

LORN ARC TIF – PROGRESS APRIL 2020

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**1.0 INTRODUCTION**

- 1.1 This report provides a short overview of the current status of the Lorn Arc Initiative and recommends that officers continue to engage with the Scottish Government, Scottish Future Trust and the private sector in an effort to progress the programme within the context of the Covid – 19 response.

**2.0 RECOMMENDATION**

- 2.1 That Members consider this update on the Lorn Arc Initiative and agree that officers continue to engage with the Scottish Government, Scottish Futures Trust and the private sector to ensure the Lorn Arc can continue to be progressed subject to business case approval as appropriate and within the context of the current Covid – 19 response.

**3.0 CONTEXT**

- 3.1 An overview of the Lorn Arc Initiative and progress to date is provided in **Appendix A** of this report. Following a previous decision by the Policy and Resources Committee Officers have focused on the delivery of the half way roundabout as part of the delivery of the overall Dunbeg Corridor masterplan that has already been approved by the Council. Progress depended on working with the private sector in terms of the delivery of the overall viability of the commercial area that is required to be accessed by a new roundabout on the A85. Recent discussions have indicated that the delivery of both the commercial area and the roundabout is potentially feasible subject to further work on design, flooding impact and peat impacts. This work is being taken forward by the private sector at this time and will be used to inform a detailed planning application that will be lodged in the next few months subject to the impacts of Covid - 19.
- 3.2 Officers have also been engaging with both the Scottish Government and the Scottish Futures Trust in relation to clauses in the original business case that

sets end dates for the delivery of the overall programme. Initial discussions have been positive with the route identified to change these clauses being a letter to the Cabinet Minister. This briefing paper seeks Member's approval to continue our engagement with the Scottish Government and write this letter for her consideration. It is also intended to re-establish the Lorn Arc Programme Board to oversee the progress of the Lorn Arc and inform future council decisions.

- 3.3 The report also asks that Officers continue to liaise with the private sector to continue the development of the business case including the commercial viability of the new industrial area. Further work is also ongoing on the development of the Oban Strategic Framework that is likely now to form part of an economic recovery plan for the Lorn area and the development of Oban Airport that also forms part of our Rural Growth Deal.
- 3.4 Members should note that the debt incurred by the Lorn Arc continues to be paid off due to a surplus in NDR income. The projected surplus NDR has the potential to cover the full capital costs of constructing the roundabout subject to a full business case being developed and detailed negotiations with all interested parties on partnership contributions. Again this needs to be noted within the context of the Covid -19 outbreak and what potential impact that will have on NDR collection in the medium to longer terms.

#### **4.0 CONCLUSION**

- 4.1 The Lorn Arc continues to be progressed within the context of the Covid – 19 outbreak. There is potential to secure capital funding through surplus NDR income. This report provides an overview of the Lorn Arc Programme in **Appendix A** and asks for approval to keep continue discussions with the Government and Scottish Futures Trust including writing a letter to the Cabinet Minister requesting an extension to the Lorn Arc delivery date to enable access to capital funds generated by surplus NDR income and also to inform future decisions of the council.

## APPENDIX A

- 1.1 In 2013 a Full Business Case was developed for a potential Tax Incremental Financing (TIF) programme in the Lorn Area of Argyll and Bute. This Lorn Arc Tax Incremental Financing (TIF) programme was approved by the Scottish Government on the 7th of May 2014. TIF arrangements allow Argyll and Bute Council to retain and use additional Non Domestic Rates generated within an agreed boundary over a 25 year period.
- 1.2 The Lorn Arc programme contains proposals for the Council to invest up to £18.9million in a package of infrastructure improvements which in partnership with external funders will lead to a total investment of £41million in local infrastructure. Its purpose was to improve access to the Scottish Association for Marine Science / European Marine Science Park, improve Port and Marine facilities at Oban's North Pier, improve access for the wider Dunbeg Corridor development and develop other business related infrastructure in the Lorn Area which also supports the delivery of the Local Development Plan and assists population growth through the generation of new employment opportunities. It was also intended to involve the promotion and marketing of this part of Argyll and Bute as a place in which to live, visit and invest in.
- 1.3 At this time the Lorn Arc programme was an integral element of the Council's investment in economic growth and was considered to be essential for attracting further inward investment to the Lorn area with consequential positive impacts for wider Argyll and Bute. Following on from the Single Outcome Agreement and the Population Summit held in 2015, the Lorn Arc programme was considered by the Council to be even more relevant and important to the future of Argyll and Bute than it was at the time when the Full Business Case was developed. The Lorn Arc programme was also considered to be integral to the delivery of the Single Outcome Agreement (SOA) and to be fully in line with the decision made by the Policy and Resources Committee in December 2014 to support the delivery of the SOA by taking a structured approach to managing budgets and to invest for economic growth. Long term it was considered that Argyll and Bute would benefit from increased economic activity, more jobs and an anticipated increase in population that the Lorn Arc programme aims to deliver.
- 1.4 Therefore in September 2015 the Lorn TIF is moved forward to the implementation stage with the first development project. This was the construction of a new spur road which provided access improvements and business park enablement at Oban Airport. The commencement of the works meet the deadline for the first TIF investment. As such, the Council was able to collect new Non Domestic Rates within the red-line area.

- 1.5 By October 2016 there was concern within the Council that individual projects may not be able to generate the required uplift in Non Domestic Rates revenue to pay off the intended Council borrowing. Therefore Commercial Agents were appointed to review the economic assumptions contained in the 2013 Full Business Case.
- 1.6 In December 2016 a Commercial Agent's (Ryden) report, taken together with the Council's own knowledge of the prevailing local market conditions, suggested that timing and magnitude of future development and the associated incremental Non Domestic Rates ("NDR") generation is unlikely to be forthcoming as anticipated in the 2013 Full Business Case ("FBC"). So the Council carried out a financial re-modelling exercise. This indicated that in all cases (best to worst case scenarios), there would be a financial deficit over the 25 year TIF period for the full potential capital spend programme of £14.74m. This exercise demonstrated that, in its current form at this time (2016), the full TIF programme of £14.74m was not affordable, based on those NDR assumptions. No one event or issue had led to this affordability position. Instead, a combination of a number of factors, such as a change in property market assumptions, new business eligibility for Scottish Government reliefs and exemptions in terms of NDR, plus a change in land ownership at the Barcaldine site had all contributed to this situation.
- 1.7 Given this, on 3<sup>rd</sup> February 2017 the Council submitted a letter to the Scottish Government seeking confirmation of their willingness to engage with the Council to find alternative funding sources and/ or financing models for the delivery of the Lorn Arc programme and its associated social and economic outcomes. The Cabinet Secretary for Finance and the Constitution Derek MacKay replied on 26<sup>th</sup> February 2017 confirming that the affordability position of the Lorn Arc programme has been noted and advised that the Scottish Government remained committed to supporting Local Authorities and their use of innovative financing models to support inclusive growth. Following this, the March 2017 Policy & Resource Committee authorised the Lorn Arc team to engage with the Scottish Government and the SFT to progress alternative solutions for the delivery for the Lorn Arc programme, in line with the Ministerial comments. The team duly met with SFT in March 2017 and a Council TIF Programme Board was subsequently held in April 2017. At this time the TIF Programme Board noted that in their opinion the likely solution for the programme would be the progression of a case for use of a growth model such as Growth Accelerator or Rural Growth Fund. The Board was also of the view that moving forward with an alternative funding model required a high degree of clarity and clear identification of the projects that would form the basis of any such Growth Accelerator or Rural Growth Fund deal. Crucial in the boards thinking was that both Growth Accelerator and Growth Deals differ from TIF programmes in that they do not rely on increased NDR to repay borrowing. Instead, the level of funding is certain provided the projects agreed outcomes are achieved. The thought was that if projects are clearly identified and defined

ahead of agreements in relation to an Argyll wide Rural Growth Deal then it would be possible to seek develop a Growth Accelerator business case for Oban to replace the TIF model.

- 1.8 Meantime the existing Lorn Arc TIF individual projects were being progressed in different ways. In undertaking this project progress the team continued to take a cautious and prudent approach in terms of delivery and the drawdown of any further TIF debt. All such spend was subject to affordability testing and internal governance processes as outlined in the Project Initiation Document (“PID”).
- 1.9 Given the above, in August 2017 the Lorn Arc team’s focus for delivery of projects in the Oban area was the Dunbeg corridor, which would see development of the Halfway house roundabout (potentially via current TIF arrangements), Lorn Road/ Kirk Road development (via SG’s Housing Investment Fund and Lorn Arc TIF), and the Oban Airport Business Park (via a potential public private joint venture) that will be informed by market reports, development options and a masterplan covering Oban Airport land holdings. The team was also taking forward a Strategic Development Framework in association with Project 4 – Oban South with the intention to report back to Members in the first quarter of 2018.
- 1.10 In view of progress up until August 2017 along with changing market conditions, the team continued to review projects to analyse the potential of them being delivered under current TIF arrangements (with an initial focus on the Dunbeg corridor and the commercial/ leisure development this would unlock). However, work also continued to explore all potential projects which could deliver economic and social benefits for the Lorn Arc area and this exploratory work would be undertaken with cognisance of the work that is ongoing with regards to the Rural Growth Deal. The view was that if projects were clearly identified and fully defined ahead of discussions in relation to an Argyll wide Rural Growth Deal, then it could be possible to seek to develop a Growth Accelerator business case for Oban to replace the TIF model which would require Scottish Ministerial approval.
- 1.11 By 2019 it became apparent that it was not pertinent for the Council to invest in all 9 (reduced to 7 with loss of Barcaldine projects) simultaneously. Instead it was more sensible for the Council to invest in these projects almost one by one. Doing this enables the Council to reduce its capital exposure risk and also allows it to reduce or minimise its revenue costs in terms of staff costs etc as a smaller team of staff can undertake projects in a linear manner. The down side to this is that there is a clause in the agreement with the Scottish Government that could be interpreted to mean that all 9 projects are required to be substantially complete by end 2020 or the Council will not be permitted to incur additional spend beyond that date. Because of this Council Officers are currently engaging with SFT to scope out the potential of extending this date,

also the general shift in the investment programme being adopted by the Council and finally the scope / requirement of some of the remaining projects. These discussions have been constructive and officers have drafted an email that is proposed to be sent to the Scottish Government Minister requesting changes to the deadline for completion of the identified projects and also to the retention of NDR revenue pending project initiation / completion. In the midst of this the Covid 19 pandemic and its ramifications require to be considered.

- 1.12 In respect to Covid 19 pandemic the first consideration is related to NDR. Questions exist over the impact that the following will have on the finances of the programme in terms of:-
- NDR exemptions to certain industries / businesses as outlined by the government
  - Continued viability of businesses contributing current NDR
  - Potential NDR generation from new businesses particularly on sites opened up by Lorn Arc Projects (specifically commercial area at Project 3 at Halfway; Project 9 Oban Airport Business Park; Project 4 Oban South)
  - Potential impact on cruise ship income and transit berth income.
- 1.13 Questions also exist in relation to the ability to deliver projects within forecast timescales. In particular it is currently unknown how elements of projects such as consultant reports; site surveys and investigation works; design works; legal agreements; third party agreements; construction; site monitoring; health and safety etc. will be affected by the pandemic.
- 1.14 Further work is required on all of the above to better understand the impact but obviously it is too early yet to conclude on the above. That being said, the option already being pursued, implementing projects on the basis that they are affordable based on existing NDR collection rates continues to be the considered prudent approach.
- 1.15 Prior to the Covid 19 pandemic it was intended to report progress on the wider Lorn Arc programme to the May Policy and Resources Committee, with particular focus on Project 3 – Halfway Roundabout. The reason for the focus on Project 3 was that it is considered critical to the development of the remainder of the wider Dunbeg Development Corridor, and in particular the new commercial area adjacent to the A85 (which will once developed contribute significant additional NDR that can be used fund other future Lorn Arc projects), plus an additional 300 plus additional houses. It will also help alleviate pressure on the existing access into Dunbeg and enable additional development to take place in and around SAMS and the European Marine Science Park. It is also considered to be affordable based on existing NDR collection rates.
- 1.16 Work is currently taking place to establish the impact Covid 19 pandemic is going to have on this project.