

TIF TPSP RESPONSE TEMPLATE

THIS TEMPLATE SHOULD BE COMPLETED AND RETURNED TO SFT BY WAY OF EMAIL RESPONSE TO: TIF@scottishfuturestrust.org.uk BY 19th AUGUST 2011.

LOCAL AUTHORITY

ARGYLL AND BUTE COUNCIL

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TIF CONTACT

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ADDITIONAL LOCAL AUTHORITY COMMENTS (IF APPLICABLE)

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1. TIF PROJECT BACKGROUND

- Provide background to the basis of the project – does this proposal satisfy the mandatory project characteristics detailed below.
- Why is this the chosen TIF project for your Local Authority? How does it fit with existing LA plans?
- Provide basis for satisfaction of the but-for-test
- Identify the likely TIF Assets (i.e. the public sector enabling infrastructure), likely cost & why you consider these will enable private sector investment.
- Provide a high level indication of the likely red-line area and basis for selection of this area
- Detail the level of internal Local Authority support received for this TIF proposal, work undertaken to date and the internal resource available to take forward the project

EVALUATION CRITERIA

Please note that further pilot projects must be of a primarily non-retail led nature. It should also be noted that of the three remaining pilot projects:

- one project should be below £20m; and
- one should have a renewables focus

Preference will be given to projects which satisfy these criteria and in selecting the three pilot projects, SFT will seek, if possible, to identify at least one project that meets each of the characteristics outlined above.

Ultimately any proposal for a TIF project must demonstrate to Scottish Ministers that:

- the enabling infrastructure will unlock regeneration and sustainable economic growth;
- it will generate additional (or incremental) public sector revenues (net of the displacement effect); and
- it is capable of repaying, over an agreed timescale, the financing requirements of the enabling infrastructure from the incremental revenues.

This scored section of Section 1 of the TPSP proposal will attract a maximum of 20 points (refer to Appendix 1 of this TPSP Response Template for scoring methodology). As well as the criteria above, scoring will consider:

- How has the project been chosen
- How well has the 'But For' test been evidenced
- Identification of TIF Assets, likely cost and ability of these assets to attract private sector investment, and any evidence to support this
- Initial identification and rationale of the proposed Red-Line area
- Extent of the Local Authority's internal support & approvals, work undertaken to date and the internal resource to take forward any proposed TIF project

QUESTION 1 - LOCAL AUTHORITY RESPONSE

(Limit to 1 page only)

Oban has been an important economic and social centre for the Highlands and Islands for many years. With the town currently celebrating its bi-centenary the Lorn Arc project will develop Oban, and the surrounding area, as an important growth pole for the west coast of Scotland for the coming decades. The investment will not focus on retail but will develop the full potential of the following industries: renewable energy; marine sciences; tourism; manufacturing; transport and communication; and food and drink, including aquaculture. The project does not exceed £20m.

Oban has been selected as the infrastructure investment will stimulate sustainable economic growth by building on the area's unique factors of competitive advantage; including marine and wind resources, world class research and transport connectivity. Given the range of industries that will benefit from the investment within the red-line area and the associated cumulative causation effect in the local economy, the prospect of generating the additional public sector revenues and meeting repayment requirements is appreciably enhanced.

Economic data demonstrates that Oban is a vibrant economy that has a key role in wealth creation for the west coast of Scotland. The project fully aligns with Council and national aspirations for Oban as detailed in the Council's Single Outcome Agreement, Economic Development Action Plan, Development Plan and Renewable Energy Action Plan (jointly developed with HIE). These documents integrate with national government aspirations.

But for this infrastructure being developed, there will be significantly less investment across a range of industries that are crucial to the economy of the Highlands and Islands and to Scotland's sustainable economic growth. This would see significantly less additional GVA, employment and NDR generation at the local, regional and national levels. This infrastructure will not be developed without TIF and therefore these benefits not secured.

The infrastructure relates to the extension of Oban's North Pier and the construction of a development road at Dunbeg / Dunstaffnage. The cost of this infrastructure is c. £19.6m. This complementary infrastructure will unlock private sector investment: the North Pier extension will be a catalyst for the growth of the renewables industry, marine tourism (including the cruise ship market) and aquaculture; the road will allow development of industries relating to the improved harbour facilities and other key investments at Dunbeg / Dunstaffnage, such as the European Marine Science Park. The project will also facilitate the development of other areas of zoned industrial land within the red-line area e.g. Barcaldine (a location promoted by Scottish Development International for the renewable energy industry) and Oban airport.

A high level indication of the proposed red-line area, known as the Lorn Arc, is appended. This area has been selected on the recognition of the interdependency and synergies of a range of differing economic functions and potential revenue generators within this boundary.

The Lorn Arc is supported at the highest level of the Council including the Council Executive and Strategic Management Team. The preparation of this application has been developed in conjunction with a range of internal and external stakeholders in both the private and public sectors. The project builds on previous and current work, such as the Oban Action Plan and outline business case for the [CHORD](#) regeneration programme. The resource is available to progress the full TIF business case and will be led by the economic development team.

2. PRIVATE SECTOR INVESTMENT, ECONOMIC AND REGENERATION IMPACT

PRIVATE SECTOR INVESTMENT

- Detail the anticipated private sector involvement and investment enabled by the TIF Assets
- If possible, please identify your private sector partners and give an indication of the level of discussions which have taken place and the level of development to date within the redline, if any
- Comment on the ability of this private sector investment to generate incremental NDRs within the proposed red-line area. N.B. target private sector development will be relatively biased towards commercial rather than residential development due to the use (primarily) of NDRs as the income stream captured to fund the TIF infrastructure
Provide further detail in relation to the private sector development types enabled by the proposed TIF project (e.g. renewables, commercial, leisure)

ECONOMIC IMPACT

- Detail the potential economic impact and additionality that your TIF project will have at the following levels: Local / Regional / National
- This section should give high level consideration as to the likely levels of displacement which will arise as a result of the TIF project and the anticipated private sector investment (either estimates of displacement levels across development types if available, or an indication of whether displacement is high, medium or low and a short justification for these assumptions)

REGENERATION IMPACT

- Detail the high-level outcomes that are expected in terms of regeneration, including the impact on the physical environment and social / economic outcomes

EVALUATION CRITERIA

10 points will be allocated to the private sector element of the response, 10 points to the economic analysis response and 10 points to the regeneration impact response (Refer to Appendix 1 for scoring methodology). Scoring will consider the proposal's identification of :

PRIVATE SECTOR INVESTMENT (10 points out of 30)

- What private sector investment activity will likely be enabled that will generate the incremental NDRs and hence TIF revenues, and where available, the potential level of private sector investment in £s terms
- The extent that a proposal is able to identify private sector partners undertaking this investment

- What current private sector investment is planned or taking place in the area, if any.
- The breakdown of the sectors that will deliver NDR growth under the anticipated project e.g. renewables, commercial, leisure
- The ability of the proposed TIF project to deliver additional NDR

ECONOMIC (10 points out of 30)

- Identification and analysis of potential additional economic impacts arising from the proposal, e.g. jobs, business space, sectors
- Consideration of likely displacement levels across development types – i.e. high medium or low or estimated % if this information is available. N.B. it is not a requirement for a Local Authority to engage external consultants to undertake economic impact assessments etc at this stage

REGENERATION (10 points out of 30)

- How the project will benefit local people, in particular how it will support the local economy and provide jobs and training opportunities and maximise community benefits

QUESTION 2 - LOCAL AUTHORITY RESPONSE**(Limit to 1 page only)**Private Sector Investment

Our private sector partners have been engaged and have informed this application. Our partners include Argyll and Bute Renewable Alliance (including Scottish Power Renewables and Scottish and Southern Energy), Argyll and the Isles Strategic Tourism Partnership (which includes significant private sector operators), Highlands & Islands Enterprise and HITRANS.

If extended, the North Pier will be a stimulus for offshore and marine renewables, marine tourism and aquaculture. In turn, this will encourage ancillary businesses to establish and grow, locating in areas such as the Marine Resource Centre at Barcaldine (e.g. manufacturing / engineering) or at Dunbeg / Dunstaffnage (e.g. light engineering, research & services). Other locations zoned for industrial development will also benefit e.g. Oban Airport. The European Marine Science Park at Dunbeg, currently being developed, will provide high quality laboratory and office space for new, expanding and inward investing companies with a focus on marine energy and science. This offers co-location with one of the world's leading marine science institutes and will assist the repositioning of the wider local economy. These industrial and research sites are being promoted to the private sector by Scottish Development International and HIE. The project will also encourage additional spin-off investment in the town itself in marine & business tourism, transport and communication etc. The ability of this private sector investment to generate incremental NDRs within the proposed red-line area is explored further in Question 3. It is estimated that there will be £5-10 billion of capital expenditure in nearby offshore renewable sites in the coming decade.

Economic impact

Oban's unique geographic location and function as "Gateway to the Isles", combined with its marine and wind resources, world class research, transport connectivity, quality of environment and produce represent distinct factors of competitive advantage. These sources of growth can create high levels of additionality across a range of measures and low levels of displacement (at the local & national levels) in the industries noted: renewable energy, marine sciences, manufacturing, tourism, transport and communication. The associated job creation within the red-line area will be in excess of 1,000 FTEs, many of which will be high skill and high wage, and also over 500 construction jobs. The employment opportunities will accelerate the area's demographic growth of 4% and labour market growth in recent years. It will consolidate Oban as one of the UK's main tourist towns and increase its already high daily visitor expenditure of £90 and increase annual tourism expenditure by over a third.

<i>Economic impact / additionality</i>	<i>Nat.</i>	<i>Reg.</i>	<i>Loc.</i>	<i>Justification</i>
Employment 10%+ local	H	H	H	Industries assisted have high job creation potential.
GVA – high growth	H	H	H	Positive impact across a range of growth industries.
Private Sector Investment (multi-billion) local/regional	H	H	H	Significant increase in inward & indigenous investment across a range of industries.
Visitor Expenditure 33%+ local	H/M	H	H	Visitor no, duration & spend per visitor increased.

Regeneration impact

TIF will complement the Council's ambitious CHORD regeneration programme – currently £6m is allocated for Oban. TIF will generate a wide range of employment opportunities, increasing the participation and employment rates for residents. The project is linked to the Oban Action Plan & Community Plan that will maximise training and community benefit. The investment will support an increase in the area's population of approximately a quarter.

3. FINANCIAL VIABILITY

- An indication of how much the proposed TIF Assets will cost / how much the Local Authority will have to borrow
- Consideration should be made here as to the source of funding for the TIF Assets and approach to repayment
- Identify, and quantify where possible, incremental NDRs which the project is expected to generate over the TIF period (25 years from first TIF investment)
- An indication should be made as to the level of certainty the Local Authority has in these high level assumptions and an explanation of why
- Outline any sensitivity testing undertaken to date

EVALUATION CRITERIA

The maximum score for this section is 20 (Refer to Appendix 1 for scoring methodology) and scoring will depend on the extent of analysis undertaken to determine:

- Levels of expected incremental NDRs across development types
- Ability to repay debt drawn down the fund the TIF Assets
- The outturn findings of any sensitivity analysis undertaken to date, if available (e.g. the impact upon the financial viability of the proposed project from increased infrastructure costs, NDR take reduction, changing displacement levels)

QUESTION 3 - LOCAL AUTHORITY RESPONSE**(Limit to 1 page only)**

The public sector enabling infrastructure relates to the extension of Oban's North Pier and the construction of a development road at Dunbeg / Dunstaffnage. The cost of both pieces of infrastructure is c. **£19.6m** which will be funded through borrowing. The estimated cost of each element of the work is: £17.5m for extension to North Pier; and £2.1m for road infrastructure. These proposals are based on outline business case figures and work undertaken for the Oban Action Plan.

The funding for the scheme will come from a mixture of increased pier dues and increased NDR income from private sector investment. The pier dues are related to both cruise ships and commercial traffic using the North Pier. The funding will be sufficient to cover the loan repayments which will be made on an annuity basis. The sources of the incremental NDRs and the likely amounts are outlined below:

Element	Rateable Value £000's	Annual NDR £000's
Dunbeg / Dunstaffnage	345	147
Oban airport	364	155
Glenshellach	1786	761
Barcaldine	430	183
Oban Harbour and Waterfront Area	--	140
Pier dues		250
Total		1636

Based on the assumptions outlined above the additional income generated will be sufficient to meet the annual repayment costs of the capital infrastructure when repaid over a 20 year period. With a 25 year repayment period it is estimated the income generated would exceed repayment costs by £175,000. If the infrastructure costs were 20% below estimate then income would exceed repayment costs by £269,000 and £418,000 per annum over 20 and 25 years respectively. If costs were to rise to 20% above estimate then income would fall short of meeting repayment costs by £332,000 (16.9%) or £117,000 (6.7%) per annum over 20 and 25 years.

The estimates in respect of the cost of the works are based on the Council's extensive knowledge of the likely costs of constructing marine, roads and transportation infrastructure. In terms of the likely income in respect of additional pier dues this is based on work being undertaken as part of a review of all the Council's piers and harbours. The figures in respect of the general uplift in NDR are based on a 2.5% increase within the red-line area; the remainder are based on estimates of the new developments, their estimated rateable values and the current rate poundage of 42.6p.

Initial sensitivity testing has been carried out to identify factors that may impact on the project, and the likely effect these factors may have, e.g. a longer development period, higher or lower costs etc. Many of these have been carried through to the initial risk register.

4. KEY RISKS & POTENTIAL MITIGANTS

- Key project risks should be identified. These may be wide ranging, however, are likely to include:
 - o State aid (Local Authorities will be encouraged to liaise with the Scottish Government's State Aids team on all potential state aid matters).
 - o Procurement
 - o Private sector failure to deliver/ invest
 - o Certainty of NDR take
 - o Availability and ownership of land

- A brief outline of any risk quantification and mitigation strategies should be detailed insofar as is possible

EVALUATION CRITERIA

The maximum score for this section is 20 points (Refer to Appendix 1 for scoring methodology).

Scoring of this section will consider the extent that a Local Authority has thought about project risks which may arise and how it can potentially manage and mitigate these risks.

QUESTION 4 - LOCAL AUTHORITY RESPONSE

(Limit to 1 page only)

The Council has a robust approach to all of its investment decisions. This approach is adopted from project inception (i.e. developing business cases) through to project implementation and utilises both the Office of Government Commerce methodology and PRINCE2 principles. Risk management is inherent in our approach to capital investment. An initial risk register has been prepared and is outlined below. The infrastructure to be developed will be in public ownership, will be used by multiple economic actors and should not constitute a state aid.

Ref.	Category	Risk Description	Chance	Impact	Score	Mitigating Actions	Risk Lead
LA01_R001	Funding	Construction cost projections incorrect leading to shortfall in funding.	3	4	12	Regularly revisit costings and obtain robust pre-tender estimate.	Project Manager
LA01_R002	Funding	That the financial regime for Local Authorities remains sufficiently stable to deliver the project.	3	4	12	Keep Local Authority funding regime under review.	Finance Advisor
LA01_R003	Political Risk / Approval	Full Business Case does not receive approval.	1	4	4	Ensure FBC is robust. Ensure communication throughout the process is maintained.	Head of Service
LA01_R004	Political Risk / Approval	Statutory approvals cannot be secured.	2	4	8	Ensure robust communication/consultation process and pre-application enquiries.	Project Manager
LA01_R005	Political Risk / Approval	That the political regime remains sufficiently stable to deliver the programme.	3	3	9	Ensure that clarity is maintained in terms of delivering agreed project scope and avoiding scope creep.	Head of Service
LA01_R006	Cost escalation and over-run	Timescales for projects too optimistic.	4	2	8	Regularly revisit project plan.	Project Manager
LA01_R007	Other risks	Poor contractor performance.	2	4	8	Ensure robust procurement process.	Head of Service
LA01_R008	Other risks	Unanticipated site issues – e.g. ground / seabed conditions.	2	4	8	Ensure design development process is as extensive as possible.	Project Manager
LA01_R009	Other risks	Private sector fail to invest in the area.	2	4	8	Ensure communication throughout the process is maintained with international, national and regional investors and partners.	Head of Service
LA01_R010	Other risks	Certainty of NDR take.	2	4	8	Ensure FBC is robust.	Head of Service

5. TIME SCALES

- Proposals should provide indicative timings for: the preparation and submission of a business case if identified as a pilot project, the likely date of the first TIF investment, timing of private sector investment and commencement of incremental NDR capture.
- Please detail any timing dependencies.

EVALUATION CRITERIA

A maximum of 10 points will be available in consideration of the timing of the business case delivery and of the indicative timing for the forecast first TIF Investment.

Evidence that robust analysis has been undertaken to support these timeframes should be provided in the TPSP response, e.g. Local Authority capacity to deliver the project within the timeframes outlined.

QUESTION 5 - LOCAL AUTHORITY RESPONSE

(Limit to 1 page only)

Project Plan

	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>		<u>Year 4</u>		<u>Year 5</u>	
	Oct. '11 – Mar. '12	Apr. - Sep. '12	Oct. '12 – Mar. '13	Apr. - Sep. '13	Oct. '13 – Mar. '14	Apr. - Sep. '14	Oct. '14 – Mar. '15	Apr. - Sep. '15	Oct. '15 – Mar. '16	Apr. – Sep. '16
Preparation and submission of a business case.										
Procurement										
Likely date of the first TIF investment.										
Construction										
Timing of private sector investment.										
Commencement of incremental NDR capture.										

We are aware of a range of inter-dependencies that will be reviewed as part of the Full Business Case, e.g. statutory approvals, private sector investment. The local authority has the capacity and commitment to deliver the project in the timescales noted above.

Argyll and Bute Council has developed a robust approach to project management, based on PRINCE 2 principles and Office of Government Commerce methodology, and this will be applied to this project. We have been recognised as taking a rigorous approach to the delivery of large scale capital infrastructure projects.

APPENDIX 1

SCORING METHODOLOGY

Maximum Score for Response: 10 points	Maximum Score for Response: 20 points	
1-2	1-4	Initial concept considered
3-4	5-8	High level analysis with some thought to TIF project specific factors.
5-6	9-12	Fair progress with significant work outstanding
7-8	13-16	Good progress with some work outstanding
9-10	17-20	Well advanced.