

**LORN ARC TAX INCREMENTAL FINANCING (TIF) ASSET PROJECT 1 - LORN
ROAD / KIRK ROAD IMPROVEMENTS, DUNBEG
START UP REPORT**

1.0 EXECUTIVE SUMMARY

- 1.1 The Full Business Case for the Lorn Arc Tax Incremental Financing (TIF) programme outlines the proposals for delivering a £18.89 million package of infrastructure improvements including access to the Scottish Association for Marine Science (SAMS) / 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 and economic 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 once borrowing has been repaid, within an agreed boundary over a 25 year period.
- 1.3 Project 1 - Lorn Road / Kirk Road Improvements at Dunbeg, within the Lorn Arc programme business case approved by Scottish Government will now be taken forward.
- 1.4 The Lorn Arc Programme Initiation Document (PID) sets out the relevant governance and states that project start-up and development costs are to be reported to the Policy and Resources committee for their approval following consideration by the Oban, Lorn and the Isles Area Committee.
- 1.5 **Recommendation**
- 1.6 That Members:
- Recommend that the Policy and Resources Committee approve the drawdown of borrowing for a total of £238,100 for the development of a Full Business Case for Lorn Arc Project 1 – Lorn Road / Kirk Road Improvements at Dunbeg. These resources will be held in a defined budget and managed as detailed in the Lorn Arc Programme PID.
 - Note that the Full Business Case for Project 1 will be reported to a future OLI Area Committee and subsequent Policy and Resources Committee before moving to the implementation stage.

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2.0 INTRODUCTION

- 2.1 This report outlines the background to the Lorn Arc Tax Incremental Financing (TIF) programme and requests the approval of a startup budget to enable Project 1 – Lorn Road / Kirk Road Improvements at Dunbeg to be taken to full business case.

3.0 RECOMMENDATIONS

- 3.1 That Members:
- Recommend that the Policy and Resources Committee approve the drawdown of borrowing for a total of £238,100 for the development of a Full Business Case for Lorn Arc Project 1 – Lorn Road / Kirk Road Improvements at Dunbeg. These resources will be held in a defined budget and managed as detailed in the Lorn Arc Programme PID.
 - Note that the Full Business Case for Project 1 will be reported to a future OLI Area Committee and subsequent Policy and Resources Committee before moving to the implementation stage.

4.0 DETAIL

LORN ARC PROGRAMME

- 4.1 By way of background, a TIF programme must demonstrate that the funded enabling infrastructure that unlocks regeneration and sustainable economic growth will generate additional public sector revenues to repay the financing requirements of the enabling infrastructure. A full business case for the Lorn Arc TIF programme has previously been developed and approved by both the Council and Scottish Government.
- 4.2 The Lorn Arc programme is considered to be essential for Lorn and indeed wider Argyll and Bute. The focus of Lorn Arc is on delivering essential infrastructure to unlock private sector investment on a number of identified investment opportunities. The Council is mindful that Lorn Arc represents enabled borrowing 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 with principally additional non domestic rates being used to pay this money back. Lorn Arc will only succeed if investment is forthcoming from the private sector and consequently it will rely on partnership working to deliver the desired outcomes. The Council also recognises that Lorn

Arc will require investment from outwith Lorn.

- 4.3 The Lorn Arc programme will commence when the first work starts on the ground. It is a requirement of the Scottish Government approval that this happens before 30th September 2015. It is envisaged that Project 9 at Oban Airport will be the first project to start and that other Projects such as Project 1 - Lorn Road / Kirk Road Improvements at Dunbeg will follow closely behind.
- 4.4 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. It was approved by Council on 22nd January 2015.
- 4.5 The governance arrangements set out in the PID require that project start-ups and the costs associated with preparing a full business case are approved by the Policy and Resources Committee. A full business case is necessary to ensure that the project is viable and prudent. Preparatory works are required to inform the full business case and often include site surveys, design work, preparation of planning applications, economic impact assessments and procurement costs.
- 4.6 Start-up costs for each project are likely to constitute up to 20% of the overall capital costs of the proposed project. These costs form part of the £18.89m TIF funded borrowing.
- 4.7 A summary of Lorn Arc TIF Project 1 - Lorn Road / Kirk Road Improvements at Dunbeg is detailed in the following table :-

Table 1 : Summary of TIF Asset project	
Project No. 1	Lorn Rd / Kirk Rd Improvements, Dunbeg
Purpose	Road widening and junction improvements to enable further development of the Scottish Association of Marine Science (SAMS)/ European Marine Science Park area and wider Dunbeg Corridor.
Finance	Indicative Cost - £2.75M TIF Investment - £2.75M
Justification summary	This investment will enable the further development of SAMS and particularly Highland and Island Enterprise (HIE) European Marine Science Park (EMSP). This investment will directly enable this vital development as it is a requirement of any future planning consent and will directly result in additional NDR to include within the financing of the TIF borrowing. Two new business park units (20,000sqft each) are planned and it is envisaged that there may be scope for a further unit (20,000sqft) if market demand is high. Additional benefits of this investment include the release of up to 100 residential units and further expansion of SAMS' operations. The outline design and costing process has been progressed and have informed the allowance made in the TIF budget. A prudent approach has been taken to the

	costing due to allowances for ground conditions and utility changes and an allowance of circa 40% optimism bias has been made on construction costs and design fees. This will be reduced as the project progresses and further certainty is possible. The main risk to the short term deliverability of this project is the CPO process which is required to allow the implementation of the road. This process is being progressed at present with planning permission currently being sought, followed by instigation of the CPO process. Construction is envisaged to start in 2016.
Delivery Timescales	2014 to 2018

4.8 In order to produce a Full Business Case for this project a drawdown of £238,100 is required. The detailed breakdown of these costs is detailed in Appendix 1 (exempt item).

4.9 The Full Business Case is expected to be presented to the Oban, Lorn and the Isles Area Committee on 9th September 2015 and then the Policy and Resources Committee on 29th October 2015. This will include full details of the delivery programme for completion of this project.

5.0 CONCLUSION

5.1 The Lorn Arc TIF Project 1 - Lorn Road / Kirk Road Improvements at Dunbeg is considered to be a vital element in the overall Lorn Arc Programme, delivering an essential new access road that directly facilitates the further development of both the European Marine Science Park and future expansion of SAMS, along with enabling ancillary housing development and contributing to the development of the wider Dunbeg Corridor. Start-up costs are required to develop a full business case which will ensure that the project is viable and prudent. The Policy and Resources Committee will be asked to approve the full business case, following consideration by the Oban, Lorn and the Isles Area Committee, before the project proceeds to implementation.

6.0 IMPLICATIONS

6.1 **Policy** - The delivery of the Lorn Arc Programme supports the delivery of the Council's Corporate Plan, Single Outcome Agreement, EDAP and the draft Local Development Plan. The economic outcomes from this programme will also contribute to the Government's Economic Strategy.

6.2 **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 a budget to cover the startup costs for this TIF Asset project is essential to enable a full business case to be produced to establish the viability of this project.

6.3 **Legal** - None.

6.4 **HR** - None.

- 6.5 **Equalities** - An equalities impact assessment has been undertaken as part of the Full Business Case process. The Lorn Arc programme will comply with the Council's equality and sustainability policies. This TIF project's full business case will include an equalities impact assessment and a sustainability assessment.
- 6.6 **Risk** - A risk assessment has been undertaken as part of the Lorn Arc full business case and a risk register forms an integral part of the Project Initiation Document (PID). The full business case for this project will include a project specific risk register.
- 6.7 **Customer Service** – None

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