, Winter Gardens and Victoria and Argyle Streets	6.1	4.0	2.0	RGD / Cycling Walking Safer Streets / IIF*
Totals	11.4	8.0	3.4	

*subject to successful applications to external funders

4.9 In **Dunoon**, the focus of the bid is the waterfront area and the iconic wooden pier. The bid includes the retention of the grade A listed Signal Tower structure and a partial restoration of the pier timber structure. In addition, the bid aims to upgrade the adjacent marshalling area and carpark areas including a further upgrade of the Argyll Gardens as a multi-purpose events space. The aim here is to create a flexible events/festival area but at the same time keep the functionality of the area to enable people to easily access the ferry, the Queens Hall and town centre. A key aim is to improve the wellbeing of people, creating a place where people feel safe with the ability to undertake a range of activities using the space created. The proposal also includes better active travel links and small areas of green space helping to reach net zero. Again, a phased approach to our overall ambition will have to be taken with Levelling Up Funding a critical first step.

Table B

Projects	Total £m	LUF £m	Match £m	Source
Public realm enhancements, including: active travel, and interventions to Argyll Gardens, Coal Pier Car Park, Terminal Area	8.6	6.0	2.6	RGD / Crown Estates / Existing Project / Cycle Walking Safer Streets
Restored Dunoon Wooden Pier (Option 2)	8.4 (tbc)	6.0	2.4	RGD / HES*/ NLHF*

New harbourmasters and waiting room building	1.1	0.0	1.1	Prudential Borrowing
Totals	18.1	12.0	6.1	

*subject to successful applications to external funders

4.10 In terms of match funding there will be a need to call on future place making and Crown Estate external funding streams together with possible Rural Growth Deal Funding under the theme of tourism and place for both locations. In Rothesay the Royal Hotel may also require funding associated with the Rural Growth Deal funding in relation to the housing theme and the council's Strategic Housing Fund. The Royal Hotel is likely to be a joint venture with the private sector owner and may be subject to state subsidy issues depending on the final ownership of the building.

4.11 **The Transport Bid - £50m – Connected Argyll and Bute – Whisky Islands; and Lorn Economic Growth Zone.**

This bid concerns a package of proposals that initially covered three areas of Argyll and Bute. Work on preparing the feasibility of individual elements of the bid unfortunately led to the Helensburgh and Lomond elements having to be removed and this was reported to Elected Members outwith the committee process. As further costings have been determined, it has been apparent that the bid needs to be scaled back further and the North Islay Active Travel Route and the Craignure to Salen road improvement has been removed from the bid. The reason for this is due to the costs associated with each of these elements and our lack of potential match funding to ensure delivery within the specified timeframe. The council will continue to seek external funding to progress these different elements, which still remain as council priorities subject to the availability of funding.

4.12 The remaining elements are focussed in two distinct areas of Argyll and Bute. **The islands of Islay and Jura (whisky islands)** and the **North Lorn Economic Growth Zone**. Both areas are linked by their significant economic and population growth potential which is held back by a lack of modern transport infrastructure.

4.13 In terms of Islay and Jura, the whisky (spirits) industry continues to expand with a doubling of production levels of existing distilleries and new distilleries coming forward on a regular basis through the planning process including two distilleries currently being constructed at Port Ellen. This expansion also supports the parallel growth of the tourism industry and has placed a significant strain on the islands economic infrastructure. Taking account of previous research and recent consultation with key stakeholders, the focus on the bid is around the capacity of the Jura Ferry and its replacement with a larger capacity but lower carbon vessel together with improved port side facilities. Improvements to Port Askaig (council owned asset) will also assist with the need to have greater capacity at Islay's ports to cope with larger ferries commissioned by the Scottish Government.

- 4.14 This demonstrable increase in business activity and the need for increased port capacity has also influenced the need to improve the key arterial road routes of Islay that connect both ferry terminals. The key aspects of the bid include making strategic improvements to the B8016 as a dedicated freight use for HGVs and improved active travel routes adjacent to the A846 which will be prioritised for resident and visitor traffic.
- 4.15 It is intended to package this bid with the CMAL investment at the Port Ellen ferry port.

Table C

Projects	Total £m	LUF £m	Match £m	Source
Port Askaig marshalling*	2.2	2.2		
Jura ferry replacement incl infrastructure upgrades at Feolin to accommodate ferry	9.0	9.0		
B8016 Port Askaig - Port Ellen LGV	12.0	12.0		
A846 Port Askaig - Port Ellen Active travel	Included in above			
Bowmore-Bridgend Active travel	5.8	5.2	0.6	Transport Scotland Places (to be secured)
Totals	29.0	28.4	0.6	

- 4.16 **North Lorn Economic Growth Zone.** This element of the Transport bid focuses on North Lorn and Mull. This is an area of Argyll and Bute with real growth potential in terms of population and economic growth in the fields of innovation, education and tourism. In common with Islay/Jura this growth potential is held back by a lack of critical transport infrastructure which this bid intends to help address. Elements of the bid include a contribution to the development of the Dunbeg Corridor with the construction of the half way roundabout and associated link road to a proposed commercial area that has been identified in the Local Development Plan. This will help enable the construction of a new link road to create a secondary access to Dunbeg to help enable a further phase of housing intended to be mixed tenure. It is estimated at this stage that in excess of 400 additional houses could be created here in Dunbeg providing much needed housing choice.
- 4.17 In addition, 2 hydrogen buses to serve local communities together with a green hydrogen fuelling station will be built in Oban working in partnership with Green Power. This will help Argyll and Bute reach net zero and a further element involves the development of a UAV Hub at Oban Airport expanding on what is already envisaged at Oban Airport.

Table D

Projects	Total £m	LUF £m	Match £m	Source
Dunbeg housing and commercial area - road and active travel infrastructure	14.3	11.4	2.9	TIF
Commercial area platform (regeneration – must be less than 10% value)	Included in above			
UAV airside hanger; Non-airside tent or building (TBD); LED lights and solar panels	6.5	5.8	0.7	RGD
Hydroban (garage adaptations; storage tanks; hydrogen dispensers; buses)	4.0	2.8	1.25	Private
Totals	24.8	20.0	4.85	

4.18 This is a highly ambitious bid containing potentially transformational investment for Islay/Jura and North Lorn Economic Zone. Match funding is intended to come from the Lorn Arc TIF funding, Rural Growth Deal funding in relation to the UAV hub, active travel funding and Green Power private sector funding. (See Table 1 of this report). A bid of £50m is considered exceptional by the UK Government but the council considers that this scale of investment is critical to the future success of both these areas and indeed wider Argyll and Bute.

5.0 CONCLUSION

- 5.1 Two bids for the UK Levelling Up Fund, one in relation to **Regeneration** activity and one relating to **Transport** have been prepared by council officers working across council services and also with partners and consultants. This has been a substantial area of work requiring a considerable amount of justification. The business case application forms are attached to this report as appendices and the main elements of each bid have been included in this report (See **Tables A to D**) and summarised in a number of tables embedded in this report.
- 5.2 **Table 1** of this report identifies potential match funding that is a requirement of the bid and members are asked to consider this as part of the decision making process. This will be taken from a range of sources including elements of capital funding spread over 2/3 years from roads, active travel and ports and harbours. Projects may also be supported through additional external funding sources such as place making and crown estate funding together with the Rural Growth Deal.
- 5.3 It is considered that these bids are potentially transformational for a number of our Argyll and Bute communities helping to deliver population and economic growth whilst at the same time helping to reduce our overall carbon footprint. The UK Levelling Up Fund is a highly competitive fund and there is no

guarantee for success. That said, the work done to help prepare these bids helps support our call for increased capital investment across Argyll and Bute to address our challenges and opportunities. Following consideration by members and approval, the bids will be submitted to meet the deadline of the Round 2 of the UK Levelling Up Fund on 6th July 2022. If the bids are successful work will then commence to develop the bids further guiding them through the regulatory process and further engagement with local communities.

- 5.4 The decision on both the bids from the UK Government is expected in the Autumn, however given the high number of bids expected there could potentially be a delay in any announcement.

6.0 IMPLICATIONS

- 6.1 Policy – The projects selected all comply with Council established policy.
- 6.2 Financial – The £125,000 received from UK Government to develop the bids is and the February approval of a further £150,000 from the recovery and renewal fund is sufficient at this time to make the bids. The report identifies the need for possible match funding and has identified possible sources in **Table 1** of this report.
- 6.3 Legal – None arising from this report however legal agreements may have to be entered into with relevant partners. The question of state subsidy has been raised and this is currently being investigated further.
- 6.4 HR – none arising from this report but in the event of being successful additional staff may be required to implement the project. Management costs have been built into the bid
- 6.5 Fairer Scotland Duty:
- 6.5.1 Equalities – None identified at this stage.
- 6.5.2 Socio-economic Duty – the projects are designed to offer improve socio-economic opportunities for local communities.
- 6.5.3 Islands – A number of the projects have positive implications for island communities.
- 6.6 Climate Change – The projects are aiming to help Argyll and Bute reach net zero through active travel, repurposing town centre buildings, low carbon buses and ferries.
- 6.7 Risk – The main risk remains in not having sufficient time, to deliver the bid if successful. This will need to be mitigated through good governance, project management and having sufficient resources in place to do the work.
- 6.8 Customer Service – nothing arising from this report

Kirsty Flanagan, with responsibility for Development and Economic Growth/Roads and Infrastructure Services

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24 June 2022

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