
CITY REGION DEAL – OUTLINE BUSINESS CASE FOR CENTRAL BORDERS INNOVATION PARK

Report by Executive Director
SCOTTISH BORDERS COUNCIL

28 JUNE 2018

1 PURPOSE AND SUMMARY

- 1.1 This report updates Council on progress with the Outline Business Case for the Central Borders Innovation Park at Tweedbank, which is required to secure funding from the Edinburgh and South East Scotland City Region Deal.**
- 1.2 Within the City Region Deal programme a “core” of the Central Borders Innovation Park will be created, providing an opportunity to set the tone and standard of future development in the area. An Outline Business Case has been prepared as part of the decision making requirements of the Scottish Government. The programme of work described in the Outline Business Case will deliver commitments made within the Borders Railway Blueprint.
- 1.3 The Outline Business Case is part of a continuous set of approval milestones for the project. A Full Business Case for the first phase of the project will be developed later this year with a subsequent report to be brought to Council. Full Business Cases will also be required for further phases of the project.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Council:-**
 - (a) Agrees to submit to the Scottish Government the Outline Business Case set out in Appendix 2 as the next stage of approval for Scottish Borders Council drawing down funding of £15 million for the Central Borders Innovation Park from the Edinburgh and South East Scotland City Region Deal;**
 - (b) Agrees to the drawdown of Scottish Government funding on a variable basis over 15 years as the best value-for-money outcome to Scottish Borders Council; and**
 - (c) Notes that the necessary full business cases will be prepared for each phase of the Central Borders Innovation Park project and will be presented to Council as appropriate.**

3 BACKGROUND

- 3.1 The opening of the Borders Railway in 2015 was a key step in boosting economic development in the Scottish Borders. A commitment in the Borders Railway Blueprint to a Central Borders Business Park—now the Central Borders Innovation Park — has been taken forward through a masterplanning exercise for Tweedbank. This was funded by the Blueprint at a cost of £325,000 and was completed in November 2017. Ultimately, the masterplan envisages the development of approximately 437 new homes and 71,545 m² of mixed use accommodation (hotel, office, retail, hospitality, and light manufacturing) in a mature woodland and parkland setting extending over a site area of 98.6 hectares.
- 3.2 The current, depressed state of the office and industrial property market in the Scottish Borders requires the level of public sector investment planned under this project. Such investment would supplement the £350 million spent on the Borders Railway. It would replace low value, obsolescent stock with high quality premises that will allow for a more competitive business location. Previous analysis suggests that there is demand for the space proposed. In 2013, for example, an “Economic and Market Assessment” for new business space at Tweedbank estimated demand for 450 m² to 1,750 m² of new space with between 180 and 350 new jobs created. Over the medium-to-long term (up to 15 years), the report suggested there could be demand for between 5,000 m² and 12,000 m² of new office floor space, potentially creating between 1,000 and 2,300 jobs. Ryden has now been asked to conduct an assessment of demand across the whole masterplan area.
- 3.3 Tweedbank Industrial Estate comprises 10.8 hectares, which is 13.2 per cent of the established employment land supply in the Central Borders. The masterplanning exercise concluded that the initial part of the development process at Tweedbank should result in new business premises occupying the land surrounding the railway station. This would help to define the character of the new development and also assist in building the critical mass around the railway station that is required to attract future investment into the area.
- 3.4 Within the City Region Deal programme a “core” of the Central Borders Innovation Park will be created, providing an opportunity to set the tone and standard of future development in line with the new Tweedbank Simplified Planning Zone.
- 3.5 The development plots will be constructed in three phases. The first phase will create 4,214 m² of new office space and 2,950 m² of new industrial space on the ex-Tapestry site, Eildon Mill, and part of the Quarry site by August 2019. The second phase will create a further 5,623 m² of new office space on the rest of the Quarry site by March 2022. A third phase will create 1,632 m² of office space and 400 m² of industrial space on land currently on the southern edge of Lowood Estate. The plots are shown in Appendix 1.

- 3.6 The Council has developed a detailed financial model for the costs in relation to the wider redevelopment of Tweedbank. The model shows the costs of development of the various tranches of the Tweedbank development, including Lowood, as these are currently understood along with and the associated economic benefits and a range of scenarios associated with funding. The outputs from this model inform the financial information included within the Business Case.

TABLE 1: DEVELOPMENT PLOTS

| Location of plot | Occupier of plot |
|--------------------------------|--|
| Ex-Tapestry site (Plot 1) | Scottish Enterprise business centre (Phase 1) |
| Eildon Mill (Plot 2) | Private sector (Phase 1) |
| Quarry site east (Plot 3) | Private sector (Phase 1) |
| Quarry site west (Plot 4) | Private sector (Phase 1); private sector (Phase 2) |
| Edge of Lowood Estate (Plot 5) | Private sector (Phase 3) |

4 UPDATE ON THE CITY REGION DEAL

- 4.1 The Edinburgh and South East Scotland City Region Deal involves East Lothian, Midlothian, West Lothian, Fife, City of Edinburgh and Scottish Borders Councils, together with partners from universities and colleges, the private sector, the third sector, and relevant public sector agencies. The City Region Deal aims to make a step change in economic growth across the whole region through a wide-ranging programme of investment. The proposals have been shaped around the following interconnected themes, with projects prioritised according to strategic fit, impact, and deliverability:
- a) Innovation;
 - b) Skills;
 - c) Transport;
 - d) Housing; and
 - e) Culture.
- 4.2 The Central Borders Innovation Park is part of the Innovation hubs theme and sits alongside Fife Industrial Estates Regeneration Programme. Officers have been working with colleagues in Scottish Government and Scottish Futures Trust to refine the Outline Business Case to ensure it is "Deal-ready". Discussions are also taking place with the University of Edinburgh, which is leading on a data driven innovation project, to identify what wider benefits could apply to the Central Borders Innovation Park and the Scottish Borders more generally from the University's project.
- 4.3 The Scottish Government's Economic Strategy includes innovation and inclusive growth as key drivers. The Central Borders Innovation Park aims to encourage innovation through the development of high quality infrastructure that will enable businesses to grow. It also aims to contribute to inclusive growth by creating high-quality employment opportunities. These are two outcomes against which the overall project will be assessed.

- 4.4 The Outline Business Case (OBC) being submitted by Scottish Borders Council has been prepared in accordance with HM Treasury guidance and is based on the five-case model: Strategic; Economic; Commercial; Financial; and Management. The Outline Business Case is set out in Appendix 2. Members should note that the document set out in Appendix 2 mentions a number of Appendices that relate to the OBC itself. Appendix 3, the Outline Project Plan, is also attached to this report. However, Appendix 4 (Financial and Economic Model) and Appendix 5 (Sensitivity Analysis) have not been attached because of their complexity and the difficulty in printing and working with these documents on-screen. If any members would like to study these documents, officers can facilitate that.

5 KEY ELEMENTS OF THE OUTLINE BUSINESS CASE

- 5.1 In the Economic Case section of the Outline Business Case, an options appraisal was carried out to determine the project outcome that would achieve the best value-for-money. Four options were assessed: "do nothing"; "do minimum"; "do something"; and "do everything". For affordability purposes in the context of the City Region Deal funding, the preferred option was "do minimum", but with the caveat that this option provides the basis for future development of the master plan area. The Economic Impact Analysis for this option shows that it would create 383 jobs and generate GVA of £353 million over 30 years. The project has a positive economic impact with every £1 spent providing a return of £16.
- 5.2 The Financial Case section determines whether what is proposed is affordable to Scottish Borders Council across the life of the project. The Edinburgh and South East Scotland City Region Deal Heads of Terms agreement provides £50 million for infrastructure in the Scottish Borders and Fife Council areas. The apportionment of this sum is £15 million for the Scottish Borders and £35 million for Fife. These sums will be drawn down over a 15-year period, as the detailed business cases are agreed. .
- 5.3 Financial modelling was therefore conducted in the context of a grant payments mechanism to illustrate three scenarios in which the Scottish Government's funding of £15 million could be drawn down:
- a) A fixed annual grant of £1 million paid in arrears over a 15-year period.
 - b) A fixed annual grant of £1.5 million paid in arrears over a 10-year period.
 - c) A variable drawdown of grant that is paid annually in arrears over a 15-year period.
- 5.4 The scenario outlined in c) would offer the best value-for-money to Scottish Borders Council. The financial modelling estimated the amount of borrowing that would be required to cover outstanding deficits at the end of each financial year. Under this preferred scenario, the overall borrowing requirement would peak at £4.5 million in 2024 and would be repaid in 2028. After this time, the programme could generate a cumulative operating surplus of £11.2 million to the end of its life in 2048. The income generated by this surplus would be re-invested in line with the principles of the City Region Deal. For example, it could be used to fund future building in the masterplan area or be re-invested in the buildings being developed as part of this project.
- 5.5 It should be noted that in discussions between the City Region Deal

Programme Office and UK Government (Scottish Office and HM Treasury) regarding profiling, the latter have raised concerns about front-loading spending and also about flat profiling. Although the UK Government is not funding any element of this project, its officials will examine the Outline Business Case.

- 5.6 Officers have been liaising closely with their counterparts in Fife Council given that each local authority has a project within the City Region Deal's Innovation hubs theme. These discussions will continue, particularly around the exploration of opportunities to flex spend across both projects given that the key test for Government will be the overall spend profile of the programme at regional level and not those of individual projects.
- 5.7 The Procurement Strategy is outlined in the Commercial Case. There will be opportunities for local businesses to tender for supply chain contracts while prime contractors will have to abide by community benefits clauses. These will be used to ensure that the economic benefits of the project help to assist the long-term unemployed, young people looking for apprenticeship opportunities, and other local people who require work experience.
- 5.8 The Management Case shows that there are no State Aid implications from this project. Advice taken from the State Aid Unit at the Scottish Government states that servicing sites for the private sector does not constitute State Aid as long as Scottish Borders Council is operating on commercial terms. However, Council officers will continue to seek advice from the State Aid Unit to determine whether any individual business proposition is compliant with State Aid rules.
- 5.9 The Governance arrangements for the City Region Deal were the subject of an earlier report that was presented to Council on 31 May 2018.

6 FUNDING OF THE CENTRAL BORDERS INNOVATION PARK

- 6.1 At the present time, the Council does not have any funding beyond £5 million allocated to the project in its Capital Financial Programme. The balance of the funding for the project will come from a mix of public and private sector contributions:

TABLE 2: PROJECT COSTS

| Development | Estimated Cost | Funding source |
|------------------------------|-----------------------|---|
| Ex-Tapestry site | £3 million | Scottish Enterprise; Blueprint |
| Eildon Mill | £2.4 million | Private sector; SBC and Blueprint (servicing) |
| Quarry – manufacturing space | £2.2 million | Private sector; SBC and Blueprint (servicing) |
| Quarry – offices | £16.3 million | SBC; Blueprint; City Region Deal |
| Edge of Lowood Estate | £3.9 million | City Region Deal |
| Infrastructure | £1.3 million | SBC; Blueprint |
| Total | £29.1 million | |

- 6.2 The infrastructure costs are for building an access road to the new buildings on the Quarry site and also building a road to link through to the Lowood area.
- 6.3 As described in the Outline Business Case, £29.1M funding is anticipated as follows:
- SBC Capital - £5 million
 - Scottish Enterprise - £1.5 million
 - Borders Railway Blueprint - £3.5 million
 - City Deal - £15 million (phasing over 15 years subject to further negotiation with Scottish Government)
 - Private sector - £4.1 million

The total cost of the Innovation Park core is currently estimated at £29.1 million, which is matched by the funding anticipated.

7 PROJECT MANAGEMENT

- 7.1 As noted above, governance arrangements at the programme level have yet to be finalised. It is important that suitable project management arrangements are in place now given that design work is now under way.
- 7.2 A Project Board for this project will be established along with a Project Manager (who is already in place). The Project Board will include an appropriate executive from Scottish Enterprise in view of their close involvement in delivering the Central Borders Innovation Park. The Project Board will review and monitor progress of the project and provide advice and guidance where necessary. The Project Manager is leading a team with the primary responsibility for managing the project's delivery.

8 IMPLICATIONS

8.1 Financial

- (a) The City Region Deal Heads of Terms agreement provides £50 million for infrastructure in the Scottish Borders and Fife Council areas. It is understood that the split of this sum is £35 million for Fife and £15 million for Scottish Borders. This is payable over a 15-year period. Discussions are ongoing with the Scottish Government regarding the profiling of the funding.
- (b) Given the requirement to draw down City Region Deal funding over a period of 15 years, the Council may have to borrow to finance spending during the project's three phases. Using the scenario of a flexible funding profile, the level of borrowing by the Council will peak at £4.5 million in 2024. These sums have been built into the financial model and are based on the rate at which the Council is currently able to borrow.
- (c) Initial outlays of capital investment will focus on the delivery of new office space (on the Quarry site) and enabling infrastructure. There will also be site servicing costs for the buildings that will be occupied by other private sector businesses.

- (d) The delivery of the project will take at least six years, although there is flexibility to lengthen these timescales regarding the development of phases 2 and 3. This will be determined by the mechanism through which it is agreed that City Region Deal funding can be drawn down and also by the anticipated demand for the planned space.

8.2 Risk and Mitigations

- (a) The key risk to the Council is that it is required to forward-fund much of project's costs. These have been estimated in the financial modelling and include an allowance for inflation. The Project Board and the project team will maintain a close overview and control of costs.
- (b) State Aid issues have already been discussed with the Scottish Government's State Aid Unit. Currently there are no issues, but the Council will maintain contact with the State Aid Unit to ensure that any potential State Aid implications are flagged up as soon as they arise.
- (c) There is a risk that there could be a lack of demand for the space to be delivered in phases 2 and 3. To this end, the Council has commissioned a report by Ryden to assess potential demand across the whole masterplan area.
- (d) It is anticipated that there will be a cumulative operating surplus of £11.2 million over the life of the project. The Scottish Government has expressed concerns that this surplus may be used for other Council activities. It is suggested that any surplus from the project should be re-invested in the Innovation Park and in any future phases within the master plan area.

8.3 Equalities

The City Region Deal has the concept of Inclusive Growth at its core. This requirement has been built into the Outline Business Case and will be measured as the project matures.

8.4 Acting Sustainably

A City Region Deal would provide a mechanism to help drive forward investment in sustainable place making. A cross-cutting approach to sustainable growth is a key element of the City Region Deal.

8.5 Carbon Management

Energy efficiency and limiting carbon emissions will be a key factor in the design of new buildings funded through the City Region Deal. This should have a positive impact on future carbon emissions.

8.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

8.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required to the Scheme of Administration or Scheme of Delegation.

9 CONSULTATION

- 9.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments incorporated in the report.

Approved by

Rob Dickson
Executive Director

Signature

Author(s)

| Name | Designation and Contact Number |
|---------------|--|
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Background Papers:

Previous Minute References: Scottish Borders Council, 2 November 2017.
Scottish Borders Council, 31 May 2018.

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Bryan McGrath can also give information on other language translations as well as providing additional copies.

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