

LORN ARC – UPDATE REPORT AS AT 16th FEBRUARY 2016**1. EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to update the Policy & Resources Committee on progress in delivering the Lorn Arc Tax Incremental Financing Programme and its nine capital infrastructure investment projects led by Development and Infrastructure Services. The attached Highlight Report (Appendix A) outlines the current position of the three most immediate projects as at the 16th February 2016.
- 1.2 This paper also reiterates the need for the Lorn Arc and reports on key issues that will impact on the successful delivery of the projects from design development stage through to procurement and implementation.
- 1.3 This report sets out the envisaged timelines for the nine projects within the Lorn Arc programme and provides a brief synopsis of the current position relating to each of these projects.
- 1.4 Of particular note, is that the Phase 1 works at the new business park at Oban Airport (Project 9) has been completed.
- 1.5 Budget: Detailed below is the current budget position for both the revenue and capital approved budget allocations.

REVENUE	£000s
Total approved funds	1,607
Total project spend to date Jan 2016	71
Balance	1,536
CAPITAL	£000s
Total approved funds	1,388
Total project spend to date Jan 2016	483
Balance	905

- 1.6 It is recommended that the Policy & Resources Committee:
- Note the current progress with the Lorn Arc Programme;
 - Note that recruitment is underway for 1 full time Lorn Arc Programme Manager, 1 full time Lorn Arc Project Manager and a Secondment opportunity for a Lorn Arc Project Manager;
 - Approve Officers formally requesting from the Lorn Arc TIF Executive the removal of the two Barcaldine projects from the Lorn Arc Business Case but retaining the option to borrow up to £18.9m across the remaining projects or bringing forward additional projects in due course subject to approval and affordability.
 - Approve revising the reporting Tolerance levels in line with the levels set for the

Council's monthly Capital Financial Reporting i.e. Project Plan +/- 2 months on agreed completion and Project Budget +/- 5% of agreed budget subject to a minimum of £50,000.

LORN ARC – UPDATE REPORT AS AT 16th FEBRUARY 2016

2. INTRODUCTION

- 2.1 This report reiterates the need for the Lorn Arc and provides an update to the Policy & Resources Committee on progress in delivering the Lorn Arc Tax Incremental Financing Programme led by Development and Infrastructure Services. The attached Highlight Report (Appendix A) outlines the current position of the three most immediate projects as at the 16th February 2016.
- 2.2 The paper also reports on key issues that will impact on the successful delivery of the projects from development stage through to procurement and implementation.

3 RECOMMENDATION

- 3.1 It is recommended that the Policy and Resources Committee:-
- Note the current progress with the Lorn Arc Programme
 - Note that recruitment is underway for 1 full time Lorn Arc Programme Manager, 1 full time Lorn Arc Project Manager and a Secondment opportunity for a Lorn Arc Project Manager;
 - Approve Officers formally requesting from the Lorn Arc TIF Executive the removal of the two Barcaldine projects from the Lorn Arc Business Case but retaining the option to borrow up to £18.9m across the remaining projects or bringing forward additional projects in due course subject to approval and affordability
 - Approve revising the reporting Tolerance levels in line with the levels set for the Council's monthly Capital Financial Reporting i.e. Project Plan +/- 2 months on agreed completion and Project Budget +/- 5% of agreed budget subject to a minimum of £50,000.

4. DETAILS

- 4.1 **Background** – The Lorn economy and population continues to grow but this growth has been held back in recent decades by a lack of key infrastructure particularly in the Oban and the adjacent Dunbeg Corridor areas where the demand for growth has been greatest. A number of expansion plans have been put forward by both the private sector and local Housing Associations for inclusion in the Council's 2009 Local Plan and new 2015 Local Development Plan. Their implementation however has at best been partial due to a lack of available private finance to provide the necessary infrastructure. Whilst the council recognised this as a significant issue it had and continues to have insufficient access to capital funding of its own to help bridge this gap and allow identified these projects to proceed. Undeterred the council sought other funding mechanisms that could assist the

development process. One such mechanism is the Tax Incremental Finance (TIF) that was introduced by the Scottish Government and the Scottish Futures Trust to allow Councils to retain incremental Non Domestic Rates (NDR) within a defined area. TIF is an innovative approach to delivering economic growth by enabling Local Authorities to invest in public infrastructure projects designed to encourage economic regeneration and growth. This investment allows the Council to borrow funds based on the strength of future potential revenues raised from additional non-domestic rates. This is done in order to carry out specific agreed infrastructure works that enable both focused specific employment creating developments to take place and also ***enable and give confidence for others to enhance employment generation*** across a wider area, known as 'the red line area'.

- 4.1.1 An initial proposal for developing a TIF business case for the Oban area was submitted in August 2011 as part of the TIF pilot project identification case. This resulted in the Argyll & Bute TIF proposal being chosen to progress as one of six pilot projects and to develop a supporting business case.
- 4.1.2 On the 31 October 2013 the Council approved the Lorn Arc tax Incremental Financing (TIF) Business Case which outlined the proposals for borrowing up to £18.9m for delivering strategic road, port and site access infrastructure to enable the sustainable growth of the Oban and Lorn area and beyond. This package of infrastructure improvements delivered in partnership with external funders and the private sector, will lead to a total investment of circa £41m in local infrastructure. It should be noted that TIF was never envisaged to pay the total infrastructure cost of projects being taken forward by the private sector or any other public agency or association. The approved Lorn Arc Business Case sets out the affordable level of TIF contribution towards the delivery of the proposed projects. This investment will support the delivery of the Local Development Plan and assist population growth through the generation of new employment opportunities, which is the top priority of the Council and its CPP Partners as detailed in the Single Outcome Agreement (SOA).
- 4.1.3 On the 8 May 2014 The Scottish Ministers approved the Business Case subject the terms and conditions outlined in the Award letter. One of the key dates was that if the First TIF Investment had not occurred on or before 30 September 2015 the approval would cease to be valid and the TIF project would end on that date. The First TIF investment took place on the 1 September 2015. The TIF Project Period runs to the 25th year anniversary of the First TIF Investment i.e. September 2040. Another key date is that all the TIF Assets (projects) require to be Practically Complete on or before December 2020, unless otherwise agreed with Scottish Government. Table 1 below is indicating that all projects will have commenced by Q4 in 2017/18.

The £18.9m loan is repaid primarily through uplift in the NDR revenues within the red line areas which are generated by this increase in business activity which has been stimulated by the funded infrastructure. Any NDR uplift (adjusted for a displacement effect) within the Red Line Area is ring fenced and utilised by the Local Authority to repay the loan. The 'red line area' is identified in **Appendix B**.

The Council is entitled to retain 50% of the TIF Revenue uplift (adjusted for a displacement effect) following repayment in full of the TIF debt until the end of the 25 year TIF Programme Period, i.e. September 2040. The Council is required to use such TIF Revenue for further infrastructure investment for the purpose of long-term economic growth and/or regeneration. This will form an Economic Development Investment Fund providing a legacy to the Lorn Arc Programme. However it should be noted if NDR income is insufficient to repay the debt, this

shortfall will fall to the Council to repay. It is for this reason that the financial model is subject to constant monitoring by the strategic finance team that takes into account a number of factors such as timing, level of debt required and likely NDR generated by each project taken forward through TIF. Consequently, the Council must prioritise investment that can deliver sufficient NDR to cover borrowing costs otherwise there could be a negative impact on the provision of council services.

4.1.4 On the 22 January 2015 the Council approved the Lorn Arc TIF Programme Imitation Document (PID) which defined the aims and objectives and outcomes of the programme; outlined the work streams, key stages, activities, resources and responsibilities and set out the arrangements for governance and management of risks. The Council also approved six years revenue funding totalling £1.6m. It has to also be remembered that given the nature of the TIF funding, which is effectively permission to borrow, both the Scottish Government and Scottish Futures Trust require to approve any investment decisions in relation to the Lorn Arc which makes it an unique Argyll and Bute project.

4.1.5 The envisaged timeline, as at 22 January 2015, for start dates for each of the nine projects within the Lorn Arc programme are set out in table 1 below.

Table 1 : Capital investment start dates			
TIF Asset project	Construction start date (financial yearly quarter – Q1-4)		
	15/16	16/17	17/18
1 - Lorn Rd / Kirk Rd Improvements, Dunbeg Delivery 2014 -18		Q4	
2 - Gateway Features / Traffic Calming, Dunbeg Delivery 2015 -17		Q4	
3 - Halfwayhouse Roundabout / Dunbeg Development Road, Dunbeg Delivery 2016-19		Q4	
4 - South Oban Development Zone Delivery 2015-2020			Q4
5 - North Pier Extension, Oban		Q3	

Delivery 2015-18			
6 - North Pier Streetscape, Oban		Q4	
Delivery 2015 -18			
7 - Access Improvements, Barcaldine Project under review			
8 - Operations + Maintenance Port Infrastructure, Barcaldine Project under review			
9 - Existing Access Improvements and Business Park Enablement, Oban Airport Delivery 2014 -2018	Q2		

4.1.6 It should also be noted that the Lorn Arc is being taken forward by the Council in parallel with its separate capital regeneration initiative that is currently delivering the second phase of public realm works in Oban, significant investment in Lorn's affordable housing stock including 75 affordable houses at Dunbeg with proposals for a further 55 units, the new Oban High School that is scheduled to be on site this year and the proposed new berthing and step ashore facility and maritime reception centre on the North Pier. In addition to these Council investments phase 1 of the European Marine Science Park has been completed by HIE and a number of private sector developments are being taken forward including most recently a new retail store by Lidl together with a planning application being recently submitted for a new Premier Inn in Oban. The Council is also working with a number of partners to roll out digital connectivity in the Lorn area and establish Oban as a University Town.

4.2 **Current Position** - Project Managers are currently taking forward Oban Airport Access Road and Business Park, Lorn Road/Kirk Road and Oban North Pier extension. A review of the assumptions made in January 2015 PID will be undertaken to confirm they are still reasonable, the findings will be reported to the P& R Committee and OLI Members in due course. Meetings of the Lorn Arc Programme Board and Lorn Arc TIF Executive have been set for 2016. A brief synopsis of each of the projects progress is detailed below:-

4.2.1 Project 1 - Lorn Rd / Kirk Rd Improvements, Dunbeg – Start-up costs £238,000 were approved for this project on the 19th March 2015 by the Policy and Resources Committee. Initial design works are complete. Council has written to landowners intimating that they would like to purchase the land, a few have indicated they did not wish to sell their strip of land. Improvements to Kirk Road are necessary to allow further phases of the European Science Park to be completed and further houses to be constructed. Whilst it is standard practice for the developer to provide any necessary infrastructure to accommodate a new development this did not happen here and the Council subsequently gave a commitment to improve Kirk Road prior to the further development of the European Marine Science Park. The only funding mechanism the Council has at its disposal at this current time is TIF funding. Discussions on the wider Dunbeg Corridor road infrastructure with Link Housing Association have progressed to the point where it is prudent to review the Lorn Road/Kirk

Road design. This would require revised design work, revised financial modelling and a revised application for planning permission to be submitted. Preliminary discussions have taken place with Highland and Island Enterprise (HIE) on the aforementioned and they have accepted an invitation to the Dunbeg Corridor Working Group meeting in March to discuss how best to ensure that investment in road infrastructure in the area maximises development opportunities across the Dunbeg Corridor. The outcome of these discussions will be presented to members in due course.

4.2.2 **Project 2 - Gateway Features / Traffic Calming, Dunbeg** –Signage has been installed by Highlands and Islands Enterprise which provides direction to the European Marine Science Park and SAMs. Project will be further progressed following approval of the road infrastructure works at Lorn Road/Kirk Road and at the proposed Halfway Roundabout. A report will be presented to members at a later date requesting start-up costs for this project.

4.2.3 **Project 3 - Halfwayhouse Roundabout / Dunbeg Development Road, Dunbeg** – This project lies within the Dunbeg Corridor development area and as such has formed an element of discussions between the Council and the principle developer of this area, Link Housing Association (LHA) on how best they can develop their Masterplan for the development of this area, which includes the provision of approximately 800 homes, which will take over 20 years to deliver and commercial uses including retail and leisure. Following a senior officer meeting on the 20th October 2015 with LHA and the design team, Chaired by the Executive Director of Development and Infrastructure Services with Head of Services for: Economic Development and Strategic Transport, Planning and Regulatory Services and Community and Culture the Council has formed a cross directorate officer working group to support Link overcome the challenges of delivering this ambitious Masterplan. To date a further three meetings have subsequently taken place with LHA, a working group meeting, a presentation by LHA to the Lorn Arc TIF Executive and a meeting to discuss Dunbeg Option Agreement Structure. A further meeting of the working group is scheduled for the 3rd March. It is clear from earlier meetings with LHA that the working group will require to be expanded to include representation from across other council services, for example, Education, Leisure, Estates, and Legal etc. A paper will be presented to SMT on the 7 March seeking nominations from the relevant Services.

LHA has advised the Council that the cost of the road infrastructure is circa £12m for the initial distributor road and an additional £8m may be required to access the east side of site. LHA have been advised that from a Lorn Arc TIF perspective **any TIF investment needs to be paid off through an increase in Non Domestic Rates (NDR) and that Business Case will be required to demonstrate the affordability of the investment.** It has been acknowledged by LHA that other sources of public and private sector investment will therefore be required. For example, the Lorn Arc Business Case states **“the TIF Investment proposed (£2m) would part fund the enablement of the new Trunk Road junction and the first section of road to the west”**. TIF funded was never envisaged to pay for the full cost of the roundabout only as a contribution to private sector and other partner funding as necessary. Council officers are currently examining whether the roundabout as currently envisaged is in the right place and fit for purpose in terms of offering best value and having sufficient capacity to accommodate the anticipated level of development. A new access here is necessary as the Dunbeg Corridor requires two road accesses as the level of housing exceeds 300 dwellings. Transport Scotland have determined that a roundabout is the only acceptable way for this access to be taken from the Trunk Road. Council Housing officers are also currently framing a report to explore if the strategic housing fund could contribute towards the section of the road that would open up the first area of housing. A report on this will come to Members in due course.

4.2.4 **Project 4 - South Oban Development Zone** – This project requires a FBC to be prepared and submitted to the Scottish Government for approval. This FBC will need to scope out the infrastructure investments required along with the potential benefits and financial forecasts. To date, due to the resource issues outlined at 4.3 below the scoping exercise has been limited albeit negotiations have been taking place with private developers and HIE with regard to opening up access to business land zoned in the Local Development Plan. Given that this TIF investment is projected to lever the highest increase in NDR across the Programme – see Appendix C, it is vital that a significant focus is afforded to this project and that appropriate investment and resources are attached to it – see 4.3 below.

4.2.5 **Project 5 - North Pier Extension, Oban** – The Policy and Resources Committee approved start-up costs of £560,000 for this project on 14 May 2015. Options are currently being assessed for physical and financial viability and sequencing with other complementary capital regeneration projects to include the step ashore/ transit berthing facility and the maritime visitor facility. The meeting held on the 24th September 2014 to agree the best location for the interim berthing facility concluded that the north side of the north pier was the best location. This agreement now allows the design of the extension to be taken forwards on the North Pier. A consulting engineer was procured in January 2015 through an existing framework to assist with this. The findings of their marine investigations will be presented to members in the next couple of months.

4.2.6 **Project 6 - North Pier Streetscape, Oban** – Following the finalisation of the Oban Capital Regeneration Public Realm Schemes, projected completion date June 2016, and design approval of Project 5, discussions will take place on how best to proceed with this element.

4.2.7 **Project 7 - Access Improvements, Barcaldine** – . The port infrastructure was intended to cater for operation and maintenance of offshore renewable facilities, market conditions have altered whereby subsidies have been cut and competing oil prices have dropped significantly. Current market interest is for aquaculture use which is NDR exempt, therefore based on that projected end there would be no payback on the necessary TIF borrowing from an increase in NDR. As a result, this project is best taken forward by the private sector with the Council having a facilitator role. Initial discussions with Lorn Arc TIF Programme Board and the Lorn Arc TIF Executive support this view. The Financial Model Summary Output report – **Appendix C** shows that by removing these two projects the overall affordability of the Programme is enhanced, everything else remaining constant.

It is therefore proposed to formally seek the Lorn Arc TIF Executive approval, subject to approval by this Committee, to drop this project and project 8 below from the Lorn Arc Business Case but to retain the capacity to borrow up to £18.9m (subject to affordability/NDR uplift) at this time to explore if it is beneficial to the overall Programme to reallocate the investment for Project 7 and 8, £4.15m, in total, to another existing TIF investment(s) or to bring forward a new investment for approval.

4.2.8 **Project 8 - Operations + Maintenance Port Infrastructure, Barcaldine** – This project requires a FBC to be prepared and submitted to the Scottish Government for approval. This FBC will need to scope out the infrastructure investments required along with the potential benefits and financial forecasts. The above comments also apply to this project.

4.2.9 **Project 9 – Existing Access Improvements and Business Park Enablement, Oban Airport** – The Full Business Case report dated April 2015 defined the scope of the project

as 'an access road link of up to 140m to access the site of a new business park to the south of the existing Oban Airport Roundabout and support its effective marketing and attraction of inward investment. The FBC included an assessment of the Masterplan and incorporated a number of assumptions provided by external consultants using market evidence and professional judgement based on discussions with agents. This included:

- Plot 1 occupied first during 2017
- The remaining Plots will be developed incrementally;
- Starting with Plots 2 and 6 in 2018
- Plot 3 in 2020
- Plot 4 in 2022
- Plot 5 in 2024

Plot 6 was assumed to contain smaller units which would not produce NDR

The timescales for the delivery of all six plots by the private sector is ultimately dependent on both economic and property market conditions, the above timescales are purely indicative based on the aforementioned judgement.

The construction of the access road to facilitate the development of the new business park started on the 1 September, the design of the road, site supervision and works are being undertaken by the Councils Roads and Amenity Services. The commencement of the works meets **the Scottish Government's deadline for the First TIF investment**. Work on phase 1 is now complete. Feasibility studies, taking into account current expressions of interest from potential end users, to assess the capacity of the site in terms of power, water and sewage is currently underway. The utility providers have indicated that their report will be available within three months. The requirement to assess the sites utility capacity was outlined in the FBC, the timescales for undertaking these assessments are not wholly in the Council's control. Once the findings of the report are known the draft Masterplan will be updated and presented to members for discussions prior to submission for planning approval. This Masterplan will form the basis of a marketing promotion aimed at ensuring the site is developed as speedily as possible. Following approval of the Masterplan servicing design work can begin and a planning application submitted for water / sewerage and power / telecoms.

4.3 **Resourcing** –The current PID Resource Plan has made allowance for two full time Project Managers. At present due to requirements to allocate approximately 70% of one of these posts to cover the Oban Capital Regeneration Maritime projects and ongoing long term sick leave, the team is operating with approximately one FTE Project Manager. This is taking into account the recent appointment of an external project manager, contracted 3 days a week on a temporary basis.

4.3.1 Therefore to assist in addressing any slippage in project delivery which due to the above resource issues has taken place, particularly in relation to the scoping out of project nos 4 Oban South(a key project in the overall affordability of the TIF Lorn Arc Programme) a full time Project Manager will be appointed to take this project forward together with a full time Programme Manager to oversee the strategic delivery of the programme within the terms and conditions outlined in the Scottish Ministers Award letter of 8th May, the Lorn Arc TIF Business Case and the PID. A one-year Project Manager internal secondment opportunity is also currently being advertised, this will bring much needed additional resources to the team.

The above will assist the Council to meet Scottish Government's requirement that all the TIF projects are delivered by December 2020 if the Council wishes to retain 50% of any uplift in

NDR over 25 years from the date of the First Material Investment, September 2014 once the borrowing has been repaid

A review of the the existing Lorn Arc revenue allocation of £1.6m has demonstrated that the above posts are affordable.

- 4.4 **Programme Risks** – The Programme Risk Register - **Appendix C** outlines the main programme risks. The majority of the risks are deemed medium with the high risks around delivery of programme by 2020, increase in constructions costs and lack of private investor investment, all of which are currently being reviewed and will be reported to members in due course.
- 4.5 **Financial Model Summary Output** – The financial model calculates the affordability of the Programme over the life of the TIF agreement. Amendments to timescales, cost of the TIF investment, projected increases in NDR and their timing, cost of borrowing and inflation can all change the output of the Programme financial model. As shown in **Appendix D**, based on current assumptions the Programme remains affordable, in particular note positive impact of removal of projects 7 & 8 on affordability of programme based on all other assumptions remaining constant.
- 4.6 **Budget:** Detailed below is the current budget position for both the revenue and capital approved budget allocations.

REVENUE	£000s
Total approved funds	1,607
Total project spend to date Jan 2016	71
Balance	1,536
CAPITAL	£000s
Total approved funds	1,388
Total project spend to date Jan 2016	483
Balance	905

- 4.7 **Tolerances** The reporting tolerances in the current PID approved by Council on the 22 January are as follows:

- Project Plan +/- 15 working days
- Project Budget +/- 10% or £10,000 – whichever is greater.

It is proposed that the above levels are revised to bring them in line with the Council’s monthly Financial Capital monitoring i.e. Project Plan +/- 2 months on agreed completion and Project Budget +/- 5% of agreed budget subject to a minimum of £50,000.

- 4.8 **Marketing and Promotion** A key part of the Lorn Arc is the Marketing and Promotion of the Oban and Lorn area as a place to do business in with a focus on attracting new businesses to the area. A draft Marketing plan, which can be made available to members if required, has been prepared and will be used to target particular businesses with a focus on our key sectors of tourism, retail, renewables, food and drink and marine sciences. This marketing plan will also be subject to regular review as the National and Global economies are in a constant state of rapid change. For example, it is now rare to attract a large food retail operator to open up a

new store as there is now a national preference for smaller stores or using home delivery to secure better market penetration. Also recent UK and Scottish Government initiatives such as the City deals and Enterprise Zones being rolled out across the country can also distort the market and make attracting new businesses to locate in our area more difficult.

5 CONCLUSION

The Lorn Arc continues to make progress but the funding model is complex and subject to careful monitoring. Most significantly **Project 9** – Existing Access Improvements and Business Park Enablement, Oban Airport, is on site, thus meeting the end of September 2015 deadline for a First Material Investment required by the Scottish Government. Resources require to be enhanced to accelerate the delivery of the Lorn Arc TIF Programme, in particular project Nos 4 South Oban Development zone given that this project levers the highest increase in NDR. The review of the assumptions made in the January 2015 PID remain ongoing, once completed the PID will be updated and the findings reported to Members and presented to the various governance Boards and Policy and Resources Committee for approval.

6. IMPLICATIONS

POLICY	The delivery of this project fits with the Council's Corporate Plan, Single Outcome Agreement and approved Development Plan policy for town centre regeneration. The economic outcomes from this project will contribute to the Government's Economic Strategy.
FINANCIAL	Revenue spend contained within agreed allocation already given. for recruitment of project managers. No other funds being requested at this juncture Note positive impact of removal of projects 7 & 8 on affordability of programme.
LEGAL	Each project will have differing legal requirements; this will be laid out in each project's Project Initiation Document. No legal issues at Programme level.
PERSONNEL	Additional Project Management resources will be recruited as outlined in 4.3 above.
EQUAL OPPORTUNITIES	There are no equal opportunities implications.
RISK	As outlined in Appendix B
CUSTOMER SERVICE	There are no customer service implications.

Executive Director Development and Infrastructure Services: Pippa Milne

Policy Lead: Aileen Morton, Economic Growth and Ellen Morton, Special Projects

16 February 2016

For further information - please contact :
Helen Ford,
Oban Lorn Arc Regeneration Programme Manager,
Economic Development and Strategic Transportation,
Development and Infrastructure Services.

01436 658839

Appendices

Appendix A - Lorn Arc Programme Highlight Report 16 February 2016

Appendix B - Red Line Boundary Area

Appendix C - Risk Register

Appendix D - Programme Financial Model Summary Output