

APPENDIX 2



Central Borders Innovation Park Programme:

Full Business Case (FBC)

Edinburgh and South East of Scotland City Region Deal

Issue Date: 23 January 2018

Purpose of this document

This document sets out the Full Business Case (FBC), in support of the Central Borders Innovation Park Programme.

An Outline Business Case (OBC) was completed and agreed as part of the development of the Edinburgh and South East of Scotland City Region Deal agreed in July 2018.

This FBC provides the evidence that the most economically advantageous investment programme is being delivered and that it is affordable. In addition, the FBC explains the fundamentals of the Central Borders Innovation Park Programme and demonstrates that the required outputs can be successfully achieved.

Contents

EXECUTIVE SUMMARY	3
Background.....	3
Strategic Case	3
Economic Case	5
Financial Case.....	5
Commercial Case	6
Management Case	6
1. INTRODUCTION	8
1.1. Context	8
1.2. Document Purpose	8
1.3. Document Status.....	9
1.4. Document Structure.....	9
2. PROGRAMME DESCRIPTION	10
3. STRATEGIC CASE.....	18
3.1. Overview	18
3.2. National policy objectives	18
3.3. Devolved policy objectives.....	20
3.4. Regional policy objectives	20
3.5. Local policy objectives.....	21
3.6. Market failure	25
3.7. Critical Success factors.....	29
3.8. Objectives	32
3.9. Measures for success	33
3.10. Interdependencies	34
3.11. Options	34
4. ECONOMIC CASE.....	36
4.1. Overview	36
4.2. Options Appraisal.....	36
4.3. Value-for-money assessment	39
4.4. Value-for-money risks	39
4.5. Economic Impacts.....	40
5. FINANCIAL CASE	41

5.1.	Overview	41
5.2.	Programme costs	41
5.3.	Spend profile.....	41
5.4.	Funding assumptions	43
5.5.	Rental income.....	43
5.6.	Debt requirement	44
5.7.	Debt drawdown and repayment profile	45
5.8.	Revenue activity	45
6.	COMMERCIAL CASE	46
6.1.	Overview	46
6.2.	Required outputs.....	46
6.3.	Procurement approach.....	47
7.	MANAGEMENT CASE.....	49
7.1.	Overview	49
7.2.	Programme dependencies.....	50
7.3.	Programme governance and reporting	50
7.4.	Programme implementation scheme	52
7.5.	Communications and stakeholder management.....	53
7.6.	Risk management strategy.....	53
7.7.	Benefits realisation plan	53
7.8.	Monitoring and evaluation.....	54
7.9.	Change management.....	55
APPENDIX 1: ECONOMIC APPRAISAL.....	56	
APPENDIX 2: FINANCIAL APPRAISAL	57	
APPENDIX 3: SENSITIVITY ANALYSIS	58	
APPENDIX 4: PROGRAMME RISK REGISTER	59	
APPENDIX 5: PROGRAMME PLAN	61	

Executive Summary

Background

1. This document constitutes the Full Business Case (FBC) for the Central Borders Innovation Park and seeks approval of £15 million of funding under the authority of the Edinburgh and South East Scotland City Region Deal approved by the Prime Minister and First Minister in July 2018.
2. This FBC is structured according to the five case model as recommended by the guidance in the HM Treasury Green Book: strategic, economic, financial, commercial, and management. The Strategic Case discusses the rationale for the programme. Based on the Strategic Case, the rationale and policy context for the programme are carried forward to be considered in the Economic, Financial, Commercial, and Management Cases.
3. The full cost of implementing the proposed programme is estimated to be £29,020,000. **The project has a positive economic impact with an estimated Benefit-Cost ratio (BCR) of £16:£1.**

Strategic Case

4. There is a strong rationale for major investment to be expended on a Central Borders Innovation Park at Tweedbank. It will provide a wide range of benefits to the Scottish Borders within the context of the wider Edinburgh and South East Scotland City Region as it:
 - 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 £350 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 employers and employees into the area, bringing new skills and experience.
5. To ensure that the programme realises these benefits, five strategic objectives have been identified with accompanying targets and “indicators of success”.
6. 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 and Scottish Borders Council at a cost of £200,000.

7. The programme is compatible with strategies for economic growth at the UK, Scottish, regional, and local levels. It is intended to encourage innovation and foster inclusive growth through developing more productive businesses that will result in higher skilled, better paid jobs. 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.
8. 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 the potential occupiers of the first phase of the programme have already been identified. The proposed buildings are being constructed in line with their requirements.

The Case for Change

9. 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 £350 million spent on the Borders Railway. It would overhaul the current reliance on low value, obsolescent stock with high quality premises that will allow for a more competitive business location. Demand analysis suggests that there is potential to fill the space proposed.
10. 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.**
11. 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.
12. This FBC seeks approval to invest £27,750,000, including £15,000,000 of City Region Deal funding, to develop five plots in the vicinity of Tweedbank Railway

Station across three programme phases. 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 long-term development as envisaged in the Tweedbank masterplan.

13. The Central Borders Innovation Park programme phase 1 will open between December 2019 and September 2020, creating 4,660 m² of new office space and 2,950 m² of new industrial space. Further development will take place beyond this date with phase 2 creating another 5,177 m² of new office space. A third, and final, 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. Current assumptions assume building will be completed in 2024, but this timescale is subject to change depending on affordability and the level of demand for space.

Economic Case

14. The economic assessment has been prepared in a way considered to be proportionate to the size of the programme and is based on the preferred scenario that best fits the objectives for the programme.
15. The economic benefits of the programme outweigh its costs and confirm the findings of the OBC. The programme has an initial BCR of £16:£1 and estimated GVA of £350 million with 383 jobs created. It therefore represents very high value-for-money.
16. There are risks to value-for-money: lower underlying demand for phases 2 and 3 of the programme; and an increase in costs. However, these risks have been identified and are addressed in the programme risk register.
17. Economic analysis suggests that the programme will meet its objectives of increasing employment, particularly that which is highly skilled and well-paid, and increasing productivity.

Financial Case

18. The Financial Case presents evidence of the programme’s affordability both now (for the implementation and construction elements of Phase 1) and with regard to the requirements of Phases 2 and 3, and also whole life costs and operating income. The costs of the programme have recently been verified and remain the same as at the OBC stage.
19. Of the programme cost of £29,020,000, the Scottish Government will provide £15,000,000 through the City Region Deal. As underspend is a significant risk for government, expenditure profiling has been done on a pessimistic basis with a fixed annual drawdown of £1 million from the City Region Deal assumed from 2020-21.

20. The financial modelling shows that the programme's whole life costs are expected to be almost £8.8 million. However, this cost is offset by anticipated operating income of over £19.9 million. The programme is expected to generate an overall surplus of £11.1 million by Year 30 (2047-48).
21. Revenue activity will focus on employability initiatives, community benefits, and also innovative activity and business support through Business Gateway.

Commercial Case

22. The Commercial Case sets out the approach to procurement activity on the programme. All procurement activity on the programme will take place in accordance with the provisions of relevant Scottish, UK, and EU procurement legislation.
23. In accordance with the requirements of the City Region Deal and also with Scottish Borders Council policy, community benefit clauses will be put in place to assist inclusive growth by unlocking opportunities within relatively deprived communities and groups.
24. Owing to the differing timescales of the programme's phases, each requires a separate procurement strategy. There are four separate procurements taking place in phase 1 of the programme, one for each site to be developed. The procurement strategy to be adopted for phases 2 and 3 will be informed by the experience of phase 1.

Management Case

25. The management approach that is proposed for the programme is proportionate to its overall cost and is also compatible with the wider governance arrangements for the Edinburgh and South East Scotland City Region Deal.
26. The Programme is considered to be highly deliverable. It has similarities not only with similar programmes and projects delivered throughout the UK, but also with other City Region Deal programmes and projects, notably the Fife Industrial Estates Investment Programme.

27. 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.
28. Transparent governance arrangements are in place through the City Region Deal and Scottish Borders Council. Effective reporting and change control will ensure that there is strong risk management of the programme.
29. Scottish Borders Council will implement an effective stakeholder management and communications plan. It will also ensure that the programme's benefits are realised through effective monitoring.

1. Introduction

1.1. Context

1.1.1. 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 similar 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 although feasibility work is examining the possibility of extending the line towards Hawick and possibly to Carlisle.

1.1.2. 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”.¹ 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 £200,000.

1.1.3. 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 sanctioned a Tweedbank Simplified Planning Zone. The project will also complement any future extension of the railway to Hawick and beyond.

1.2. Document Purpose

1.2.1. This document and its appendices form the Full Business Case (FBC) for the Central Borders Innovation Park Programme. This FBC represents the final stage of the agreed City Region Deal business case development process following approval of the OBC in July 2018. The FBC is submitted for approval in the City Region Deal Funding Agreement.

¹ Scottish Government: *Borders Railway Maximising the Impact: A Blueprint for the Future*, November 2014, p. 10.

1.3. Document Status

1.3.1. This FBC is intended for review by the Scottish Government to confirm the programme should be approved for funding through the Funding Agreement.

1.4. Document Structure

1.4.1. This FBC is structured around HM Treasury Green Book guidance:

- **Strategic Case** (Section 3), setting out a clear rationale for all three phases of the Central Borders Innovation Park programme.
- **Economic Case** (Section 4), identifying the key economic impacts of the programme and its overall value-for-money.
- **Financial Case** (Section 5), presenting evidence of the programme's affordability.
- **Commercial Case** (Section 6), summarising the preferred approach to programme procurement and rationalising the commercial and legal viability of such an approach.
- **Management Case** (Section 7), setting out how Scottish Borders Council will ensure that the programme is delivered successfully – on time and to budget, with suitable governance and risk management processes in place.

2. PROGRAMME DESCRIPTION

2.1.1. The programme outlined in this FBC is intended to encourage innovation and foster inclusive growth through building modern, fit-for-purpose, business infrastructure that will result in higher skilled, better paid jobs therefore stimulating increased productivity. The Central Borders Innovation Park will be developed at Tweedbank in the central Scottish Borders.



- 2.1.2. The commitment in the Borders Railway Blueprint of late 2014 to the Central Borders Innovation Park was taken forward through a 2017 masterplanning exercise for Tweedbank, which was funded by the Blueprint and Scottish Borders Council at a cost of £200,000. The masterplan aspires to create a high quality place to live, work and invest at the current terminus of the Borders Railway.
- 2.1.3. Ultimately, the masterplan envisages a transformational development of approximately 400 new homes and 71,500 m² of mixed use commercial space (hotel, office, retail, hospitality, and light manufacturing) in a high quality setting extending over a site area of 98.6 hectares. To enable this development, Scottish Borders Council took the decision in 2018 to purchase the Lowood Estate to the north of Tweedbank Station.
- 2.1.4. A fundamental issue driving the Central Borders Innovation Park at Tweedbank is that there is industrial and office 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. 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.
- 2.1.5. Scottish Borders Council owns most 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 constitute the Central Borders Innovation Park programme.
- 2.1.6. The FBC will seek approval to invest £27,750,000 to develop five plots in the vicinity of Tweedbank Railway Station across three programme phases. 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 long-term development as envisaged in the masterplan. The implementation of the first phase of the programme 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. It is proposed to draw down £15 million of City Region Deal funding from 2020-21 to invest in the rest of the programme.
- 2.1.7. The first of the five plots earmarked for the programme 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/co-working space, with a £3 million project investment commitment as part of the Borders Railway Blueprint (Site 1).

- 2.1.8. 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 in 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).
- 2.1.9. Two of the remaining plots are in a greenfield site to the east of the station called the Quarry. The easternmost plot (Site 3) will be serviced and made ready for a commercial modern manufacturing development, and will be developed and occupied by a Growth Pipeline/Account Managed expanding business.
- 2.1.10. Heads of terms are currently being negotiated with each business. Scottish Borders Council will ensure that there are conditions to avoid land banking, i.e., the businesses must submit planning applications and develop the buildings.
- 2.1.11. The westernmost site (Site 4) will be used to develop new, speculative office space in two phases. A strong interest has already been shown from the private sector in the first building.
- 2.1.12. The servicing of sites 2 and 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 commitment from Scottish Borders Council. The commercial development of sites 2 and 3 will also unlock significant private sector contributions of £4 million from the businesses that will occupy each site. Advice has been taken from the State Aid Unit, which states that servicing sites 2, 3, and 4 does not constitute State Aid as long as the Council is operating on commercial terms.
- 2.1.13. Finally, there is a plot (Site 5) 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. This development will not take place until the third and final phase of the programme. 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

Figure 2: Development plots by phase

Location of plot	Occupier of plot
Site 1	Scottish Enterprise business centre/co-working space (Phase 1)
Site 2	Private sector (Phase 1)
Site 3	Private sector (Phase 1)
Site 4	Private sector (Phase 2)
Site 5	Private sector (Phase 3)

Source: Scottish Borders Council

2.1.14. 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. Scottish Borders Council is commissioning additional work to assist with the design of the office and industrial space.

2.1.15. The total cost of the programme is estimated to be £29,020,000. This cost will be expended across the three phases of the programme:

- Phase 1 cost: £14,050,000.
- Phase 2 cost: £11,070,000
- Phase 3 cost: £3,900,000.

2.1.16. The timescales for the build-out of the programme are illustrated in this table regarding the programme's milestones (figure 3). The completion dates for the later phases of the programme are indicative as these will be determined by affordability and the levels of demand for the space that is planned.

Figure 3: Key programme milestones

Element of programme	Completion date
Phase 1	
Ex-Tapestry site (Site 1)	December 2020
Eildon Mill (Site 2)	December 2019
Quarry East (Site 3)	September 2020
Quarry West (Site 4)	April 2020
Phase 2	
Quarry West (Site 4)	2022 (indicative)
Phase 3	
Edge of Lowood Estate (Site 5)	2024 (indicative)

Source: Scottish Borders Council

2.1.17. An independent economic impact appraisal of the programme was undertaken to verify the anticipated benefits of the project and to justify the value-for-money of the proposed interventions. The benefits are summarised below in figure 4.

Figure 4: Summary of Programme benefits

Type of benefit	Quantifiable benefit
GVA (exc. construction)	£350 million
Jobs	383
Construction Jobs	380
Benefit-to-Cost Ratio	£16:£1

Source: Scottish Borders Council

- 2.1.18. The programme 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.
- 2.1.19. The programme 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 will be developed in due course.
- 2.1.20. Demand analysis indicates 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.
- 2.1.21. Scottish Enterprise is confident that its business centre/co-working space will assist in helping to kick-start the wider generation of Tweedbank and also in creating a gateway to the Scottish Borders and an office hub that can compete with the out-of-town/satellite offices on Edinburgh's periphery.

- 2.1.22. The programme is intended to narrow the current productivity gap between the Scottish Borders and more productive areas. The ambition is to create more innovation-active businesses in the Scottish Borders, i.e. businesses that are engaged in all forms of innovation. In the medium-term, the ambition is to increase business investment in formal innovation such as research and development through working with Higher Education institutions, particularly through the City Region Deal data-driven innovation programme. As a partner in the City Region Deal programme, Scottish Borders Council has an opportunity to link into initiatives that would have previously been inaccessible to it. An example is the work being undertaken by the University of Edinburgh and Heriot-Watt University to improve digital skills across south-east Scotland. Such initiatives will help to deliver improved productivity and higher value jobs.
- 2.1.23. In the longer-term, businesses could sustain and improve their economic performance through increasing the value they generate from their data by adopting digital technologies—to create new products, new supply chain arrangements, new business models, individually and through collaboration—thereby creating/safeguarding jobs and turnover. This aspiration is particularly relevant to the second and third phases of the programme.
- 2.1.24. 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 Business Gateway will also assist businesses to become innovation-active in conjunction with the work being done through data-driven innovation.
- 2.1.25. The procurement of Phase 1 is already being implemented. Plans for Phases 2 and 3 will be considered in the light of this experience and also within the context of the approach being taken to procurement at the City Region Deal level. 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.
- 2.1.26. The following table summarises the programme (figure 5).

Figure 5: Summary of programme

Development	Cost	Space to be provided		
		Office	Industrial	Totals
Phase 1				
Site 1	£3,000,000	1,404 m ²	n/a	1,404 m ²
Site 2	£2,370,000	60 m ²	1,250 m ²	1,310 m ²
Site 3	£2,180,000	750 m ²	1,700 m ²	2,450 m ²
Site 4	£5,230,198	2,446 m ²	n/a	2,446 m ²
Infrastructure	£1,270,000	n/a	n/a	n/a
Sub-totals	£14,050,198	4,660 m²	2,950 m²	7,610 m²
Phase 2				
Site 2	£11,069,802	5,177 m ²	n/a	5,177 m ²
Sub-totals	£11,069,802	5,177 m²	n/a	5,177 m²
Phase 3				
Site 5	£3,900,000	1,632 m ²	400 m ²	2,032 m ²
Sub-totals	£3,900,000	1,632 m²	400 m²	2,032 m²
TOTALS	£29,020,000	11,469 m²	3,350 m²	14,819 m²

Source: Scottish Borders Council

3. Strategic Case

3.1. Overview

3.1.1. This section describes the “case for change”, explaining the rationale for making the proposed investment and presenting evidence on the strategic policy fit of the programme.

3.1.2. The strategic case establishes the:

- Context for the business case, outlining the strategic aims at national, devolved, and local levels.
- Market failure that has been identified, using evidence to justify the proposed intervention and demonstrating the critical success factors for this.
- A set of objectives to meet the programme’s aims.
- Measures for determining successful delivery of the objectives.
- Programme scope, determining what it will deliver.
- Breakdown of interdependencies on which the successful delivery of the programme will depend.
- Evaluation of the options considered.

3.2. National policy objectives

3.2.1. 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 6).²

Figure 6: 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
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² H.M. Government: *Industrial Strategy: Building a Britain fit for the future*, November 2017, p. 10.

		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.

Source: Scottish Borders Council

3.3. Devolved policy objectives

3.3.1. The programme is 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*.³ 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 programme 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.

3.3.2. The programme will support the objectives of *Scotland Can Do*⁴ drawing on the research of the university sector to maximise the potential of innovative business processes. This work will particularly focus on the second and third phases of the programme.

3.4. Regional policy objectives

3.4.1. 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. 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.

3.4.2. This work is also being complemented by Scottish Borders Council’s involvement in 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.

3.4.3. As both the South of Scotland Economic Partnership and the Borderlands Deal are still in development, these relationships will evolve over time. In the meantime, steps are being taken to minimise areas of potential duplication.

³ Scottish Government: *Scotland’s Economic Strategy*, 2015.

⁴ Scottish Government: *Scotland Can Do: Boosting Scotland’s Innovation Performance. An Innovation Action Plan for Scotland*. January 2017.

3.5. Local policy objectives

3.5.1. The *Scottish Borders Economic Strategy 2023* sets out a strategic approach to the development of a prosperous economy. Objectives directly relevant to this programme 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.”
- “To encourage and support new business start-ups, and the growth of existing businesses.”
- “To attract new businesses to the Scottish Borders.”

3.5.2. 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 ranked 20th of the 23 Scottish NUTS 3 areas for productivity.

3.5.3. 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 programme 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. At present, most commuters using the railway travel north to Edinburgh. The programme can help to reverse this trend through creating good employment opportunities.

3.5.4. Of the main inclusive growth challenges identified at the City Region Deal level, the following are especially relevant within the context of the programme:

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

3.5.5. In terms of the percentage of working age population in employment, Scottish Borders (with a rate of 74.1 per cent for the period from April 2017 to March 2018) is “mid-to-lower table” when compared with other Scottish local authorities. However, 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.⁵ This project has the potential to attract more productive sectors of the economy, with commitments already in place from businesses in the information and communication technology, and electronic manufacturing sectors. 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.

3.5.6. 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 2039.⁶ It is for this reason that the *Scottish Borders Economic Strategy 2023* recognises a need to make the area more attractive to 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...”

3.5.7. 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.

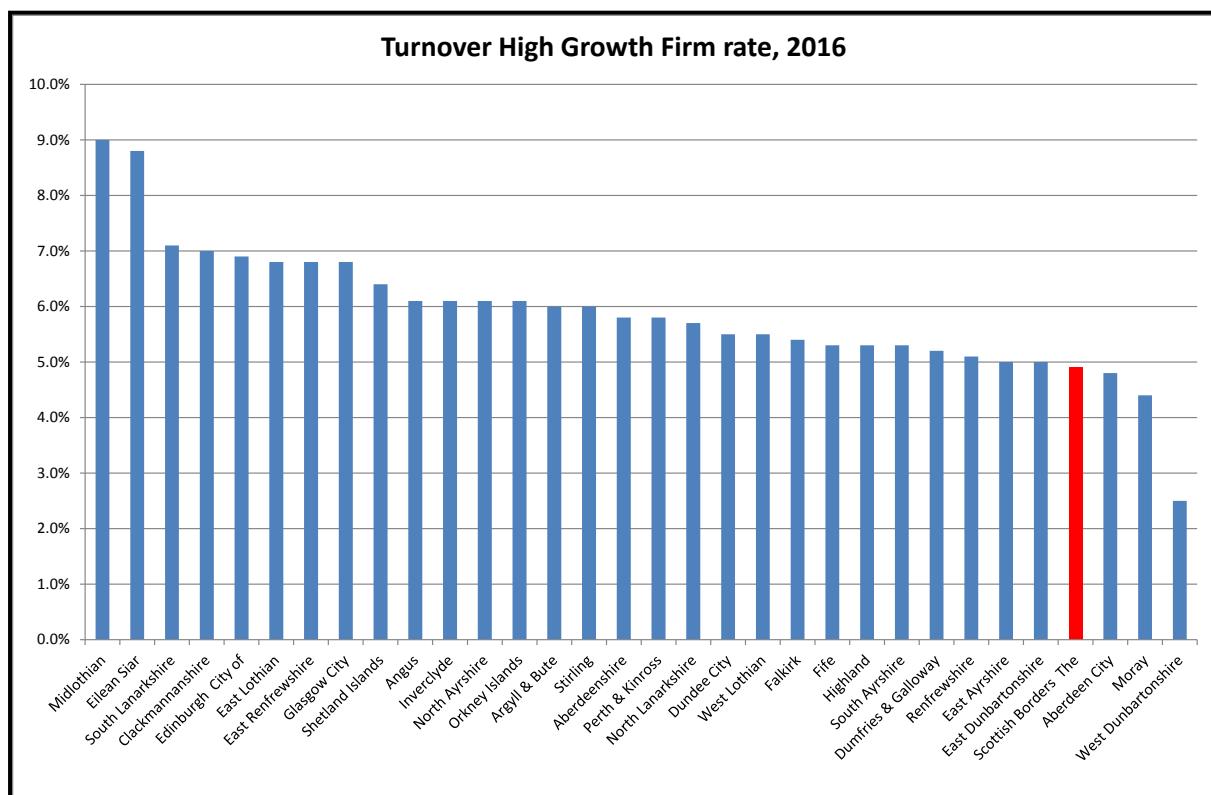
3.5.8. The skills issue is compounded in that the area is at a clear disadvantage given that the higher productive sectors of the economy tend to be located in urban rather than rural areas. Cities are more likely to possess the assets that contribute to higher productivity: a highly skilled workforce; good connectivity; competition; investment in Research and Development; and clustering of knowledge and innovation. An aim of this programme is to provide all of these elements with the additional lifestyle benefit of living in a rural area.

⁵ Annual Survey of Hours and Earnings 2016.

⁶ National Records of Scotland.

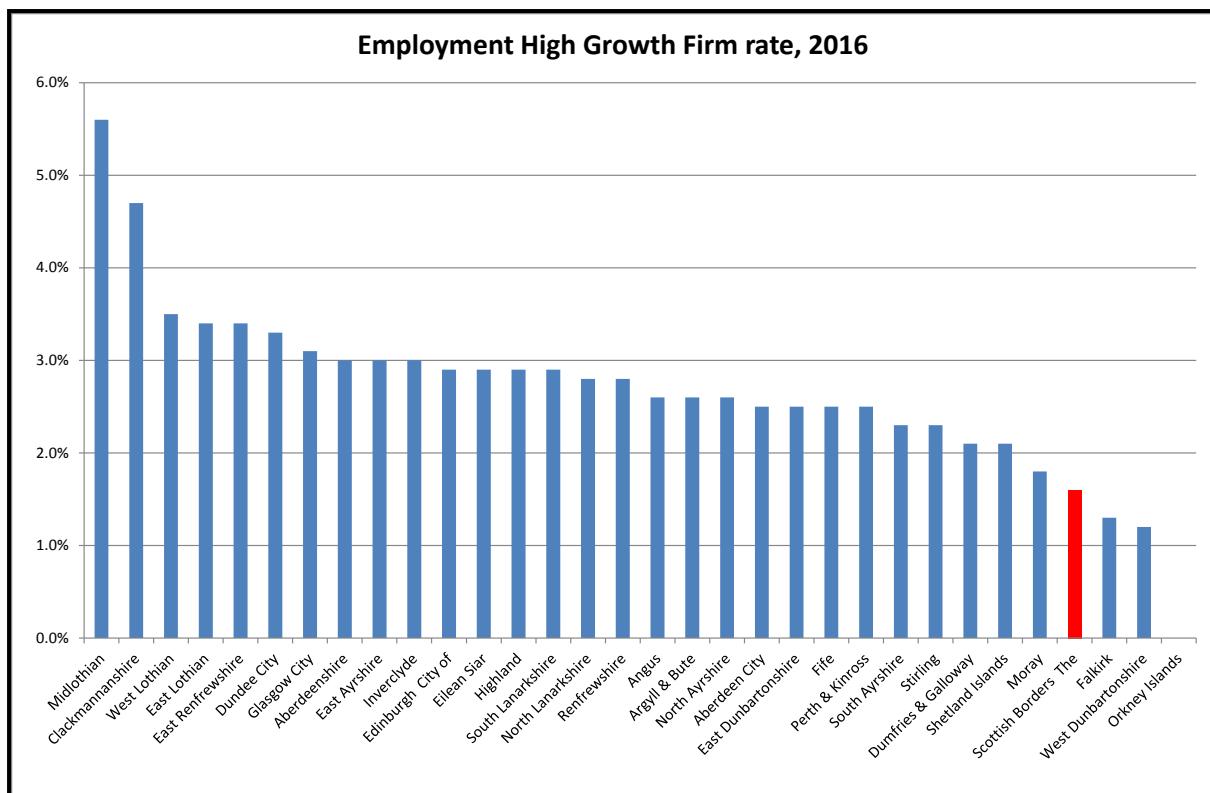
3.5.9. Innovation is a key driver in the economic development strategies that are intended to improve the performance of the Scottish Borders economy—strategies that are dependent on creating the type of programme that is the subject of this business case. The Scottish Borders currently lags behind most of Scotland in its proportion of High Growth Firms and in its share of Research and Development expenditure. Figures 7a and 7b show that the proportion of High Growth Firms within the local business base—measured by turnover and by employment—is among the lowest in the country.

Figure 7a: High Growth Firms in Scotland by turnover, 2016



Source: Scottish Borders Council

Figure 7b: High Growth Firms in Scotland by employment, 2016



Source: Scottish Borders Council

3.5.10. 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. Businesses with persistently higher levels of Research and Development tend to have a productivity level that is 13 per cent higher than the average.⁷ The level of Research and Development expenditure by businesses in the Scottish Borders is low at £64 per head of population (2017 figures) compared to an average of £230 across Scotland.⁸ 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.⁹ Increasing the number of innovative businesses would help to address the issue of slow growth, one of the inclusive growth challenges referred to above.

⁷ Department for Business, Energy & Industrial Strategy: *Main Report – Science and Innovation Audit, Edinburgh and South East Scotland City Region*, p. 21.

⁸ Scottish Government.

⁹ UK Innovation Survey 2015.

3.5.11. 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 Programme in the following ways:

- All incoming occupiers will be expected to undergo some form of innovation review and commit to the investigation of 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.
- Scottish Borders Council will map existing and potential connections with intermediaries such as 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.

3.6. Market failure

3.6.1. 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.

3.6.2. 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."

3.6.3. 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.

3.6.4. 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.¹⁰ 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 8).

Figure 8: Industrial stock in the Central Borders, 2015-16

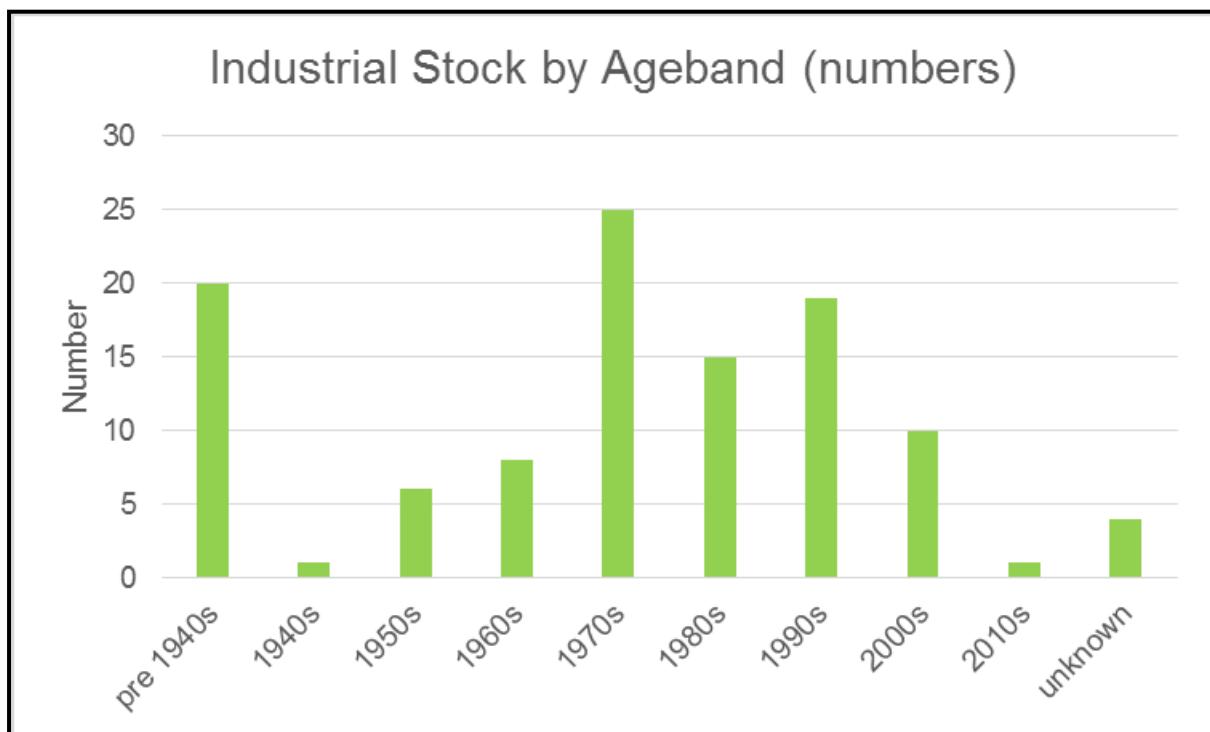
Size band (m²)	Number of properties	Area (m²)
0-99	120	7,416
100-199	124	17,621
200-499	175	55,345
500-999	77	54,265
1,000-1,999	42	56,065
2,000-4,999	23	63,872
5,000-9,999	17	108,832
10,000+	3	43,813
Unknown	11	0
Total	592	407,229

Source: *Scottish Borders Council*

3.6.5. Figure 9 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.

¹⁰ This analysis comprises properties classified as depot, factory, industrial unit, warehouse, workroom, workshop, bakery, brewery, laboratory, printing works, sorting office, and vehicle testing.

Figure 9: Age bands of industrial stock in the Central Borders



Source: Scottish Borders Council

3.6.6. 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.

3.6.7. Over the past five years, average take-up within the Scottish Borders office market has been in the order of 2,500 m² per annum largely comprising fairly small individual occupational requirements in the order of 140 m². 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 10).

Figure 10: Office stock in the Central Borders, 2015-16

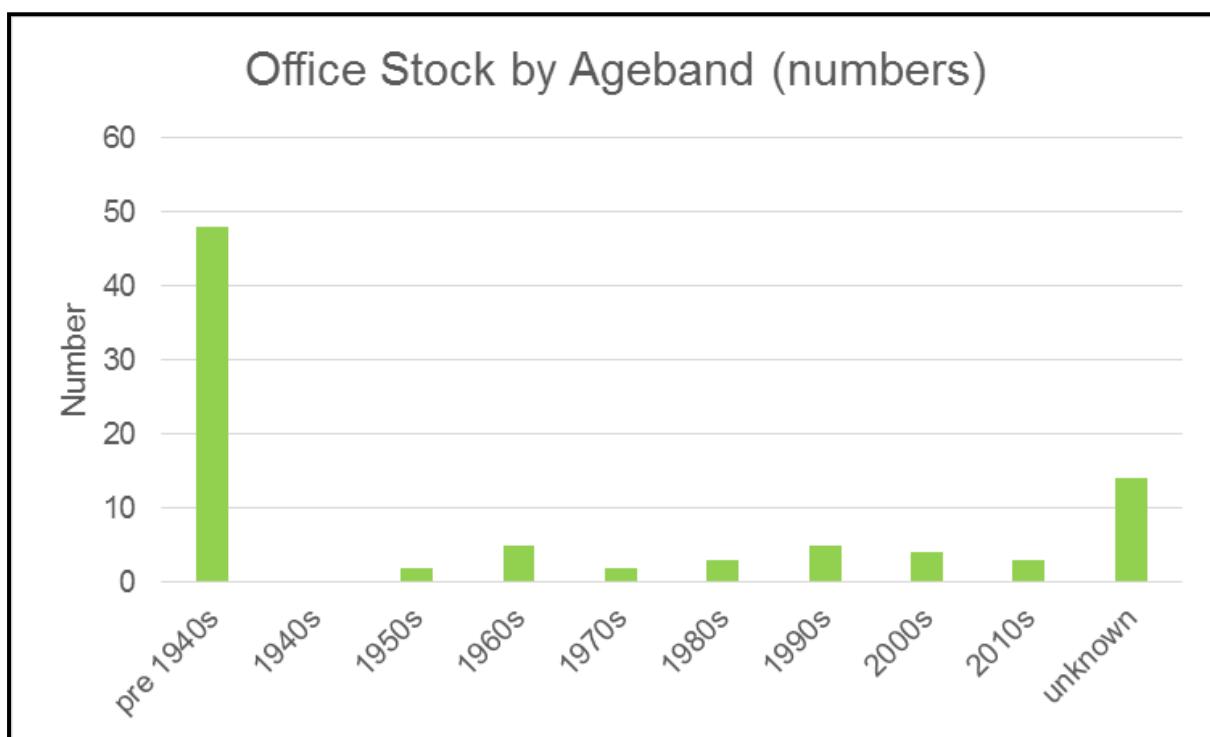
Size band (m ²)	Number of properties	Area (m ²)
0-99	398	17,039
100-199	84	11,898
200-499	61	17,588

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

Source: Scottish Borders Council

3.6.8. Figure 11 illustrates that the majority of office stock (56 per cent) dates from before the 1940s.

Figure 11: Age bands of office stock in the Central Borders

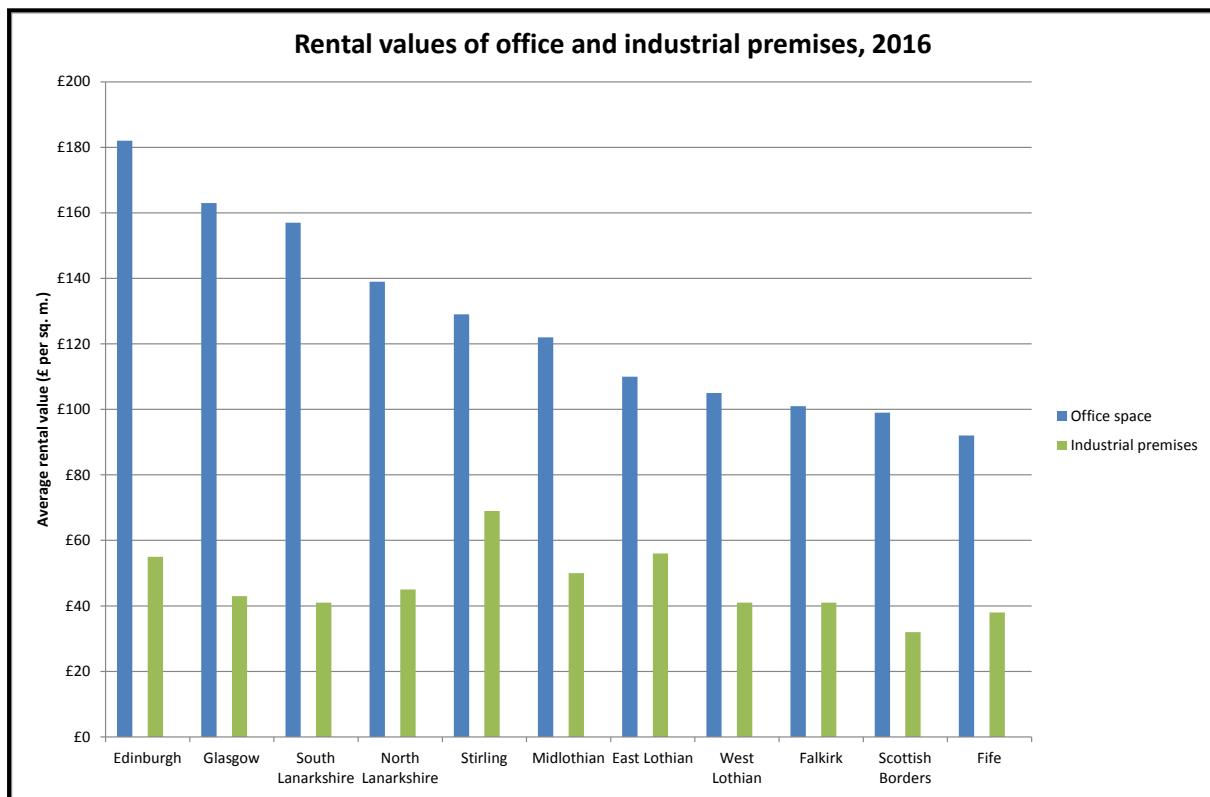


Source: Scottish Borders Council

3.7. Critical Success factors

- 3.7.1. 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.
- 3.7.2. Figure 12 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 m² in 2016, which is the lowest rate among the 11 local authorities surveyed. Office space could be rented at £99 per m² 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 12: Rental values of office and industrial premises, 2016



Source: *Scottish Borders Council*

3.7.3. Within the Central Borders, rents for office space vary. Flexible accommodation within the Tweed Horizons Business & Conference Centre at Newtown St Boswells ranges from £82.24 per m² to £96.88 per m². Within multi-let accommodation at Ettrick Riverside, Selkirk, rent is between £64.58 per m² and £123.78 per m². In Galashiels, rents at Galabank Business Park have been between £129.17 per m² and £134.55 per m², and quoted rents at the Waverley Chambers at Galashiels Transport Interchange are £129.17 per m².

3.7.4. Rental growth is being experienced within the Central Borders industrial market. Rents have typically been within the range of £40.36 per m² to £53.82 per m². There are examples above these levels within Galabank Business Park going up to £63.51 per m².

3.7.5. The Ryden report of 2016 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 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."

3.7.6. Scottish Enterprise is confident that its business centre/co-working space will assist in the wider generation of Tweedbank and also in creating a nationally competitive office hub. A review of emerging trends in the market for multiple occupancy business space has been completed by Graham & Sibbald and this has identified a mix of room sizes for the business centre.

3.7.7. The operating model for the business centre will include access arrangements for start-ups, commuters, and growing businesses. There may be opportunities to link it to other business centres through using shared applications thereby enabling businesses to have access to various facilities across the region.

3.8. Objectives

3.8.1. Overall, the programme will allow for a clear pathway to be created from the initial investment stage to "game-changing" impacts for the Scottish Borders (Figure 13).

Figure 13: Pathway for innovation and economic growth

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

Source: Scottish Borders Council

3.8.2. To ensure that the programme creates this pathway, five strategic objectives have been identified for it:

- 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 degree to which innovative concepts such as data-driven innovation can be applied.
- 4.) Work with employers to ensure that high skilled and well-paid employment is on offer to a wide range of potential employees.
- 5.) Utilise existing land and locate the innovation park close to the area's highest concentration of population and the railway so as to reduce carbon footprints.

3.9. Measures for success

3.9.1. For each objective set out in 3.8.2, an “indicator of success” has been established to determine what constitutes successful delivery of the programme. Indicators and related targets are outlined in Figure 14.

Figure 14: Measures for success against the programme’s strategic objectives

Indicator	Targets	Relating to objective
Attract non-Council and non-City Deal sources of funding	Leverage £5M of other public sector funding and £4.1M of private sector investment	1.) Spend up-front to leverage in investment
Improve the quality of business space on offer	Increase take-up rates of businesses; reduce proportion of empty premises	2.) Construct employment property for businesses
Assist businesses in becoming more innovation-active	Increase the number of High Growth Firms in the Scottish Borders	3.) Application of data-driven innovation
Create higher skilled and better paid jobs	Increase number of more productive jobs, including employment for under-represented groups.	4.) High skilled, well-paid employment offer
Reduction in car usage and in commuter travel times to work	Reduce CO ₂ emissions towards the national average.	5.) Reduce carbon footprints

Source: Scottish Borders Council

3.10. Interdependencies

3.10.1. Within the context of the City Region Deal, Scottish Borders Council will work with strategic partners, particularly Fife Council and the University of Edinburgh, to maximise the benefits of data-driven innovation and its potential to increase the number of innovation active businesses, both regionally and locally. At the local level, there are a number of key stakeholders involved in the programme: Scottish Enterprise, businesses occupying the sites, and local business organisations. These interdependencies will be managed through the governance structures described in the Management Case below. Each stakeholder will be expected to abide by and, where appropriate, help to meet the programme's strategic objectives.

3.11. Options

3.11.1. Prior to selecting the parameters of the programme, four options were examined. These were “do nothing”; “do minimum”; “do something”; and “do everything”. These options are set out in Figure 15 below, which compares the alignment of each option with the aforementioned stated objectives for the programme.

Figure 15: Central Borders Innovation Park option assessment summary

Option	Alignment with Programme objectives					Comments
	1.)	2.)	3.)	4.)	5.)	
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 an innovation park in Tweedbank 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 innovation park	✗	✓	✓	✓	✓	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

to include all the newly acquired business land in Lowood and also land on the existing industrial estate.						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.

Source: Scottish Borders Council

4. Economic Case

4.1. Overview

4.1.1. This section identifies the key economic impacts of the programme and presents an assessment of its overall value-for-money. This effectively shows the extent to which the programme's benefits outweigh its costs. The economic impacts of the programme have been appraised following the principles contained within HM Treasury's Green Book guidance.

4.1.2. The programme's impacts are summarised in Figure 17 on the Economic Assessment, which provides a summary of modelled quantitative and monetised impacts.

4.1.3. This section contains the following elements:

- An overview of the programme's Options Appraisal together with sensitivity analyses.
- A value-for-money statement.
- Potential risks to achieving value-for-money.
- A description of the anticipated economic impacts from the programme.

4.2. Options Appraisal

4.2.1. The strategic case identified a preferred scenario that best fits the objectives for the programme. The other options set out in the strategic case were not taken forward to appraisal as these do not meet the programme's objectives. Sensitivity scenarios have also been appraised and these are presented later in the Economic Case.

4.2.2. The option that has been appraised was based on the following key principles and assumptions:

- A 30-year economic appraisal period, for consistency with other City Region Deal projects and programmes.
- It is assumed that empty property rates relief of 10 per cent would be applied assuming 90 per cent of rates are charged.
- The financial assessment NPV is based on Scottish Borders Council's financing position solely (Scottish Borders Council-built buildings and rents).
- The appraisal includes the full economic impact of the development (including privately funded and built buildings).
- 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 appraisal.

- It has been assumed prudent to model an occupancy rate of 75 per cent to allow for uncertainties in predicting economic circumstances over the life of the project.¹¹
- Discount rates of 3.5 per cent are assumed across the 30-year period.

4.2.3. Two separate sensitivity tests have been undertaken to demonstrate where there could be a positive impact on the base case and where there could be a negative impact on it (Figure 16 and Appendix 3). The sensitivities tested were:

Positive impact:

- An increase of 10 percentage points in the modelled occupancy rate of 75 per cent.
- Under the Business Accelerator, no empty rates costs are assumed.
- A decrease of 10 per cent in construction costs.
- An increase of 5 per cent in the rental income price.
- A decrease of one percentage point in interest payable.
- An increase of 5 per cent in other capital funding.

Negative impact:

- A decrease of 5 per cent in other capital funding.
- A 3-year delay in other capital funding.
- A decrease of 5 per cent in the rental income price.
- An increase of two percentage points in interest payable.
- An increase of 10 per cent in construction costs.
- A two-year delay in developments becoming available.
- A decrease of 10 percentage points in the modelled occupancy rate of 75 per cent.

Figure 16: Sensitivity Analysis

Sensitivities (£M)	(NPV of surplus)	(Surplus)	Interest	Annual revenue grant	No. of annual revenue grant payments	Change in NPV
Base Case (Medium cost scenario) – Annual grant in arrears	(3.5)	(11.1)	2.8	(1.0)	15	
Positive impact on Base Case (Low cost scenario)						

¹¹ The average occupancy rate of premises rented by Scottish Borders Council is currently 87 per cent.

Occupancy increased from 75% to 85%	(5.3)	(14.4)	2.5	(1.0)	15	(1.8)
Business Accelerator – No empty rates costs	(4.3)	(12.5)	2.7	(1.0)	15	(0.8)
Construction costs - 10% decrease	(6.7)	(15.0)	1.5	(1.0)	15	(3.2)
Rental Income Price + 5%	(4.2)	(12.4)	2.7	(1.0)	15	(0.7)
Interest - 1% decrease	(3.7)	(11.4)	1.7	(1.0)	15	(0.2)
Other capital funding + 5% increase	(4.1)	(11.8)	2.5	(1.0)	15	(0.6)
Negative impact on Base Case (High cost scenario)						
Other capital funding - 5%	(3.2)	(10.9)	2.9	(1.0)	15	0.2
3-year delay in other capital funding	(3.2)	(11.4)	3.3	(1.0)	15	0.3
Rental Income Price - 5%	(3.1)	(10.4)	2.8	(1.0)	15	0.3
Interest + 2% increase	(3.7)	(11.4)	5.4	(1.0)	15	(0.2)
Construction costs + 10% increase	(0.6)	(7.8)	4.2	(1.0)	15	2.9
2-year delay in developments being available	(2.8)	(10.3)	3.0	(1.0)	15	0.7
Occupancy reduced from 75% to 65%	(2.0)	(8.4)	2.9	(1.0)	15	1.5

Source: Scottish Borders Council

4.3. Value-for-money assessment

4.3.1. The value-for-money assessment summarises the impact of the programme and is based on economic modelling. It uses the HM Treasury Green Book method of cost-benefit analysis, by weighing the benefits against the costs to indicate whether the scheme offers value-for-money. This is based on summing the monetised impacts to establish a BCR, which enables a conclusion about the programme's value-for-money to be made.

4.3.2. The overall BCR for the programme is 16:1 and this forms part of the economic assessment presented in figure 17.

Figure 17: Economic Assessment summary

GVA impact and jobs impact	
NPV of Direct GVA	£349,988,318
NPV of Construction GVA	£61,141,889
Net jobs impact (total)	383
Gross construction jobs impact (Maximum in Year 6)	380
BCR	£16:£1
Tax impact	
NPV of direct net Income Tax	£14,790,032
NPV of direct National Insurance	£24,520,679
NPV of direct net Corporation Tax	£8,732,326
NPV of gross NDR impact	£1,987,886

Source: Scottish Borders Council

4.3.3. The following headline conclusions can be drawn from the results of the economic assessment:

- The scheme represents very high value-for-money with a strong BCR.
- An assessment of the quantitative elements of the economic model (jobs and GVA) demonstrates a strong impact on meeting the wider economic objectives of the programme.

4.4. Value-for-money risks

4.4.1. There are risks that could potentially impact on the value-for-money of the programme:

- **Lower underlying demand** for phases 2 and 3. This is a risk as it is difficult to determine the levels of demand in three-to-four years' time for the anticipated space given the unpredictability of future

economic conditions. Reduced occupancy is, therefore, one of the tests that has been assessed as part of the sensitivity analysis.

- **Higher costs** resulting from an underestimation of capital costs or an increase in the future costs of buildings in phases 2 and 3 and in maintenance of the buildings in all phases owing to macro-economic conditions.
- These risks have been included within the Programme Risk Register, which is in Appendix 4 of this FBC, and will be monitored as the programme proceeds.

4.5. Economic Impacts

4.5.1. The programme will have a large beneficial impact on local and regional employment and productivity. Meeting the objectives of increasing employment, particularly that which is highly skilled and well-paid, and increasing productivity, would have a direct and an indirect impact on the local economy through increased household income and demand for local services. The utilisation of brownfield and greenfield sites around Tweedbank Station for economic activity should also lead to an increase in land values in the area making it more attractive for future investors.

5. Financial Case

5.1. Overview

5.1.1. This section presents evidence of affordability across the life of the programme. It also includes information on the drawdown of City Region Deal funding.

5.2. Programme costs

5.2.1. The programme will cost £29,020,000. This figure is unchanged from the OBC and was verified by Scottish Borders Council's cost consultants in November 2018. A summary of the programme costs is given in Figure 18.

Figure 18: Cost estimate summary

Cost category	Cost (£)			
	Phase 1	Phase 2	Phase 3	Totals
Demolition and site servicing	500,000	0	0	500,000
Development costs	12,280,198	11,069,802	3,900,000	27,250,000
Infrastructure	1,270,000	0	0	1,270,000
Totals	14,050,198	11,069,802	3,900,000	29,020,000

Source: *Scottish Borders Council*

5.2.2. As can be seen, the majority of the programme's cost will be spent on developing the buildings at each of the five sites. At the present time, it is intended to carry out all infrastructure work during Phase 1 although the construction of the road (costing £450,000) that is required to access the site that will be developed on Lowood Estate is not time-critical.

5.2.3. The costs include an allowance of 10 per cent for optimism bias. No allowance for inflation has been included at this stage.

5.3. Spend profile

5.3.1. The expenditure profile for the programme is illustrated in Figure 19. As underspend is a significant risk for government, expenditure profiling has been done on a pessimistic basis with a fixed annual drawdown of £1 million from the City Region Deal assumed from 2020-21.

Figure 19: Expenditure spend profile summary (15 years)

	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	0.6	4.4	0	0	0	0	0	0	0	0	0	0	0	0	0
Scottish	0	0	1	1	1	1	1	1	1	1	1	1	1	1	1

Government														
Scottish Enterprise	0	0.9	0.6	0	0	0	0	0	0	0	0	0	0	0
Borders Railway Blueprint	1	1.9	0.6	0	0	0	0	0	0	0	0	0	0	0
Private sector	0	2.6	1.4	0	0	0	0	0	0	0	0	0	0	0
Totals	1.6	9.8	3.6	1										

Source: Scottish Borders Council

5.3.2. Whole life costs have been built into the financial model. These cover management costs, maintenance costs, and empty rates costs. Figure 20 gives a breakdown of the programme's whole life costs, which are anticipated to be almost £8.8 million.

Figure 20: Summary of whole life costs

Category	Costs over 30 years
Management costs	£995,326
Maintenance costs	£6,713,316
Empty rates costs (over 1,000m ² only/10 per cent relief)	£1,080,176
Total	£8,788,818

Source: Scottish Borders Council

5.3.3. The financial model has also allowed for an analysis of operating income. This would be derived from rental income at the sites that will not be owned by the private sector. Figure 21 gives a breakdown of operating income for those sites, which is anticipated to be over £19.9 million.

Figure 21: Summary of operating income

Site	Income over 30 years
Site 1	£3,007,368
Site 4	£13,665,195
Site 5	£3,233,952
Total	£19,906,515

Source: Scottish Borders Council

5.4. Funding assumptions

- 5.4.1. The Scottish Government through the City Region Deal will fund some 51.7 per cent of the programme. In its role as the City Region Deal's accountable body, City of Edinburgh Council will have a framework in place to ensure accountability; that the funding represents value-for-money; and that there are sufficient safeguards in place to ensure the money is spent in accordance with appropriate legal requirements. As a recipient of this money, Scottish Borders Council will abide by all accountability and assurance criteria.
- 5.4.2. The contributions from the Borders Railway Blueprint, Scottish Borders Council, the private sector, and Scottish Enterprise make up 48.3 per cent of the programme's costs. These will be managed through the governance structure put in place for the Borders Railway Blueprint. This will ensure that public sector grants and private sector contributions will be claimed and reported through the Borders Railway Blueprint Leaders' Group. The Central Borders Innovation Park programme will have sight of the drawdown of the funding and will also have access to the reporting of this process.
- 5.4.3. In modelling the drawdown of Scottish Government grant, a worst case scenario of a fixed drawdown of £1 million per annum for 15 years from 2020-21 was assumed. This scenario is subject to change and the financial model can be revised accordingly.

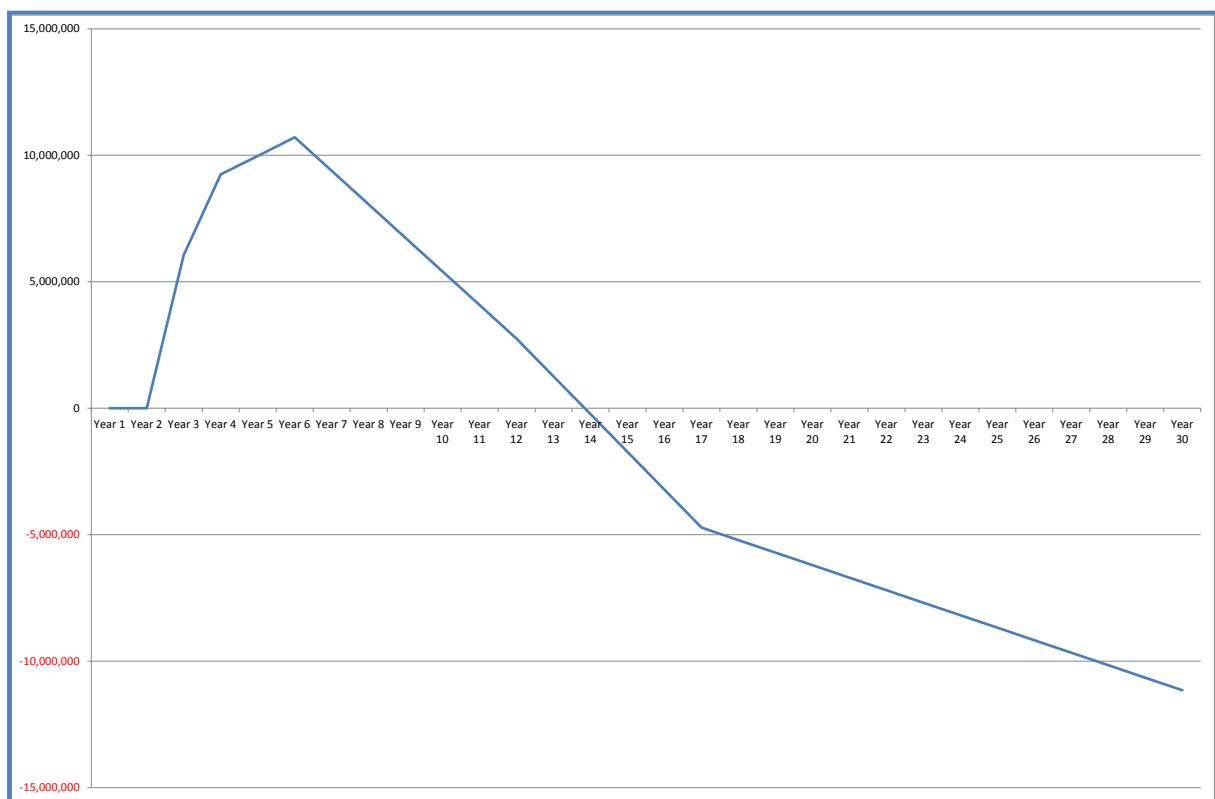
5.5. Rental income

- 5.5.1. The financial modelling informing this part of the business case is indicative at this stage, but has sufficient detail for the purposes of this FBC.
- 5.5.2. 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 2018-19 prices. (These rates are considered to be on the pessimistic side given the rates that are quoted for high quality premises elsewhere in the Scottish Borders.) Although rental income will probably not be as uniformly consistent throughout the life of the programme 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.
- 5.5.3. It is assumed that empty property rates relief of 10 per cent would be applied assuming 90 per cent of rates are charged.

5.6. Debt requirement

5.6.1. 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 would peak at £12.3 million in Year 6 (2023-24) with repayment taking place in Year 15 (2032-33). The cumulative operating costs (capital and revenue) over the life of the programme are illustrated in Figure 22, which shows that it would generate an overall surplus of £11.1 million by Year 30 (2047-48).

Figure 22: Cumulative operating costs (capital and revenue) over 30 years



Source: Scottish Borders Council

5.6.2. 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 programme viable. As the programme moves into surplus, income could be re-invested in line with the principles of the City Region Deal. This may 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.

5.6.3. 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 programme as otherwise all of this risk would rest with it.

5.7. Debt drawdown and repayment profile

5.7.1. 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 programme proceeds. Compliance will be monitored through the Council's internal and external audit procedures.

5.7.2. 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 programme 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.

5.8. Revenue activity

5.8.1. 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.

6. Commercial Case

6.1. Overview

6.1.1. This section sets out the approach for procuring the construction of each phase of the programme. 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 very experienced in delivering infrastructure works in the Scottish Borders.

6.1.2. All procurement must be done in accordance with Scottish Borders Council's procurement regulations and the relevant legislation. All contracts let by the Council must comply with the Council's Procurement and Contract Standing Orders.

6.1.3. Owing to the differing timescales of the programme's phases, each requires a separate procurement strategy. The outputs and options are described below together with an outline of the proposed approach.

6.2. Required outputs

6.2.1. The outputs required throughout the programme from consultants and contractors will be monitored throughout the duration of all contracts that are let. The programme manager will have responsibility for the monitoring of performance; compliance with the specification and other terms of the contract; costs and benefits; Best Value requirements; equality requirements; delivery; and risk management. The contractors must adhere to the procurement regulations described above.

6.2.2. In accordance with the requirements of the City Region Deal and also with Scottish Borders Council policy, community benefit clauses will be put in place 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 thereby assisting inclusive growth.

6.2.3. Scottish Borders 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.

6.3. Procurement approach

- 6.3.1. Owing to the differing timescales of the programme's phases, a separate procurement strategy is required for each phase. Moreover, as each project within the first phase is being procured by different stakeholders, there are four separate procurements taking place.
- 6.3.2. Scottish Enterprise and the private sector are responsible for the procurement of the buildings that will occupy sites 1, 2, and 3 respectively. In the case of Eildon Mill (site 2), the programme manager has been responsible for the demolition of the existing building and subsequent site works. Procurement timescales for sites 2 and 3 can be seen in the Programme Plan for Phase 1, which is given in Appendix 5.
- 6.3.3. Scottish Enterprise has procured a design team and project management team and will go for internal approval in early 2019. The outline programme for site 1 is shown in Figure 23.

Figure 23: Outline programme for site 1

Activity	Date	Potential related activity
Stakeholder review meeting (RIBA Stage 2 – concept design).	January 2019	Stakeholders with interest in the facility have the opportunity to attend.
Submission of planning application to Scottish Borders Council.	March 2019	Stakeholders can review the application through the Council's planning portal.
Issues Works Contract Tender documents.	October 2019	Ensure that community benefits are achieved. (employment, training, and supplier development opportunities).
Appoint contractor.	December 2019	
Start on site.	January 2020	
RIBA Stage 6 – facility handover and operational staff training.	October 2020	

Source: Scottish Enterprise

- 6.3.4. Site 4 will be procured by Scottish Borders Council. An ESPD route is being used and the procurement timescales, which extend over a period of six months, are illustrated in Figure 24.

Figure 24: Procurement timescales for site 4

Procurement activity	Start date	End date
Preparation of tender documents	03.09.18	19.10.18
Issue ESPD	22.10.18	22.10.18
ESPD period	22.10.18	16.11.18
Review of ESPD returns	19.11.18	30.11.18
Selection of shortlist	03.12.18	03.12.18
Issue of ITT	21.01.19	21.01.19
Tender period	21.01.19	01.03.19
Tender return deadline	04.03.19	04.03.19
Review and preparation of report (including interviews if required)	04.03.19	15.03.19
Contract award	18.03.19	18.03.19

Source: Scottish Borders Council

6.3.5. A similar approach is likely to be followed to the procurement of the other buildings in site 4 during the second phase of the programme and also in the procurement of the buildings that will complete site 5. The procurement strategy to be adopted for phases 2 and 3 will be informed by the experience of phase 1.

7. Management Case

7.1. Overview

7.1.1. This section describes how the programme will be delivered. It demonstrates the realism of the timescales and the phasing; that a robust governance structure is in place; that risks have been identified and can be managed; and that there are clear processes in place for communications and stakeholder management.

7.1.2. The Management Case also shows how the benefits set out in the Economic Case will be realised and includes measures to assess and evaluate these.

7.1.3. This section contains the following elements:

- Programme dependencies.
- Governance, organisational structure and proposed roles.
- A programme implementation scheme.
- Information on proposed communication and stakeholder management.
- Risk identification and a risk management strategy, setting out how the risks that have been identified, their potential impact, appropriate mitigation and management.
- A Benefits, Realisation, Monitoring and Evaluation Plan, which describes the approach to ensuring that the stated benefits in the Economic Case are delivered. It also describes monitoring of the programme's objectives and KPIs as stated in the strategic case.
- Change management process.

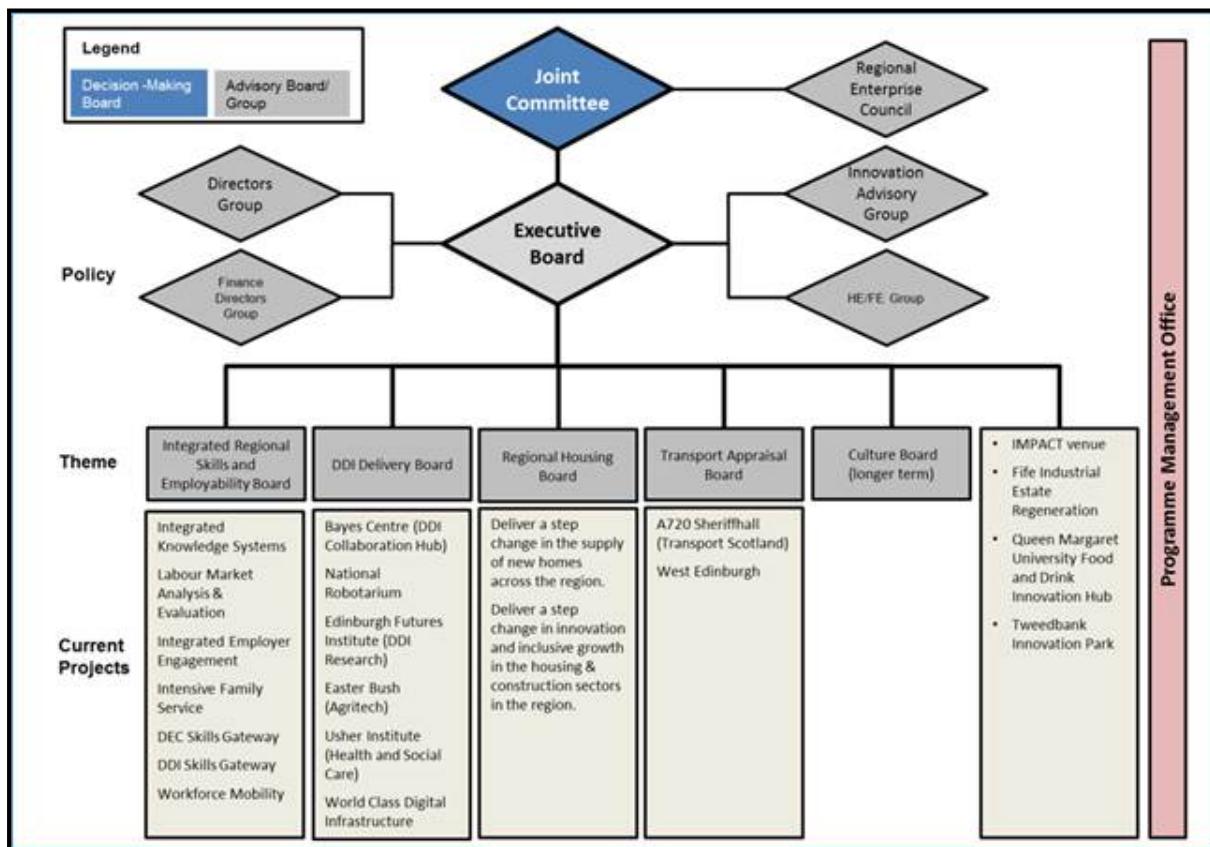
7.2. Programme dependencies

7.2.1. The Central Borders Innovation Park programme closely aligns with the wider plans for realising the vision of the Tweedbank Masterplan. It includes five individual projects that will be completed across the programme's three phases. Successor phases will be dependent on the completion of the previous phase of the programme. This is particularly relevant in Phase 2, which will complete the buildings being constructed at site 4. Future plans for the build out of industrial, retail, and office space within the whole masterplan area are dependent on the successful completion of this programme.

7.3. Programme governance and reporting

7.3.1. At the regional level, the project sits within the governance structure agreed by the City Region Deal partners (Figure 25). These governance arrangements will enable decisions to be taken in an open and transparent way for the whole region.

Figure 25: City Region Deal Governance Structure

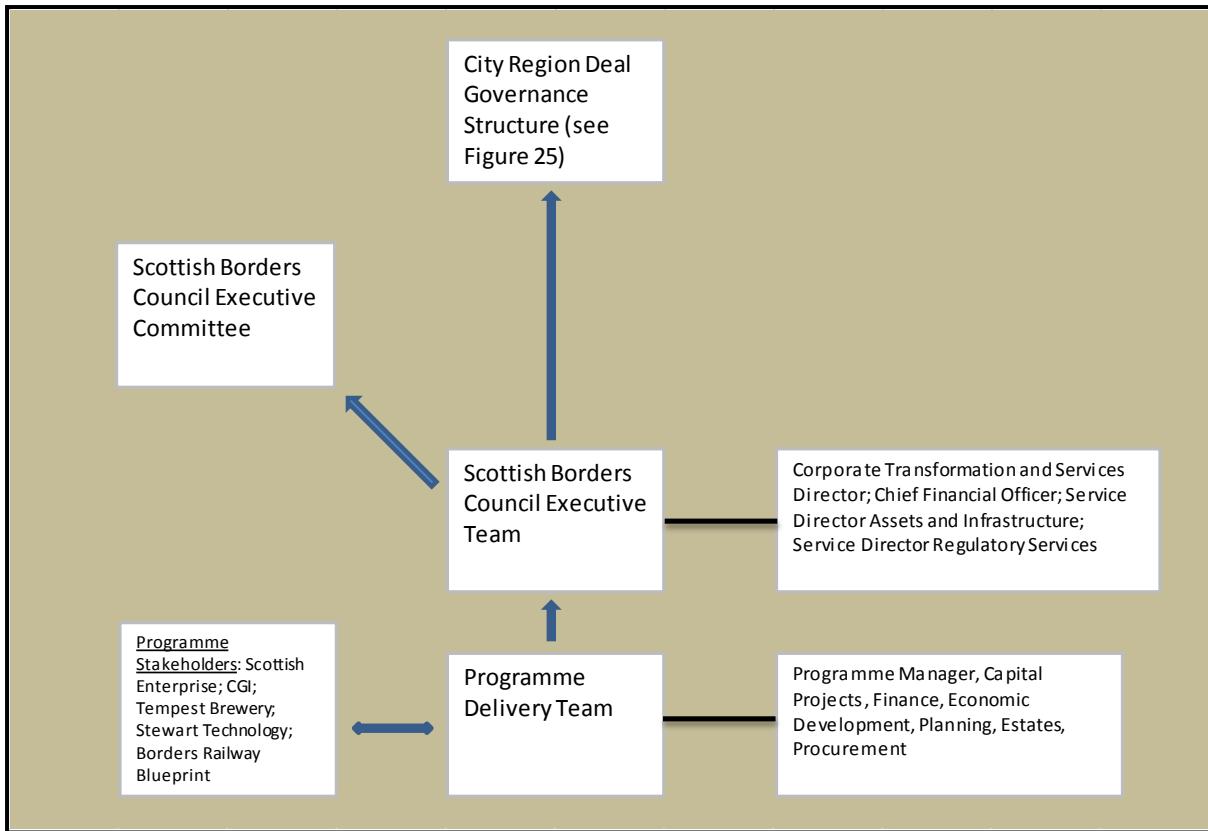


Source: Edinburgh and South East Scotland City Region Deal

7.3.2. 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 Appraisal 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).

7.3.3. An officer-level Programme Delivery Team has been established and a Programme Manager put in place with the primary responsibility for managing the delivery of the programme. Figure 26 shows how this team fits into the local governance structure, which, in turn, fits into the regional governance structure. It should also be noted that 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.

Figure 26: Local Governance Structure



Source: *Scottish Borders Council*

7.3.4. The purpose of the Executive Team will be to review and monitor progress of the programme and to provide advice and guidance where necessary. It will feed into the Executive Board within the regional governance structure (see Figure 25 above). 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.

7.3.5. This programme 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 programme present any risks to the overall programme, it will be held to account by City of Edinburgh Council.

7.3.6. Should this FBC be approved, formal Government approval will be sought to enable City Region Deal funds to flow to the programme. Funding will be provided by the Scottish Government to Scottish Borders Council via City of Edinburgh Council in the respective roles of the local authorities as the delivery and the accountable bodies.

7.4. Programme implementation scheme

7.4.1. An outline programme implementation scheme with projected key milestones is described in Figure 27.

Figure 27: Summary of Programme implementation scheme

Element of project	Start date	End date
Phase 1		
Ex-Tapestry site	March 2018	December 2020
Eildon Mill	May 2018	December 2019
Quarry East	August 2018	September 2020
Quarry West	March 2018	April 2020
Phase 2	2020 (indicative)	2022 (indicative)
Phase 3	2022 (indicative)	2024 (indicative)

Source: Scottish Borders Council

7.5. Communications and stakeholder management

- 7.5.1. A communications plan will be prepared to enable Scottish Borders Council to:
- Inform the public and key stakeholders of progress with the programme.
 - Communicate the expected benefits of the programme.
 - Manage stakeholder expectations.

7.6. Risk management strategy

- 7.6.1. As lead delivery partner, Scottish Borders Council will be responsible for the identification, management, and mitigation of all risks associated with the programme. A programme risk register has been developed and is presented in Appendix 4.

7.7. Benefits realisation plan

- 7.7.1. As lead delivery partner, Scottish Borders Council will be responsible for recording the benefits of the programme. Indicative outcomes (see Strategic Case) have been developed as part of this FBC:

- 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.
- Increasing the number of High Growth Firms and innovation-active businesses.
- Increase in the number of account managed and Business Gateway clients.
- Proportion of procurement spend in the Scottish Borders.

- 7.7.2. These objectives will create impacts at the culmination of the programme pathway (Figure 28).

Figure 28: Programme pathway for inclusive growth

Input →	Activity →	Output →	Outcome →	Impact
City Deal funding for new office and	Allocation of resources to help local SMEs	Local SMEs winning sub-contract	Creation of jobs among the unemployed	Increased employment, including higher

industrial space.	bid for sub-contracts and unemployed people/under-represented groups to take part in employment programmes.	tenders. Job offers to underemployed and under-represented groups.	and under-represented groups.	skilled jobs, reduction in inequalities.
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Source: Scottish Borders Council

7.8. Monitoring and evaluation

7.8.1. Processes will be put in place to ensure that thorough through-life project evaluation takes place to demonstrate that the programme is meeting its strategic objectives. The day-to-day monitoring of performance, budgets, and risks will take place as the programme is being implemented. A longer-term impact evaluation will supplement this process evaluation through assessing the success of the intervention at all points on the impact evaluation pathway described in Figure 29.

Figure 29: Impact evaluation pathway

Input →	Activity →	Output →	Outcome →	Impact
Funding streams, including City Region Deal.	Development of office and industrial space.	Increase in turnover. Occupiers undertaking data driven innovation.	Number of jobs created. Number of jobs for the unemployed and under-represented groups.	Increased GVA. Increased productivity.
People resource.	Creation of innovation active businesses.	High quality jobs for the unemployed and under-represented groups.	Number of new innovation active businesses.	Increase in higher skilled jobs.
Private sector expertise.	Creation of new jobs.			Decreased unemployment among under-represented groups.
Construction activity.	Pre-and post-occupancy reviews.			

Source: Scottish Borders Council

7.9. Change management

7.9.1. Scottish Borders Council will be responsible for the monitoring and reporting of changes to programme scope, scale, and cost. These changes will be recorded in a Change Control Notification and immediately reported to the relevant authority as per the governance arrangements described above.

Appendix 1: Economic Appraisal

Submitted separately.

Appendix 2: Financial Appraisal

Submitted separately.

Appendix 3: Sensitivity Analysis

Submitted separately.

Appendix 4: Programme Risk Register

Risk	Impact	Probability	Mitigation
Businesses with pre-let agreements decide not to proceed with their projects.	High.	Low.	Constant engagement with businesses to ensure that suitable Heads of Terms are agreed.
Main construction contractor(s) appetite is not there for a programme of this size and location.	High.	High.	Early sift market testing undertaken to gauge appetite of potential contractors.
Increases in the cost of the programme	High.	Medium.	Financial costs with an allowance for inflation are being calculated as the programme goes forward with input from technical cost consultants.
Delays to the programme.	High.	Medium.	The programme timescales have been lengthened, which is relieving pressure in this respect.
Lack of sufficient demand for space in phases 2 and 3	High.	Medium.	Baseline has been established with marketing planned. If demand is weaker than expected, change management process allows for delays.
Inadequate monitoring processes	Medium.	Low.	Programme Manager to be responsible for ensuring that robust monitoring is in place to measure the indicators outlined in this FBC.
Re-allocation of surplus revenue to other budgetary priorities.	Medium.	Low.	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.
Increased debt	High.	Medium.	Robust sensitivity

servicing costs			analysis of the base case to determine affordability of increases in servicing of debt.
Over-optimistic assumptions about revenue	High.	Low.	Robust sensitivity analysis of the base case to determine impact of changes in occupancy and rental levels.
Compliance with State Aid regulations	High.	Low.	Regular consultation with State Aid Unit to ensure compliance of programme.
Ineffective governance structures	High.	Low.	Clear governance structure with transparent reporting lines and buy-in from all stakeholders.
Lack of engagement with under-represented groups	High.	Low.	Leverage of local and regional networks that exist regarding employability and skills.
Interdependencies with other City Region Deal initiatives	High.	Low.	SBC is working collaboratively with other relevant stakeholders, particularly Fife Council and the University of Edinburgh.

Appendix 5: Programme Plan

Submitted separately.