

**LORN ARC TAX INCREMENTAL FINANCING (TIF) PROGRAMME INITIATION
DOCUMENT REPORT**

1.0 EXECUTIVE SUMMARY

- 1.1 The Full Business Case for the Lorn Arc Tax Incremental Financing (TIF) programme outlines the proposals for investing £18.9million in package of infrastructure improvements which in partnership with external funders will lead to a total investment of £41million in local infrastructure. It will improve access to the Scottish Association for Marine Science / European Marine Science Park, measures to improve Port and Marine facilities within the Lorn Arc area and other business related infrastructure which will support the delivery of the Local Development Plan and assist population growth through the generation of new employment opportunities.
- 1.2 TIF arrangements will allow Argyll and Bute Council to retain and use additional Non Domestic Rates (NDR) generated within an agreed boundary over a 25 year period. The infrastructure investment options will be reviewed, refined, planned, phased, scrutinised and delivered through the Council's robust governance process to ensure value for money and a return on investment over the coming years.
- 1.3 Following on from approval of the Full Business Case, the conditional approval letter from the Scottish Government was examined by Council officers before being returned for Minister sign-off. The Council received the signed letter from Nicola Sturgeon on the 7th May 2014 which has now been countersigned by the Chief Executive and sent back to the Scottish Government. The Lorn TIF is now moving forward to implementation stage.
- 1.4 Members are now requested to approve the Lorn Arc Programme Initiation Document (PID) for the programme. This PID requires to be approved to ensure that the programme is commenced prior to the Scottish Government deadline of 30th September 2015.
- 1.5 The PID includes the following significant elements:-
- the governance arrangements for the Lorn Arc programme, including the roles of the Policy and Resources Committee and Oban, Lorn and the Isles Committee;
 - a 6 year revenue funding profile to allow the full operation of the Lorn Arc programme team/office;
 - the arrangements for agreeing individual project start up including initial borrowing to fund feasibility work, progressing to Full Business case stage and the mechanisms for delivery of these projects.

2.0 **RECOMMENDATIONS**

2.1 That the Lorn Arc TIF Programme Initiation Document be approved in full, including the following significant elements:-

- approval to borrow under the TIF regime for Lorn Arc programme capital costs;
- approval of the governance arrangements for the Lorn Arc programme, including the roles of the Policy and Resources Committee and Oban, Lorn and the Isles Committee;
- approval of a 6 year revenue budget for the Lorn Arc programme team/office utilizing the balance on the General Fund earmarked to support the SOA;
- approval of the process for individual project start-ups, including the borrowing required for feasibility work and Full Business cases for each of those projects;
- approval to delegate delivery of the projects to the Executive Director of Development and Infrastructure, in conjunction with the Head of Strategic Finance and the Head of Customer and Support Services, following Policy and Resources Committee approval of the individual Full Business Cases;
- approval to nominate the Executive Director of Development and Infrastructure to be the Council's nominated representative on the TIF Executive.

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3.0 INTRODUCTION

- 3.1 This report outlines the background to the Lorn Arc TIF programme and requests the approval of the Programme Initiation Document (PID), the purpose of which is to;
- define the aims, objectives and outcomes of the programme;
 - define the scope;
 - outline the work streams, key stages, activities, resources and responsibilities; and
 - set out the arrangements for governance and management of risks, issues and dependencies.
- 3.2 The Full Business Case for the Lorn Arc Tax Incremental Financing (TIF) programme outlines the proposals for investing £18.9million in package of infrastructure improvements which in partnership with external funders will lead to a total investment of £41million in local infrastructure. It will improve access to the Scottish Association for Marine Science / European Marine Science Park, measures to improve Port and Marine facilities within the Lorn Arc area and other business related infrastructure which will support the delivery of the Local Development Plan and assist population growth through the generation of new employment opportunities.
- 3.3 The top priority of the Council and its CPP Partners is to base our economic success through a growing population as detailed in the Single Outcome Agreement (SOA). This priority was reaffirmed at the December Policy and Resources Committee where Members approved Option D of the Delivering on the Single Outcome Agreement report, that aims to deliver a structured approach to managing budgets and investing for future economic growth. The Lorn Arc (TIF) programme is further evidence of the Council's clear intention to support this priority of the SOA and the decision made by the Policy and Resources Committee. **Of particular relevance and importance to the Lorn Arc programme was the fact that Option D also sees the Council using the balance on the General Fund earmarked to support the SOA invested for income and where possible using this to establish an investment fund that could borrow to take forward projects that would generate an income stream and support the economy.**

3.4 Approval of the PID will allow the Lorn Arc programme to move into its implementation phase.

4.0 RECOMMENDATIONS

4.1 That the Lorn Arc TIF Programme Initiation Document be approved in full, including the following significant elements:-

- approval to borrow under the TIF regime for Lorn Arc programme capital costs;
- approval of the governance arrangements for the Lorn Arc programme, including the roles of the Policy and Resources Committee and Oban, Lorn and the Isles Committee;
- approval of a 6 year revenue budget for the Lorn Arc programme team/office utilizing the balance on the General Fund earmarked to support the SOA;
- approval of the process for individual project start-ups, including the borrowing required for feasibility work and Full Business cases for each of those projects;
- approval to delegate delivery of the projects to the Executive Director of Development and Infrastructure, in conjunction with the Head of Strategic Finance and the Head of Customer and Support Services, following Policy and Resources Committee approval of the individual Full Business Cases;
- approval to nominate the Executive Director of Development and Infrastructure to be the Council's nominated representative on the TIF Executive.

5.0 DETAIL - LORN ARC PROGRAMME

5.1 A TIF programme allows local authorities to borrow capital to fund infrastructure that will enable economic growth. In order to gain Scottish Government approval the programme must demonstrate that the funded infrastructure unlocks regeneration and sustainable economic growth and will generate additional public sector revenues to repay the financing requirements. A Full Business Case has previously been developed and approved by Scottish Government, for the Lorn Arc TIF programme. This Full Business Case details the justification, including the financial and economic case, for utilising TIF to deliver investment within the proposed area and is the basis for the selection of the chosen enabling infrastructure. It details why it's believed this infrastructure will deliver the growth and the Non Domestic Rates additionality envisaged. The business case also detailed how the project will be delivered and also how risk is allocated and managed.

5.2 In January 2014 the Council was informed that the Full Business Case was approved, subject to minor amendments that were deemed acceptable to the Council. Following a detailed appraisal of the conditional letter forwarded by the Scottish Government, the Council accepted the offer and subsequently received on the 7th of May 2014 a signed letter providing the Council with sufficient authority to commence the TIF programme.

- 5.3 This TIF programme has been named **Lorn Arc**. The Lorn Arc programme is now moving into its delivery phase. An Oban Lorn Arc Regeneration Project Manager, Adrian Jackson-Stark, has been appointed from the Council's Development Policy team, to support the implementation of Lorn Arc. He will be partnered by the current Oban Regeneration Project Manager Linda Houston to ensure that a holistic approach to the further development of the Oban and wider Lorn area is taken forward.
- 5.4 The Lorn Arc programme is an integral element of the Council's investment in economic growth and is 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 recent Population Summit the Lorn Arc programme is 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 is also considered to be integral to the delivery of outcomes 1 and 2 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. The Lorn Arc programme is one of first of a suite of investment initiatives that are being developed across Argyll land Bute to deliver the Single Outcome Agreement and economic growth.
- 5.5 In particular, the focus of the Lorn Arc programme is on delivering essential infrastructure to unlock further private sector growth and investment in a number of identified development opportunities. Notwithstanding all of the above, the Council is mindful that Lorn Arc represents a borrowing consent for up to £18.89 million and not a grant. This requires that it be paid back by the Council over a 25 year period predominantly through the generation of additional non-domestic rates being used to pay this money back. Long term the Council will benefit from increased economic activity, more jobs and an anticipated increase in population. Further indirect financial benefits will be delivered through additional council tax, harbour dues and parking income.
- 5.6 The original business case was produced with a displacement figure of 18.38%. The agreement letter from the Scottish Government amends this to 22% and this means that the Council can now collect half of 78% of the total NDR uplift rather than half of 82%. This in turn means that the business case stated income streams to eventually deliver up to £1.56m per annum are revised to £1.49m per annum. In addition, since the production of the original business case the timing of the capital expenditure has changed. The main reason for this is that the initial project which was going to launch the TIF programme, Lorn / Kirk Road has been delayed due to the likely requirement for compulsory purchase orders. The change in capital profile impacts on the timing of Non Domestic Rates recovery. The repayment year has moved as a result of these changes from year 20 to year 24.
- 5.7 The extension and improvement of the North Pier is forecast to yield a significant additional revenue steam through new berthing fees, whereas at present the Council is turning away berthing revenue as the North Pier cannot currently accommodate these additional vessels.
- 5.8 There is potential within the Oban area to develop and review the current parking arrangements with an anticipated increase in the number of paying long stay /

short stay parking spaces within the town centre.

- 5.9 Whilst the Lorn Arc programme does not directly relate to facilitating housing development, some of the projects will, whilst focused on the delivery of commercial developments, unlock potential for new housing development. For example, the improvement of the Dunbeg Corridor Road network is focused on the delivery of commercial development at both Halfway and at the European Marine Science Park / SAMs. It will also enable significant new housing development to take place. This new housing development will generate significant council tax revenues for the Council that would otherwise not be realized.
- 5.10 Lorn Arc will only succeed therefore if investment is forthcoming from the private sector and consequently it will rely on a phased approach to minimise risk to the Council and also involve close partnership working with other agencies and the private sector to deliver the desired outcomes. The Council also recognises that Lorn Arc will require investment from out with Lorn to deliver maximum benefits to our area. Council investment of £18.9m will result in a total of £41m worth of infrastructure being delivered through partnership working with external funders. As the opportunities created by the enabling infrastructure are developed by private sector / external bodies further investment will result. The promotion and marketing of Lorn as a place in which to live, visit and invest in will therefore be a key aspect of Lorn Arc and aligns closely with the Single Outcome Agreement's key outcomes. To this end a Lorn Arc logo (see diagram 1 below) has been designed with the strap line 'investing in your future'. This will be used in all future promotion and marketing.

Diagram 1: Lorn Arc Logo



- 5.11 Lorn Arc will commence when the first work starts on the ground. This is required by the agreement with the Scottish Government to take place prior to 30th September 2015 and is termed the 'First TIF Investment'. The First TIF Investment triggers the start of both the borrowing term / payback period of 25 years and the additional NDR capture. It is expected that the First TIF Investment will be Project 9: Existing Access Improvements and Business Park Enablement at Oban Airport. A subsequent committee report on the delivery of this project is expected to be presented to the Policy and Resources Committee in February 2015. It is necessary to carry out all design, planning and procurement for the project prior to work starting on site.
- 5.12 In order to progress the Lorn Arc programme, the team has developed a robust and fit for purpose Programme Initiation Document (PID). The PID describes how the Lorn Arc programme will be delivered and managed. The purpose of this PID

is to:

- a) Set out the aims, objectives and outcomes of Lorn Arc;
- b) Define the scope of the Lorn Arc programme, with outline details / timelines for the 9 sub-projects;
- c) Set out the work streams, key stages, activities, resources and responsibilities;
- d) Set out the arrangements for governance and management of risks, issues and dependencies;
- e) Seek approval for 6 year revenue funding of the Lorn Arc programme team/office;
- f) Seek approval to borrow under the TIF regime for Lorn Arc programme capital costs.

5.13 The PID therefore includes the following:

- i. A Governance plan that outlines how the programme and projects will be monitored and controlled in terms of decision points, reports and reporting cycles, and frequency of project updates;
- ii. A Finance section detailing the process / timelines and amounts for both revenue and capital spend;
- iii. Details of accountabilities, roles and responsibilities of each of the project team, including resource requirements;
- iv. A Quality Plan detailing acceptance criteria and how it will be quality assured and signed-off;
- v. Programme / Project Controls (including tolerances levels for time and cost and exceptions);
- vi. A Programme Plan (e.g. a Gantt chart) on when the overall programme elements and each specific project should start and be completed;
- vii. A Risk Register including their probability and impact, as well as mitigating actions;
- viii. A Communication Plan (that will be developed further as the programme /projects develop) that will outline how the project will be communicated to all its different audiences.

5.14 The Governance arrangements for the Lorn Arc programme are detailed in full within the PID (Section 3.3, 3.4, 3.5 & 3.6). By way of summary, the governance can be split into two elements; internal to the Council and external to the Council.

5.15 The external governance is a mandatory requirement of the approval from Scottish Government and takes the form of a programme 'Executive' which is a three person group that oversees the performance and reporting elements of the programme. The Executive representatives are from Scottish Government, Scottish Futures Trust and the Council. The Council representative is required to be a senior officer of the Council.

The Executive will:

- Review and monitor the programme, providing advice and guidance when necessary;
- Review and consider all financial reporting;
- Consider and make recommendations to Scottish Government relating to any proposed deviation from the originally approved Full Business Case;
- Approve new Full Business Cases for the two sub projects that were not

- approved in detail as part of the original programme Full Business Case approval (Barcaldine Operation & Maintenance facility and Oban South);
 - Approve the inclusion of any additional development sites identified.
- 5.16 Initial meetings have already taken place between Council officers, the Scottish Government and Scottish Futures Trust. It is clear that all parties are committed to work together and reach a consensus view when considering the matters referred to above in 5.10. There is a shared goal to deliver key infrastructure which levers in private sector investment and delivers sustainable economic growth for Argyll and Bute. Whilst the Executive must agree any deviations to the business case that has been agreed with Scottish Government it is not able to commit the Council to any project that will not first have been approved by the Policy and Resources Committee.
- 5.17 The internal governance is primarily undertaken through the Policy and Resources committee which will be responsible for the approval of the startup process and funding required to take each of the projects to Full Business Case. The startup process of a project is comprised of elements such as economic and financial modelling, design work, feasibility assessment, planning assessment, site survey work etc. and is essential for the formulation of a robust Full Business Case. These startup costs are broadly speaking, expected to constitute approximately 20% of the total project costs and will be funded from the TIF borrowing as capital costs. These are included within the identified borrowing of £18.9m.
- 5.18 It is also proposed that Policy and Resources Committee will also consider the individual Full Business Cases for each project that forms part of the overall Lorn Arc programme. These business cases will set out the benefits, costs and detailed implementation plan for each of the 9 projects and will determine their progression on an individual basis. The project delivery costs are broadly speaking, expected to constitute the remaining 80% of the total project costs and will be funded from the TIF borrowing as capital costs.
- 5.19 It is also important to keep local members informed on progress on both the overall programme and the individual projects, taking advantage of local knowledge and views. Accordingly it is proposed to present programme update reports and Full Business Case reports relating to individual projects to the Oban Lorn and the Isles Area Committee / Business Days for information and discussion prior to consideration by the Policy and Resources Committee.
- 5.20 Once the Full Business Cases for individual projects have been approved by the Policy and Resources Committee, the Executive Director of Development and Infrastructure will be responsible for the implementation of the agreed projects within the parameters set out within the PIDs. The Executive Director of Development and Infrastructure will be supported by the Head of Customer and Support Services and the Head of Strategic Finance, who will collectively constitute the Programme Board. The Board will oversee the activities of the various officers who will be involved in implementing the programme, known collectively as the programme team. The members of the Programme Team are set out in section 3.6 of the Programme PID. The Policy and Resources Committee will receive the following reports:

- Bi annual update reports;
- Project initiation reports;
- Project full business cases;
- Project completion reports;
- Deviation reports (if the project falls out with the tolerances and exception criteria detailed within the PID).

5.21 A revenue budget is required to be established to facilitate the running costs of the overall programme. This revenue cannot be funded from TIF borrowing as it does not result in the creation of an asset that can be financed through the TIF scheme. It is proposed that the revenue budget will be funded by the Council using the balance on the General Fund earmarked to support the SOA in line with the decision made by the Policy and Resources Committee in December 2014 relating to the report on Delivering on the Single Outcome Agreement.

5.22 These revenue costs are primarily related to staff, office and third party payments. The third party payments comprise of internal cross service charges and professional support along with the services of external economists and other professionals required for the overall delivery of the programme. Full details of the proposed revenue budget are detailed within the PID (section 6) and a summary is included below in table 1.

Table 1 – Revenue Budget						
Expense Type	Time period					
	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000
Employees	30	74	127	128	130	131
Premises	14	26	28	28	28	28
Supplies & Services	6	17	13	13	14	13
Third Party Payments	48	159	161	124	125	125
Transport	2	3	3	3	3	3
TOTAL	100	279	332	296	300	300

6.0 CONCLUSION

6.1 The Lorn Arc programme is an integral element of the Council's investment in economic growth and is considered to be essential for attracting further inward investment to the Lorn area with consequential positive impacts for wider Argyll and Bute and to be fully in line with the decision made by the Policy and Resources Committee in December 2014 relating to the report on Delivering on the Single Outcome Agreement.

6.2 In order to progress the Lorn Arc programme, the team has developed a robust Programme Initiation Document (PID). The PID describes how the Lorn Arc programme will be delivered and managed. Approval of the PID is required to ensure that the programme is commenced prior to the Scottish Government deadline of 30th September 2015.

7.0 IMPLICATIONS

7.1 **Policy** - The delivery of the Lorn Arc programme fits with the Council's Corporate Plan, Single Outcome Agreement, EDAP and approved Local Development Plan policy. The economic outcomes from this programme will also contribute to the Government's Economic Strategy.

7.2 **Financial** - The Lorn Arc TIF business case has secured the ability of the Council to borrow up to £18.89 million to take forward the Lorn Arc programme. Approval of the Lorn Arc Programme Initiation Document (PID) enables the draw-down of this borrowing and the establishment of associated revenue budgets to enable the programme to operate.

7.3 **Legal** - None.

7.4 **HR** - The PID requests revenue resources for the recruitment of a dedicated administration officer to enable the Programme Managers to progress the Lorn Arc programme. Work will commence to recruit for this post following approval of the PID.

7.5 **Equalities** - An Equalities Impact Assessment has been undertaken as part of the Full Business Case process. The programme will comply with the Council's equality and sustainability policies. The specific TIF Asset project Full Business Cases will include an Equalities Impact Assessment and a Sustainability Assessment.

7.6 **Risk** - A Risk Assessment has been undertaken as part of the Full Business Case process and a risk register forms an integral part of the Project Initiation Document (PID) and future individual project element Business Cases.

7.7 **Customer Service** – The Lorn Arc TIF will have a significant impact upon the communities within the Lorn area.

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5th January 2015

For further information contact:

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Attachments: Appendix A – Project Initiation Document – Lorn Arc