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**LORN ARC – UPDATE REPORT AS AT 28 SEPTEMBER 2016**

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**1. EXECUTIVE SUMMARY**

- 1.1 Since the last progress update in August 2016, the following matters have been progressed.
- 1.2 Consideration is being given to current market conditions for development, and as such the current and potential scale and make-up of the office and retail market, along with current external market conditions, and how this would impact upon the basis and viability of the TIF. There is a concern individual projects may not be able to generate the required uplift in NDR revenue to pay off the intended Council borrowing.
- 1.3 As a result of the above, Commercial Agents have been appointed to review the economic modelling assumptions in the 2013 Full Business Case (FBC). It is anticipated that the findings will be available for consideration at the November 2016 Lorn Arc Programme Board, following which a more substantive report will be prepared and reported to the first appropriate Oban Lorn and the Isles (OLI) Area Committee and Policy & Resources Committee. This report will outline options for funding the delivery of the required infrastructure works to continue to stimulate economic growth in Oban and the Lorn area on the back of the CHORD investments.
- 1.4 Building upon the last TIF Executive meeting with Scottish Government and Scottish Futures Trust (SFT) on the 20<sup>th</sup> July 2016, a positive meeting took place with SFT on the 7<sup>th</sup> September 2016 to discuss the current position in applying the TIF financial model. The model is based on an uplift in NDR revenue to pay off the intended Council borrowing of £18.9m over 25 years. The borrowing will finance the identified enabling works in the current Lorn Arc FBC to unlock economic growth in the Oban Lorn area.  
  
SFT continues to support the analysis of market conditions, building again on the information provided during July 2016. The findings of this and a way forward will be discussed and agreed by the TIF Executive. Following which the Financial Model Affordability presented to members at the August 2016 OLI Area Committee will be updated.
- 1.5 In addition, an options appraisal is being undertaken on how best to proceed with the development of the proposed Oban Airport Business Park, which will be presented to the November 2016 Lorn Arc Programme Board and thereafter to the first appropriate OLI Area Committee and Policy & Resources Committee in conjunction with review findings of the aforementioned pieces of work.
- 1.6 With regard to HR, both the Lorn Arc Programme Manager and Project Manager posts have been filled, the former started on the 12<sup>th</sup> September 2016 with the latter joining the team on the 17<sup>th</sup> October 2016. The team now has a full complement of staff.
- 1.7 Budget: Detailed below is the current budget position for both the revenue and capital approved budget allocations.

<b>REVENUE</b>	<b>£000s</b>
Total approved funds	1,607
Total project spend to date August 2016	206
Balance	1,401
<b>CAPITAL</b>	<b>£000s</b>
Total borrowing approved	1,388
Total project spend to date August 2016	635
Balance	753

1.8 It is recommended that the Policy & Resources Committee:

- Note the current position of the Lorn Arc Programme has been to the OLI Area Committee for information.
- Note that Commercial Agents have been appointed to review the economic modelling assumptions in the 2013 FBC.
- Agree that a more substantive report be prepared and reported to the first appropriate Policy & Resources Committee.
- Note the current position with the Lorn Arc Programme.

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**2. INTRODUCTION**

- 2.1 This report provides the Policy & Resources Committee with an update on progress in relation to the review of the commercial market and affordability assumptions in the Lorn Arc Business Case, latest position with regard the delivery of the individual projects, the recruitment of staff for the Lorn Arc team and latest budget position as at the end of August 2016.

**3. RECOMMENDATION**

## 3.1

It is recommended that the Policy & Resources Committee:

- Note the current position of the Lorn Arc Programme has been to the OLI Area Committee for information.
- Note that Commercial Agents have been appointed to review the economic modelling assumptions in the 2013 FBC.
- Agree that a more substantive report be prepared and reported to the first appropriate Policy & Resources Committee.
- Note the current position with the Lorn Arc Programme.

**4. DETAILS**

- 4.1 The following matters have been progressed since the last update in August 2016.

- 4.2 ***Review of commercial market and affordability assumptions in FBC*** – Consideration is being given to current market conditions for development, and as such the current and potential scale and make-up of the office and retail market, along with current external market conditions, and how this would impact upon the basis and viability of the TIF. There is a concern individual projects may not be able to generate the required uplift in NDR revenue to pay off the intended Council borrowing.

Therefore Commercial Agents have been appointed to review the economic modelling assumptions in the 2013 FBC. It is anticipated that their findings will be available for consideration at the Lorn Arc Programme Board in November 2016, following which a more substantive report will be prepared and reported to the first appropriate OLI Area Committee and Policy & Resources Committee. This report will outline options for funding the delivery of the required infrastructure works to continue to stimulate economic growth in Oban and the Lorn area on the back of the CHORD investments.

Building upon the last TIF Executive meeting with Scottish Government and SFT on the 20<sup>th</sup> July 2016, a positive meeting took place with SFT on the 7<sup>th</sup> September 2016 to discuss the current position in applying the TIF financial model. The model is based on an

uplift in NDR revenue to pay off the intended Council borrowing of £18.9m over 25 years. The borrowing will finance the identified enabling works in the current Lorn Arc FBC to unlock economic growth in the Oban Lorn area. Consideration is being given to current market conditions for development, and as such the current and potential scale and make-up of the office and retail market, along with current external market conditions, and how this would impact upon the basis and viability of the TIF. SFT continues to support this analysis, building again on the information provided during July 2016. The findings of this and a way forward will be discussed and agreed by the TIF Executive. Following which the Financial Model Affordability presented to members at the August 2016 OLI Area Committee will be updated.

4.3 The project updates reflect the 2013 FBC and may be subject to change following consideration of the Commercial Agent's report.

4.3.1 **Project 1 - Lorn Rd / Kirk Rd Improvements, Dunbeg** – Discussions and assistance continues to take place with Highland and Island Enterprise (HIE) regarding purifying the conditions linked to their planning consent to allow further phases of the European Marine Science Park (EMSP) to be completed. These matters require to be resolved prior to the Council incurring further costs to avoid the scenario where the Lorn Road/Kirk Road is upgraded with council funds but the EMSP development can't proceed as the conditions in their planning consent have not been purified. 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. Discussions have taken place with Highland and Island Enterprise (HIE) on the aforementioned and they have been invited to the Dunbeg Corridor Working Group meetings to discuss how best to ensure that investment in road infrastructure in the area maximises development opportunities across the Dunbeg Corridor. The next meeting of the Dunbeg Corridor is due to take place on the 13<sup>th</sup> October 2016.

4.3.2 **Project 2 – Gateway Features/Traffic Calming – Dunbeg** – directional signage has been installed and the project will be further progressed following approval of the road infrastructure works for projects 3 and 4 below.

4.3.3 **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, delivered over approximately 20 years and commercial uses including retail and leisure. As reported last month the Option Agreement between LHA/West Highland Housing Association and the Landowner has been extended to the 30<sup>th</sup> September 2017. The first meeting of the Dunbeg Corridor Programme took place on the 8<sup>th</sup> August 2016 to scope out the meetings and attendees going forward to deliver the Project Plan. The Project Plan sets out the activities which Link require to be addressed before concluding the Options Agreement with the Landowner. Link has called for the next meeting to take place on 13<sup>th</sup> October 2016.

The Council and LHA are currently considering entering a Minute of Agreement for the delivery of the Dunbeg Corridor, discussions are at early stages but when further

developed, details will be brought forward to this Committee for discussion.

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) through development of the commercial area and that Business Case will be required to demonstrate the affordability of any such 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 funding 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 have completed their review of whether the roundabout as currently envisaged is in the right place and have concluded that despite construction challenges that it is. A new access here is necessary as the Dunbeg Corridor requires two road accesses as the level of housing exceeds 300 dwellings. Transport Scotland has determined that a roundabout is the only acceptable way for this access to be taken from the Trunk Road. Council Housing officers have submitted an expression of interest to Scottish Government regarding the recently announced infrastructure funds for housing developments. They 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.

Discussions are taking place between the Council’s planning team and LHA’s planning advisors, Houghton Planning Ltd regarding LHA’s current proposals for the commercial area. In terms of the non-TIF elements of the Dunbeg Masterplan these are being considered separately to support the delivery of the housing.

**4.3.4 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. The initial scoping exercise has recently been completed by the Lorn Arc team and was presented to other officers across the Council on the 22<sup>nd</sup> September 2016 for their comments.

Although investment in South Oban is projected to lever the highest increase in NDR across the Programme, it should be noted that the existing Programme FBC has projected an increase of 70,000 sq ft in retail space in Oban South; in light of current food retail market trends this figure looks to be ambitious. For example, the new Lidl store is circa 15,000 sq ft. The Commercial Agent’s report referred to at 4.2 will review the retail market position and include their findings within the final report.

Following which a report on the proposed options for council investment in Oban South will be presented to the Lorn Arc Programme Board taking account of the findings from the aforementioned exercises.

**4.3.5 Project 5 - North Pier Extension, Oban** – The Policy & Resources Committee approved start-up costs of £560,000 for this project on 14<sup>th</sup> 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 on track to be completed by summer 2017. The findings of the consulting engineer’s marine investigations will be presented to members at the next OLI Business Day. Due to the summer 2017 delivery timescales for the CHORD North Pier

Maritime Visitor Facility and the Transit Berthing Facility, the projected construction start date for the North Pier extension is now likely to take place in Q2 2018/19.

4.3.6 **Project 6 - North Pier Streetscape, Oban** – Following the finalisation of the Oban Capital Regeneration Public Realm Schemes, the projected completion date is July 2016, and design approval of Project 5, discussions will take place on how best to proceed with this element. Again the projected construction date is likely to commence in Q4 2018/19.

4.3.7 **Project 9 – Existing Access Improvements and Business Park Enablement, Oban Airport** – The FBC 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 construction of the access road to facilitate the development of the new business park started on the 1<sup>st</sup> September 2015. The design of the road, site supervision and ancillary works were undertaken by the Council's Roads and Amenity Services, with the completion certificate issued in December 2015. The commencement of the works met **the Scottish Government’s deadline for the First TIF investment.**

As reported in August 2016, based on market interest to date the original projected increase in NDR, directly from this project, to cover the approved level of borrowing of £590k is unlikely to be forthcoming mainly due to projected end users being either exempt from NDR, eligible for relief or attracting a lower level of NDR due to change of projected use from predominately office to industrial. In light of the above, a position statement including an appraisal of options going forward has been prepared and will be presented to the Lorn Arc Programme Board in November for comments and thereafter brought to the first appropriate meetings of the OLI Area Committee and the Policy & Resources Committee.

4.4 **Resourcing** – Both the Lorn Arc Programme Manager and Project Manager posts have been filled, the former started on the 12<sup>th</sup> September 2016 with the latter joining the team on the 17<sup>th</sup> October 2016. The team now has a full complement of staff.

4.5 **Programme Risks** – The majority of the risks continue to be deemed medium with the high risks around the complexity of the funding model, delivery of programme by 2020, increase in constructions costs and lack of private investment. All of which are regularly monitored with movements reported to members, the TIF Executive and Lorn Arc Programme Board. In term of Project Risks, Project 9, Access Improvements and Enabling works at Oban Airport Business Park is deemed to be a high risk due to the issues previously reported to members.

4.6 **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. Based on assumptions reported to OLI members in August 2016 the Programme remains affordable based on all other assumptions remaining constant. The Programme financial model will be updated following the receipt of the Commercial Agents review referred at 1.3 above.

4.7 **Budget:** Detailed below is the current budget position for both the revenue and capital approved budget allocations.

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## 5. CONCLUSION

- 5.1 The review of the assumptions made in the 2013 FBC is currently being independently reviewed alongside a review of the Lorn Arc TIF funding model in consultation with SFT. The findings of both pieces of work together with the options appraisal for development of the Oban Airport Business Park and the findings of the scoping exercise for South Oban will be presented at the first appropriate OLI Area Committee and Policy & Resources Committee.

## 6. IMPLICATIONS

- 6.1 **Policy** - The delivery of this project fits with the Council's Corporate Plan, Local Outcomes Improvement Plan and approved Development Plan policy for town centre regeneration. The economic outcomes from this project will contribute to the Government's Economic Strategy.
- 6.2 **Financial** - Revenue spend contained within agreed allocation already given for recruitment of project managers. Note potential affordability concerns/lack of NDR uplift and also alternative funding sources being pursued.
- 6.3 **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.
- 6.4 **HR** - None.
- 6.5 **Equal Opportunities** - There are no equal opportunities implications.
- 6.6 **Risk** - As outlined in 4.5
- 6.7 **Customer Service** - There are no customer service implications.

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For further information - please contact:

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