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## **CITY REGION DEAL – FULL BUSINESS CASE FOR CENTRAL BORDERS INNOVATION PARK PROGRAMME**

**Report by Executive Director**

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**SCOTTISH BORDERS COUNCIL**

**31 JANUARY 2019**

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### **1 PURPOSE AND SUMMARY**

- 1.1 This report updates Council on progress with the Full Business Case for the Central Borders Innovation Park Programme at Tweedbank, which is required to draw down funding from the Edinburgh and South East Scotland City Region Deal.**
- 1.2 Within the City Region Deal, a 'core' of the Central Borders Innovation Park is being created, providing an opportunity to set the tone and standard of future development in the area. This programme of work will deliver commitments made within the Borders Railway Blueprint. A Full Business Case for the programme has been prepared for approval by the City Region Deal Joint Committee, which is required for formal approval from the Scottish Government to allow for the drawdown of funds. The timescales involved in this process have been outlined in the report to Council on 20 December 2018.
- 1.3 It has been agreed with the Scottish Government to submit a Full Business Case for the whole programme rather than taking an iterative approach, which would have required a Full Business Case for each of the programme's three phases. This approach therefore supersedes that suggested in the report to Council of 28 June 2018.

### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Council:-**
  - (a) Agrees to submit to the City Region Deal Joint Committee the Full Business Case set out in Appendix 2, as the final stage of approval to allow the Council to draw down funding of £15m for the Central Borders Innovation Park Programme from the Edinburgh and South East Scotland City Region Deal;**
  - (b) Agrees to the drawdown of Scottish Government funding on a fixed basis of £1m per annum over 15 years and notes that there is sufficient flexibility in the delivery of the later phases of the programme to minimise the burden imposed on the Council by the cost of borrowing; and**
  - (c) Includes the budget detailed in Table 3 in the 2019/20 – 2028/29 Capital Financial Plan.**

### 3 BACKGROUND

- 3.1 The opening of the Borders Railway in 2015 has presented a once-in-a-generation opportunity to transform 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 — was taken forward as part of a masterplanning exercise for Tweedbank. The masterplan envisages the development of approximately 437 new homes and 71,545 m<sup>2</sup> of mixed use accommodation (hotel, office, retail, hospitality, and light manufacturing) over the long-term, across 98.6 hectares of land around Tweedbank Station, including Lowood Estate.
- 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 programme. Such investment would supplement the £350m already spent on the Borders Railway. It would replace low value, obsolescent stock with high quality premises that will allow for a far more competitive business location. Recent analyses by Ryden and Graham & Sibbald suggest that there is potential demand for the office and industrial space being proposed. Property experts from Scottish Futures Trust and Scottish Enterprise (acting on behalf of the Scottish Government) have also reviewed the proposals and concluded that there is robust demand evidence supporting the programme.
- 3.3 The masterplanning exercise carried out in late 2017 concluded that the initial part of the development process at Tweedbank, including Lowood Estate, should result in new business premises being built to occupy the land around the railway station. Within the City Region Deal programme, a 'core' of the Central Borders Innovation Park will be created. This will 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, to fulfil the aspirations of the masterplan.
- 3.4 The development plots are being constructed in three phases. The first phase will create approximately 4,660m<sup>2</sup> of new office space and 2,950m<sup>2</sup> of new industrial space on the ex-Tapestry site, Eildon Mill, and part of the Quarry site. The second phase will create up to a further 5,177m<sup>2</sup> of new office space on the rest of the Quarry site and into Lowood Estate. A third phase will create 1,632m<sup>2</sup> of office space and 400 m<sup>2</sup> of industrial space on land currently on the southern edge of Lowood Estate. The locations of the plots are shown in Appendix 1.

**TABLE 1: DEVELOPMENT PLOTS**

<b>Location of plot</b>	<b>Occupier of plot</b>
Ex-Tapestry site (Plot 1)	Scottish Enterprise business centre/co-working space (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 (Phases 1 and 2)
Edge of Lowood Estate (Plot 5)	Private sector (Phase 3)

- 3.5 The report to Council on 20 December 2018 described the timescales for delivering the four buildings in Phase 1 of the programme. This phase will end when the Scottish Enterprise business centre/co-working space is completed in December 2020. Under current planning assumptions, the whole programme will be completed over the 15 year life of the City Region Deal.

#### **4 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 was approved by the Prime Minister and the First Minister in July 2018.
- 4.2 The City Region Deal aims to build on the unique strengths of the city region to deliver a number of transformational programmes and projects over the next 15 years across the themes of Research, Development and Innovation; Integrated Regional Employability and Skills; Transport; Housing; and Culture. Together, these interventions will deliver a step-change in inclusive economic growth.
- 4.3 The Central Borders Innovation Park Programme is part of the Research, Development and Innovation theme and sits alongside the Fife Industrial Innovation Investment Programme. Officers have been working with colleagues in Scottish Government and Scottish Futures Trust to refine the Full Business Case to ensure that it is ready for approval. Initial discussions have also taken place with the University of Edinburgh, which is leading on a programme of data-driven innovation, to identify how this could be applied to the Central Borders Innovation Park and the Scottish Borders more generally.
- 4.4 The Scottish Government's Economic Strategy includes innovation and inclusive growth as key drivers. The development of high quality infrastructure in the Central Borders Innovation Park will encourage innovation, boosting productivity and enabling businesses to grow. The provision of a high quality, well-paid employment offer will assist in stimulating inclusive economic growth.
- 4.5 The Full Business Case 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 Full 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 Full Business Case itself. These 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 FULL BUSINESS CASE**

- 5.1 The Strategic Case section of the Full Business Case articulates a strong rationale for the Central Borders Innovation Park Programme. It shows that public sector intervention is required to overcome the issues related to market failure that have led to a depressed office and industrial property offer in the Scottish Borders. By funding an intervention to create a high quality, competitive business location, the public sector is creating the necessary conditions for present and future private sector investment.

- 5.2 The programme has five strategic objectives. These are to: spend up-front and leverage in investment; construct employment property for businesses; apply data-driven innovation; offer high-skilled, well-paid employment; and reduce carbon footprints.
- 5.3 The Economic Case section builds on the preferred option that emerged from the options appraisal in the Outline Business Case, which was a 'do minimum' approach that would provide the best basis for future development of the masterplan area. The Economic Impact Analysis for this option has been updated and shows that it would create 383 jobs and generate GVA of £350m over 30 years (excluding benefits from construction). The programme therefore offers very high value-for-money with every £1 spent providing a return of £16.
- 5.4 The Financial Case section determines whether what is proposed is affordable to Scottish Borders Council across the life of the programme. The Edinburgh and South East Scotland City Region Deal Financial Agreement allocates £50m for infrastructure in the Scottish Borders and Fife Council areas. The apportionment of this sum is £15m for the Scottish Borders and £35m for Fife. Discussions with Fife Council will continue, particularly around the exploration of opportunities to flex spend across both programmes given that the key test for Government will be the overall spend profile of the City Region Deal and not those of individual projects and programmes.
- 5.5 Financial modelling has been updated to show the impact of drawing down the Scottish Government's funding of £15m as a fixed annual grant of £1m paid in arrears over a 15-year period, rather than using a variable approach. This scenario has been included within the Full Business Case as the Scottish Government advised using pessimistic funding assumptions. This scenario is therefore subject to change and the financial model can be revised accordingly.
- 5.6 The financial modelling estimates the amount of borrowing that would be required to cover outstanding deficits at the end of each financial year under the scenario of a fixed drawdown over 15 years. The model shows that the overall borrowing requirement would peak at £12.3m in 2024 and would be repaid in 2032.
- 5.7 The Commercial Case section outlines the Procurement Strategy for the programme. Given the phasing of the programme, a separate procurement strategy is required for each phase. In Phase 1, each of the four sites is being procured separately. Scottish Enterprise and the private sector are responsible for the procurement of their buildings with the exception of the first building on the Quarry Site, which will be procured by Scottish Borders Council. All procurement will be done in accordance with Scottish Borders Council's procurement regulations and the relevant Scottish, UK and European legislation. Community benefits clauses will be put in place to help unlock opportunities for relatively deprived groups to support inclusive growth aims.

5.8 The Management Case section describes how the programme will be delivered, managed, and evaluated. It includes reference to City Region governance structures outlined in the report to Council of 31 May 2018 and also clarifies the governance approach within Scottish Borders Council. With regard to State Aid, the advice from the State Aid Unit at the Scottish Government remains that servicing sites for the private sector does not constitute State Aid as long as Scottish Borders Council is operating on commercial terms. A change management process has been implemented that will allow for oversight of any changes to programme scope, scale, and cost.

## 6 FUNDING OF THE CENTRAL BORDERS INNOVATION PARK

6.1 At the present time, the Council does not have any funding above £5m allocated to the programme in its Capital Financial Plan. The balance of the funding required for the project will come from a mix of public and private sector contributions.

**TABLE 2: TOTAL PROGRAMME COSTS**

Development	Estimated Cost £'000	Funding Source				
		SBC £'000	Scottish Enterprise £'000	City Region Deal £'000	Railway Blueprint £'000	Private Sector £'000
Infrastructure Work	1,270	635			635	
Ex-Tapestry site	3,000		1,500		1,500	
Eildon Mill	2,370	100			100	2,170
Quarry - Offices	16,330	4,115		11,100	1,115	
Quarry - Manufacturing	2,180	150			150	1,880
Lowood Edge	3,900			3,900		
	29,050	5,000	1,500	15,000	3,500	4,050

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.

## 7 PROGRAMME MANAGEMENT

7.1 As noted above, there are governance arrangements in place at local and regional levels to manage the delivery of the programme

7.2 A Programme Delivery Team is being established under the Programme Manager. It will report into the Scottish Borders Council Executive Team, which will review and monitor progress of the programme and provide advice and guidance where necessary. The Programme Manager and his team will be responsible for day-to-day liaison with the other programme stakeholders from Scottish Enterprise and the private sector.

7.3 Reporting requirements of the City Region Deal grant offer will be met as and when these are due, whether monthly, quarterly or annually.

## 8 IMPLICATIONS

### 8.1 Financial

- (a) The City Region Deal Financial Agreement allocates £50m for infrastructure in the Scottish Borders and Fife Council areas. This sum is apportioned between Scottish Borders (£15m) and Fife (£35m). The assumption is that funding is payable in equal £1m tranches over a 15-year period, requiring Scottish Borders Council to borrow to cash flow the project. This 15-year profile reflects the wording of the grant offer letter. It is anticipated however that the payment of the £15m grant will in reality be optimised within the parameters of the overall City Deal Programme to reflect the actual delivery programme and minimise the borrowing costs for individual City Deal partners.
- (b) The revenue consequence of the borrowing profile has been calculated based on the undernoted spend profile, which reflects best available information at this point. Over the project life the average cost of the projected borrowing is £142k per annum; however, during 2026/27 this will peak at £224k. This is based on interest only costs. The City Region Deal growth fund grant will be treated as a capital debtor and be used to repay principle borrowing.

TABLE 3: SCOTTISH BORDERS COUNCIL INVESTMENT

	2018/19	2019/20	2020/21	2021/22	2022/23 - 2034/35
	£'000	£'000	£'000	£'000	£'000
<b>Capital Investment :</b>					
Infrastructure Work	0	1,270	0	0	0
Eildon Mill	200	0	0	0	0
Quarry - Offices	1,375	3,855	6,991	4,109	0
Quarry - Manufacturing	0	300	0	0	0
Lowood Edge	0	0	0	0	3,900
	1,575	5,425	6,991	4,109	3,900
<b>Capital Funding :</b>					
SBC	(575)	(4,425)	0	0	0
SG (City Region Deal)	0	0	(1,000)	(1,000)	(13,000)
Borders Railway Blueprint	(1,000)	(1,000)	0	0	0
	(1,575)	(5,425)	(1,000)	(1,000)	(13,000)
Net Cost	0	0	5,991	3,109	(9,100)

TABLE 4: REVENUE CONSEQUENCES

	2018/19	2019/20	2020/21	2021/22	2022/23 - 2034/35
	£'000	£'000	£'000	£'000	£'000
Borrowing Costs (interest only)	0	0	135	135	1,715

- (c) Initial outlays of capital investment by Scottish Borders Council will focus on the delivery of the first building on the Quarry Site, enabling infrastructure, and site servicing costs for the buildings to be occupied by the private sector in Phase 1.
- (d) The delivery of the programme will take at least five years, however there is flexibility to lengthen these timescales with regard to the development of Phases 2 and 3. This will be determined by affordability and by the anticipated demand for the planned space.
- (e) These financial implications will require to be reflected in the Council's Revenue and Capital Financial Plans for future years, which are currently being updated.

## 8.2 Risk and Mitigations

- (a) A key risk to the Council is the requirement to forward-fund a significant part of the programme's costs, with funding from City Region Deal split over 15 years. Projected programme costs have been estimated in the financial modelling at today's costs and do not include an allowance for inflation. The Programme Delivery Team will maintain a close overview and control of costs, making changes where necessary, to ensure that costs do not exceed total funding available.
- (b) The programme is dependent on funding from the City Region Deal and the Borders Railway Blueprint. An initial review by Scottish Government and other stakeholders of the City Region Deal Full Business Case has been completed. The Full Business Case will now be submitted to the City Region Deal Joint Committee on 1 March 2019 for approval. The Borders Railway Blueprint Leadership Group approved its contribution in December 2018 and Ministerial approval has now also been given.
- (c) State Aid issues have been discussed with the Scottish Government's State Aid Unit. Currently there are no issues, but officers will maintain contact with the State Aid Unit to ensure that any potential State Aid implications are highlighted immediately.
- (d) There is a risk that there could be a lack of demand for the space to be delivered in phases 2 and 3. Property experts in Scottish Futures Trust and Scottish Enterprise (acting on behalf of the Scottish Government) have expressed their satisfaction with the programme's plans. They acknowledge that there is risk with the speculative development planned later in the programme. Officers, working closely with Scottish Enterprise, will continue to monitor market demand and amend the programme if required.

## 8.3 Equalities

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

#### 8.4 **Acting Sustainably**

The City Region Deal will 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**

One of the strategic objectives of the programme is to reduce carbon emissions. Energy efficiency will be a key factor in the design of new buildings funded through the City Region Deal.

#### 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 have been incorporated into 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, 20 December 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.

Contact us at Bryan McGrath, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA Tel: 01835 826525, email [bmcgrath@scotborders.gov.uk](mailto:bmcgrath@scotborders.gov.uk)