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**LORN ARC - UPDATE REPORT DECEMBER 2018**

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**1. EXECUTIVE SUMMARY**

- 1.1 This report provides the Policy and Resources Committee with an update on progress in relation to the Lorn Arc TIF, the latest budget position as at the end of October 2018 and proposals to look at the future operation of the Lorn Arc given the current status of ongoing projects with only the Half Way Roundabout project considered live in terms of possible Lorn Arc TIF funding.
- 1.2 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	1,591
Total project spend to date February 2018	634
Balance	957
<b>CAPITAL</b>	<b>£000s</b>
Total borrowing approved	1,388
Total project spend to date February 2018	890
Balance	498

**2. RECOMMENDATIONS****2.1.1** It is recommended that the Policy and Resources Committee:

1. Note the updates on the Lorn Arc programme provided in the paper.
2. Agrees that in light of the updates provided on the individual projects (paras. 4.5 through to 4.16) that consideration is given to the future of the Lorn Arc programme.
3. Agree that future reporting on the Lorn Arc will be limited to projects with potential for TIF funding and the financial monitoring of the overall programme.
4. Note that the halfway House Roundabout remains as a potential project and that it will only be able to proceed if:-
  - a. A robust business case shows that the additional NDR generated from the associated development would fund the necessary council borrowing;

- b. The commercial developers of those NDR generating development sites provide appropriate legal agreements that contain sufficient certainty that those developments will go ahead within an appropriate timeframe.

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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, the latest budget position as at the end of October 2018 and proposals to restrict future activities given the current status of ongoing projects and the lack of a positive business case to advance projects through a growth accelerator model.

**3. RECOMMENDATIONS**

- 3.1 It is recommended that the Policy and Resources Committee:

1. Note the updates on the Lorn Arc programme provided in the paper;
2. Agrees that in light of the updates provided on the individual projects (paras. 4.5 through to 4.16) that consideration is given to the future of the Lorn Arc programme;
3. Agree that future reporting on the Lorn Arc will be limited to projects with potential for TIF funding and the financial monitoring of the overall programme.
4. Note that the Halfway House Roundabout remains as a potential project and that it will only be able to proceed if:-
  - a. A robust business case shows that the additional NDR generated from the associated development would fund the necessary council borrowing;
  - b. The commercial developers of those NDR generating development sites provide appropriate legal agreements that contain sufficient certainty that those developments will go ahead within an appropriate timeframe.

**4. DETAILS**

- 4.1 Members will be aware that approval for the Lorn Arc Tax Incremental Financing ("TIF") Business Case was given 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 funding. The 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 the Scottish Government 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 capital drawdown (£1.388m. of which £890m 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 remaining members of the project team continue 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 **Status of Lorn Arc Projects**

4.4 The Lorn Arc Initiative has been in operation since 2014. Despite the issues associated with the original business case a number of key deliverables have been achieved with the assistance of the Lorn Arc resources committed by the council in partnership with the Scottish Government and Scottish Futures Trust. The Lorn Arc team have also assisted the delivery all of the Oban CHORD regeneration project that was funded separately by the council and a number of our partners.

4.5 **Barcaldine:** One of the original 9 projects this project was taken forward by the private sector to create a state of the art hatchery for Scottish Sea Farms who have a significant and growing presence in Argyll. There was no need for TIF funding to support this project. The £48m hatchery is currently under construction and it is hoped that further phases could also come forward on adjacent land zoned for business use. In order to support further growth at Barcaldine the council has been working with West Highland housing Association to build 10 affordable homes in Barcaldine. There is no further need for Lorn Arc involvement in this project.

4.6 **North Pier Extension:** With the opening of the CHORD Transit Berthing Facility and the North Pier Harbour Building, including new craft shop, the North Pier is becoming more tourist focused.

The pontoons have operated in their intended position for the full summer season and has generated a significant amount of business for Oban with visitors directly accessing the town centre. The partnership with BID4OBAN, Piers and harbours staff and the Cruise Group has continued well over the summer and there is scope for further collaboration as we move forward including with existing and new private businesses. It is envisaged that business will continue to expand at North Pier and this will in turn have positive knock on effects to adjacent businesses in Oban and wider Lorn.

The work completed at North Pier has not affected the options for extending the pier. However given that the pontoons have delivered many of the outcomes of the original business case, the lack of NDR generated from any future expansion of the pier and the new focus on tourism activity it is considered that no further work be undertaken on this project through the Lorn Arc.

4.7 **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 for wider Oban is now considered essential to enable further economic growth. This work will support the development of the emerging Argyll and Bute Local Development Plan 2.

- 4.8 An internal working group consisting of council officers has continued to meet to help identify the critical actions considered necessary to enable the future growth of Oban and wider Lorn delivered through the Strategic Development Framework. The council recognises that the work required lies beyond the resources of the council and discussions have been held involving representatives of a number of external agencies and the private sector. Key areas of focus will look at availability of land for specific uses, best use of council assets, traffic flows including possibilities for improving active travel routes, establishing clear economic and infrastructure priorities, the availability of parking for residents and tourists and the provision of additional, affordable housing including student housing.
- 4.9 The Oban Strategic Development Framework will also help inform elements of the emerging Rural Growth Deal that has been submitted to both the Scottish and UK Governments and help provide the necessary evidence to influence the ongoing national transport and projects review. As part of the Oban Strategic Development Framework, it is proposed to undertake a survey of road network usage and parking arrangements in Oban town centre utilizing £75k of approved ear marking reserves. This work is currently being procured.
- 4.10 It should be noted that the Oban and Lorn economy continues to grow with a number of developments being taken forward in Oban during the period of the Lorn Arc. Most notably the implementation of a £35m investment by Scottish Water in water treatment facilities, the delivery of new Oban High School, a number of private sector investments in retail and tourism, harbour improvements and a significant number of affordable housing in various parts of the town and also surrounding Lorn villages. In addition, there are various other works ongoing by HIE (facilitation and construction of a new road which will release circa 5 acres of business land) and the development of the European Marine Science Park currently being taken forward through a revised masterplan led by HIE.
- 4.11 **Oban Airport:** The Airport Business Park was placed on the open market in the summer. The marketing of the site has been informed by a detailed planning statement that was published on the council web site together with a contaminated land study that was made available to all interested parties. A closing date for the marketing of the site was set for the 23<sup>rd</sup> of November 2018. Discussions with interested parties are ongoing and Members will be given a substantive update when it is appropriate to do so.
- 4.12 Council Officers have secured European funding to erect new entrance signs at the airport that will be erected before the end of the calendar year. No match funding from the council was required.
- 4.13 **Dunbeg Lorn/ Kirk Road:** Work is nearing a conclusion on the improvement works to the Dunbeg Lorn/Kirk Road. This work was made possible due to a successful

bid to the Scottish Government (SG) for £1.9m in grant funding under the SG Housing Infrastructure Fund ("HIF").

- 4.14 The works have proven to be challenging given the position of existing services and the need to make significant improvements to them, the joint usage of the road by vehicles and pedestrians and the need to ensure safety is our top priority. A communications strategy is in place from the start of the operation, 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 have also be utilised for particular events / updates. Following the completion of the Kirk Road improvement works there will no longer be a need to update through the Lorn Arc.

Further works to the remaining length of road to the European Marine Science Park (EMSP), circa 170m of road, with be done by HIE as part of the future expansion of the EMSP. The design of this stretch of the road has been taken forward by the council's roads design service commissioned by HIE.

- 4.15 It should be noted that the improvements currently being undertaken to Lorn and Kirk Road have enabled LINK's proposed development of 300 affordable homes to proceed following the granting of detailed planning consent by the council. This proposal has also secured additional grant aid from the Scottish Government of circa £35m plus the investment of LINK Housing Association and the council's own strategic housing fund. Works have now commenced with a completion date for all 300 new affordable homes by 2021.

- 4.16 **Dunbeg Halfway House Roundabout:** Following the granting of detailed planning permission for LINK's 300 affordable houses at Dunbeg there has been a renewed focus on the deliverability of a secondary entrance to the village at the Halfway Roundabout. The council has made it clear to the potential developers of the roundabout that this can only be taken forward, with an element of public sector support, if a viable and fully justified business case can be brought forward showing that there would be sufficient NDR generated to pay back council borrowing together with a legal assurance from the private developer that the development will proceed in an appropriate timescale. It is also important to be able to demonstrate that the construction of the new roundabout can facilitate access to both sides of the A85, the establishment of the new commercial area adjacent to the A85, and sufficient road to reach the first cluster of new housing. The remaining road will be completed as each cluster of housing is developed before eventually joining up with the proposed new LINK development road end.

- 4.17 **Growth Accelerator Model** - Following further discussions with the SFT over the summer with regard to a possible business case, or cases, for the use of a growth model such as a Growth Accelerator it has been decided that we are not in a position to make a successful business case for further Scottish Government support using this model. That said, Scottish Futures Trust have advised us to continue the TIF process through our emerging Rural Growth Deal (RGD) that was approved by Council in October and submitted to both Governments in November. The RGD, as it currently stands includes a number of potential projects for Oban including looking at addressing critical economic infrastructure including addressing

transport connectivity issues, the establishment of Oban Airport as a Regional Hub for the Highlands and Islands and the creation of a new Marine Training Facility and associated revenue funding for skills/training support and course development. Other aspects of the RGD such as digital connectivity improvements, housing for key workers and support for tourism and aquaculture business sectors could also be significant for Oban and wider Lorn.

4.18 In order to inform this ongoing process, including the further identification of specific projects, officers across the council have been working to identify priority projects and discussing priorities with key stakeholders including Hi Trans, HIE, Transport Scotland, Cal Mac, Albellio/Scotrail and C Mal.

4.19 **Programme Risks:** Following the November 2016 financial model update, and issues arising since in terms of project delivery timeframes, the majority of the risks are deemed high around the complexity of the funding model, and lack of private investment. All of which are regularly monitored with movements reported to Members, the TIF Executive and TIF Programme Board. Any decision to scale down the activities of the Lorn Arc will require the agreement from the Scottish Government who are advised by the Scottish Future Trust. To achieve this the Scottish Government will have consider the deliverables we have secured through the Lorn Arc is sufficient to ensure that the loan is paid back through an uplift in NDR.

4.20 **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 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 FBC. 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 capital drawdown (£1.388m, of which £890m 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.

4.21 **Budget:** Detailed below is the current budget position for both the revenue and capital approved budget allocations. The ambitions of the Lorn Arc have been substantially realised and that remaining projects are now looked to be progressed through the development of the Oban Strategic Framework and emerging Rural Growth Deal. It is therefore considered appropriate that the programme now focuses on financial monitoring including ensuring that the contract with the Scottish Government is maintained to allow for the pay back of both capital and revenue expenditure through NDR payments. This will require the council to clearly demonstrate to the Scottish Government what the Lorn Arc has helped deliver in

relation to the original business case and how future potential projects will be delivered. Consequently, TIF funding could be used in the future as a funding mechanism linked to the future delivery of Lorn based projects currently included in the Rural Growth Deal submitted to both Governments.

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## 5. CONCLUSION

- 5.1 The Lorn Arc initiative, utilising TIF as a funding mechanism has enabled a number of the original business case projects to proceed and others have also moved forward such as the project originally conceived for Barcaldine without the need for TIF or any other form of council funding. Work is continuing to complete projects such as the upgrade of Kirk Road, made possible via a successful bid to the Scottish Government's Housing Infrastructure Fund, and the Airport Business Park and it is also intended to report back to members in due course for options for the expansion of North Pier including the option of no further works. Discussions are still underway with regard to the half way Roundabout at Dunbeg with private developers and a number of council officers to assess the future viability of this proposal with the onus now being placed on the private sector to provide a robust and compelling business case backed up with a legal agreement for further public sector support to be considered.
- 5.2 It has become clear however that the TIF model, on its own, is now unaffordable as a funding mechanism. Discussions with the Scottish Futures Trust has also clearly established that the use of a growth accelerator model at this time is not feasible given the status of current projects and insufficient data being available to deliver a robust and sufficiently detailed business case to enable Scottish Government agreement. Consequently, it is recommended that the Committee note progress to date and agree that the activities of the Lorn Arc now focuses on the remaining live project at the half way Roundabout, subject to satisfying conditions together with financial monitoring and the status of the current contract with the Scottish Government to ensure that the council loan is continued to be paid back through the generation of additional NDR income. It should be noted that it is recognized that a number of key economic infrastructure issues remain for the Oban and Lorn area. Work is continuing to address this through the Oban Strategic Development Framework that will in turn inform the emerging Argyll and Bute Local Development Plan 2. It is also recognised that TIF funding could however still play a key role in assisting the delivery of the emerging Rural Growth Deal given a number of key Oban and Lorn projects that have been identified in our agreed proposition document.



## 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 £590m 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 4.19.
- 6.7 **Customer Service** - There are no customer service implications.

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