

APPENDIX 2



Submission to Scottish Government

Edinburgh and South East Scotland City Region Deal

Central Borders Innovation Park

Outline Business Case

May 2018

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Introduction

This Scottish Borders Council Draft Outline Business Case is seeking approval of £15 million of funding under the authority of the Edinburgh and South East Scotland City Region Deal Agreement signed by David Mundell, MP, and Keith Brown, MSP, on 20th July 2017.

Both the UK and Scottish Governments support the aspiration to create a Central Borders Innovation Park and have asked Scottish Borders Council to submit an Outline Business Case for the project. On approval of this Outline Business Case, further work will be done to prepare and present a Full Business Case for the project.

As with many other rural economies, the Scottish Borders has to overcome the problem of market failure caused by a combination of remote locations and poor infrastructure, a lack of supply of modern business premises and the increasing obsolescence of existing stock. Public sector intervention is needed to address this issue, which is crucial to ensuring that sustainable, inclusive economic growth can take place. **The coming of the Borders Railway has presented a once in a generation opportunity to enable the local economy to grow.**

A Central Borders Innovation Park, situated next to the Borders Railway terminus at Tweedbank, would meet the urgent need for high-quality business space in the central Scottish Borders. It would stimulate business growth and associated job creation, enhancing the area's inward investment offer, particularly to high-value, innovative sectors, as well as meeting the needs of indigenous businesses thereby improving their competitiveness. It would also help to address inequalities in the area by providing access to better quality, higher paid jobs.

This Outline Business Case has been prepared in accordance with the business case development process outlined in HM Treasury Green Book guidance.

Executive summary

1. The Outline Business Case for the Central Borders Innovation Park concludes that the project:
 - Complies with all key national, regional, and local strategic plans.
 - Will boost employment by creating 383 jobs excluding construction.
 - Is anticipated to increase GVA by £353 million excluding construction.
 - Will contribute to inclusive growth by creating high-quality employment opportunities.
 - Will encourage innovation through the development of high quality infrastructure that will enable businesses to grow.
 - Will encourage new employees into the area, bringing new skills and experience.
2. The capital cost of the project is expected to be £29,020,000. Of this cost, £27,750,000 will develop five plots in the vicinity of Tweedbank Railway Station. A further £1,270,000 will be spent on creating infrastructure to improve access to these plots. This will form the “core” of the Central Borders Innovation Park and will provide critical mass to allow further development as proposed in the master plan for Tweedbank that was delivered in November 2017.
3. The Central Borders Innovation Park phase one will open in August 2019, creating 4,214 m² of new office space and 2,950 m² of new industrial space. Further development is anticipated beyond this date with phase two being completed by March 2022. This further development will create another 5,623 m² of new office space. 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.
4. **The project has a positive economic impact with every £1 spent providing a return of £16.**

The Strategic Case

5. The opening of the Borders Railway in 2015 began to reverse the process of curtailed economic development in the Scottish Borders that had set in over the previous few decades. 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 2017 master planning exercise for Tweedbank, which was funded by the Blueprint at a cost of £325,000. (Paragraphs 1.2 to 1.3.)
6. Scottish Borders Council has taken a strategic, proactive approach to securing the five plots that will start the development of the Central Borders Innovation Park. Four of these plots will facilitate the development of new buildings while the fourth will involve demolishing existing stock—Eildon Mill—and replacing it with modern business space. (Paragraphs 1.5 to 1.9.)

7. In line with the rationale behind the City Deal concept, the Central Borders Innovation Park is a project that would unlock potential. It would provide high quality business premises that would attract inward investment and stimulate inclusive economic growth. The masterplan includes detailed design studies of the land next to the railway and potential occupiers of the initial build-out phase have already been identified. The proposed buildings are being constructed in line with their requirements. (Paragraphs 1.10 and 1.12.)
8. The project is compatible with strategies for economic growth at the UK, Scottish, regional, and local levels. It is intended to foster inclusive growth through providing better access to higher paid jobs and to encourage innovation, through local and regional initiatives. This would further enable the Scottish Borders to attract businesses engaged in higher productivity sectors, aiming to address its position as the fourth lowest NUTS 3 region for productivity in Scotland. (Paragraphs 1.15 to 1.16, 1.18 to 1.20, and 1.23 to 1.24.)
9. Scottish Borders Council will work with Fife Council and the university sector to further the aims of the project in alignment with the wider objectives of the City Region Deal. (Paragraph 1.19.)
10. There are a number of Inclusive Growth challenges and barriers to innovation that can be addressed by the Central Borders Innovation Park. The provision of modern business space will help to create high value, more equitably distributed jobs in addition to giving businesses the opportunity to realise their growth potential. (Paragraphs 1.27 to 1.29.)
11. 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. (Paragraphs 1.38 to 1.39.)

The Economic Case

12. Constrained by the limitations of its rural location, market failure is a major issue for the Scottish Borders economy. Market analysis shows that the existing stock of office and industrial premises is not fit-for-purpose. In both cases, the stock is aged, increasingly obsolescent, and there is a lack of premises measuring more than 500 m² in area. This makes the Scottish Borders unattractive for potential inward investment. (Paragraphs 2.2 to 2.3 and 2.5 to 2.8.)
13. Analysis done in the context of the arrival of the Borders Railway has demonstrated that there would be demand for new business space in the short, medium, and long terms. Such provision will also provide an opportunity for Scottish Borders Council to raise revenue from the new buildings and by encouraging further private sector investment. This business case therefore makes a specific proposal for a “core” area of five plots,

which can provide a basis for further development of the innovation park in the future. (Paragraphs 2.10 to 2.14.)

14. There are four options presented in the economic case: “do nothing”; “do minimum”; “do something”; and “do everything”. For affordability purposes in the context of the City Region Deal funding, the preferred option is “do minimum”, but to provide the basis for future development. The Economic Impact Analysis for this option shows that it would create 383 jobs and generate GVA of £353 million over 30 years. (Paragraphs 2.17 to 2.19.)

The Commercial Case

15. While demand for modern business space throughout the Scottish Borders is strong, its supply is currently limited. Over the past five years, overall occupancy rates of properties let by Scottish Borders Council have been very consistent, fluctuating between 87 per cent and 93 per cent. During the same period, enquiries about these properties have also fluctuated, but were on the increase again in 2017. (Paragraphs 3.3 to 3.4.)
16. SMART objectives and potential risks have been identified for the project with a series of mitigating measures in place for the latter. (Paragraphs 3.10 and 3.12.)

The Financial Case

17. Given the uncertainty over the way in which the project will be funded, financial modelling has been conducted to show the financial consequences of receiving City Region Deal funding under three scenarios:
 - **Scenario 1:** It is assumed that a fixed annual grant of £1 million from the Scottish Government will be paid in arrears over a 15-year period.
 - **Scenario 2:** It is assumed that a fixed annual grant of £1.5 million from the Scottish Government will be paid in arrears over a ten-year period.
 - **Scenario 3:** It is assumed that grant will be paid annually in arrears at variable levels of funding. (Paragraphs 4.5 to 4.6.)
18. The financial modelling suggests that the best outcome for Scottish Borders Council in terms of value for money is Scenario 3. Under this scenario, a cumulative operating surplus of £11.2 million in nominal terms would be created at the end of the 30-year life of the project. The surplus income would be re-invested in future phases of the Tweedbank masterplan. (Paragraphs 4.11 to 4.12.)

The Management Case

19. A procurement strategy in line with Scottish Borders Council’s procurement regulations will be adopted for the project with scope to ensure that community benefits are maximised to assist local groups of disadvantaged residents. State Aid issues have been identified and consultation has been taken. (Paragraphs 5.3 to 5.5.)

20. At the regional level, the Scottish Borders will be involved in governance issues. Operationally, a Project Group and a Project Manager will be put in place with internal and external stakeholders being kept informed of the project's progress. The Project Group will report to the City Region Deal's Executive Board. Scottish Borders Council has staff experienced in delivering multi-million pound projects. (Paragraphs 5.6 to 5.10.)
21. Processes will be put in place to ensure that thorough through-life project evaluation will take place to ensure that the objectives of the project are being met. (Paragraphs 5.13 to 5.14.)

The Strategic Case

Strategic context

- 1.1 The Heads of Terms of the Edinburgh and South East Scotland City Region Deal agreed in July 2017 included a commitment to deliver new industrial and business premises at Tweedbank in the Scottish Borders.¹ The proposed project will make a significant contribution to the achievement of the wider policy agenda and the Edinburgh and South East Scotland City Region Deal programme objectives by providing modern and fit-for-purpose employment space at Tweedbank.
- 1.2 The closure of the Waverley line in 1969 left a series of towns, including Tweedbank, further from the national rail network than any other towns of their size in the UK. This resulted in significant isolation, curtailing economic development in the Scottish Borders. This trend is now being reversed after the opening of the Borders Railway in 2015. The new railway line terminates at Tweedbank.
- 1.3 The rationale for the Central Borders Innovation Park originated in work done by the South of Scotland Alliance in 2013. Following this work, the Borders Railway Blueprint launched by the Scottish Government in late 2014 committed to providing a number of incentives to support growth in more productive business activity, including the flagship transformation of the Tweedbank Industrial Estate area into a 21st century business location, as part of its theme, “Great Locations for Working and Investing”.² Scottish Borders Council received match funding from the Borders Railway Blueprint enabling it to commission a master planning exercise for Tweedbank, which concluded in November 2017 and cost £325,000. The implementation of the first phase of the Masterplan is supported by a £3.5 million investment commitment from the Borders Railway Blueprint, matched by £1.5 million commitment from Scottish Enterprise and £5 million from Scottish Borders Council.
- 1.4 The Scottish Government’s National Planning Policy (NPF3) mentions the importance of the Borders Railway and the centrality of Galashiels, which with Tweedbank, is situated within the Rural Growth Area in the Central Borders. Tweedbank is also located within the Central Borders Strategic Growth Area as defined in the South East Scotland Plan (SESplan). The local authority has recently sanctioned a Tweedbank Simplified Planning Zone. The project will also complement any future extension of the railway to Hawick and beyond. Map 1 shows the location of Tweedbank within south-east Scotland.

¹ *Edinburgh and South East Scotland City Region Deal: Heads of Terms*, August 2017, p. 3.

² Scottish Government: *Borders Railway Maximising the Impact: A Blueprint for the Future*, November 2014, p. 10.

Map 1: Tweedbank**Existing arrangements**

- 1.5 Scottish Borders Council owns most of the area of the land that lies around Tweedbank Railway Station and has been able to take a strategic and proactive approach to securing the development sites that will enable the Central Borders Innovation Park project to begin.
- 1.6 One of the five plots earmarked for the project was previously identified as a site for the proposed Great Tapestry of Scotland building across from Tweedbank Station. This site will now be developed by Scottish Enterprise as a business centre, with a £3 million project investment commitment as part of the Borders Railway Blueprint (Site 1).
- 1.7 The second plot is Eildon Mill, a building that is now quite old and does not provide the type of energy efficient space that businesses now require. It will be demolished, with its present occupier being re-located elsewhere at Tweedbank. The site will be made ready for commercial re-development, and will be developed and occupied by an Account Managed expanding business (Site 2).

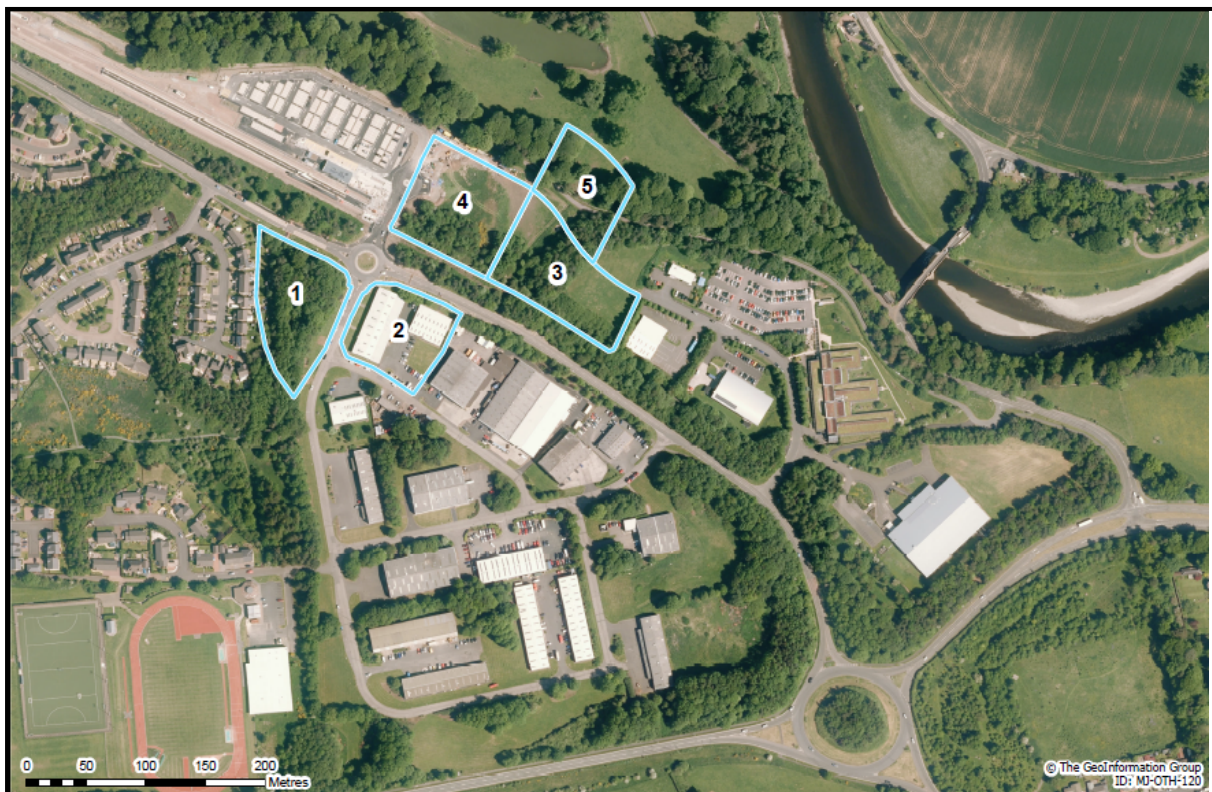
1.8 Two of the remaining plots are in a greenfield Quarry Site to the east of the station. The easternmost plot (Site 3) will be serviced and made ready for the private sector.

1.9 The westernmost of these (Site 4) will be used to develop new, speculative office space in two phases, and the first building is expected to be occupied immediately on completion. The servicing of sites 2 & 3, and the first building in site 4, are part of a £2 million investment from the Borders Railway Blueprint, matched by a £5 million from Scottish Borders Council. The commercial development of sites 2 & 3 also unlock significant private sector contributions.

1.10 Finally, there is a plot on the southern edge of Lowood Estate that will be used to develop a mix of speculative office and industrial space on newly zoned development land.

1.11 The development of these plots provides an opportunity to set the tone and standard of future development in line with the new Tweedbank Simplified Planning Zone. Figure 1 shows the location of the five plots that constitute the core of the Central Borders Innovation Park.

Figure 1: Plots making up the Central Borders Innovation Park core



KEY	
1.	Ex-Tapestry site
2.	Eildon Mill
3.	Quarry site (east)
4.	Quarry site (west)

5. Edge of Lowood Estate

Business strategy and aims

1.12 Fundamentally, this project is about unlocking potential, which is in line with the general rationale for the programme of City Region Deals. The current business offer in the Scottish Borders is not economically viable owing to office and industrial property market failure in the area. The project will provide high quality business premises for inward investment and local, inclusive, growth, which will not occur if the necessary infrastructure is not available.

1.13 The current Tweedbank Industrial Estate comprises 10.8 hectares, which is 13.2 per cent of the established employment land supply in the Central Borders. The aforementioned master planning exercise concluded that the initial part of the development process at Tweedbank should result in new business premises occupying the land plots surrounding the railway station. This will begin to define the character of the new development and will assist in building the critical mass around the railway station that is required to attract future investment into the area.

1.14 The master plan includes a series of detailed design studies for the buildings which would be situated on the land next to the railhead. These include new sites for the private sector together with space for a business centre (Figure 2).

Figure 2: Potential occupiers of the initial development plots (phases 1 and 2)

Plot	Potential occupier	Current site owner	Innovation focus
Ex-Tapestry site	Business centre	Scottish Borders Council	n/a
Eildon Mill	Private sector	Scottish Borders Council	Innovation Active business
Quarry site	Private sector	Scottish Borders Council	Research and Development; Innovation Active business

1.15 The initial development plots will be constructed in two 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, funded by Scottish Enterprise, Scottish Borders Council and the Borders Railway Blueprint. The second phase will create a further 5,623 m² of new office space on the rest of the Quarry site by March 2022. The 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.

1.16 Ultimately, the master plan 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. This project delivers the first phase of development of the master plan, which will create a high quality place to live, work and invest at the current terminus of the Borders Railway.

National Policy Objectives

1.17 The project is timely in that its aims dovetail with the UK Government's *Industrial Strategy* of November 2017. This strategy articulates five foundations to transform the UK economy and boost productivity and earning power: Ideas; People; Infrastructure; Business Environment; and Place (Figure 3).³

Figure 3: The compatibility of the Central Borders Innovation Park with the UK's Industrial Strategy

UK Industrial Strategy Five Foundations	Description	Compatibility with the objectives of the Central Borders Innovation Park
Ideas	The world's most innovative economy	Creation of business space to allow innovative businesses to flourish.
People	Good jobs and greater earning power for all	Improvement in access to better jobs for the local population.
Infrastructure	A major upgrade to the UK's infrastructure	Accessibility to the Tweedbank site will be further improved.
Business Environment	The best place to start and grow a business	Provision of space to aid start-up businesses
Place	Prosperous communities across the UK	Creation of economic activity that will foster inclusive growth.

1.18 The project is also aligned with the "4I" priorities in the Scottish Government's Economic Strategy as it will provide *investment* in local business; encourage *innovation* and *internationalisation*; and also contribute to *inclusive growth*.⁴ Within the innovation strand of the strategy, this project would aim to foster a culture of innovation in the Scottish Borders through working with business, its regional partners, and the universities. Within the inclusive growth strand of the strategy, this project would look to promote Fair Work and address barriers to labour market entry for disadvantaged groups. The project is also aligned to the National Performance Framework in that it would make the Scottish Borders a more attractive place to do business and help to maximise economic potential through providing better employment opportunities for local people.

³ HM Government: *Industrial Strategy: Building a Britain fit for the future*, November 2017, p. 10.

⁴ Scottish Government: *Scotland's Economic Strategy*, 2015.

- 1.19 The project will support the objectives of *Scotland Can Do*⁵ drawing on the research of the university sector to maximise the potential of innovative business processes. This work will particularly focus on the second phase of the project.
- 1.20 The project will help to ensure that the Scottish Borders becomes a more competitive location, which is able to meet the requirements of modern businesses and thereby attract new investment into Scotland as well as ensuring that indigenous businesses are able to expand and prosper. By providing serviced employment sites and modern business premises in a strategic location, this will enable businesses to improve their productivity.
- 1.21 The Central Borders Innovation Park will form part of a wider programme of proposed investment in business infrastructure activity under the City Region Deal and in this respect, the Council is in regular contact with Fife Council, which is working on its own proposals. Alongside Fife Council, Scottish Borders Council will work closely with the region's universities. The Council will also continue to work with other key stakeholders such as Scottish Enterprise, which will be a key partner in advising and supporting businesses regarding innovative practices as will Business Gateway. There are also plans to work with Scottish Enterprise to market the new space.

Regional Policy Objectives

- 1.22 Scottish Borders Council's development of good relationships with its partners in the Edinburgh and South East Scotland City Region Deal is being complemented by its contribution to the development of a Borderlands Inclusive Growth Deal. This initiative, which also involves Dumfries and Galloway Council, Northumberland County Council, Cumbria County Council, and Carlisle City Council, includes a Business theme, which aims to encourage more innovation active businesses.
- 1.23 The on-going work to establish the South of Scotland Economic Partnership covering the local authority areas of Scottish Borders and Dumfries and Galloway is a key driver in regional policy. Again, this work will complement the objectives of the Edinburgh and South East Scotland City Region Deal, particularly regarding the policy imperatives of innovation and inclusive growth. As both the South of Scotland Economic Partnership and the Borderlands Deal are in their early stages of development, these relationships will evolve over time. In the meantime, steps will be taken to minimise areas of potential duplication.
- 1.24 The project will also support the regional strategic growth ambitions within SES Plan's *A Place to Do Business* theme, which identifies locations for investment and opportunities to support a low carbon economy. In relation to the latter, it is intended that the new premises will meet current building regulations and climate change legislation. Any plans to go beyond the limits imposed by these regulations and legislation would be developed in due course.

⁵ Scottish Government: *Scotland Can Do: Boosting Scotland's Innovation Performance. An Innovation Action Plan for Scotland*. January 2017.

Local Policy Objectives

1.25 The *Scottish Borders Economic Strategy 2023* sets out a strategic approach to the development of a prosperous economy. Objectives directly relevant to this project are:

- *“To ensure that new land and premises are developed to allow businesses to grow and relocate.”*
- *“To maximise the economic development potential of the Borders Railway.”*

1.26 The strategy’s action plan includes a specific project to pursue land acquisition and phased refurbishment to create a Central Borders Innovation Park. The Scottish Borders Local Development Plan 2016 also notes the potential for development to meet strategic employment needs. The emphasis on an innovation park reflects other local authority aims including addressing being 20th out of 23 NUTS 3 areas for productivity (see Figure 3, Appendix 2).

1.27 The economic potential of the Borders Railway has been boosted by overall passenger usage exceeding initial expectations with 22 per cent more passengers than predicted. The number of passengers using Tweedbank Station is ten times the number predicted; at Galashiels, it is five times. The railway is helping to bring the attractiveness of living and working in the Scottish Borders to national attention. This project will help to put Tweedbank Station at the heart of a sustainable, thriving, vibrant community rather than being simply a “Park and Ride” facility for commuters and visitors.

1.28 Of the main inclusive growth challenges identified at the City Region Deal level, the following are especially relevant within the context of this project:

- Slow Growth;
- Skills inequality and polarisation;
- Gender and age inequalities; and
- Low income and low pay.

1.29 In terms of the percentage of working age population in employment, Scottish Borders (with a rate of 74.5 per cent) is “mid-table” when compared with other Scottish local authorities. However, on the other hand, workplace-based gross median weekly earnings in the Scottish Borders were the lowest of Scotland’s local authorities in 2016 at £453.40. These were £81.60 per week less on average than in Scotland as a whole.⁶ This project has the potential to attract more productive sectors of the economy. It is intended that the City Deal investment will act as a catalyst for the whole Tweedbank master plan area and the wider central Borders by creating an environment conducive to higher growth businesses, which will have the effect of creating better paid employment opportunities.

1.30 It should also be noted that the area’s working-age population (16-64) is forecast to decrease by 15 per cent between now and 2039.⁷ It is for this reason that the *Scottish*

⁶ Annual Survey of Hours and Earnings 2016.

⁷ National Records of Scotland.

Borders Economic Strategy 2023 recognises a need to make the area more attractive for younger workers:

“To make the Scottish Borders a more attractive place to live and work and arrest the out-migration of our young people, the area needs to offer alternative options to stay in the area; locate to the area; and/ or raise the value of employment on offer – this is a key challenge...”

- 1.31 Drawing on lessons from the Enterprise and Skills Review, the Scottish Borders recognises constraints on innovation activities, particularly a lack of skilled people. The proportion of those employed in high skilled occupations is currently 38 per cent, the lowest figure of the six local authorities involved in the City Region Deal.
- 1.32 This issue is compounded in that the area is at a clear disadvantage given that the higher productive sectors of the economy tend to be located in urban rather than rural areas. Cities are more likely to possess the assets that contribute to higher productivity: a highly skilled workforce; good connectivity; competition; investment in Research and Development; and clustering of knowledge and innovation. An aim of this project is to provide all of these elements with the additional lifestyle benefit of living in a rural area.
- 1.33 Building an innovation park has the potential to improve Research and Development levels by working with Higher and Further Education institutions, particularly through the City Region Deal data driven innovation programme (see Appendix 2). Businesses with persistently higher levels of Research and Development tend to have a productivity level that is 13 per cent higher than average.⁸ The level of Research and Development expenditure by businesses in the Scottish Borders is low at £64 per head of population (2016 figures) compared to an average of £198 across Scotland.⁹ Using the measure of business sites of registered enterprises by urban/rural classification, businesses based in accessible rural areas—such as Tweedbank—are least likely to be innovation active.¹⁰ Increasing the number of innovative businesses would help to address the issue of slow growth, one of the inclusive growth challenges referred to above.
- 1.34 High-value job creation in the area depends on the provision of new, modern, flexible high quality business space (not only offices, but also modern industrial units for Class 4, 5 and 6 uses). The premises are being constructed in conjunction with the business requirements of the potential occupiers with regard to physical configuration and adaptability; functionality, including digital broadband capability; and efficiency in terms of cost-in-use, including energy performance, which will reduce carbon footprints.
- 1.35 If there are no new sites and no new offices/units, then the opportunity created by the Borders Railway to attract inward investment and encourage innovation will be lost and there will not be suitable property for local businesses to grow and expand into. Nor will

⁸ Department for Business, Energy & Industrial Strategy: *Main Report – Science and Innovation Audit, Edinburgh and South East Scotland City Region*, p. 21.

⁹ Scottish Government.

¹⁰ UK Innovation Survey 2015.

new entrepreneurs and start-ups have the ability to benefit from the clustering effect provided by an innovation park.

- 1.36 As the new innovation park would be built mostly on existing employment land, issues of displacement are likely to be limited. (Using guidance from Scottish Enterprise,¹¹ the economic modelling has made allowances of 25 per cent for displacement as well as for deadweight and leakage.) Part of the new space (the re-development of Eildon Mill) will replace currently under-used premises that are of low value and detrimental to business growth. It will therefore give its occupants the opportunity to increase turnover, create jobs, and deliver growth. It will also contribute environmentally through building on an existing brownfield site.

Strategic needs

- 1.37 The fundamental issue driving the Central Borders Innovation Park at Tweedbank is that there is industrial property market failure in the central Borders, which requires investment by the public sector to provide serviced sites and also to lead the market by providing speculative office property. In its September 2016 report to Scottish Enterprise on a Central Borders Business Park, Ryden wrote that “in a competitive location there are almost no modern, purpose-built offices to offer to expanding or relocating companies, particularly the higher value sectors sought by economic development strategy which are most likely to require such premises”. By siting such space at the railhead, the local economy will be in a much better position to attract businesses in these sectors.
- 1.38 The Central Borders Innovation Park has come forward on the back of the Scottish Government’s £350 million investment in the Borders Railway. The Ryden report stated that “Scottish Borders’ supply of immediate prime sites for inward investment is very limited. The Railway is providing an opportunity to promote the location to mobile investors.”
- 1.39 This analysis is backed up by recent experience in Hawick, which has shown how hard it is to meet the needs of inward investors with the existing outdated, inflexible property portfolio that exists in the area. Currently there is only one high quality, modern office premises available in the Central Borders and there is very little modern manufacturing space built after 2000. The existing stock of employment property is becoming increasingly obsolescent in physical, functional and environmental terms, which is constraining business activity and economic growth in the area. More detail about the causes of market failure in the Scottish Borders will be provided in the next section, the Economic Case.
- 1.40 The Ryden report provides an analysis of the market need. The supply of commercial and industrial property in the Scottish Borders was significantly lower in 2014-16 than it was in the post-recession period of 2012-13. Anticipating an increase in the supply of

¹¹ Scottish Enterprise: *Additionality and Economic Impact Assessment Guidance*, 2008.

quality business premises through the creation of a Central Borders Business Park, Ryden concluded that:

“There is good consensus among consultees around the target occupier market for Tweedbank. Smaller, innovative companies with growth potential from the existing catchment and potentially more footloose are expected to be attracted over time as the location is improved.”

- 1.41 What this analysis indicates is that there is scope for innovative businesses to move into the Central Borders Innovation Park to accelerate their growth. Meanwhile, businesses that are less developed—particularly start-ups—will have opportunities to move into lower value space that is vacated elsewhere, enabling them to develop in a way that will allow them to move into the innovation park in the future.

The Economic Case

2.1 This chapter sets out the economic case for the project, taking account of updated project design, costs and forecasts. Its main focus is an economic analysis (i.e., a benefit-cost ratio based on the present value of benefits and costs).

Market failure

2.2 As a rural economy with dispersed, relatively small centres of population, the Scottish Borders is constrained by poor infrastructure and remoteness compared to the more urbanised economies of the neighbouring central belt. Over time, the difficulties in creating a critical mass to stimulate the market has led to market failure resulting in a lack of supply of modern business premises and the increasing obsolescence of existing stock. This project aims to capitalise on the “game-changing” arrival of the Borders Railway to address this problem and put the commercial property market in the area onto a more sustainable footing.

2.3 Market failure has created a vacuum with the private sector unable to invest in essential infrastructure and develop modern business space because of the relative costs of development compared to rental and capital values. Scottish Borders Council sees the opportunity provided by the City Region Deal as being crucial in enabling a long-term investment in the delivery of modern premises in the Scottish Borders.

2.4 There are 27 industrial estates located in the Scottish Borders. Of these, 15 are owned or part-owned by Scottish Borders Council. The remainder are owned by a mixture of Scottish Enterprise, owner-occupiers, and private investors. The largest industrial estates are Tweedbank Industrial Estate (22,718 m²), Bankend Industrial Estate, Jedburgh (12,580 m²), and Pinnaclehill Industrial Estate, Kelso (12,143 m²).

2.5 According to analysis done by the Scottish Assessors' Association in 2015-16, industrial stock in the Central Borders consisted of 592 premises, which totalled 407,229 m² in area.¹² Of these, only 14 per cent were larger than 1,000 m² in area. The majority (71 per cent) were less than 500 m² in area (Figure 4).

Figure 4: Industrial stock in the Central Borders, 2015-16

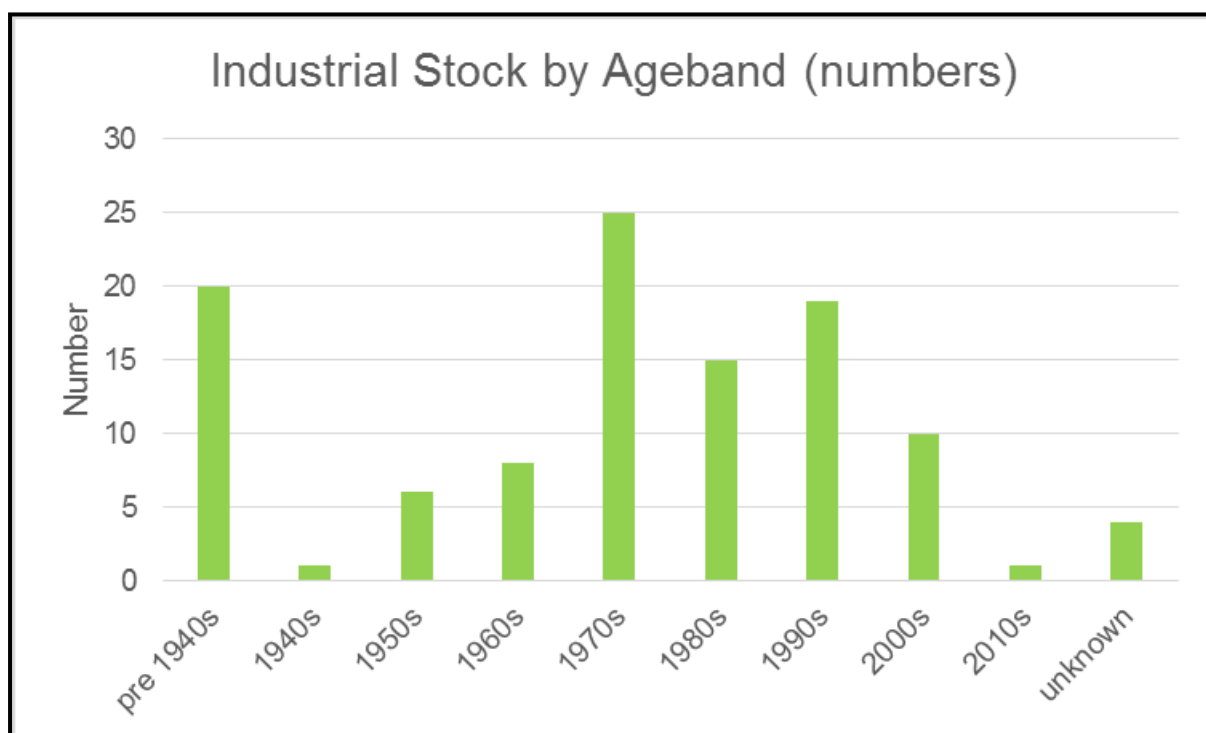
Size band (m ²)	Number of properties	Area (m ²)
0-99	120	7,416
100-199	124	17,621

¹² This analysis comprises properties classified as depot, factory, industrial unit, warehouse, workroom, workshop, bakery, brewery, laboratory, printing works, sorting office, and vehicle testing.

200-499	175	55,345
500-999	77	54,265
1,000-1,999	42	56,065
2,000-4,999	23	63,872
5,000-9,999	17	108,832
10,000+	3	43,813
Unknown	11	0
Total	592	407,229

2.6 Figure 5 illustrates the age bands of 109 industrial buildings in the Central Borders, which are taken from a smaller sub-set of industrial buildings monitored by CoStar. The majority of these buildings (69 per cent by number of units, 85 per cent by area, not shown) date from before the 1990s.

Figure 5: Age bands of industrial stock in the Central Borders



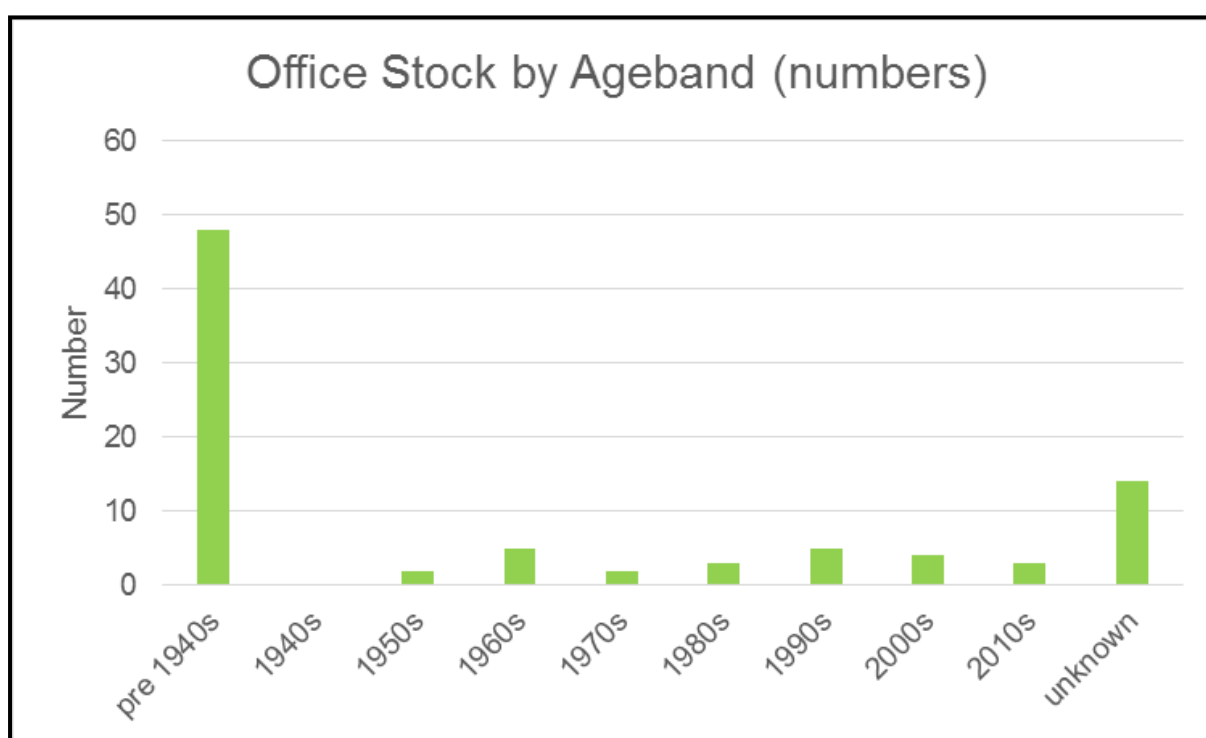
2.7 Given their age, few of these buildings will have been refurbished to standards introduced by the Scottish building regulations of 2002. Moreover, the April 2016 reduction in vacant property rates relief from 100 per cent to 10 per cent after six months means that an older industrial building of over 1,000 m² is liable to an annual rates bill of around £18,000.

2.8 According to analysis done by the Scottish Assessors' Association in 2015-16, office stock in the Central Borders consisted of 597 premises, which totalled 65,247 m² in area. This is only 16 per cent in area of the amount of industrial stock available. Of these, only 2 per cent were larger than 1,000 m² in area. Over 90 per cent were less than 500 m² in area (Figure 6).

Figure 6: Office stock in the Central Borders, 2015-16

Size band (m ²)	Number of properties	Area (m ²)
0-99	398	17,039
100-199	84	11,898
200-499	61	17,588
500-999	7	5,434
1,000-1,999	7	9,070
2,000-4,999	2	4,218
5,000-9,999	0	0
10,000+	0	0
Unknown	38	0
Total	597	65,247

2.9 Figure 7 illustrates that the majority of office stock (56 per cent) dates from before the 1940s.

Figure 7: Age bands of office stock in the Central Borders

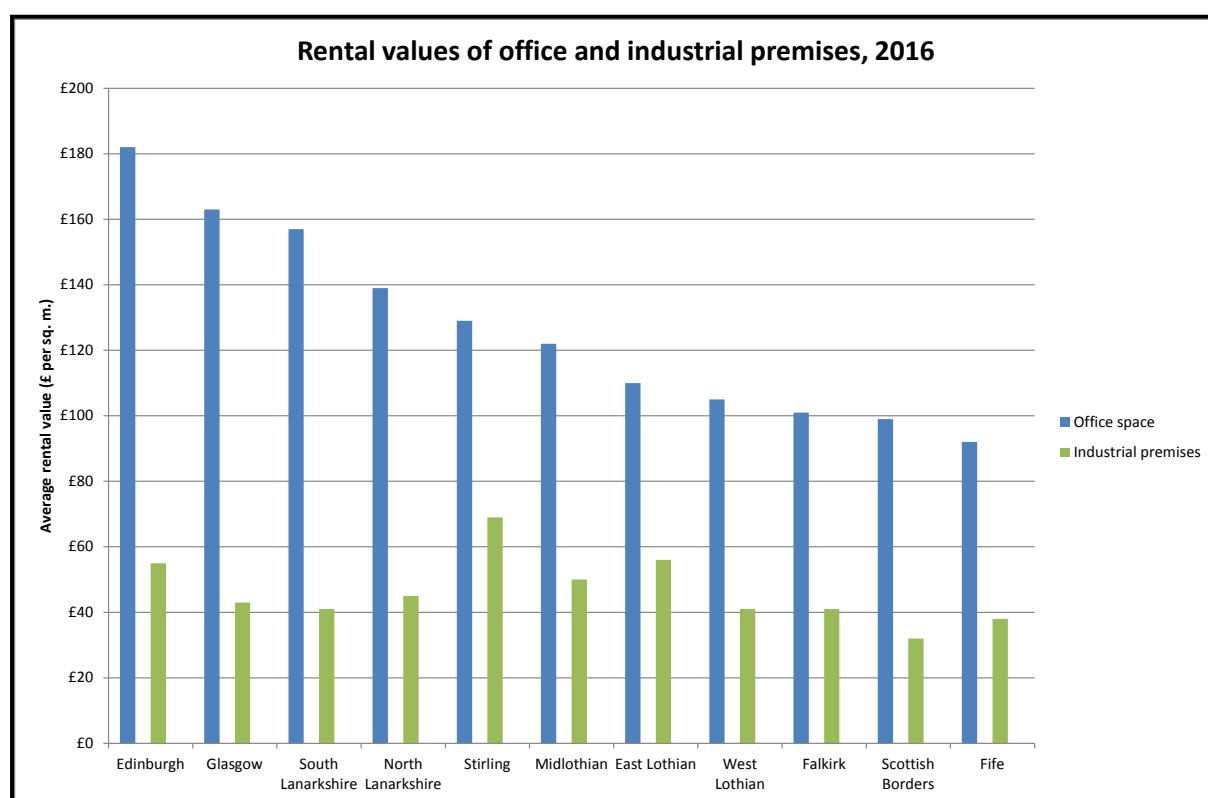
Critical success factors

2.10 In 2013, an “Economic and Market Assessment” for new business space at Tweedbank was undertaken on behalf of Scottish Borders Council and Scottish Enterprise. It showed that there are a range of positive economic benefits to be yielded from a new railway. These include access to employment, services, business relocations, population change, productivity, and perceptions of an area. The report’s economic analysis highlighted short-term demand for new commercial office space to

meet projected growth in the “professional and business services” in the central Borders over five years. This 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. Failure to provide this space would mean that the Scottish Borders would only realise the negative impact of providing a rail link to jobs outside the area.

- 2.11 Figure 8 shows that rental values (and therefore revenue) in the Scottish Borders are lower than those prevalent in the central belt. Industrial premises in the Scottish Borders cost, on average, £32 per square metre in 2016, which is the lowest rate among the 11 local authorities surveyed. Office space could be rented at £99 per square metre on average in the Scottish Borders. Only Fife was cheaper at £92. This relatively low cost is an additional short-term advantage for potential inward investors.

Figure 8: Rental values of office and industrial premises, 2016



The case for change

- 2.12 This project will assist in narrowing the gap between the Scottish Borders and more productive areas. It will help to encourage more innovation active businesses in the Scottish Borders to grow and operate more productively. It also has the potential to improve Research and Development levels through working with Higher and Further Education institutions, particularly through the City Region Deal data driven innovation programme. To this end, Scottish Borders Council has arranged to discuss these issues with the University of Edinburgh. Moreover, as part of the City Region Deal programme,

the Council has an opportunity to link into other initiatives that would have previously been inaccessible to it.

2.13 Investing in new office and industrial space will therefore create the conditions that can allow business innovation to occur more easily and allow innovative businesses to grow. Scottish Enterprise will be a key partner in advising and supporting businesses to this end as will Borders Business Gateway, which works closely with small and medium-sized enterprises that have been categorised as Early Stage Growth. Scottish Enterprise and Borders Business Gateway will also assist businesses to become innovation active.

2.14 Overall, the project will allow for a clear pathway to be created from the initial investment stage to “game-changing” impacts for the Scottish Borders (Figure 9).

Figure 9: Pathway for innovation and economic growth

Input →	Activity →	Output →	Outcome →	Impact
<p>City Deal funding for new office and industrial space.</p> <p>Planning with stakeholders to maximise benefits of innovation.</p>	<p>Building of new, modern premises allowing businesses to work more efficiently.</p>	<p>Improved productivity with a proportion of occupiers engaging in innovative processes.</p>	<p>Business growth through increased turnover and profits.</p> <p>“Ripple effect” encouraging private sector to invest in new business space.</p>	<p>Increased employment, including higher skilled jobs, uplift in GVA and productivity.</p>

Summary of project costs

2.15 Figure 10 sets out a summary of the costs of the project together with the activities that require to be funded.

Figure 10: Summary of the costs of the project

Element of project	Description	m ²	Cost
Ex-Tapestry site	Development	1,404	£3M
Eildon Mill	Development and servicing	1,310	£2.4M
Quarry – Industrial space	Development and servicing	2,450	£2.2M
Quarry – Speculative office	Development	7,623	£16.3M
Edge of Lowood Estate	Development	2,032	£3.9M
Infrastructure	Infrastructure	n/a	£1.3M
	Total	14,819	£29.1M

2.16 The projected costs are therefore allocated as follows:

- Development: £ 27.3 million.
- Infrastructure: £ 1.3 million.
- Servicing: £0.5 million.

Options appraisal and preferred way forward

2.17 The economic impact assessment is based upon a specific land and property development proposal for the Central Borders Innovation Park based around a “core area” of five buildings, which if built will catalyse further development. The options appraisal for this project (Figure 11) examines four options that were considered for City Region Deal funding.

Figure 11: Project options

Options	Description	Grounds for rejection
Do nothing	Status quo with Tweedbank Industrial Estate continuing to decline	Would exacerbate the gap in economic performance between the Scottish Borders and Scotland as a whole, which is currently a differential of almost one-fifth.
Do minimum	Building the core of a new business innovation park in the Tweedbank area on Council-owned land next to the railway station and also newly acquired land on the southern edge of Lowood Estate	The favoured option, which is affordable given currently secured funding and the land is ready for development. This option is most likely to secure private sector investment.
Do something	Building a new business innovation park to include all the newly acquired business land in Lowood and also land on the existing industrial estate	This option does not offer value for money as the costs of creating all of the required infrastructure are too prohibitive at present and there are concerns about the short-to-medium term demand for the additional space in the proposal.
Do maximum	Build all business and residential infrastructure as outlined in the masterplan	Far too costly at this stage; the “do minimum” option provides traction for building out the rest of the masterplan when more funding is available and demand for the proposed development space is more apparent.

NPC/NPV findings

2.18 The results of the economic modelling for the preferred option (“do minimum” above) are shown in Figure 12. More detail is provided in Appendix 5.

Figure 12: Modelling inputs and outcomes

Factor	Input	Source
Year of opening	2019-2024	Scottish Borders Council
Office floorspace	11,469 m ²	Proctor and Matthews
Industrial floorspace	3,350 m ²	Proctor and Matthews
Capital cost	£29,020,000	Turner & Townsend

GVA Impact

Economic Development inputs ¹³	£
NPV of Total Net GVA	353,340,283
NPV of Construction GVA	65,972,224

Job Impact

Economic Development inputs	
Direct Net Jobs Impact GVA (Av. p.a.)	383
Gross Construction Jobs Impact	380 (cumulative by Year 6)

Tax Impact

Economic Development inputs	£
NPV of Direct Net Income Tax	15,017,661
NPV of Direct National Insurance	24,897,070
NPV of Direct Net Corporation Tax	8,963,020
NPV of Gross NDR Income	2,861,105

Preferred option

2.19 The economic appraisal concludes that the Central Borders Innovation Park “do minimum” option would deliver a benefit to cost ratio of £16 for every £1 spent (Figure 13).

¹³ The financial assessment NPV is based on Scottish Borders Council’s financing position solely (Scottish Borders Council-built buildings and rents) while the economic appraisal includes the full economic impact of the development (including privately funded and built buildings).

Figure 13: Summary of project impact

Indicator	
GVA: (Net Present Value of Direct GVA) : £383 million	Annual uplift of 1.08% in the local authority's GVA.
Jobs (Net Average Direct Job Impact (P.a)): 383	Equivalent reduction of 0.7 per centage point in local authority's unemployment rate.
Qualitative impacts	<ul style="list-style-type: none"> • Creation of high quality employment site to replace current outdated offer. • Increase in inward investment. • New premises to stimulate economic growth.
Cost per job	£81,917
GVA per £ spent	£16

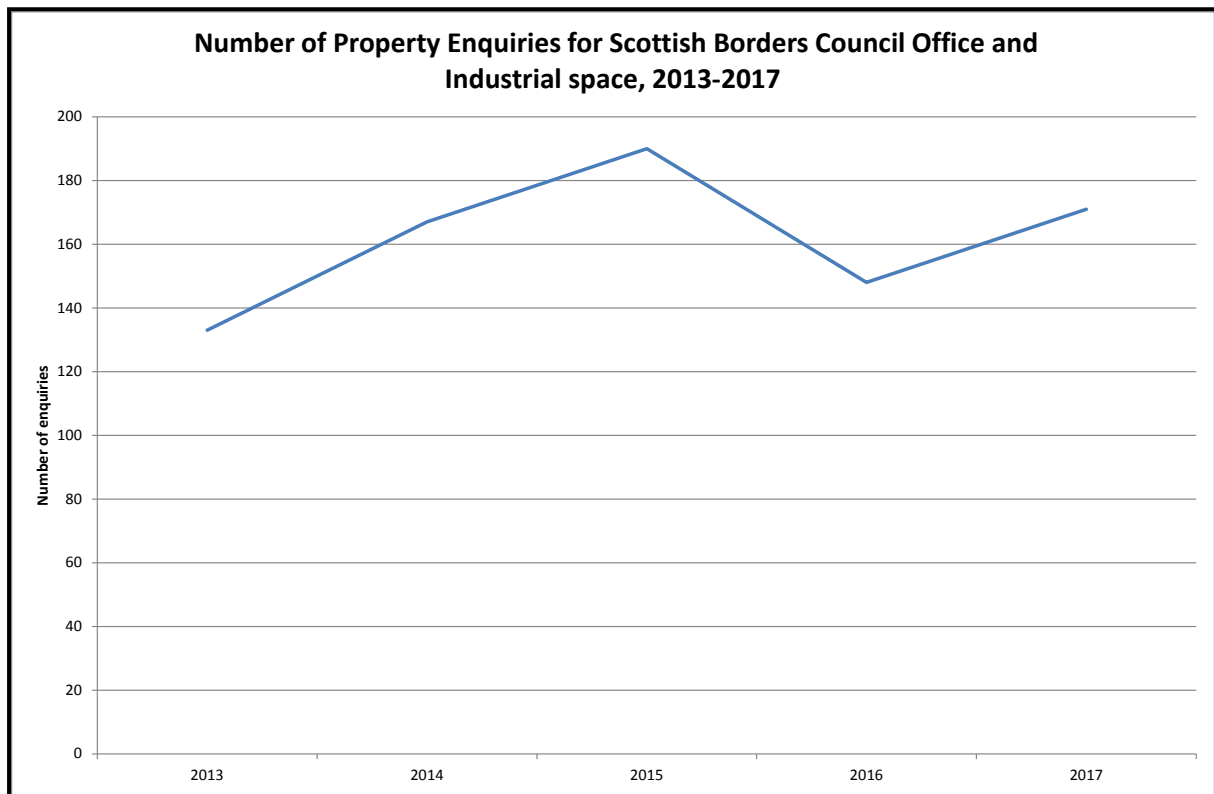
2.20 The City Region Deal investment would therefore have both a national and a regional impact by providing more business infrastructure in south east Scotland. It is anticipated that 383 jobs could be expected to be created as a result, including 102 in high value sectors. Such employment levels would have a direct and an indirect impact on the local economy through increased household income and demand for local services.

2.21 Moreover, investment of this scale would have major benefits for the supply chain across the region – both at the construction stage and through the procurement needs of the site's occupiers. Through working with its regional partners on the Supplier Development Programme, Scottish Borders Council will seek to improve the readiness of local and regional suppliers to benefit from these new procurement opportunities.

The Commercial Case

3.1 Scottish Borders Council continues to obtain a good level of related employment land and business property enquiries, both from businesses operating in the Scottish Borders as well as businesses from outside the area. Demand for modern business space throughout the Scottish Borders is strong, particularly in respect of the type of accommodation this project will provide. Scottish Borders Council's business property team tracks market enquiries for its business property on a monthly basis. Figure 14 shows how these have varied over the past five years, increasing to a peak of 190 in 2015 before falling back in 2016 to 148 and rising again in 2017 to 171.

Figure 14: Market enquiries for Scottish Borders Council owned office and industrial property, 2013-2017



Source: Scottish Borders Council

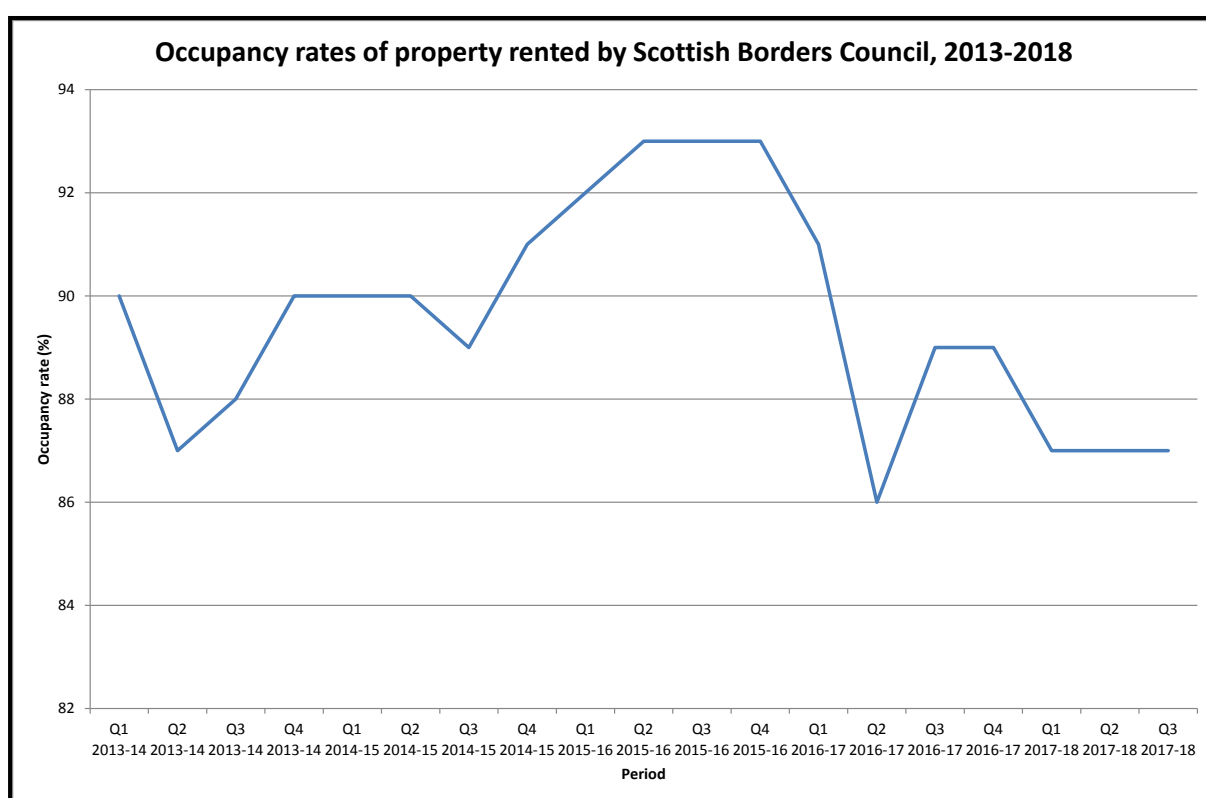
3.2 Supply of quality business space in the Scottish Borders is currently limited. However, demand for business space in the area is high as evidenced from occupancy rates reported by the business property team within Scottish Borders Council. In the third quarter of 2017-18, 87.2 per cent of industrial and commercial units let by the Council were occupied across the area's five localities:

- Berwickshire: 75.4 per cent.

- Cheviot: 90.8 per cent.
- Eildon: 87.5 per cent.¹⁴
- Teviotdale & Liddesdale: 96.5 per cent.
- Tweeddale: 93.3 per cent.

3.3 There is a relatively low turnover of occupiers of these properties. Over the past five years, overall occupancy rates have been very consistent, fluctuating between 87 per cent and 93 per cent (Figure 15).

Figure 15: Occupancy rates of property let by Scottish Borders Council, 2013-2018



Source: Scottish Borders Council

3.4 An average occupancy rate of 75 per cent has been assumed with regard to the new office and industrial space being developed. As mentioned above, the average occupancy rate of premises rented by Scottish Borders Council is currently 87 per cent, which reflects constraints in supply of space as well as high demand. It has been assumed prudent to model an occupancy rate of 75 per cent for the purposes of this business case to allow for uncertainties in predicting economic circumstances over the life of the project.

¹⁴ Tweedbank is located in this locality.

3.5 For the purposes of the Outline Business Case, it has been assumed that empty property rates relief of 10 per cent would be applied assuming 90 per cent of rates are charged. For reasons of prudence, no qualifying period has been factored into this aspect of the modelling.

Procurement Strategy

3.6 The procurement strategy will include provision to develop the capacity of local suppliers to tender for contracts that will require an ability to deliver innovative building specifications and the use of low carbon technologies.

3.7 The procurement strategy will make extensive use of community benefit clauses so as to benefit the long-term unemployed, young people looking for apprenticeships, and other people requiring work experience opportunities. These clauses will help to unlock opportunities within relatively deprived communities and groups. As such, the project would assist in addressing the inclusive growth challenges referred to in the strategic case.

3.8 There are also plans to work with Scottish Enterprise in marketing the new space as one of the drivers behind the innovation park is to distinguish it from a conventional business park.

Delivery vehicle

3.9 A delivery vehicle was considered for this project, but it has been decided that it will be delivered by Scottish Borders Council with Scottish Enterprise managing the delivery of its building. There is potential for joint ventures beyond the City Region Deal core area at a later date.

SMART objectives

3.10 The proposed project will make a significant contribution to the achievement of the wider City Region Deal objectives though providing modern office and industrial space in the central Scottish Borders. The SMART objectives for the project are shown in Figure 16.

Figure 16: SMART objectives

SMART component	Objectives
Specific	<ol style="list-style-type: none"> 1. Spend up-front to install the necessary infrastructure at Tweedbank that will allow further investment to be leveraged in from the public and private sectors. 2. Construct employment property to encourage existing and new businesses to set up and/or expand their operations in the area. 3. Liaise with the Higher Education sector to determine the

	<p>degree to which innovative concepts such as Data Driven Innovation and “Factories of the Future” can be applied.</p> <p>4. Environmentally, utilising existing land (Eildon Mill) and locating the innovation park close to the area’s highest concentration of population will reduce carbon footprints.</p>
Measurable	<p>1. Spend £29 million to achieve the Specific objectives as set out above.</p> <p>2. Of this total spend, £27.3 million to be spent on development, £0.8 million to be spent on infrastructure and £0.5 million to be spent on servicing.</p> <p>3. Add £353 million of Gross Value Added to the Scottish Borders economy.</p> <p>4. Create 383 jobs.</p>
Attainable	<p>1. The unlocking of City Deal funds, together with funding from Scottish Borders Council, the Borders Railway Blueprint, and Scottish Enterprise, provide sufficient finance to achieve the above objectives.</p> <p>2. Scottish Borders Council already owns elements of the land required to proceed with the project.</p> <p>3. The project area is within a Simplified Planning Zone.</p> <p>4. Scottish Borders Council is experienced in managing and developing employment land. It has staff with the skillsets to achieve the above objectives.</p>
Relevant	<p>1. Previous work by Ryden in addition to the Council’s own experience demonstrates that there is a level of market failure in the area that must be addressed by providing new office and industrial space.</p> <p>2. Scottish Borders Council together with other delivery partners has the resources required to deliver the above objectives.</p>
Time-limited	<p>1. The current City Region Deal project will include this Outline Business Case in spring 2018.</p> <p>2. Sign-off will enable Scottish Borders Council to begin working on a Full Business Case for the project being funded by City Region Deal.</p> <p>3. The project being funded by City Region Deal is scheduled to begin in 2018-19 and be completed by the end of 2021-22.</p>

3.11 The Council will stage funding drawdowns linked to development activity and revenue milestones so that it is not fully exposed to the financing costs assumed in the business case from day one.

3.12 Figure 17 summarises the risks from this project and details the mitigating measures that will be in place against each risk should it arise.

Figure 17: Summary of project risks and mitigating measures

Risk	Mitigation
Failure to raise funds from the public sector	Commitment of £15 million by Scottish Government in Heads of Terms. Scottish Borders Council has committed £5 million in its budget. Borders Railway Blueprint has committed £3.5 million. Scottish Enterprise has committed £1.5 million.
Increases in the costs of the project.	Financial costs with an allowance for inflation will be calculated going forward. Technical cost consultants will have input to the business case process.
Issues around site conditions and the demolition of existing buildings	Discussions are taking place with existing owners and tenants.
Lack of sufficient demand for employment land.	Baseline for demand has been established in previous work. Marketing is ongoing and will benefit from work being done as part of the Borders Railway Inward Investment programme.
Inadequate governance	Establishment of a Borders City Region Deal Programme Board together with the appointment of a Programme Manager will allow for robust programme and project management.
Tight timeline to deliver Phase 1	A project team is in place and working to the given deadline. Scottish Borders Council has front-loaded its contribution into 2018-19, but will also develop the Full Business Case during this period.
Lack of demand for office space to be delivered in Phases 2 and 3	Ryden assessment being undertaken to help determine demand for office space. Any relevant lessons from Phase 1 will be identified and used to inform the business case for Phases 2 and 3. If demand is weaker than anticipated, steps may be taken to slow the project down.
Inadequate monitoring processes	Programme Manager to be responsible for ensuring that robust monitoring is in place to measure the indicators outlined in this OBC, particularly around innovation and inclusive growth.
Re-allocation of surplus revenue to other budgetary priorities.	Steps to be taken to ensure that revenue is re-invested in the project throughout its life or re-invested into future work to build out other commercial developments in the master plan area.

The Financial Case

- 4.1 The financial case will determine whether the proposed project is affordable to Scottish Borders Council. Affordability is assessed in the short, medium, and long term.
- 4.2 Land values in the Scottish Borders are relatively low. Evidence from other transport schemes, although not conclusive, suggests that the opening up of sites to development will generate a significant increase in relative and overall land values. The Central Borders Innovation Park can therefore contribute to this increase in value and help to catalyse the further development of the Tweedbank area as envisaged in the masterplanning.
- 4.3 The provision of high quality office and industrial space through the Central Borders Innovation Park will increase the scope for raising revenue from rented property. At present, there is a lack of such revenue given the low rental values in the region, which are a consequence of a relatively poor quality property offer rather than from any surplus of supply over demand.
- 4.4 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. It should be noted that the Heads of Terms document is silent on the mechanism by which funding will be provided, either via grant as enabling funding, staged payments, as a post-construction grant claim or a payment by results mechanism.
- 4.5 Given this context, three scenarios have been modelled based on potential drawdown of funds from the Scottish Government:
- Scenario 1: It is assumed that a fixed annual grant of £1 million from the Scottish Government will be paid in arrears over a 15-year period.
 - Scenario 2: It is assumed that a fixed annual grant of £1.5 million from the Scottish Government will be paid in arrears over a ten-year period.
 - Scenario 3: It is assumed that a variable drawdown of grant will be paid annually in arrears over a 15-year period.
- 4.6 Scottish Borders Council would prefer that Scenario 3 is implemented as it offers the best value for money. More detailed financial analysis is shown in Appendix 4.

Funding Profile

- 4.7 Under Scenario 3 above, the 15-year spend profile is £28.9 million (Figure 18), split on the basis of a 51 per cent contribution from the Scottish Government through the City Region Deal, i.e. £14.85 million, and a contribution of 49 per cent from Scottish Borders Council (£5 million), the Borders Railway Blueprint (£3.5 million), the private sector (£4.1 million), and Scottish Enterprise (£1.5 million). As modelled, the remaining £150,000 of project spend would be provided by the Scottish Government in 2033-34.

Figure 18: Funding profile, 2018-19 to 2032-33 (£m)

	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33
Scottish Borders Council	5.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scottish Government	0	1.75	3.5	3.5	1.0	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.3	0.3
Scottish Enterprise	0.75	0.75	0	0	0	0	0	0	0	0	0	0	0	0	0
Railway Blueprint	1.75	1.75	0	0	0	0	0	0	0	0	0	0	0	0	0
Private sector	2.0	2.0	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals	9.5	6.25	3.5	3.5	1.0	1.0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.3	0.3

Rental income

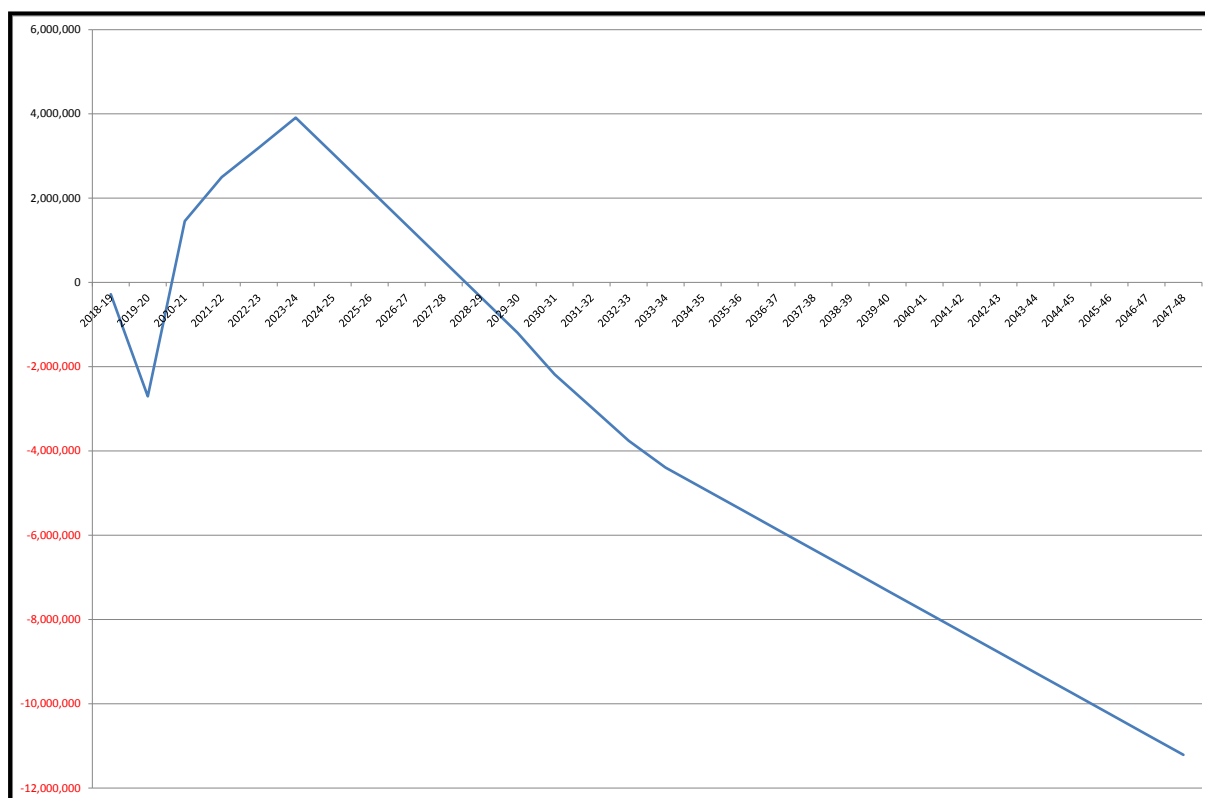
4.8 The financial modelling informing this part of the business case is indicative at this stage, but has sufficient detail for the purposes of an Outline Business Case.

4.9 Projections for rental income are based on achieving a 75 per cent occupancy rate for the office and industrial space with rates based on the Scottish Borders averages for office and industrial space given in Figure 8 above inflated to 2017-18 prices. Although rental income will probably not be as uniformly consistent throughout the life of the project as suggested in the financial model, it is possible that vacancy rates will not be as high as 25 per cent given anticipated demand, certainly in the short-and-medium terms.

4.10 As alluded to in paragraph 3.5, it is assumed that empty property rates relief of 10 per cent would be applied assuming 90 per cent of rates are charged.

Debt requirement

4.11 The financial modelling estimates the amount of borrowing that will be required to cover outstanding deficits at the end of each financial year. The overall borrowing requirement for the preferred scenario would peak at £4.5 million and would be repaid in 2028. Thereafter the programme generates a surplus to Year 30 (2047-48). The cumulative operating surplus created is projected at £11.2 million in nominal terms. The cumulative funding gap over the life of the project is illustrated in Figure 19.

Figure 19: Cumulative funding gap over 30 years

Source: Scottish Borders Council

- 4.12 At the present time, the local authority does not have any capital funding beyond its £5 million contribution and requires the City Region Deal contribution to make the project viable. As the programme moves into surplus, income will be re-invested in line with the principles of the programme. This could include using income to support the future build-out of the Tweedbank master plan area as well as re-investing income into the core innovation park. The income will not be re-allocated to other Council budgets.
- 4.13 The Council did not model a scenario where there could be no cumulative cost surplus or development debt at the end of the 30-year period. This was to ensure that the Council could mitigate the financial risk involved in the project as otherwise all of this risk would rest with it.
- 4.14 The capital spend on the development of the buildings will lead to opportunities for local SMEs to tender for contracts while prime contractors will have to meet the requirements of community benefit clauses that will be tailored to assist inclusive growth requirements.
- 4.15 Current Council revenue activities will resource work on employability initiatives, community benefits, and also innovative activity and business support through Business Gateway. It will also engage businesses to develop fair and progressive workplace

practices through highlighting the need to participate in national, regional, and local initiatives on Fair Work.

Debt drawdown and repayment profile

4.16 Scottish Borders Council can currently borrow at a rate of between 2.75 per cent and 3 per cent. For reasons of prudence, a borrowing rate of 3 per cent has been used in the modelling. The Council will follow its financial regulations with regard to capital borrowing as the project proceeds. Compliance will be monitored through the Council's internal and external audit procedures.

4.17 There are risks that the cost of infrastructure projects which drive the potential rentals and capital receipts are significantly understated or that phases of the project deliver significant cost over-runs. This might increase the level of unsupported borrowing, increase debt costs or the payback period. Flexibility has therefore been built into the financial model so as to monitor the situation on an on-going basis.

Sensitivity Analysis

4.18 Figure 20 sets out a summary of the impact of a range of scenarios for those modelled in the financial model. More detail on the sensitivity analysis is given in Appendix 5.

Figure 20: Sensitivity Analysis

Sensitivities (£M)	(NPV of surplus)	(Surplus)	Interest	Annual revenue grant	No. of annual revenue grant payments	Change in NPV
Base Case – Annual grant in arrears	(5.4)	(11.2)	0.6	(3.5) to (0.2)	15	
Positive impact on Base Case						
Occupancy increased from 75% to 85%	(7.1)	(14.2)	0.5	(3.5) to (0.2)	15	(1.6)
Business Accelerator – No empty rates costs	(6.0)	(12.3)	0.6	(3.5) to (0.2)	15	(0.6)
Construction costs - 10% decrease	(8.4)	(14.8)	0.1	(3.5) to (0.2)	15	(3.0)
Rental Income Price + 5%	(5.9)	(12.2)	0.6	(3.5) to (0.2)	15	(0.5)

Interest - 1% decrease	(5.4)	(11.2)	0.4	(3.5) to (0.2)	15	0
Other capital funding + 5% increase	(5.8)	(11.7)	0.5	(3.5) to (0.2)	15	(0.4)
Negative impact on Base Case						
Other capital funding - 5%	(5.0)	(10.8)	0.7	(3.5) to (0.2)	15	0.4
3-year delay in other capital funding	(4.9)	(11.2)	1.0	(3.5) to (0.2)	15	0.5
Rental Income Price - 5%	(4.9)	(10.3)	0.6	(3.5) to (0.2)	15	0.5
Interest + 2% increase	(5.4)	(11.2)	1.1	(3.5) to (0.2)	15	0
Construction costs + 10% increase	(2.4)	(7.6)	1.7	(3.5) to (0.2)	15	3.0
2-year delay in developments being available	(4.6)	(10.1)	0.8	(3.5) to (0.2)	15	0.8
Occupancy reduced from 75% to 65%	(3.8)	(8.2)	0.7	(3.5) to (0.2)	15	1.6

The Management Case

- 5.1 It is important that suitable governance and programme management is put in place by Scottish Borders Council to deliver the overall implementation of the Central Borders Innovation Park. This internal programme management will dovetail into, and feed, the overall programme management processes that are being put in place at the regional level to manage the Edinburgh and South East Scotland City Region Deal.
- 5.2 This management case also identifies the procurement strategy for the project and outlines the key contractual arrangements and also the approach to be taken to risk mitigation.

Procurement Strategy

- 5.3 With regard to the procurement of works and services, Scottish Borders Council's procurement regulations will be fully adhered to as will the provisions of relevant Scottish, UK, and EU legislation. Scottish Borders Council is experienced in delivering infrastructure works in the Scottish Borders. It is anticipated that Scottish Borders Council would be able to proceed with a procurement process for the required works and services as soon as the project is approved.

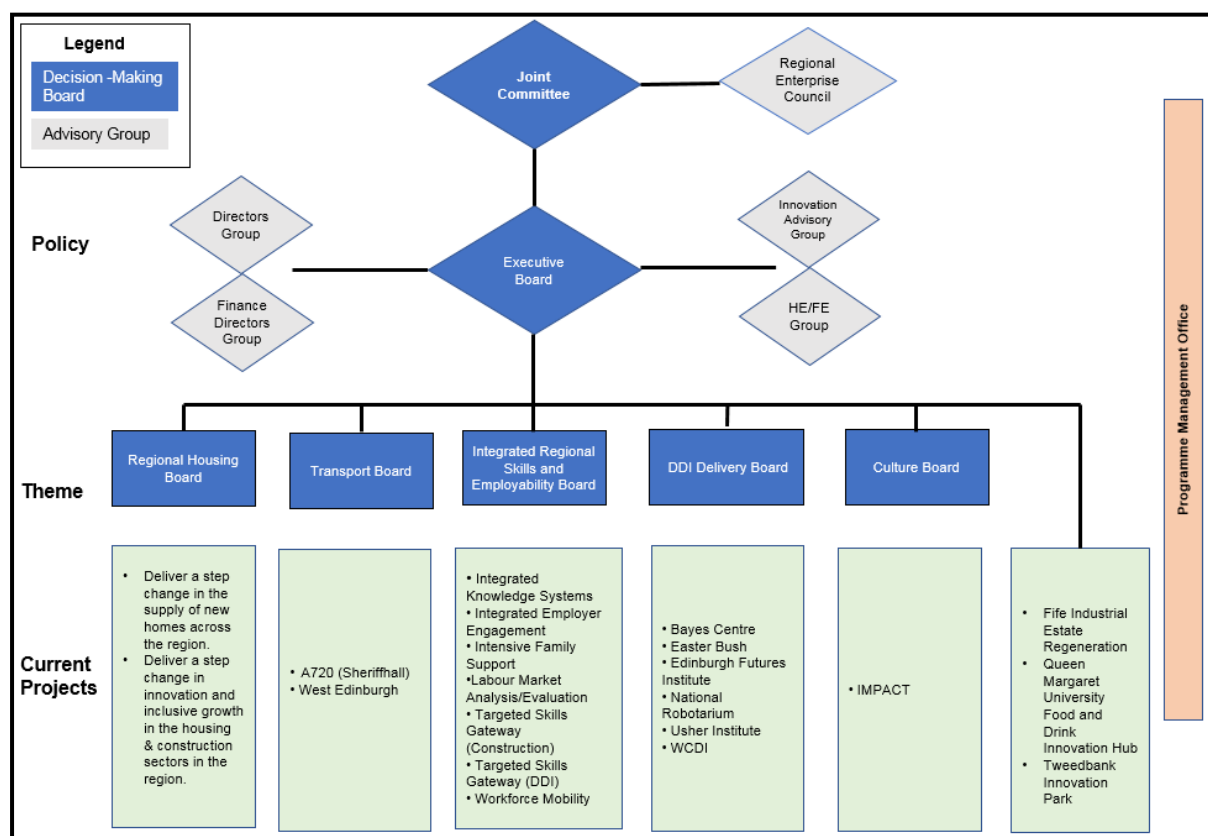
State Aid

- 5.4 There are currently no potential State Aid implications arising from this project. Advice has been taken from the State Aid Unit at the Scottish Government. This advice states that servicing sites for the private sector does not constitute State Aid as long as Scottish Borders Council is operating on commercial terms. Given this, no direct subsidy is involved.
- 5.5 It is proposed that the Council continues to seek advice from the State Aid Unit to ascertain that any individual business proposition would be compliant with State Aid rules.

Programme and project management

- 5.6 At the regional level, the project sits within the governance structure shown in Figure 21. These governance arrangements will enable decisions to be taken in an open and transparent way for the whole region.

Figure 21: City Region Deal Governance Structure



Source: Edinburgh and South East Scotland City Region Deal

5.7 Scottish Borders Council will be represented on the Joint Committee by its Leader; on the Executive Board by its Chief Executive; on the Directors' Group by a senior officer; and on the Finance Directors' Group by its Director of Finance. The Scottish Borders will also have representation on the Transport Board (by a council officer); on the Regional Enterprise Council (by a business person yet to be appointed); and on the Higher/Further Education Group (by Borders College).

5.8 An officer-level Project Group will be established and a Project Manager role will also be put in place. The Project Group will include an appropriate executive from Scottish Enterprise in view of their close involvement in delivering the Central Borders Innovation Park. Officers from Scottish Borders Council will also continue to work with Fife Council, Scottish Futures Trust, and the Scottish Government to develop the detail of the Programme and its constituent projects. The Project Manager will lead a team with the primary responsibility for managing the delivery of the project.

5.9 The purpose of the Project Group will be to review and monitor progress of the project and to provide advice and guidance where necessary. The Project Board will feed into the Executive Board within the regional governance structure (see Figure 21). The Executive Board will hold decision-making power for the project and reports into the Joint Committee. The Executive Board comprises the six regional local authority chief

executives, six regional local authority directors with a remit for the economy, a representative for the region's universities and colleges, and a Programme Management Office function.

5.10 This project will submit its funding claims to City of Edinburgh Council, which is the accountable body for the City Region Deal finances. Stewardship will be provided by a Programme Board and membership will include a Section 95 Officer to provide assurance of the overall programme's finances, and ensure that the financial requirements agreed with both the UK and Scottish Governments are met. The overall programme will also be aligned with the City of Edinburgh Council's financial regulations and, where appropriate, the regional partners'. Should the project present any risks to the overall programme, it will be held to account by City of Edinburgh Council.

5.11 Scottish Borders Council has experience of delivering large scale, multi-million pound capital projects. It has an in-house Major Projects team that has successfully delivered new schools, flood schemes, and other significant infrastructure projects in the recent past.

Project timelines

5.12 Figure 22 shows that the project will take place in three phases with the first phase beginning in March 2018 and the third phase being completed in March 2024. More detail is provided in Appendix 3.

Figure 22: Project phasing and timescales

Element of project	Start date	End date
Phase 1		
Ex-Tapestry site	March 2018	December 2019
Eildon Mill	March 2018	October 2019
Quarry site	March 2018	August 2019
Phase 2		
Remainder of Quarry site	April 2020	March 2022
Phase 3		
Edge of Lowood Estate	April 2022	March 2024

Through-life project evaluation

5.13 Scottish Borders Council will work with Fife Council to explore opportunities to flex spend across the business property initiatives that both local authorities intend to progress within the Edinburgh and South East Scotland City Deal programme.

5.14 There will be through-life project evaluation to demonstrate that it is meeting its spending objectives. This evaluation will appraise how the project is meeting the following objectives:

- The occupation of at least 75 per cent of the new office and industrial space.

- Targeting of occupation types.
- The creation of high quality, high earning jobs.
- Accessibility to employment for disadvantaged groups.
- Uplift in the GVA of the Scottish Borders local authority area.
- Increasing the area's spending per head on Research and Development.
- Improving the area's place on the table of productive regions.
- Number of innovation active businesses.
- Increase in number of account managed and Business Gateway clients.
- Number of high value jobs.
- Proportion of procurement spend in the Scottish Borders.

5.15 These objectives will create impacts at the culmination of the project pathway (Figure 23).

Figure 23: Project pathway for inclusive growth

Input →	Activity →	Output →	Outcome →	Impact
City Deal funding for new office and industrial space.	Allocation of resources to help local SMEs bid for sub-contracts and unemployed people/under-represented groups to take part in employment programmes.	Local SMEs winning sub-contract tenders. Job offers to underemployed and under-represented groups.	Creation of jobs among the unemployed and under-represented groups.	Increased employment, including higher skilled jobs, reduction in inequalities.

5.16 With regard to measuring the project's impact on inclusive growth, the Council is cognisant of advice from the Joseph Rowntree Foundation that "it is necessary to be precise about what inclusive growth is, to have measures appropriate to the context of the City Deal and to have achievable objectives."¹⁵

5.17 To this end, the Council's Sustainable Procurement Policy Group is putting in place a methodology to measure the impact of community benefits from its construction projects. This methodology will be used to assess the utility of community benefits on this project. There is also scope to explore opportunities for partnership working across the region to share methodologies and other learning from experience as projects mature.

¹⁵ Joseph Rowntree Foundation: *Inclusive Growth and City Deals*, June 2017, p.13.

- 5.18 Scottish Borders Council will appoint an officer who will have responsibility for overseeing the evaluation of the project as it proceeds. They will report to a senior responsible owner and will liaise with the various services in the Council that are stakeholders in the project in addition to occupiers who will be required to assist in the evaluation process. This process will also enable responses to be made where targets are not being met, for example, a shortfall in vacancy rates, and allow for appropriate measures to be enacted to address such issues.
- 5.19 Scottish Borders Council is very aware of its responsibility for the communities in which proposed changes take place. It has already carried out a consultation exercise on the Tweedbank master plan in the local area. It will continue to consult with the local community and local businesses about the impact of the project.

Appendix 1: Inclusive Growth

National and Regional Drivers

In its Economic Strategy of 2015, the Scottish Government identified inclusive growth as one of its four priorities to achieve sustainable economic growth (the others being innovation, internationalisation, and investment). The rationale for advocating inclusive growth is based on five propositions:

- Inequality of income is growing.
- The inequality of household income is more unequal than the distribution of income, and wealth inequality is increasing at a faster rate than income inequality.
- This inequality of income is constraining economic growth, and making the economy less stable.
- Measures to address inequality can be growth-enhancing as well as inequality reducing.
- High levels of income inequality are not linked to high economic performance or high human welfare.¹⁶

Achieving inclusive growth is dependent on increased productivity resulting in higher wages among a labour force that has greater opportunities to access the workplace.

Changing technology—discussed in more detail in Appendix 2—is placing a premium on different skillsets, particularly those that are IT-based. The provision of better quality jobs therefore depends on better skills. The Heads of Terms of the Edinburgh and South East Scotland City Region Deal includes a commitment by the Scottish Government to invest up to £25 million over eight years in an integrated Regional Employability and Skills Programme:

“This will reduce skills shortages and gaps, and deliver incremental system-wide improvements to boost the flow of individuals from disadvantaged groups (e.g. young care leavers, workless, and those in low paid or insecure jobs) into the good career opportunities that will be generated through the city region deal investment.”

The City Region economy is diverse in scale with sectors ranging from agriculture and tourism through to life sciences and financial services. Edinburgh is at the region’s core and acts as a magnet for inward investment and commuters attracted by high value jobs. Wages, in the Scottish Borders, on the other hand, are low despite the area containing an above average of people with relatively high levels of qualifications.

Six main inclusive growth challenges have been identified at the City Region Deal level:

- Slow Growth.
- Regional disparity in job density.
- Housing, transport and connectivity.
- Skills inequality and polarisation.

¹⁶ As described in D. Wilson, “The Challenge of Inclusive Growth for the Scottish economy”, *Fraser of Allander Institute Economic Commentary*, March 2016.

- Gender and age inequalities.
- Low income and low pay.

Local drivers

The location of the Central Borders Innovation Park is close to two datazones in Galashiels (Langlee – West and Langlee – Central), which are defined as being in the 20 per cent most deprived areas of Scotland.¹⁷ In 2014, the proportion of children in low income families in the datazones of Langlee – Central, Langlee – East, and Langlee – West was 42.9 per cent, 26.4 per cent, and 36.1 per cent respectively. These figures were well above the averages for Galashiels and District (18.6 per cent), the Scottish Borders (14 per cent), and Scotland (18.4 per cent). Clearly, the local area would benefit from an intervention that would encourage inclusive growth.

Of the six inclusive growth challenges identified at regional level (see above), the Scottish Borders is particularly affected by those relating to skills inequality and polarisation; gender and age inequalities; and low income and low pay as shown in Figure 1.

Figure 1: Key Inclusive Growth facts and figures

Challenge	Facts and figures
Skills inequality and polarisation	The proportion of the Scottish Borders workforce employed in non-high skilled occupations is currently 62 per cent, the lowest figure of the six local authorities involved in the City Region Deal.
Gender and age inequalities	In 2017, male earnings in the Scottish Borders were 142 per cent as a proportion of female earnings, the highest figure of the six local authorities.
Low income and low pay	Workplace-based gross median weekly earnings in the Scottish Borders were the lowest of Scotland's local authorities in 2016 at £453.40. These were £81.60 per week less on average than in Scotland as a whole.

Slow growth is also an issue that affects the Scottish Borders and the context for this is explained below in Appendix 2.

Inclusive growth has been incorporated into the policymaking process of Scottish Borders Council. The Scottish Borders Community Planning Partnership is refreshing its Economic Strategy 2023, which will include a renewed emphasis on achieving more inclusive growth. Moreover, the *Scottish Borders Skills Priorities 2017-2020, Developing the Workforce of the Future* is tailored to ensuring that the area's young people are equipped with the skills that are required to make them employable in the contemporary labour market. This is being done through developing better relationships between education and training to ensure that employers can provide more effective pathways for school leavers and other young people.

¹⁷ Scottish Index of Multiple Deprivation 2016.

The Scottish Government's Inclusive Growth Assessment of 2016 concluded that the number one opportunity and constraint to inclusive growth was Digital and the adoption of new business methods. The objectives for the Central Borders Innovation Park include:

- Ensuring that businesses within the innovation park realise their digital potential, including the adoption of digital driven innovation.
- Increasing the number of innovation active businesses.
- Promoting improved productivity through regional working with Fife Council and the universities.

The project will assess its contribution to Inclusive Growth through adopting the Scottish Government's Inclusive Growth monitoring framework, which measures five high-level outcomes: Economic Performance and Productivity; Labour Market Access; Fair Work; People; and Place.

Appendix 2: Innovation

There is a body of evidence to suggest that more innovation increases productivity in an economy. Businesses that invest in new products and processes tend to have a productivity level that is 20 per cent higher than average.¹⁸ Other research shows that innovation accounted for up to 70 per cent of economic growth in the UK between 2000 and 2008, and 69 per cent of growth between 1960 and 2000.¹⁹

The transformation of industry through the advent of a fourth industrial revolution, which is seeing SMART automation supersede electronic automation, has potentially revolutionary implications for productivity. Also known as Industry 4.0, SMART automation represents:

“[A] paradigm shift... made possible by technological advances which constitute a reversal of conventional production process logic. Simply put, this means that industrial production machinery no longer simply ‘processes’ the product, but that the product communicates with the machinery to tell it exactly what to do.”²⁰

SMART automation links into data-driven Innovation, which is creating new business models based on having better access to information and a better understanding of behaviour in the market place. The Made Smarter Review (2017) includes a number of recommendations to SMEs regarding digitisation.²¹ The review concluded that this represents a once-in-a-generation opportunity to boost productivity, generate new jobs, increased wages and increased exports.

The Edinburgh and South East Scotland City Region Deal recognises that without increased innovation, the region will fail to compete with other regions in Scotland, the UK, and elsewhere. The City Region is home to world-leading data-driven innovation assets such as the University of Edinburgh’s School of Informatics and the Higgs Centre for Innovation. There is a commitment in the Heads of Terms to a regional Research, Development, and Innovation Programme, which includes investment in economic infrastructure:

“to ensure that businesses and communities across the region are fully able to engage in the data-driven innovation opportunities, **including industrial and business premises, to ensure maximum impact from the innovation investment.** Local partners and the private sector will invest significant additional funding to deliver key regional economic priorities including new industrial and business premises at Tweedbank... and across Fife.”

A university-led innovation support programme is, among other objectives, supporting research and the commercialisation of new products and services; and supporting the development of a new generation of entrepreneurs in key sectors.

¹⁸ Cited in Department for Business, Energy & Industrial Strategy: *Main Report – Science and Innovation Audit, Edinburgh and South East Scotland City Region*, p. 21.

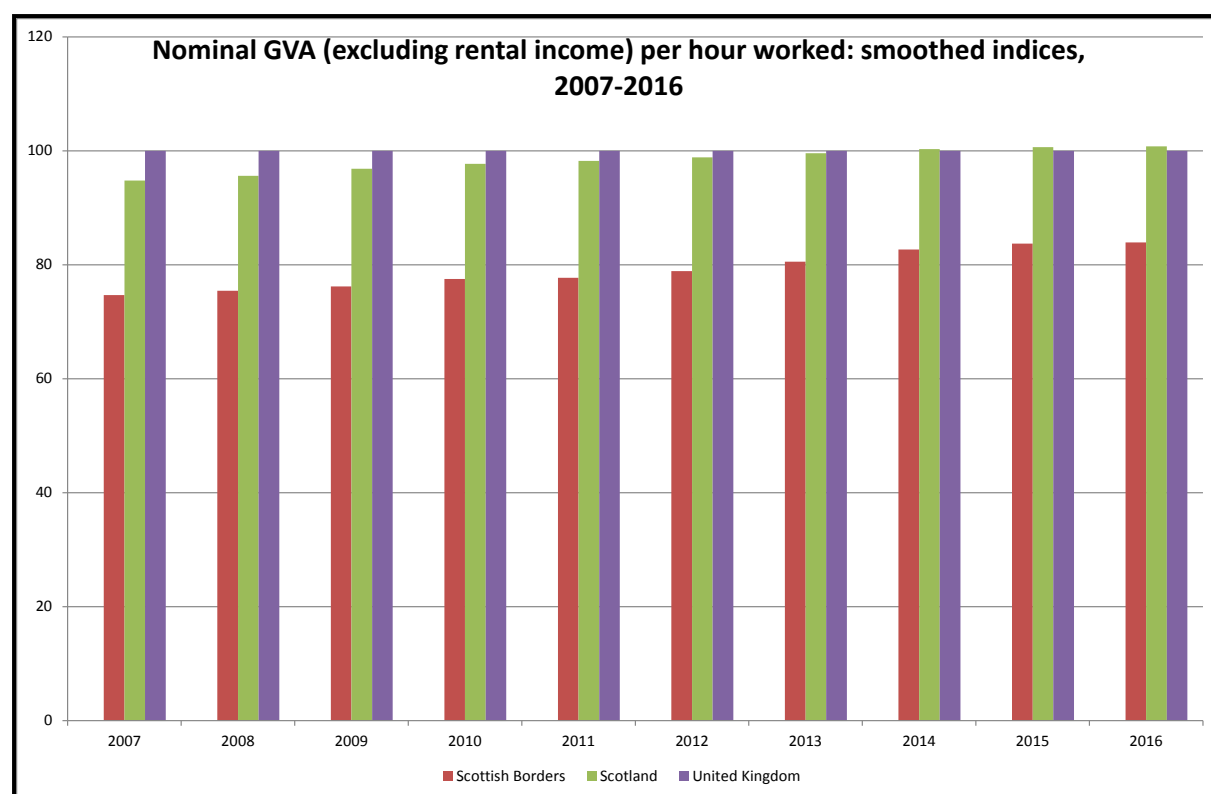
¹⁹ Cited in BIGGAR Economics: *Edinburgh & South East Scotland City Region Deal: Summary of Innovation Case*.

²⁰ Cited in B. Sniderman, M. Mahto and M. J. Cotteleer, “Industry 4.0 and manufacturing ecosystems: Exploring the world of commercial enterprises”, Deloitte Consulting LLP, pp. 4-5.

²¹ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655570/20171027_MadeSmarter_FINAL_DIGITAL.pdf

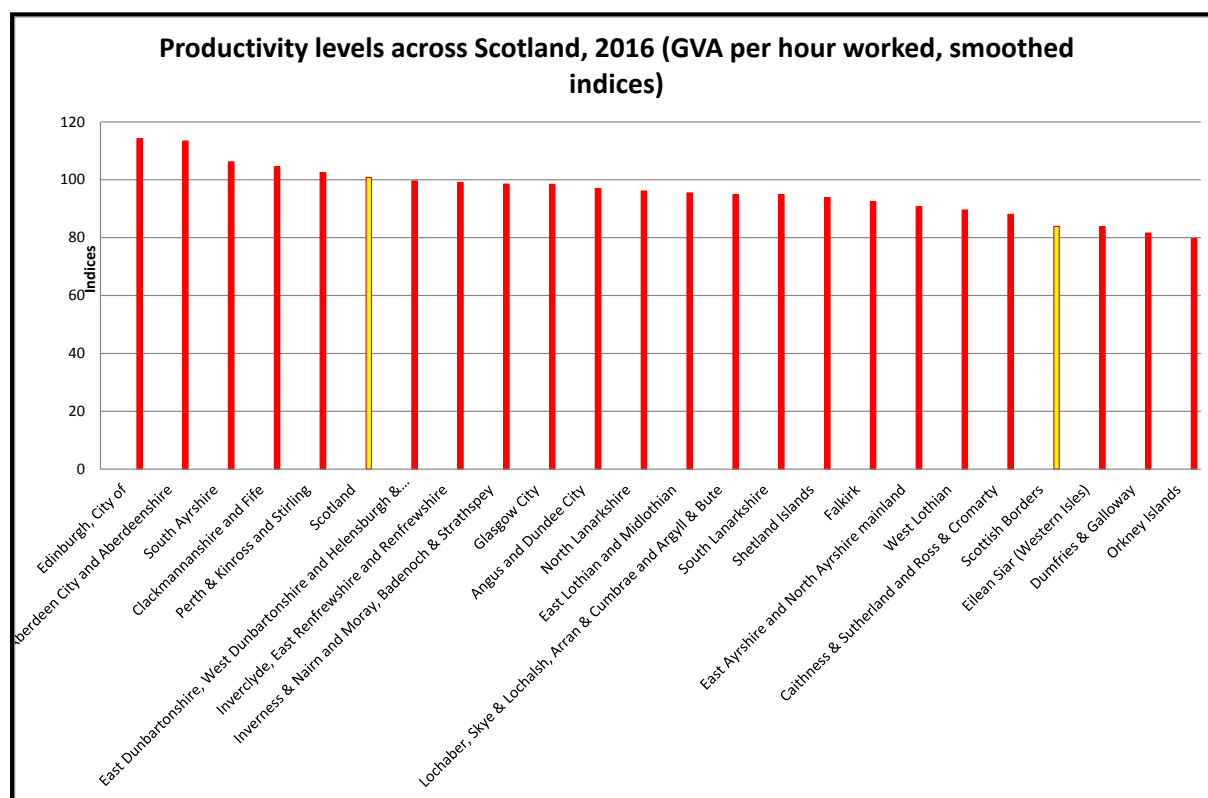
Innovation is a key driver in the economic development strategies that are intended to improve the performance of the Scottish Borders economy—strategies that are dependent on creating the type of project that is the subject of this business case. Comparing the productivity of the economy in the Scottish Borders with those of Scotland and the UK over the period 2007 to 2016 using the measure of GVA per hour worked (figure 1), it can be seen that the gap with Scotland has closed from 20 percentage points to 17 percentage points while the gap with the UK has also closed—from 25 percentage points to 16 percentage points. Despite this relative improvement, productivity in the Scottish Borders is still almost one-fifth below the Scottish and UK averages.

Figure 1: Productivity in the Scottish Borders, Scottish, and UK economies, 2007-2016



Source: Office for National Statistics

Within Scotland, there are discernible differences in productivity between regions. Using the NUTS 3 level of administrative geography, it can be seen from Figure 2 that the Scottish Borders is performing poorly relative to the rest of Scotland with only three areas having a lower level of productivity in 2016.

Figure 2: NUTS 3 productivity levels, 2016

Source: Office for National Statistics

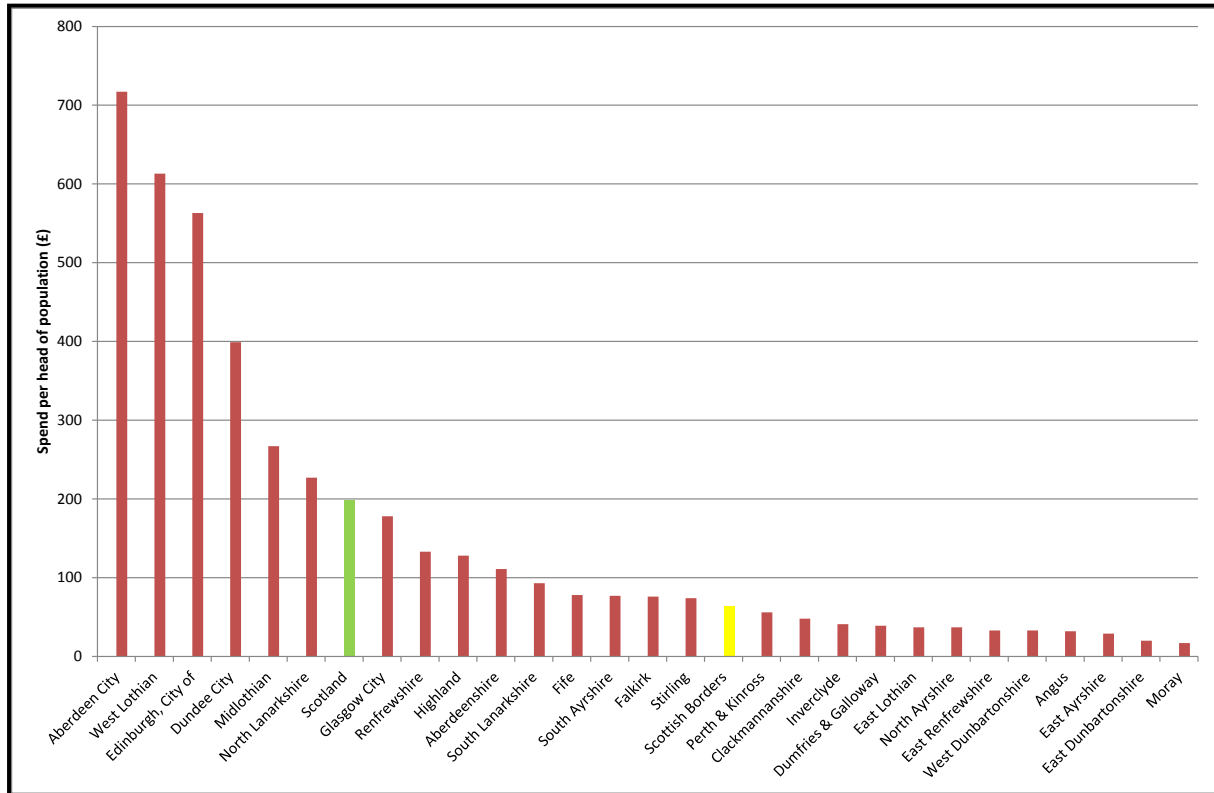
Using the measure of business sites of registered enterprises by urban/rural classification, some 42 per cent of sites in the Scottish Borders in 2017 were located in accessible rural areas compared with some 20 per cent in remote rural areas.²² The UK Innovation Survey of 2015 concluded that businesses based in remote rural areas are more likely to be innovation active than those in accessible rural areas which are least likely to be innovation active.²³

One way of measuring innovation is through Research and Development expenditure. Figure 3 shows expenditure on Research and Development within businesses in Scotland in 2016 taken as an average per head of population. It shows that the average for the Scottish Borders was £64, below the Scottish average of £198, and well below the best performing local authority, Aberdeen City, on £717.

²² Scottish Government.

²³ UK Innovation Survey 2015.

Figure 3: Expenditure on Research and Development by businesses in Scotland, 2016



Source: Scottish Government

All of these statistical measures demonstrate that the Scottish Borders needs to adopt innovative business processes and practices if it is to close the gaps in productivity and wages with the rest of Scotland. Innovation has been factored into the Central Borders Innovation Park project in the following ways:

- A joint innovation programme is under discussion with the university partners within the City Region Deal to develop interventions to assist businesses in the city region to benefit from the rest of the City Deal Innovation Programme. Fife and Scottish Borders will initially pilot these prior to roll-out to the other partners.
- All incoming occupiers will be expected to undergo some form of innovation review and commit to the investigation of the data driven innovation opportunities to improve their productivity and competitiveness. Local interventions for SMEs will also be available through Business Gateway with one objective being to improve the area's rate of high growth start-up businesses.
- Community benefits will be maximised as part of the procurement strategy to ensure that work experience and Modern Apprenticeships are made available to the unemployed, graduates, and school leavers. These will also be used to encourage the use of SMEs as part of the sub-contracting process.
- During 2018-19, Scottish Borders Council will map existing and potential connections with intermediaries such as the innovation hubs, catalysts, industry

knowledge organisations and national agencies. This will assess the potential for better connectivity in this regard with a particular emphasis on local businesses.

- Scottish Borders Council will learn from its experience of working on the innovation strands of the Borderlands Deal and the South of Scotland Economic Partnership to inform its approach.

Appendix 3: Outline Project Plan

Submitted separately

Appendix 4: Financial and Economic Appraisals

Submitted separately.

Appendix 5: Sensitivity Analysis

Submitted separately