

**LORN ARC TAX INCREMENTAL FINANCE PROGRAMME – GENERAL UPDATE
ON THE POSITION OF THE PROGRAMME ALONG WITH UPDATES ON SPECIFIC
PROJECTS**

1.0 EXECUTIVE SUMMARY

- 1.1 This report updates Members on the latest position in respect of the Lorn Arc initiative including information relating to a proposed amendment requiring Ministerial approval of the Tax Incremental Finance Agreement (TIF) between the Council and the Scottish Government.
- 1.2 The report also updates Members regarding the latest financial position for the TIF Programme and make a series of recommendations that enables the remaining projects associated with the Lorn Arc to be taken forward to a conclusion taking advantage of the additional borrowing powers that the TIF funding allows for without placing a strain on the council's general capital funding.

2.0 RECOMMENDATIONS

- 2.1 It is recommended:
- Members agree to the allocation of circa £5,000 covering final costs relating to Project 1 - Kirk Road Upgrade - to the TIF Programme.
 - Members agree to the allocation of up to £640,000 for Project start-up costs relating to Projects 2 : Dunbeg Gateway Features and Project 3 : Halfway House Roundabout.
 - Members note the renewed occupier interest in the Oban Airport Business Park and approve utilising the remainder of the current funding previously approved by the P&R Committee for Oban Airport Business Park (£107,321) to procure consultancy support to develop the business case to justify further capital investment.
 - Officers will look into re-establishing an officer-member working group to take forward proposals and bring a report back to the next P&R Committee with more detail of the composition and remit of the group.

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3.0 INTRODUCTION

- 3.1 The purpose of this report is to update Members on the progress made with regard to the Lorn Arc Initiative that utilises additional Non Domestic Rates (NDR) income to enable the council to borrow against for the purposes of infrastructure investment in the Lorn Arc defined area that focusses on Oban and its surrounding area. The update will include the latest available financial modelling and information to support the recommendations of the report relating to further release to funds to take forward the remaining projects of interest.

4.0 RECOMMENDATIONS

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 - Members note the renewed occupier interest in the Oban Airport Business Park and approve utilising the remainder of the current funding previously approved by the P&R Committee for Oban Airport Business Park (£107,321) to procure consultancy support to develop the business case to justify further capital investment.
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5.0 DETAIL

5.1 Lorn Arc TIF Programme Wide Issues

5.2 The Lorn Arc TIF is primarily a Legal Agreement between the Council and Scottish Government. This Legal Agreement contains many clauses which require the Council or the Scottish Government to do certain specified things. Many of these are centred around the financial arrangements of the TIF, the delivery of the specified projects and the timing of both.

5.3 For the last few years the Lorn Arc TIF has continued to be an investment tool, unlocking critical infrastructure projects such as the Lorn Road Kirk Road upgrade scheme. The speed of delivery envisaged in the original business case and the Legal Agreement for the Lorn Arc TIF has however not been met. The reasons for this are detailed, variable and complex and are also similar to what has been experienced elsewhere in Scotland using this funding mechanism. The consequence of this delay in implementation was that some of the clauses in the original Legal Agreement were potentially going to come into force in a negative way. The two clauses causing concern were :-

- Lorn Arc TIF Agreement clause - Completion of TIF projects by December 2020
- Lorn Arc TIF Agreement clause - Repayment of TIF debt in full.

These are both explained below.

5.4 Lorn Arc TIF Agreement clause - Completion of TIF projects by December 2020

The existing agreement contained a clause that required all of the agreed Lorn Arc TIF projects be completed by December 2020 and if this was not met then the TIF programme would end. This timeline was not going to be achieved due to a number of factors relating to the economy and the ability to raise Non Domestic Rates income. The Council sought to amend the agreement, proposing to extend the agreement by four years to December 2024. The Scottish Government has **agreed** to this proposal and the clause has been amended.

5.5 Lorn Arc TIF Agreement clause - Repayment of TIF debt in full

5.6 A second clause in the TIF agreement stated that the programme will cease on the date of repayment in full of the TIF debt.

5.7 Due to relatively low levels of debt incurred through utilising other funding sources (such as the use of CHORD funds for the North Pier pontoons and the Housing Infrastructure Fund in relation to Kirk Road Improvement Scheme in Dunbeg), the current TIF debt will be completely repaid within financial year 2021-22 without further expenditure being approved. Given the above clause in the agreement, the TIF programme would end at this point. The Council also asked the Scottish Government to vary this clause to read that “the programme will cease once all debt incurred is repaid and that all the Lorn Arc projects as agreed by all parties have been completed”.

- 5.8 The Scottish Government reply, whilst indicating a willingness and desire to see the programme completed, is still unclear. As such Council Officers have raised this issue again through the TIF Executive that consists of representatives of the Scottish Government, Scottish Futures Trust and the Council in order to achieve a clear solution to this issue. A TIF Executive Meeting was held on 4th March 2021 and at this both the Scottish Government and Scottish Futures Trust indicated that they considered that the Scottish Government had a strong willingness to be very flexible on this issue. One particular approach to mitigate this issue discussed was that should debt be fully repaid but NDR was still being collected, then such monies could be earmarked in the Council's general fund reserve until further expenditure/debt is incurred as long as there are still projects being progressed within the TIF Programme. Should a point be reached where there was little likelihood of future spend on TIF projects then any surplus NDR collected would require to be returned to the Scottish Government.
- 5.9 It is also important to report the overall Lorn Arc Programme financial situation as a whole, plus the latest situation with regard to borrowing and NDR income profile modelled on several different project delivery timelines. This is obviously important for due diligence but it is also critical in terms of modelling the potential NDR income against project borrowing which in turn provides the potential level of risk to the Council for different project spend delivery timescales.
- 5.10 **Financial Section**
- 5.11 The TIF Programme has delivered 3 projects to date with estimated expenditure by the end of 2020-21 as noted in the Table 1. This expenditure if funded via borrowing that is repaid using the additional NDR collected within the Oban area.

Table 1.

Project	Net Expenditure as at end of 20-21
Lorn Rd / Kirk Road	241,545
North Pier	216,103
Oban Airport Business Park	482,679
Total	940,326

- 5.12 It should be noted that the expenditure shown for the Lorn Rd/Kirk Road project is much less than previously anticipated due to being successful in gaining Housing Infrastructure funding of circa £2m. This meant we had no need to borrow capital funds.

- 5.13 As at the 31st March 2020 the TIF Project had outstanding borrowing of £154,508. It is projected that there will be a further £40,192 of expenditure in 2020-21 bringing a total outstanding debt of £194,400 as at the end of March 2021. The additional NDR anticipated for 2020-21 is £163,500 which will leave an outstanding balance of around £29k subject to the application of interest. These figures do not include any additional expenditure approved by recommendations of this report.
- 5.14 As per the TIF agreement, when borrowing is repaid and there are no further active projects, the additional NDR will no longer be able to be kept by the Council, however, as noted in paragraph 5.8 above we have been advised that as long as there is still an intent to continue with projects in progress, then the Council will be able to keep the NDR to pay off future funding (this has still to be confirmed in writing).
- 5.15 The additional NDR collected in 2020-21 was reduced due to the Non-Domestic Rates Covid Relief and is likely to be at a similar level in 2021-22, however, we anticipate that this will bounce back to 2019-20 levels of circa £300k and modelling shows that this level of income would fund a further £4m of borrowing repaid over the next 18 years (the length of time left on the TIF programme). Should the future TIF projects attract new business, the amount of NDR will increase which could give the ability to increase the borrowing beyond the £4m level. The project continuing at Oban Airport is specifically designed to attract new business and officers are giving consideration as to the financials of this project which will include increased NDR.
- 5.16 This report also provides a short update of individual TIF projects is set out below:-
- **Project 1** : Dunbeg Lorn Road Kirk Road Improvements – physical works completed and moving to financial closure. This project has enabled the building of an additional 300 unit affordable housing development now on site and further phases of the European Marine Science Park, which collectively are estimated investments in excess of £65m. Project completion has been achieved at a significantly reduced expenditure level due to securing a Housing Infrastructure Grant. It is recommended that the P&R Committee agree to the allocation of a final £5,000 TIF funding to cover the total incurred expenditure.
 - **Project 2** : Dunbeg Gateway Features – on hold, will be incorporated into the development and implementation of Project 3 : Halfway House Roundabout. (see detailed update below).
 - **Project 3** : Halfway House Roundabout – actively being pursued with the developer LINK Housing Association. Looking to seek future approval for project startup costs. . Project intended to be merged with Project 2. (see detailed update below).
 - **Project 4** : Oban North Pier extension – it is considered that Oban Transit Berth has fulfilled many of the aims originally being part of the scope of the North Pier extension project funded via CHORD with TIF feasibility funding. As such this project is not actively being pursued further at the present time.

- **Project 5** : North Pier public realm works – it is considered that the principle function of this area is as a carpark and that the limited new public realm works undertaken as part of the new North Pier Harbour Masters building are completed. As such this project is not actively being pursued at the present time.
- **Project 6** : Oban South. The Oban Strategic Development Framework has been approved to be taken forward and this is likely to be advanced now through a consultancy or when PLDP2 is adopted.
- **Project 7 & 8** : Barcaldine – projects deleted from programme following construction of Scottish Seafarms Hatchery on the site. This represents a £58m investment on this site by the private sector.
- **Project 9** : Oban Airport Business Park – originally envisaged investment of access spine road has been completed. There is renewed interest in the site and the Council is exploring the potential to create business accommodation. This will require a new business case for further investment, to be approved by P&R and agreed with Scottish Government and Scottish Futures Trust. It is recommended that members consent to utilising the remainder of the current funding previously approved for Oban Airport Business Park (£107,321) to support development of this business case which will be reported back to P&R.

5.17 All of the above projects have been discussed with the Lorn Arc TIF Executive at the 4th March 2021 meeting. Projects 2, 3 and 9 have strong links to the delivery of the Argyll and Bute Rural Growth Deal and are now the main areas of focus for further delivery. More detailed updates for these are below:

5.18 **Project 2 : Dunbeg Gateway Features and Project 3 : Halfway House Roundabout**

5.19 LDP2 and the approved Dunbeg Masterplan, identify the location of the proposed roundabout, commercial area and link road to future housing. Consultation with SEPA has identified that the proposed commercial area will be unacceptable to SEPA because of the flood risk which has been identified following detailed flood risk analysis (See blue flood plain at the northern edge of diagram 1.

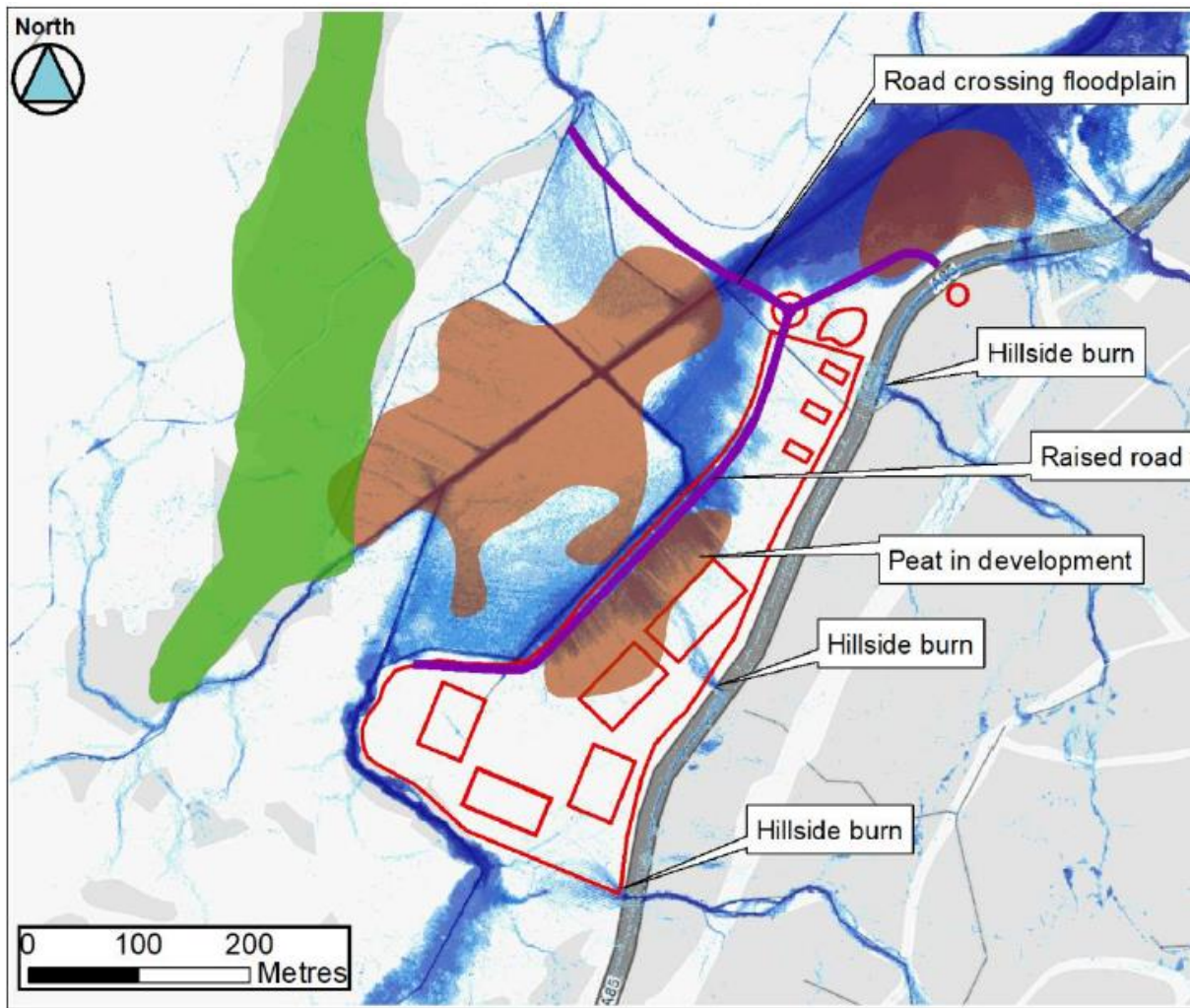


Diagram 1: Proposed Alternative Flood Solution – Dunbeg; (blue - showing flood plain; brown - peat; green - ancient woodland).

5.20 Consequently a potential alternative solution has been identified which relocates the commercial area in a southerly direction outwith the substantive area of flooding as can be seen in diagram 1 and 2. The proposed alternative solution has been agreed in principle with SEPA subject to further proof of technical aspects.

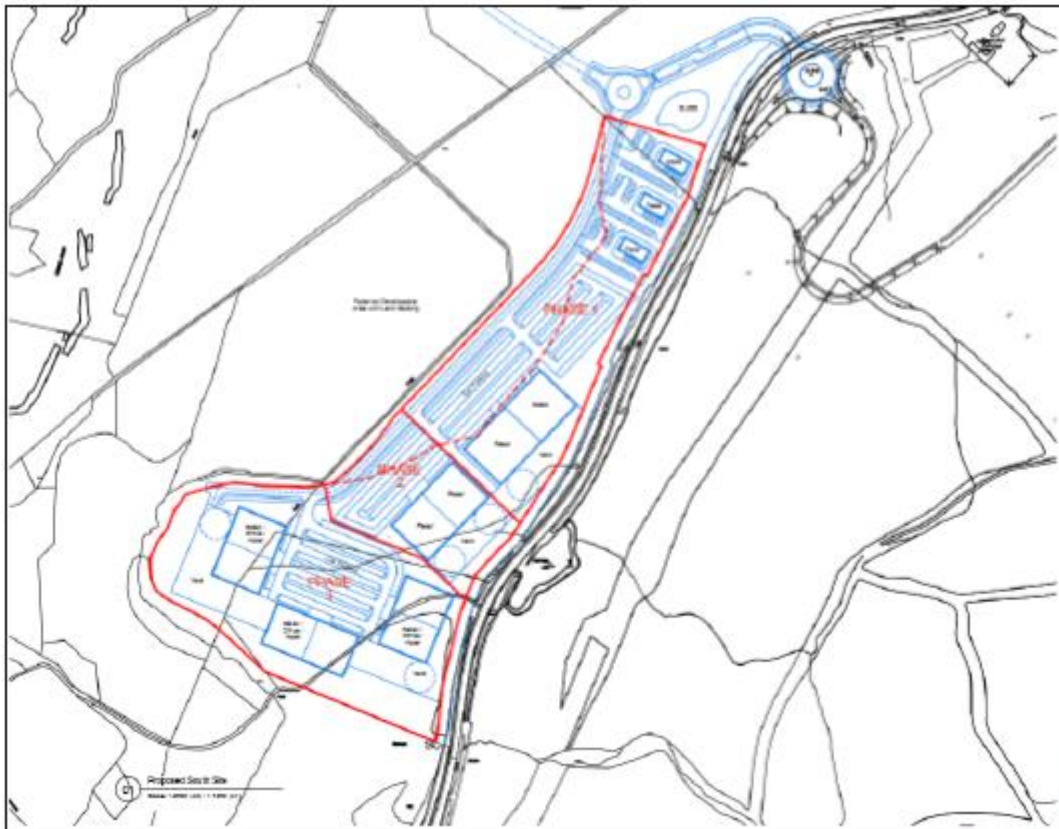


Diagram 2: Potential Alternative Commercial Area - Dunbeg

- 5.21 A full business case is now necessary to ensure that the project is viable and prudent. Preparatory works are required to inform the full business case and will include site surveys, design work, preparation of planning applications, economic impact assessments and procurement costs.
- 5.22 Start-up costs for each project typically equate to 20% of the overall capital costs of the proposed project and form part of the TIF borrowing. In this case the total project costs are currently difficult to identify because further design and legal work are needed to more accurately identify them and the original estimate of costs are now somewhat out of date. However a prudent first estimate is essential in order to start this further work and has been put at £640k based on the current approximate estimates of project costs. This funding would be drawn down in small tranches with careful project planning and reporting throughout development of the business case. Some of the immediate work which is required to begin construction of the business case includes:
- a. **Site Investigation issues** - examination of the land raising and flood mitigation required to be delivered. Production of a Peat Strategy and Flood Risk Assessment which is confirmed as being acceptable with SEPA.
 - b. **Re-configure masterplan** including the potential connections to housing and confirming location of the roundabout.
 - c. **Devise planning strategy** - amend masterplan, preparation and submission of PPP and PP application(s).

- d. **Engage with Scottish Water and Utilities** - to identify requirements and costs, this would include potential Drainage Impact Assessment (DIA) / Water Impact Assessment (WIA) – also need to ensure adequate power can be provided plus Telecomms & should allow for and include the potential future housing.
- e. **Confirm legal deliverability** of development in terms of titles and land acquisition.
- f. **Identify what development is being delivered by the Council** and the development model for that: i.e.: roundabout; roundabout and road; roundabout, road and development platform.
- g. **Identify development model for the commercial area** - explore options for legal commitment / tie in / guarantees.
- h. **Update and revise Cost Plan** - previous estimates were 2015 Q3 (Roundabout £2.15m; subsidiary roundabout £200k; Roundabout connecting road £800k) £3.2m in total without the development platform. These are out of date and didn't include services; street lighting; professional fees, site acquisition).

5.23 Members are therefore asked to authorise borrowing of up to £640,000 as project start-up costs for Projects 2&3 which will be drawn down in tranches as required by the development of the business case and with reporting to authorise this to the Lorn Arc TIF Project Board. It should be noted that given the level of borrowing the Lorn Arc can sustain given the projected NDR uplift additional funding will have to be secured to fund the connection road leading from the completed roundabout to the proposed housing allocation at Dunbeg. Until this road is completed no additional housing will be able to take place. It should also be noted that should the additional housing development go ahead in the future consideration would need to be given in early course to a replacement school. It is anticipated further bids for infrastructure funding will be submitted to the Government in due course as and when we can make further progress with the delivery of the roundabout that will initially serve the proposed commercial area.

5.24 **Project 9** : Oban Airport Business Park – the originally envisaged investment of access spine road has been completed. Following initial marketing potential occupiers advised that clarification of site conditions and costs was required which was obtained by Estates & Property Development. This has led to renewed interest in the site and the potential for the Council to invest capital and generate a long term income from the site while also providing accommodation to support business growth. Lorn Arc TIF may have a role to play in this further development of Oban Airport Business Park but this may require a variation on the original project scope to be agreed with both Scottish Government and Scottish Futures Trust. Once this proposal is clarified a more detailed report will be submitted to the committee but in the meantime consent is sought to utilise the remainder of the current funding previously approved by the P&R Committee for Oban Airport Business Park (£107,321) to procure consultancy support to develop the business

case for further capital investment.

- 5.25 Officers consider it would be useful to reconvene a working group to assist in taking forward proposals, similar to the former Dunbeg Corridor Working Group. Officers will look into this in more detail and prepare a report for P&R Committee in August.

6.0 CONCLUSION

- 6.1 The Lorn Arc TIF programme remains one of the principle methods that the Council can take advantage of to make infrastructure capital investment in the Lorn Area. The Scottish Government's agreement to amending the TIF agreement clauses allows for the Lorn Arc TIF to continue, providing opportunity for investment in infrastructure that enables critical investment in both large scale commercial and residential development in the Lorn area. The Scottish Government has shown a willingness to be flexible regarding the timeline for delivery and as a result the Council has four additional years within which to invest in these agreed infrastructure investments. The Council will consequently continue to take forward the projects listed in the report as agreed through the Lorn Arc Programme Board and continue to engage with the Scottish Government to secure NDR income.
- 6.2 Project 1 is now complete and it is requested that the P&R Committee approve £5,000 of final costs associated with this project be allocated to TIF.
- 6.3 Projects 2 & 3 are now at a stage when start-up cost monies are required to push these projects forward. As such the P&R Committee is requested to agree to a combined figure of £640k of total borrowing being allocated to these projects and that this borrowing will be recouped through TIF.
- 6.4 Project 9 has renewed interest and potential to identify further business supporting investment subject to a business case which will need to be developed and approved. P&R Committee is requested to approve utilisation of existing allocated funds of £107,321 to develop this business case.

7.0 IMPLICATIONS

- 7.1 Policy - none
- 7.2 Financial – The original Lorn ARC agreement allowed for up to £18.7 Million of potential borrowing linked to the delivery of agreed projects. The level of NDR income currently available has reduced this amount significantly which will limit what we are able to deliver through the sole use of the TIF. The delivery of the Lorn Arc has to be considered affordable as part of the decision making process of the Council, the Scottish Government and their advisors Scottish Futures Trust. The financial requests within this report are affordable within the current TIF financial model.

- 7.3 Legal – the TIF agreement with Scottish Government has now been amended.
- 7.4 HR - none
- 7.5 Fairer Scotland Duty: none
 - 7.5.1 Equalities - protected characteristics - none
 - 7.5.2 Socio-economic Duty - none
 - 7.5.3 Islands - none
- 7.6 Risk – the Risks relating to the Lorn Arc TIF agreement remain the same.
- 7.7 Customer Service - none

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08th April 2021

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