
LORN ARC TAX INCREMENTAL FINANCE PROGRAMME – UPDATE REPORT

1.0 EXECUTIVE SUMMARY

- 1.1 This report provides an update on the wider Lorn Arc Programme and the current live Lorn Arc projects at Dunbeg and Oban Airport.
- 1.2 Discussion continues with Scottish Government regarding the potential to amend the TIF agreement lengthening the period to ensure there is greater NDR retention and longer to repay any debt incurred. Achieving this change would allow a higher level of investment than previously considered.
- 1.3 LINK Group is currently reviewing the construction costs of the Dunbeg Corridor development. LINK has also commissioned a new Transport Assessment for the whole development, which will inform subsequent planning applications and the exact type of Trunk Road junction on the A85 that will be required by Transport Scotland.
- 1.4 The Dunbeg Corridor Working Group continues to meet and prove a valuable forum for discussion between the Council, agencies and the public on issues arising with this development. The most recent meeting of this group took place on 25th November 2022.
- 1.5 At Oban Airport, the current priority actions are: to prepare the business case for Council investment in the development of a new headquarters office / hanger building to be leased on completion to TSL Contractors Limited (TSL); and to continue exploring additional users of the business park.

RECOMMENDATIONS

Members to note progress with the Lorn Arc Project, particularly:-

- Ongoing discussions with Scottish Government to amend the TIF agreement;
- Anticipated submissions of full planning applications for Dunbeg Corridor in early 2023;
- Ongoing work to prepare a Business Case for investment in a Headquarters building at Oban Airport.

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2.0 INTRODUCTION

- 2.1 The Lorn Arc project has been ongoing, and there are two main outstanding projects, Dunbeg Corridor and Oban Airport Business Park. Background work is ongoing on a variety of fronts to provide further detailed evidence to take these development forward, whilst at the same time, discussions are ongoing with Scottish Government to establish if the TIF agreement can be varied to introduce terms that would be more favourable to the Council.
- 2.2 The report provides an update on progress since the last Policy and Resources progress report of 17 February 2022.

3.0 RECOMMENDATIONS

- 3.1 Members to note progress with the Lorn Arc Project, particularly:-
- Ongoing discussions with Scottish Government to amend the TIF agreement;
 - Anticipated submissions of full planning applications for Dunbeg Corridor in early 2023;
 - Ongoing work to prepare a Business Case for investment in a Headquarters building at Oban Airport.

4.0 DETAIL**Programme Update**

- 4.1 At the last TIF Executive meeting held on 16th June 2022 discussion centred around three conditions within the original TIF agreement contract between the Council and the Scottish Government that the Council wishes to amend. These are:
- A: Extending the backstop date of the TIF period from its existing date in 2040 to potentially 2050. This would allow a longer repayment period and NDR retention, and thus creates potential for significantly more borrowing and a greater level of Council expenditure on the critical infrastructure required at both Dunbeg and Oban Airport to allow these projects to be completed.
- B: To remove the cut off condition that would potentially cease the whole TIF agreement if at any point the whole debt is repaid prior to the completion of the TIF construction projects.
- C: To remove or extend the cut-off clause which requires completion of all TIF construction by 2024 for the TIF agreement to continue.

- 4.2 The Scottish Government has engaged with the Council on these issues and requested greater detail of both the financial modelling, particularly forecast NDR increases, and also an analysis of the wider benefits that these amendments to the original TIF contract would bring. The Council created a revised financial model that assesses borrowing and income level profiles to include the additional NDR that is now being collected compared to pre-pandemic forecasts. This includes new NDR as a result of developments such as the Premier Inn and Screwfix. This change alone, resulted in a significant improvement in the rate of debt repayment and the information has been provided to Scottish Government.
- 4.3 The Scottish Government is looking into the legality of amending TIF agreements generally, not just in Argyll and Bute, but has not yet come to any decision. The Council has continued to press for a response on this matter via the members of the Lorn Arc Executive. In response to our latest enquiry, we were informed on 18th November 2022, that the Deputy First Minister had approved similar changes to Falkirk Council's TIF in principle, albeit that formal legislative change will be required which will take until April 2024 to complete. Officers will meet with the TIF Executive and Scottish Government officials to identify what is required for us to achieve the same outcome.

Dunbeg Corridor Gateway Features and Roundabout

- 4.4 The Council has gone out to tender for consultants to produce an independent report assessing the commercial demand for the new commercial area. This has taken longer than anticipated to select a suitable consultant but as of 1st November 2022 an acceptable tender has been received and it is hoped an appointment can be made soon.
- 4.5 The Council has appointed consultants – Stantec - to produce an independent report detailing the Economic Impact Assessment of both the new commercial area and the wider Dunbeg corridor developments. A first draft of this report has been received by the Council and has been circulated internally for comment. This indicates a Net Potential Benefit from the complete Dunbeg development of between £50m-£179m depending on the options and timing of development.
- 4.6 The Council intends to review the cost appraisals for the Dunbeg Development which have been provided by LINK GROUP. However, LINK are currently revising the initial cost appraisals to add further detail and update. The Council will await these revised appraisals before appointing consultants to review them.
- 4.7 Discussions have been regularly taking place with LINK GROUP with regard to the delivery of all aspects of the Dunbeg Corridor projects. LINK GROUP is intending to submit planning applications for:-
- the new housing development area,
 - the LINK Group road to the housing, and
 - the commercial area.
- 4.8 LINK group are currently undertaking the necessary studies and design work to submit these applications. Amongst this is a detailed Transport Impact Assessment (TIA) which has been scoped jointly with the Council and Transport Scotland who will be the consenting authority for any new junction on the Trunk Road. The TIA will inform the nature of the junction and potentially other elements on the planning applications. LINK is expected to hold Pre-Application public consultation events during November and it is anticipated planning applications will be submitted very early 2023.

- 4.9 A Dunbeg Corridor Working Group meeting (involving all key agencies and stakeholders including community representatives) was held on 10th June and the next is planned for 25th November 2022.

Oban Airport Business Park

- 4.10 The initial investment at Oban Airport was for the installation of a road and services to enable the development of a new business park adjacent to the airport.
- 4.11 Currently the Council is exploring delivery of a Headquarters building for TSL Contractors Limited. This would be seen as an anchor building for the remaining business park, and the Council is continuing to develop a business case for this.
- 4.12 As part of the Rural Growth Deal (RGD) officers from Economic Development are currently developing the business case for the development of an innovative research and development centre for Unmanned Aerial Vehicle (UAV) technologies. As part of the funding application process planning permission for the development of the facility has now been granted which is an important step forward.
- 4.13 The possibility of basing a UK search and rescue facility for the Maritime & Coastguard Agency is being explored. The initial potential service provider has been unsuccessful in securing the UK Search and Rescue contract. Estates are now in conversation with the winners of that contract, The Bristow Group, to promote the opportunity at Oban Airport as it is considered that the benefits are significant both for the airport and for their operations. The outcome of these discussions will be reported back in due course.

5.0 CONCLUSION

- 5.1 Work is continuing internally reviewing both costs and potential NDR income modelling to inform decision making regarding the different delivery options of the projects. Additionally a response from the Scottish Government is awaited on the potential for amending the existing TIF agreement.
- 5.2 Various consultants' reports are being commissioned to establish the likely economic impact, costs and commercial demand for this project. LINK group have continued to make progress on the work required for the submission of the necessary planning applications and have also begun the TIA process.
- 5.3 The Council is working on a Business Case to justify investment in the development and lease of a Headquarters building for TSL Contractors. It is also exploring other potential occupiers including in connection with UAV Drone Hub and the provision of a UK Search and Rescue Operation.

6.0 IMPLICATIONS

- 6.1 Policy – None.
- 6.2 Financial – None from this report

- 6.3 Legal – The Council awaits any agreement in principle, by the Scottish Government to amend the TIF agreement. If such agreement is received, it will need to consider the detailed legal implications on any proposed amendment.
- 6.4 HR – None.
- 6.5 Fairer Scotland Duty
- 6.5.1 Equalities – Protected characteristics – None.
- 6.5.2 Socio economic Duty – None
- 6.5.3 Islands – Oban Airport provides a lifeline service to the islands and the development of further services will add benefit.
- 6.6 Climate change – The preparation of planning applications for Dunbeg Development will involve necessary supporting evidence to allow assessment of any potential climate implications.
- 6.7 Risk – The risks for the TSL project will be examined in more detail in the business case. The wider risk for the larger projects is that the funding is not received or that the tender bid is not successful leading to the proposals being stopped. The increasing interest rates will need to be profiled against debt repayments.
- 6.8 Customer Service – None.

Kirsty Flanagan, Executive Director with responsibility for Development and Economic Growth

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