

LORN ARC - UPDATE REPORT AS AT MARCH 2018

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update to the Policy and Resources Committee on progress with the Lorn Arc programme and latest budget position as at the end of March 2018.
- 1.2 Members will be aware that the funding for this project relies on forecast incremental Non-Domestic Rates (NDR) being sufficient to service debt before a project can be taken forward to implementation stage. Tax Incremental Financing (TIF) was regarded as an innovative approach to exploring a potential funding mechanism for a range of economic development and infrastructure projects that otherwise could not be delivered within available Council budgets. The original programme consisted of 9 individual projects across various locations, namely: Barcaldine, Oban Airport, Dunbeg Corridor, and Oban town centre. This list of 9 projects was reduced to 7 following agreement from the Scottish Government and the Council in recognition of private investment coming forward for Barcaldine which is now on site.
- 1.3 This original TIF business case has proven to be non-viable due to changes in anticipated rateable values, rates and reliefs, and significant changes in the National economy.
- 1.4 Following agreement from the Scottish Government (SG) in February 2017 and the Council in March 2017 to continue to support the social and economic objectives of the Lorn Arc Programme work has been progressing to find alternative routes for funding of the programme including examining the use of alternative innovative funding models to support inclusive growth.
- 1.5 At the March 2017 Policy & Resource Committee meeting, the Lorn Arc team was authorised to engage with SG and the Scottish Future Trust (SFT) to progress alternative solutions for the delivery for the Lorn Arc programme. This engagement has been progressing including a number of discussions on a possible growth accelerator model or being part of the emerging Rural Growth Deal. In order for this to be progressed further greater clarity will have to be given to the list of potential projects that can take best advantage of this approach
- 1.6 The TIF Programme Board have noted that the likely solution for the programme would be the progression of a case for use of a growth model such as the Growth Accelerator or a Rural Growth Deal. Moving forward with an alternative funding model, however, would require clarity on the projects that would form the basis of

that deal. Work on this has been ongoing, and is being developed in parallel with the Scottish Government and Scottish Futures Trust. A list of potential projects is currently being developed.

1.7 Individual projects are being progressed in different ways that are detailed in the report.

1.8 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 March 2018	618
Balance	989
CAPITAL	£000s
Total borrowing approved	1,388
Total project spend to date March 2018	869
Balance	519

1.9 It is recommended that the Policy and Resources Committee:

- Note the updates on the Lorn Arc programme provided in the paper.
- Approve the Oban Strategic Development Framework Initiation Document contained in **Appendix A**

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2. INTRODUCTION

- 2.1 This report provides the Policy and Resources Committee with an update on progress in relation to the Lorn Arc TIF, and the latest budget position as at the end of March 2018.

3. RECOMMENDATIONS

- 3.1 It is recommended that the Policy and Resources Committee:
- Note the updates on the Lorn Arc programme provided in the paper.
 - Approve the Oban Strategic Development Framework Initiation Document contained in **Appendix A**

4. DETAILS

- 4.1 Members will be aware that approval for the Lorn Arc Tax Incremental Financing ("TIF") Business Case was given approval on the 8 May 2014 by the Scottish Government ("SG"). Selection of the project as a pilot project provided SG and Scottish Futures Trust ("SFT") with an opportunity to assess how the TIF model might operate on a smaller scale project in a rural setting. This was regarded as an innovative approach to exploring a potential funding mechanism for a range of economic development and infrastructure projects that otherwise could not be delivered within available Council funding. The TIF pilot project consisted of 9 individual projects across various locations, namely: Barcaldine, Oban Airport, Dunbeg Corridor, and Oban town centre. This list of 9 projects was reduced to 7 following agreement from SG and the Council in recognition of private investment coming forward for Barcaldine which is now on site.
- 4.2 This original business case has proven to be non-viable due to changes in rateable values and significant changes in the National economy. Whilst the full programme has been assessed as financially unviable, it should be noted that the current level of approved drawdown (£1.388m. of which £0.869m has actually been drawn down and spent), is forecast as being capable of being paid from TIF income over the life of the project, based on the current NDR assumptions. Key projects are still being progressed through various means and details are outlined below. Notwithstanding this progress the project team continues to take a cautious and prudent approach in terms of delivery and the drawdown of any further TIF debt will continue to be subject to affordability testing and internal governance processes as outlined in the Project Initiation Document ("PID").

- 4.3 At the March 2017 Policy & Resource Committee meeting the Lorn Arc team was authorised to engage with Scottish Government (SG) and Scottish Future Trust (SFT) to progress alternative solutions for the delivery for the Lorn Arc programme. The team met with SFT in March 2017 and a Council TIF Programme Board was subsequently held in April 2017.
- 4.4 The TIF Programme Board have noted that the likely solution for the programme would be the progression of a case for use of a growth model such as the Growth Accelerator or a Rural Growth Deal. Before the Council can progress an alternative funding model, there needs to be internal agreement on the projects that would form the basis of any proposed deal. Work on this has been ongoing in conjunction with SG and SFT, with a tentative list of projects being developed. The paragraphs below outline the position in relation to the projects currently being taken forward or are subject to further consideration by Council officers and representatives of SG and SFT. These projects will enable a wide range of outputs including growth in the tourism, marine science, aquaculture and skills sectors and will support general growth in the area by removing barriers such as a lack of housing and road capacity.
- 4.5 **North Pier Extension:** With the recent opening of the CHORD Transit Berthing Facility and North Pier Harbour Building on the 6th of April 2018, the North Pier is becoming more tourist focused with potential for a new hotel on the adjacent vacant site.
- 4.6 During the final phases of construction on the pontoons in July 2017, it was decided that a defect noted in the North Pier face should be repaired while the opportunity was available with all the contractors, engineers, and equipment on site. As part of this in December 2017 the consulting engineers for the pier extension were stood down while the defect in the wall was monitored and surveyed. Council officers and contractors took this forward by temporarily relocating pontoons and services and instructing pointing and surveys to assess the extent of the defect. Whilst the outer wall survey was completed in January 2018 showing no movement, the inner structural survey work is will continue until the end of April 2018. The final repair works will commence in October to the North Pier to avoid the busy summer season. It is intended however to put the pontoons back to their intended position April/May when any risks to the pontoons have been mitigated.
- 4.7 Officers had previously reported that an update would be given on the potential pier extension options in December 2017. Due to the timings and extent of surveys required for the defect this was not possible. It is anticipated that an update on the potential extension options will be presented to members in September 2018.
- 4.8 The success of the pontoons last summer, and the high level of interest from new businesses wishing to operate from the facility and new cruise liner bookings, have proven the attractiveness of Oban and the North Pier as a substantial marine visitor hub for the West of Scotland. The success of the breakwater for large vessel use has also resulted in interest from multiple users wishing to relocate their itineraries to Oban and we are experiencing an increase in enquiries from world wide cruise ship companies and marine tourism operators from Scandinavia and the Benelux

countries.

- 4.9 The project manager, in partnership with Stewart Clark, Service Manager of the council's Piers and Harbour's service and his team, continue to keep BID4OBAN and the Oban Cruise Group updated. Weekly updates are ongoing with Stewart Clark with regards to potential for impacts on the future Statutory Harbour Authority and its members regarding an anticipated increase in traffic in the bay.
- 4.10 **South Oban Development Zone:** The original TIF business case did not identify a specific project in the south of Oban but made assumptions about the potential investment and returns. The view is that in terms of Oban South Development Zone, the development of a **Strategic Development Framework** is now essential for the future growth of Oban and wider Lorn. An internal working group of Council Officers have been meeting on a regular basis to help identify the critical actions to create the framework. The Strategic Development Framework is intended to:-
- 4.11 Establish a collaborative way forward to ensure the potential for sustainable economic and population growth in Oban and wider Lorn, as identified in the Argyll and Bute Outcome Improvement Plan, is maximised and the potential for conflict between projects is minimized;
- Promote delivery through an action plan identifying actions, resources, partners and timeframe;
 - Help identify critical projects that need to be taken forward to secure the future growth of Oban and wider Lorn.
 - Act as a catalyst for additional private sector led investment
 - Ensure the strategic integration of projects such as the emerging Rural Deal;
 - Support funding bids with a clear strategy and identified priorities.
 - Provide a vehicle for joint working both internally and with our external partners such as Transport Scotland and HIE.
 - Perform the role of a pilot for long term vision and strategies for other towns and settlements.
- 4.12 An initiation document for the Oban Strategic Development Framework is included in **Appendix A** of this report for member's consideration and approval. This Framework deals with a complex range of issues that require to be tackled through a partnership approach to enable the growth of Oban to continue. It is intended that the Oban Strategic Development Framework will act as a pilot for further regeneration work in Argyll and Bute given the need for council services to collaborate internally together with key stakeholders to address complex issues and deliver a long term vision for Argyll and Bute communities. It is intended that the Framework be finalised by April 2019 and any funding for this work will be subject to separate budget approval and not taken forward through TIF funding.
- 4.13 **Oban Airport Business Site:** An access road has been built as envisaged in the original TIF business case and further work has been ongoing to inform options for marketing and developing the site. Commercial Agents, Ryden have completed a report assessing the property market and considering options for development of the site that has informed the site masterplan. In summary, the report findings suggest that a public/ private joint venture, utilising a phased development of the

site is likely to represent the preferred option from the Council's perspective. The development of the site is most likely to be a mixed use development, offering some class 4 (office) and class 5/6 (industrial) space, while hopefully also reserving land for some airport related uses. This approach aligns with Private Sector interest already on the site which has shown demand for class 5/6 (industrial / storage and distribution).

- 4.14 A detailed development brief document has been produced by the Lorn Arc team that will inform a future Masterplan or detailed planning consent undertaken by the successful bidder for the site that will be subject to public consultation. This development brief will include the identification of possible constraints on the site and likely acceptable uses.
- 4.15 Discussions are ongoing between Development and Infrastructure Services and Customer Services with regard to the marketing of the site informed by the detailed development brief. Through Business Days, OLI Members will be kept updated on this process as it develops.
- 4.16 **Dunbeg Lorn/ Kirk Road:** Previously, Council Housing Officers submitted an expression of interest to Scottish Government for up to £1.9m in grant funding to upgrade the Dunbeg Lorn / Kirk Road under the SG Housing Infrastructure Fund ("HIF") and this was successful with notification being received from SG at the end November 2017. Work then took place to start project alignment with the Public Utility companies (it had to wait for SG award to avoid cost risk to the Council), with a project start January 2018. There was some slippage in the SG award timeline, which in turn has delayed engagement with the preferred contractor, utilities companies and the Council. Despite this, Scrub clearance and tree felling works have been concluded and Scottish Water has commenced works on site with regard to both the sewer and the water main (a temporary footpath has been provided during the duration of these water main works). Work is ongoing with the preferred contractor who has signed the main contract with the council, utilities companies and the Council on finalising the program for the main construction works with a likely end date of construction in October 2018. LINK Housing Association has submitted a detailed planning consent for 300 new homes in April that will now be considered through the planning process and if approved will be accessed by the improved Kirk Road. It should also be noted that the Scottish Government has approved funding of £35m to help deliver this housing development by 2021.
- 4.17 A communications strategy is in place, with bi-weekly updates being provided to Members, the Community Council and placed as posters in the village shop (and elsewhere if distributed by the Community Council). The Council's Twitter and Facebook accounts will also be utilised for particular events / updates.
- 4.18 The SG Housing Infrastructure Fund funds the construction of the Lorn / Kirk Road only to the road junction with the road serving the existing housing estates, and not to the European Marine Science Park which is a further circa 170m of road. The upgrade of this additional section of road is the responsibility of HIE as it is a requirement of any further development of the European Marine Science Park. HIE are therefore presently actively looking at their options for the upgrade of this section of road and working with the Council Design Services to move things

forward.

- 4.19 **Dunbeg Halfway House Roundabout:** The developer planning a large scale luxury hotel and spa resort at the Dunbeg/Halfway House site has renewed the planning permission in principle approval for the roundabout and it is our understanding that they are also seeking to renew planning consent for the spa resort development, both of which are positive signals of intention from the developer.
- 4.20 In addition, a commercial area sub-committee of the Dunbeg Working Group which is chaired by Link Group, met at the end of January 2018. Participants included representatives of the Council, Link Group and Dunstaffnage Estate. The meeting was positive and there was an accepted understanding that the roundabout was very much a development all parties wish to see taken forward but that the principal barrier to the roundabout's construction was funding. Accordingly, a focused working group was held on the 8th Feb 2018 to look at how this project can be taken forward and options relating to funding of the project. It should be noted that the Council reconfirmed its willingness to invest as soon as a practical and affordable solution was identified for the financing of the project. Such a solution is most likely to involve the private sector coming forward with a reasoned and justified financial proposal that identifies what this project would enable in terms of development potential and also identifies any funding gap that would require to be filled by the public sector through a number of possible funding options including TIF, a Rural Growth Accelerator Model, Housing Infrastructure Fund or as part of a Rural Growth Deal.
- 4.21 **Programme Risks:** A number the risks to this project have been mitigated due to changes in timelines, progress with certain projects and a recognition that the TIF funding model on its own is not sufficient to deliver a number of the projects. All projects are regularly monitored with movements reported to Members, the TIF Executive and TIF Programme Board. It should also be noted that in relation to Kirk Road that contingencies relating to the construction of the road is limited to £90k made available through TIF approved draw down. The Scottish Government Housing Infrastructure Fund only funds contingencies retrospectively on a fully justified basis and there is a risk the council will have to cover the costs of any overspend above the £90k approval before claiming back from the Scottish Government. This risk was made clear when the council accepted the grant offer and the costs of delivering the road improvement are being carefully monitored.
- 4.22 **Financial Model Summary Output:** The TIF financial model calculates the affordability of the programme over the life of the TIF Agreement. Amendments to timescales, cost of the TIF investment, projected incremental NDR and their timing, cost of borrowing and inflation can all change the output of the programme financial model.

As reported in March 2017, the Commercial Agent's (Ryden) report, taken together with Argyll & Bute Council's own knowledge of the prevailing local market conditions, suggested that the timing and magnitude of future development and the associated incremental NDR generation is unlikely to be forthcoming as anticipated in the 2013 TIF business case. The result of this re-modelling exercise was that in

all cases (best to worst case scenarios), there was a deficit over the 25 year TIF period for the full potential capital spend programme of £14.74m. This exercise demonstrates that, in the present form, the full TIF programme of £14.74m is not currently affordable, based on those NDR assumptions. It should be noted however, that the current level of approved drawdown (£1.388m, of which £0.824m has actually been drawn and spent), is forecast as being capable of being repaid from TIF income over the life of the project based on current NDR assumptions.

4.23 **Budget:** Detailed below is the current (March) budget position for both the revenue and capital approved budget allocations.

REVENUE	£000s
Total approved funds	1,607
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5. CONCLUSION

- 5.1 The team's current focus for delivery of projects in the Oban area is the Dunbeg corridor, which would see development of the Halfwayhouse roundabout (potentially via a combination of funding mechanisms, including the private sector, TIF, Growth Accelerator, Scottish Government Housing Infrastructure Fund and Rural Growth Deal Lorn Road/ Kirk Road development (via SG's Housing Infrastructure Fund), and the Oban Airport Business Park (via a potential public private joint venture or delivered by solely the private sector following an open marketing exercise) that will be informed by market reports, development options and a detailed development brief covering Oban Airport Business Park. The Council is also taking forward a Strategic Development Framework for Oban that will be coordinated by the Lorn Arc team and working with a number of Council services with an aim to finalise by September 2019. It is anticipated that an update to members for the extension of the North Pier with the substantiation will be presented at the end of September 2018.
- 5.2 In view of progress to date and reported changing market conditions, the team continues to review projects to analyse the potential of them being delivered under current TIF arrangements (with an initial focus on the Dunbeg corridor and commercial/ leisure development, which this would unlock). However, work continues to explore all potential projects which could deliver economic and social benefits for the Lorn Arc area and this exploratory work will be undertaken with cognisance of the work that is ongoing with regards to attracting additional inward investment both private and public including potential for a Growth Accelerator initiative and/or the Rural Growth Deal.
- 5.3 Work is consequently continuing with the Scottish Government and Scottish Futures Trust to identify projects that can be included within a Growth Accelerator

programme and/or Rural Growth Deal for the Oban and Lorn area. Any subsequent Growth Accelerator business case for Oban would require Council and Scottish Ministerial approval.

6. IMPLICATIONS

- 6.1 **Policy** - The delivery of this project fits with the Council's Corporate Plan, Local Outcomes Improvement Plan, Economic Development Action Plans (EDAPS) and approved Local Development Plan. The economic outcomes from this project will contribute to the Scottish Government's National Economic Strategy.
- 6.2 **Financial** - Note affordability of NDR uplift, also alternative funding sources being pursued, and that the current level of approved drawdown (£1.388m, of which £0.824m has actually been drawn down and spent), is forecast as being capable of being repaid from TIF income over the life of the project under current NDR assumptions.
- 6.3 **Legal** - Each project will have differing legal requirements; this will be laid out in each project's PID. 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 4.11.
- 6.7 **Customer Service** - There are no customer service implications.

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