

# Edinburgh and South East Scotland City Region Deal Joint Committee

1 March 2019

## Fife Industrial Innovation Investment (Fife i<sup>3</sup>) Programme Business Case

Item number 5.4

### Executive Summary

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This report seeks approval to implement the Fife Industrial Innovation Investment (Fife i<sup>3</sup>) programme (as set out in the Fife i<sup>3</sup> Programme Business Case) which has been developed by Fife Council with input and support from the regional partners, Scottish Government, Scottish Enterprise and the Scottish Futures Trust to deliver a sustained investment programme in modern business premises to support the delivery of Inclusive Growth and Innovation in Fife.

It also seeks to devolve operational management of the programme to the Chair of the Fife i<sup>3</sup> Programme Board.

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## City Region Deal Checklist

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Criteria	Details/Link to Document
<b>Contribution to City Region Deal commitments and Inclusive Growth Framework</b>	See <a href="#">Inclusive Growth Assessment</a>
<b>Alignment, integration with, or dependence on, other City Region Deal activities</b>	See <a href="#">Overview</a>
<b>Scale and regional distribution of expected outcomes, benefits, and leverage, from activity</b>	See <a href="#">Equalities impact</a>
<b>Compliance with financial requirements and agreed expenditure profile</b>	See <a href="#">Profile Of Funding</a>
<b>Equalities Impact</b>	See <a href="#">Equalities impact</a>
<b>Anticipated significant risks and mitigation measures</b>	See <a href="#">Risk Management Arrangements</a> and <a href="#">Appendix 2 – Risk Register</a>
<b>Alignment and fit with City Region Deal governance arrangement</b>	See <a href="#">Project and Programme Management Arrangements</a>
<b>PMO check</b>	All necessary evidence has been provided: Full Business Case and Appendices covering Financial and Economic Modelling; Sensitivity Analysis; Programme Risk Register; and Programme Plan.
<b>Government approval</b>	The Scottish Government confirmed final approval on 25 February 2019.
<b>Partner sign-off</b>	Fife Council approved the Business Case on 24 January 2019 at its Policy & Co-ordination Committee
<b>Advisory Board sign off</b>	Fife Council approved the Business Case on 24 January 2019 at its Policy & Co-ordination Committee
<b>Executive Board sign off</b>	The Business Case was approved by the Executive Board on 14 February 2019
<b>PMO Recommendation</b>	That the Joint Committee approves the Fife Industrial Innovation Investment Programme Business Case.

## Fife Industrial Innovation Investment (Fife i<sup>3</sup>) Programme Business Case

### 1. Recommendations

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- 1.1 Approve the Fife i<sup>3</sup> Programme, as set out in the Full Business Case attached in Appendix 3. This is a 10 year programme delivered by Fife Council as part of Edinburgh and South East Scotland City Region Deal.
- 1.2 Delegate operational responsibility to implement the Fife i<sup>3</sup> Programme to the chair of the Fife i<sup>3</sup> Board, currently Gordon Mole (Interim Chief Officer - Business & Employability, Fife Council).
- 1.3 Note that a paper for more detailed approval of Phase 2 will be provided in late 2020, accompanied by a further update on Phase 1 progress.
- 1.4 Note that a paper for more detailed approval of Phase 3 will be provided in 2023/24, accompanied by a further update on Phase 2 progress.

### 2. Background

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- 2.1 The Fife i<sup>3</sup> Programme will be delivered as part of the Edinburgh and South East Scotland City Region Deal's innovation theme. It will deliver a sustained investment programme in modern business premises to support the delivery of Inclusive Growth and Innovation in Fife. It will increase the supply of serviced employment land and new industrial, office and business space in Fife.
- 2.2 This will be achieved through direct investment by Fife Council in its existing land holdings, and new acquisitions, as well as working in partnership with private sector land owners and developers to leverage additional investment and funding into Fife and the City Region. The programme will also explore alternative development models.
- 2.3 Fife Council will seek to ensure the Fife i<sup>3</sup> Programme supports the growth of innovative businesses and sectors in Fife, in order to improve Fife's overall innovation performance, by providing opportunities via the building specification and through company support to develop and use new approaches that enhance productivity.
- 2.4 This Programme Business Case has been endorsed by Scottish Government, and it is now presented to Joint Committee for approval.

### 3. Main report

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#### Overview

- 3.1 The Fife i<sup>3</sup> Programme will be delivered as part of the Edinburgh and South East Scotland City Region Deal's innovation theme. It will deliver a sustained investment programme in modern business premises to support the delivery of Inclusive Growth and Innovation in Fife. It will increase the supply of serviced employment land and new industrial, office and business space in Fife. This will be achieved through direct investment by the Council in its existing land holdings, and new acquisitions, as well as working in partnership with private sector land owners and developers to leverage additional investment and funding into Fife and the City Region. The programme will also explore alternative development models.
- 3.2 The Council will seek to ensure the Fife i<sup>3</sup> Programme supports the growth of innovative businesses and sectors in Fife, in order to improve Fife's overall innovation performance, by providing opportunities via the building specification and through company support to develop and use new approaches that enhance productivity.

#### Phasing and Delivery

- 3.3 The Fife i<sup>3</sup> Programme will be delivered in three phases, summarised in Table 1:

**Table 1: Preferred Project Investment Scenario**

<b>Phase 1 (Years 1-3)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	3227m <sup>2</sup>	£10.1
Site Servicing	7.8 ha unlocked	£3.3
Acquisitions	2	£1.0
	<b>Sub Total</b>	<b>£14.4</b>

<b>Phase 2 (Years 4-6)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	7063m <sup>2</sup>	£21.3
Site Servicing	3.9 ha unlocked	£0.4
Acquisitions	0	£0
	<b>Sub Total</b>	<b>£21.7</b>

<b>Phase 3 (Years 7-10)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	1932m <sup>2</sup>	£7.9
Site Servicing	48.6 ha unlocked	£3.6
Acquisitions	0	£0
	<b>Sub Total</b>	<b>£11.5</b>
<b>Broadband infrastructure, digital technologies and innovative building methods</b>		
		£0.8
	<b>TOTAL</b>	<b>£48.4</b>
Capital receipts		(£5.2)

- 3.4 The overall investment of £48.4m will comprise £35m from Scottish Government and £9.2m from Fife Council, representing 72% / 19% apportionment respectively, with the remaining 9% funded from capital receipts. Additionally, the programme is expected to lever at least £30m of private sector investment in the fitting out of the new business space and in developing the serviced sites delivered by the programme.
- 3.5 This programme builds on and complements previous investment in site infrastructure e.g. Levenmouth Business Park and a number of previous projects funded by Fife Council, Scottish Enterprise and Scottish Government.
- 3.6 Some flexibility is required during the 10-year investment programme, as several factors could potentially alter which projects should be prioritised. These factors include:
- Unavoidable delays in acquiring sites;
  - Securing of statutory consents;
  - Abnormal costs e.g. onerous ground conditions;
  - Changes in market conditions and the wider economy;
  - Changes in development costs, including construction costs; and
  - Specific investment opportunities that may emerge.
- 3.7 The Programme will be reviewed at 18 months (Quarter 3 2020/21) as part of the preparation for Phase 2; and at the end of Phases 1 and 2. Lessons learned from reviews will be incorporated into future projects and phases.
- 3.8 A demand assessment has been undertaken by Fife Council based on guidance developed by Scottish Futures Trust, Scottish Enterprise and Scottish Government. This process provided the partners with confidence that there is robust demand evidence supporting the programme. The key findings of the Scottish Futures Trust's review of the demand assessment are summarised in Appendix 1.

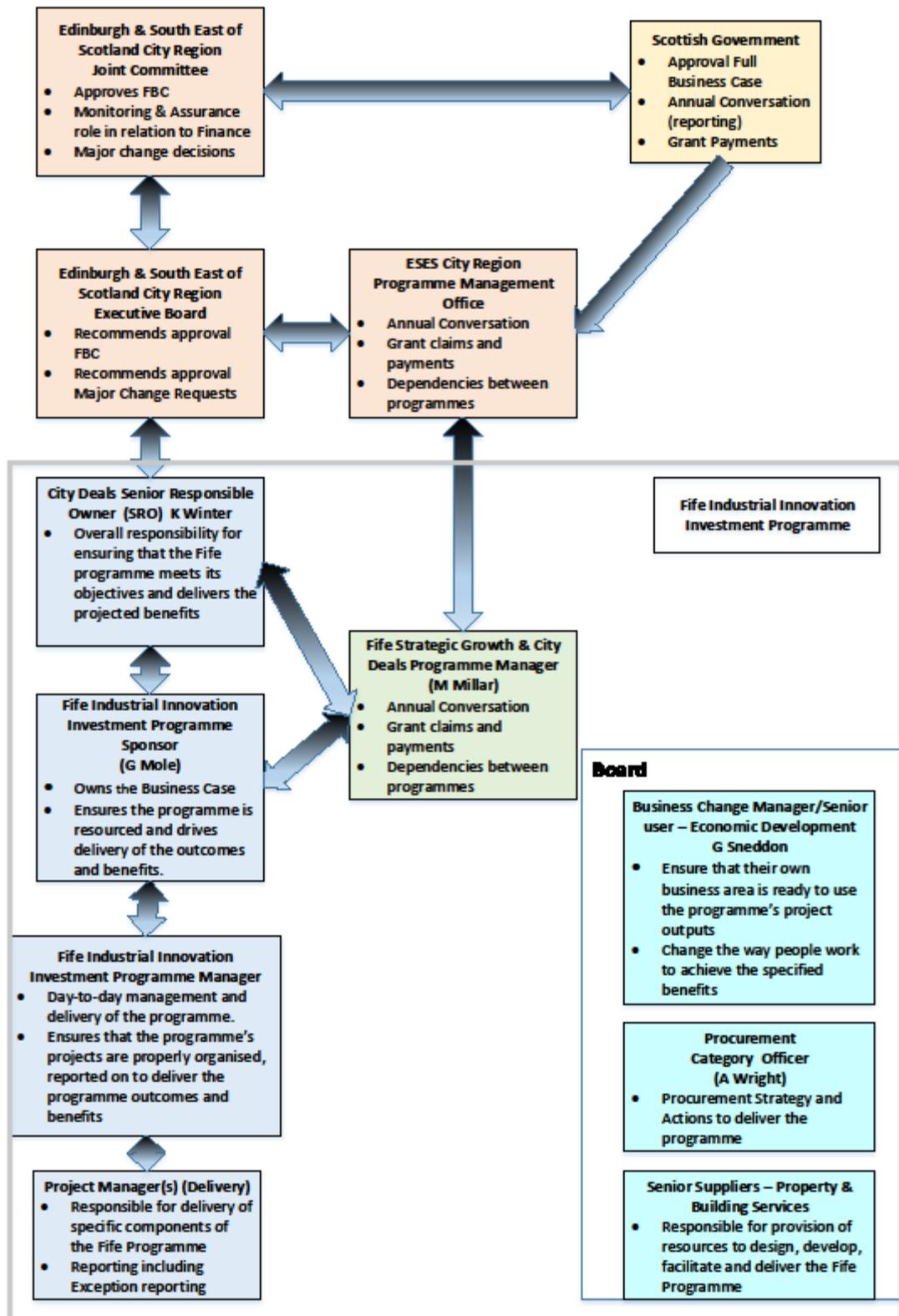
### *Prioritisation of Sites*

- 3.9 All potential employment sites within the Fife Employment Land Audit ([https://www.fifedirect.org.uk/uploadfiles/publications/c64\\_FINAL\\_ELA20161.pdf](https://www.fifedirect.org.uk/uploadfiles/publications/c64_FINAL_ELA20161.pdf)) including Fife Council's industrial portfolio were assessed in terms of priority and risk, based on the criteria drawn from agreed Fife Council priorities e.g. those detailed in FIFEplan. These factors include:
- Supports strategic business clusters;
  - Well located for strategic growth corridors (M90, A92);
  - Fit with existing predominant land use;
  - Potential impact on sensitive and incompatible land uses; and
  - Potential to deliver lower-cost business space.
- 3.10 The short list of sites was further refined for their deliverability within the City Deal timescales and to ensure a balance of investment between mid and south Fife, brownfield and greenfield sites. The sites will be reviewed again in the preparation of Phase 2 after the first 18 months of delivery and to prepare for Phase 3. Further reviews may be undertaken to respond to changes in market demand, provided the anticipated outputs can be delivered. To develop this Final Business Case, the sites have been prioritised further to manage risk and advance the creation of new jobs in Phase 1.
- 3.11 Phase 1 of the programme will develop sites at:
- Queensway Industrial Estate, Glenrothes;
  - Fife Interchange, Dunfermline;
  - Dunnikier Business Park, Kirkcaldy;
  - The Avenue, Lochgelly; and
  - Hillend and Donibristle Industrial Estate, Dalgety Bay.
- 3.12 Subsequent phases also include:
- Levenmouth Business Park, Buckhaven;
  - John Smith Business Park, Kirkcaldy;
  - Kirkcaldy and Cowdenbeath Town Centres;
  - Westwood Industrial Estate, Glenrothes; and
  - Rosyth.

### **Project and Programme Management Arrangements**

- 3.13 The Fife i<sup>3</sup> Programme ultimately reports to the Edinburgh and South East Scotland City Region Deal Executive Board and its Joint Committee in terms of the City Region Deal governance. Fife Council authorised participation in the Joint Committee and City Deal governance in June 2018. Work is underway to agree an operational Minute of Understanding between the University of Edinburgh (lead for the Data Driven Innovation Programme) and Fife Council.
- 3.14 Fife Council has established a Strategic Growth and City Deals Programme Board to provide strategic direction and oversee all city deal activities, programmes and projects. Its remit includes management of the Fife i<sup>3</sup> Programme, the Fife Tax Incremental Finance schemes and all other City Deal projects to ensure their inter-dependencies are managed and benefits realised. The Fife Strategic Growth and City Deals Programme Board will also integrate the governance relating to both Edinburgh and South East Scotland and Tay Cities Deals. Project and Programme Management Arrangements are outlined in Figure 1.
- 3.15 The process for control of changes that exceed project and programme tolerances is set out in terms of cost, time, resources, quality, scope, risk and benefits. Where project or programme tolerances are exceeded, exception reports are triggered and escalated in line with agreed procedures. Each project will be managed by officers under delegated authority. A gateway approach will be used to manage key decision points in each project.

**Figure 1: Project and Programme Management Arrangements**



## **Risk Management Arrangements**

- 3.16 The programme risks relate to delivery and viability; finance; and legal. A copy of the risk register is set out in Appendix 2, this includes risks identified in the Outline Business Case that are still pertinent and new risks that have emerged. Risks within the control of Fife Council, (staff capacity, appropriate governance arrangements, early site investigation and utility scoping), are being actively managed. Mitigation strategies relating to the wider economic environment (economic instability, interest rates) have been developed and will be deployed in response to changes or developments. All risks will be regularly reviewed and reported to the Programme Board.
- 3.17 The risks relating to Interest Rates, Construction and Completion, Operating Risks, Demand Risk, Force Majeure and changes in Law, Political, Regulatory, Environmental and Social Risks associated with the delivery of the Fife i<sup>3</sup> Programme will be allocated to the party that is best placed to manage them in a cost-effective way to maximise value for money, including to the private sector. This allocation and/or transfer will include the occurrence and impact of the risk, be informed by market conditions and transaction costs. For Phase 1 of the programme these risks will be allocated to Fife Council. The allocation of risk will be reviewed as part of the Programme review process. Reviews are planned at 18 months (Quarter 3 2020/21) as part of the preparation for Phase 2; and at the end of Phases 1 and 2. Lessons learned from reviews will be incorporated into future projects and phases.

## **4. Financial impact**

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### **Profile of Funding**

- 4.1 The Outline Business Case explored different funding arrangements for the drawdown of City Deal grant. The preferred proposal is that the Fife i<sup>3</sup> Programme is funded in arrears from an annual, variable Scottish Government grant; Fife Council capital funding; capital receipts from the sale of developed land; and rental receipts from leased premises. This funding approach formed part of the Edinburgh and South East Scotland City Region Deal agreed in August 2018 and underpins the financial modelling undertaken to support the Full Business Case, which now includes more refined information on the expected costs and delivery timetable for the programme.
- 4.2 The grant funding arrangements allow time for decisions on potential re-phasing to be made in response to identified risks, to ensure that the financial profiling outlined here is delivered and that underspend is avoided. Since the preparation of the Outline Business Case, the financial modelling shows significant movement in the expected NPV (Net Present Value) for the programme. This is principally caused by a change in the assumed rate of inflation for the projects from the general rate of inflation (2%) to the BCIS (Building Cost Information Service) rate (3.75%). The updated model also reflects more detailed design and costing of the Phase 1 projects, which has been undertaken since the Outline Business Case was agreed.

- 4.3 The movement in grant profile from the City Deal Financial Plan is shown below, this is based on claims being made annually in arrears for 79% of costs incurred. Compared to the Financial Plan this results in advancement of grant drawdown in Year 2 (relating to Year 0 and 1 activity), followed by slippage for three years. The slippage principally relates to re-profiling of some activity on Levenmouth Business Units from Year 3 to Year 5 of the programme.

**Table 2: Movement in Grant Profile from City Deal Financial Plan to Full Business Case**

	2018/19 Year 0	2019/20 Year 1	2020/21 Year 2	2021/22 Year 3	2022/23 Year 4	2023/24 Year 5
City Region Deal Financial Plan			(2.840)	(3.748)	(5.173)	(6.317)
Base Case - FBC 3.75% BCIS			(3.243)	(3.665)	(4.489)	(4.119)
Movement in Grant Profile			(0.403)	0.083	0.684	2.198

	2024/25 Year 6	2025/26 Year 7	2026/27 Year 8	2027/28 Year 9	TOTAL
City Region Deal Financial Plan	(8.046)	(2.852)	(3.928)	(2.096)	(35.000)
Base Case - FBC 3.75% BCIS	(7.863)	(5.410)	(3.745)	(2.465)	(35.000)
Movement in Grant Profile	0.183	(2.558)	0.183	(0.369)	(0.000)

### Overall Affordability

- 4.4 The Programme shows a surplus of £14m, and the NPV for the programme is a £0.177m surplus.
- 4.5 Figure 2 (below) shows the funding gap for the duration of the programme. Overall Borrowing peaks at £6.2m in Year 5, and is repaid by 2034. Thereafter the programme is projected to generate a surplus to the end of the 35 year programme life. Any surplus will be managed by the directorate in accordance with Fife Council's Medium Term Financial Strategy.

**Figure 2: Cumulative Funding Gap Including Interest (£m) over 35 years**



## 5. Equalities impact

### Economic Impact Assessment

- 5.1 An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of Fife i<sup>3</sup> Programme on key economic indicators. The EIA uses economic data and evidence, alongside key assumptions to model the impact of the programme. The inputs and assumptions have been refined and updated since the Outline Business Case, to reflect more accurate information, particularly relating to Phase 1 projects.
- 5.2 The EIA estimates that the Direct Net Jobs (average per year) is 1,095 and the Gross Construction Jobs (cumulative over life of Programme) are 596. This has increased from the estimate in the Outline Business Case due to changes in the methodology of the economic modelling to make allowance for job creation on serviced land (lagged to reflect a period for construction). The preferred option generates £28 of Gross Value Added (GVA) for every £1 invested by the public sector and a cost per job of £44,340. The programme will be developed in phases with opportunities to review impact between phases. The key inputs and findings of the assessment are summarised in Table 3:

**Table 3: Key Findings from Economic Model**

	Input
Office floorspace	2,300m <sup>2</sup>
Industrial floorspace	9,700m <sup>2</sup>
Capital Cost	£48.4m

<b>GVA (Gross Value Added) Impact</b>	
NPV (Net Present Value) of Net GVA	£711m
NPV of Construction	£191m
<b>Job Impact</b>	
Direct Net Jobs (average per annum)	1,095
Gross Construction Jobs (cumulative over life of Programme)	596
<b>Tax Impact</b>	
NPV of Direct Net Income Tax	£35m
NPV of Direct National Insurance	£53m
NPV of Direct Net Corporation Tax	£7m
NPV of Gross Non-Domestic Rates Income	£10,000

### **Inclusive Growth Assessment**

- 5.3 The Inclusive Growth Challenges for the City Region and a Framework to tackle these are set out in Pages 6/10 of the [City Region Deal](#) document. Inclusive Growth is one of the Scottish Government's four priority areas in Scotland's Economic Strategy and, in submissions to Government, all projects included in the City Region Deal Programme have demonstrated how they will reduce inequalities.
- 5.4 The Scottish Government's Inclusive Growth Assessment of Fife in 2016, which was undertaken to support the work of Fife Task Force, concluded that the number one opportunity/constraint to Inclusive Growth was Digital and new business methods take up. The Fife i<sup>3</sup> Programme and joint working with the City Region's Data Driven Innovation Programme will help to address this constraint/opportunity.
- 5.5 In the short term, the Fife i<sup>3</sup> Programme will help accelerate Inclusive Growth across the city region as it delivers a significant programme of construction. In the longer term, Fife Council will invest in brownfield sites as well as greenfield sites, in both mid and south Fife in order to balance market drivers with inclusive growth priorities. This will contribute to the delivery of investment priorities by increasing the supply of a diverse range of serviced employment land and modern business premises. Public and private sector investment will create employment for local people within some of Fife's most deprived communities.
- 5.6 A regional approach to community benefits is being developed to help maximise the opportunity. Over the medium and long term, the programme will deliver new jobs as the new business property is occupied. In addition, the Full Business Case for the Integrated Regional Employability and Skills Programme has been approved by the Joint Committee. It is envisaged that there will be opportunities for both programmes, alongside existing employer engagement approaches in Fife, to work together to deliver Inclusive Growth opportunities in Fife.

- 5.7 At a local level, the Fairer Fife Commission was established to provide independent advice and insight into the priorities for tackling poverty and inequality in Fife. The Commission concluded that ever-widening inequality is neither natural nor intractable in its Fairness Matters report in 2015. The recommendations from the Fairer Fife Commission are at the heart of the emerging Local Outcomes Improvement Plan for Fife 2017-2027, the Plan for Fife in terms of the Community Empowerment (Scotland) Act 2015. This is key to Fife Council's approach to meeting the [Fairer Scotland Duty](#).
- 5.8 An Equalities Impact Assessment (EqIA) has been completed for the Fife i<sup>3</sup> Programme, and this highlighted no negative impacts on any of the protected characteristics. Investment in brownfield sites in established business clusters will provide access through existing public transport services. All employability activities to be delivered will be easily accessed by all protected characteristics without discrimination. The EqIA process is key to Fife Council's approach to meeting the general duties under the [Equalities Act 2010](#). The following general duties were identified as being met by the programme:
- Eliminating discrimination, harassment and victimisation
  - Advancing equality of opportunity
  - Fostering good relations

This will be updated for each project, as appropriate, as part of the development of final business cases for the prioritised projects.

## **6. Background reading/external references**

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- 6.1 [The Full Business Case was approved by Fife Council, Policy & Co-ordination Committee 24 January \(Item 9\)](#)
- 6.2 A copy of the Full Business Case is included as Appendix 3 to the Committee Report.

## **7. Appendices**

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- 7.1 Appendix 1 – Demand Evidence, Fife Council City Deal Funding
- 7.2 Appendix 2 – Risk Register
- 7.3 Appendix 3 – Full Business Case

## Appendix 1 – Demand Evidence, Fife Council City Deal Funding

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*Development of Full Business Cases: Assessing evidence of demand and project costs*

*Objective of this paper*

This paper has been developed by the Scottish Government, Scottish Enterprise and Scottish Futures Trust. The paper provides guidance to Fife Council and Scottish Borders Council (“the authorities”, “the Councils”) on the development of demand evidence and project cost information as part of building Full Business Cases for investment in Industrial Estates through the City Region Deal.

Scottish Enterprise and Scottish Futures Trust have drawn on expertise in quantity surveying, property development and commercial business space letting to develop a set of expectations that they believe should be met to enable the projects to proceed with confidence. The expectations form around four main areas:

1. Define the type of supply and the market for it
2. Forecast the drivers for demand
3. Set out the interaction with existing supply
4. Set out how you will deliver

These challenges and questions are designed to ensure the Scottish Government’s investment of £50m achieves value for money. In setting these expectations Scottish Enterprise and Scottish Futures Trust aim to add value to the projects themselves.

*Summary of findings*

A series of discussions have been held between Fife Council and representatives of the Scottish Government (Scottish Futures Trust and Scottish Enterprise acting on behalf of Scottish Government). Those discussions, and supporting correspondence, have revolved around the strength of demand underpinning the investment programme for Fife Council’s Industrial Estates Regeneration Programme<sup>1</sup>. A summary of the key points is set out below:

- Fife Council have conducted significant work to support the programme including analysing enquiries to the Council’s own property team, reviewing historic vacancy rates and drawing on lessons from recent successful examples of delivering industrial property. An independent property review was also carried out.
- There is robust demand evidence supporting the programme.
- Fife Council are working closely with Scottish Enterprise, Zero Waste Scotland and the Construction Scotland Innovation Centre to determine opportunities for innovation in the design of new premises. This work is highly encouraging and it should continue to be clearly reflected to Scottish Government and other City Deal partners to enable joint working and collaboration opportunities.

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<sup>1</sup> This was the working title name of the Fife i<sup>3</sup> Programme

- Fife Council is also working closely with other local authorities in developing and delivering the programme. Again, this work is encouraging and the partners should continue to reflect that work back to Scottish Government and key agencies to enable wider collaboration.
- Fife Council has a real opportunity to act as a pathfinder for Industrial Regeneration across Scotland. This opportunity should be grasped and the Council should continue to work with Government and agencies to ensure lessons can be passed on to others.
- Significant internal resource will be required to deliver, evaluate and monitor the programme. Fife Council does have an experienced and well resourced internal property and economic development team. The Council should continue to regularly review resource and ensure close joined up working across disciplines including interaction with Finance and Legal teams.

## Appendix 2 – Risk Register

Risk	Potential impact	Likelihood	Suggested mitigations
<b>Delivery and Viability risks</b>			
As a result of insufficient officer capacity and capability to deliver the Fife Industrial Innovation Investment Programme, there is a risk that the programme phasing is optimistic, which may result in delays and cost over-runs.	May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.	Possible - all allocated resources currently to City Deal are allocated part-time until Final Business Case is complete so there will be competing demands for officer time available. Transition to full time work on Industrial Estates Programme will take place in 2019/20.	<ul style="list-style-type: none"> <li>• Ongoing review of the operational resources available and supplement with additional technical resources;</li> <li>• Re-phase the programme of investment so that it can be delivered by existing resources.</li> </ul>
As a result of failure to put in place an effective governance structure, there is a risk that the programme does not have the required controls, which may result in cost over-runs and project delays.	May be unable to deliver the objectives of business case. Reputational, political and legal impact of poor governance.	Potential - requires a clear strategy and engagement.	<ul style="list-style-type: none"> <li>• Ensure appropriate governance structure is in place with key stakeholders represented and that they have the requisite skills.</li> </ul>
As a result of not locking down the Specifications for the projects in Phase 1 programme early, there is a risk that the delivery of projects is delayed, which may result in delays in the drawdown of the City Region Deal funding.	May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.	Possible – The Fife Industrial Innovation Investment Programme Board has signed off the preliminary designs; this will be a key role for the Board.	<ul style="list-style-type: none"> <li>• Ensure appropriate approval milestones are built into the project plans.</li> <li>• City Deals Programme Management unit to ensure Programme Management roles are adhered to.</li> </ul>
As a result of the lack of market demand for employment space, there is a risk that forecast occupancy levels are not achieved, which may result in less rental income and capital receipts	May be unable to deliver the objectives of business case. Reputational, political and legal impact.	Possible – this requires ongoing engagement with occupants and agents in the Fife Commercial Property market to assess changing requirements.	<ul style="list-style-type: none"> <li>• Adopt proximity to strategic transport corridors as a key prioritisation criterion, based on industry consultation and market research.</li> <li>• Deliver the sizes and types of commercial property most relevant to the Fife market.</li> </ul>

<b>Risk</b>	<b>Potential impact</b>	<b>Likelihood</b>	<b>Suggested mitigations</b>
As a result of a lack of suitable occupiers of the industrial premises (prepared to innovate and work with the Universities), there is a risk that the programme is unable to contribute to the Innovation theme, which may result in no improvement in the innovation performance in the Fife Economy.	Reduction on in projected Programme benefits for a project affected by this risk.	Possible but the programme is not reliant on specific government policies or industry sectors. There is an existing track record of joint working on innovation interventions that will form the basis of this activity.	<ul style="list-style-type: none"> <li>• Work with the Universities and National Agencies to establish how the innovation will be delivered, baselined and monitored.</li> <li>• Develop a process that will evolve over the time period of the Fife Industrial Innovation Investment Programme.</li> </ul>
<b>Financial risks</b>			
As a result of delays in the build timetable, there is a risk that City Region Deal funding is not drawn down as profiled in the financial plan, which may cause affordability issues for the Governments and Fife Council.	Delays in commercial development. Increase in level of unsupported borrowing. Revenue projections not as anticipated. Negative reputational impact.	Possible – although these risks are largely controllable by the Council, timescales are indicative, requiring further technical work	<ul style="list-style-type: none"> <li>• Early engagement with Utility providers and early investigation of ground conditions.</li> <li>• Effective contract management and programming.</li> <li>• Manage the funding drawdown with an effective debt management strategy.</li> </ul>
As a result of underestimation of costs or cost over-runs, there is a risk that the programme does not deliver the outputs (m2 built), which may result in a failure to deliver full outcomes (jobs / private sector leverage) in the business case.	May increase levels of unsupported borrowing as a result of reduced drawdown of grant. May increase debt costs. Longer payback period possible.	Possible – current cost plans are indicative, from Quantity Surveyors, based on recent similar projects	<ul style="list-style-type: none"> <li>• Detailed technical appraisal and costings will be undertaken before a Contract is approved by the Fife Industrial Innovation Investment Programme Board.</li> <li>• Fixed price contracts will be used where possible.</li> <li>• Use of effective contract management and programming processes.</li> </ul>
As a result of economic instability, there is a risk that the private sector investment does not happen or is significantly delayed, which may result in failure to deliver private sector leverage benefits.	Reduction in projected Programme benefits for a project affected by this risk.	Possible but the programme is not reliant on specific government policies or industry sectors. The private sector leverage forecasts in the Financial Model are based on prudent assumptions.	<ul style="list-style-type: none"> <li>• Ensure that the modelling assumptions are prudent and based on a realistic scale of build out.</li> <li>• Early on ongoing engagement with project partners and statutory bodies, e.g. Scottish Enterprise.</li> </ul>

<b>Risk</b>	<b>Potential impact</b>	<b>Likelihood</b>	<b>Suggested mitigations</b>
As a result of the programme not meeting the needs of industry, there is a risk that forecast occupancy levels are not achieved, which may result in less rental income and capital receipts.	The Fife Industrial Innovation Investment Programme is ill suited to market requirements and does not fully unlock its development potential.	Limited as the infrastructure plan is based on extensive market knowledge and experience. The programme has adopted a phased approach to implementation to build in flexibility in the planning of the development programme.	<ul style="list-style-type: none"> <li>• Ongoing review and alignment of the project specifications to ensure programme addresses anticipated requirements.</li> <li>• Ensure programme provides enough flexibility to react to changes in likely development demand.</li> </ul>
As a result of increased interest rates, there is a risk that the cost of debt increases which may result in the business case becoming unviable.	The level of unsupported borrowing may increase. The debt cost may increase. The payback period may increase.	High - as current rates are at a historic low and this is a potential consequence of Brexit.	<ul style="list-style-type: none"> <li>• Undertake sensitivity analysis of the base case to confirm affordability of debt pricing movements. Appropriate use of hedging.</li> <li>• Model a range of scenarios to develop the optimal financial package for the programme.</li> <li>• Model borrowing on the council's consolidated pool rate to reduce interest rate increase exposure.</li> </ul>
As a result of cost inflation, there is a risk that the cost of future projects increases which may result in the business case becoming unviable.			<ul style="list-style-type: none"> <li>• Model based on a specific inflation rate for building projects (BCIS) which is higher than standard inflation</li> <li>• Model a range of scenarios to determine the impact of higher inflation levels</li> </ul>
<b>Legal and Technical risks</b>			
As a result of not locking down the Phase 1 programme early, there is a risk that the development of the final business case is delayed, which may result in delays in the drawdown of the City Deal funding.	May be unable to meet the financial plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.	Limited as the Phase 1 programme will be approved by Fife Council at Committee prior to submission to City Deal and Government approvals.	<ul style="list-style-type: none"> <li>• Early and ongoing stakeholder engagement prior to consideration for approval by the Council, the City Deal and the Governments.</li> </ul>

<b>Risk</b>	<b>Potential impact</b>	<b>Likelihood</b>	<b>Suggested mitigations</b>
As a result of not having a regional economic strategy with regional/ sectoral priorities, there is a risk that we only attract business with low-value generic jobs, which may result in a missed opportunity to create higher value sector specific jobs.	May result in fewer benefits from the investment and less impact on the goals of Inclusive Growth and Innovation.	Possible – the distributional impact of the City Deal investment will be reduced.	<ul style="list-style-type: none"> <li>• Work with regional partners to develop a regional economic strategy based around the city region's sectoral assets.</li> </ul>
As a result of late engagement with Utility providers, there is a risk that the utilities cannot meet site requirements within required timescales, which may result in delays and cost over-runs.	May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.	Limited as although the Phase 1 programme will be approved by Fife Council at Committee prior to submission to City Deal and Government approvals, work is underway with the Utility providers for the initial sites to be delivered. A similar approach will be adopted for later phases.	<ul style="list-style-type: none"> <li>• Early and ongoing stakeholder engagement prior to consideration for approval by the Council, the City Deal and the Governments.</li> </ul>
As a result of failure to carry out enough ground investigations early in the build programme, there is a risk that unexpected ground works are required before any buildings can be erected, which may result in delays and cost over-runs.	May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.	Limited as, although Phase 1 of the programme will be approved by Fife Council in 2019, work is underway to carry out the necessary investigation work for the initial sites to be delivered. A similar approach will be adopted for later phases.	<ul style="list-style-type: none"> <li>• Early and ongoing investigation of ground conditions of sites included in Phase 1 of the Programme.</li> <li>• Early investigation of the initial sites for Phase 2 during Phase 1.</li> </ul>
As a result of not using a proven specification for the Industrial Units, there is a risk that the spec does not meet Planning & Building Regulations, which may result in delays to the delivery plan and cost over-runs.	May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.	Limited as, during Phase 1 of the programme previous specifications for units will be used. Innovation will be adopted in later phases.	<ul style="list-style-type: none"> <li>• Use previous specifications for units during Phase 1</li> <li>• Develop required new specification for later phases, factoring in current and known future changes to Planning &amp; Building Regulations</li> </ul>

# **Fife Industrial Innovation Investment Programme**

## **Full Business Case (FBC)**

Edinburgh and South East of Scotland City Region Deal

**Version No: 3.3**

Issue Date: 19 February 2019

## Purpose of this document

This document sets out the Full Business Case, in support of the Fife Industrial Innovation Investment Programme. An Outline Business Case was completed and agreed in 2018 as part of the development of the Edinburgh and South East of Scotland City Region Deal agreed in July 2018.

This Full Business Case provides the evidence that the most economically advantageous investment programme is being delivered and that it is affordable. In addition, the Full Business Case explains the fundamentals of the Fife Industrial Innovation Investment Programme and outlines the detailed arrangements for its delivery, demonstrating that the required outputs can be successfully achieved.

## Version history

<b>Version</b>	<b>Date Issued</b>	<b>Brief Summary of Change</b>	<b>Owner's Name</b>
Draft 0.0	21/09/18	First Draft Table Contents	M Millar
Draft 1.0	20/11/18	First Draft	K Marsh
Draft v1.2	26/11/18	2 <sup>nd</sup> draft	M Millar
Draft v3	12/12/18	3 <sup>rd</sup> Draft	K Marsh
Draft v3.2	14/01/19	4 <sup>th</sup> draft – Fife Council P&C Committee	K Marsh
Final v3.3	19/02/19	Final Signed Version	G Mole

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# 1. Executive summary

## Overview

The Fife Industrial Innovation Investment Programme will be delivered as part of the Edinburgh and South East Scotland City Region Deal's innovation theme. It will deliver a sustained investment programme in modern business premises to support the delivery of Inclusive Growth and Innovation in Fife. It will increase the supply of serviced employment land and new industrial, office and business space in Fife. This will be achieved through direct investment by the Council in its existing land holdings, and new acquisitions, as well as working in partnership with private sector land owners and developers to leverage additional investment and funding into Fife and the City Region. The programme will also explore alternative development models.

The Council will seek to ensure the Fife Industrial Innovation Investment Programme supports the growth of innovative businesses and sectors in Fife, in order to improve Fife's overall innovation performance, by providing opportunities via the building specification and through company support to develop and use new approaches that enhance productivity.

## Phasing and Delivery

The Fife Industrial Innovation Investment Programme will be delivered in three phases, summarised in the table below. Further detail is shown in Appendix 4.

### Preferred Project Investment Scenario

Phase 1 (Years 1-3)	Description	Investment (millions)
New Build	3227m2	£10.1
Site Servicing	7.8 ha unlocked	£3.3
Acquisitions	2	£1.0
	<b>Sub Total</b>	<b>£14.4</b>

Phase 2 (Years 4-6)	Description	Investment (millions)
New Build	7063m2	£21.3
Site Servicing	3.9 ha unlocked	£0.4
Acquisitions	0	£0
	<b>Sub Total</b>	<b>£21.7</b>

<b>Phase 3 (Years 7-10)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	1932m2	£7.9
Site Servicing	48.6 ha unlocked	£3.6
Acquisitions	0	£0
	<b>Sub Total</b>	<b>£11.5</b>
<hr/>		
Broadband infrastructure, digital technologies and innovative building methods		£0.8
	<b>TOTAL</b>	<b>£48.4</b>
Capital receipts		(£5.2)

The overall investment of £48.4m will comprise £35m from Scottish Government and £9.2m from Fife Council, representing 72% / 19% apportionment respectively, with the remaining 9% funded from capital receipts. Additionally, the programme is expected to lever at least £30m of private sector investment in the fitting out of the new business space and in developing the serviced sites delivered by the programme. The 10-year Investment Programme is set out in Appendix 1.

More detail on individual projects is provided in Appendix 2. This programme builds on and complements previous investment in site infrastructure e.g. Levenmouth Business Park and a number of previous projects funded by Fife Council, Scottish Enterprise and Scottish Government.

Some flexibility is required during the 10-year investment programme, as several factors could potentially alter which projects should be prioritised. These factors include:

- Delays in acquiring sites;
- Securing of statutory consents;
- Abnormal costs e.g. onerous ground conditions;
- Changes in market conditions and the wider economy;
- Changes in development costs, including construction costs; and
- Specific investment opportunities that may emerge.

The Programme will be reviewed at 18 months (Quarter 3 2020/21) as part of the preparation for Phase 2; and at the end of Phases 1 and 2. Lessons learned from reviews will be incorporated into future projects and phases.

## Prioritisation of Sites

All potential employment sites within the Fife Employment Land Audit [https://www.fifedirect.org.uk/uploadfiles/publications/c64\\_FINALELA20161.pdf](https://www.fifedirect.org.uk/uploadfiles/publications/c64_FINALELA20161.pdf) including Fife Council's industrial portfolio were assessed in terms of priority and risk, based on the criteria drawn from agreed Fife Council priorities e.g. those detailed in FIFEplan. These factors include:

- Supports strategic business clusters;
- Well located to strategic growth corridors (M90, A92);
- Fit with existing predominant land use;
- Potential impact on sensitive and incompatible land uses; and
- Potential to deliver lower-cost business space.

The short list of sites was further refined for their deliverability within the City Deal timescales and to ensure a balance of investment between mid and south Fife, brownfield and greenfield sites. The sites will be reviewed again in the preparation of Phase 2 after the first 18 months of delivery and to prepare for Phase 3. Further reviews may be undertaken to respond to changes in market demand, provided the anticipated outputs can be delivered. To develop this Final Business Case, the sites have been prioritised further to manage risk and advance the creation of new jobs in Phase 1.

Phase 1 of the programme will develop sites at:

- Queensway Industrial Estate, Glenrothes;
- Fife Interchange, Dunfermline;
- Dunnikier Business Park, Kirkcaldy;
- The Avenue, Lochgelly; and
- Hillend and Donibristle Industrial Estate, Dalgety Bay.

Subsequent phases also include:

- Levenmouth Business Park, Buckhaven;
- John Smith Business Park, Kirkcaldy;
- Kirkcaldy and Cowdenbeath Town Centres;
- Westwood Industrial Estate, Glenrothes; and
- Rosyth.

## Expected Benefits

An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of Fife Industrial Innovation Investment Programme on key economic indicators. The EIA uses economic data and evidence, alongside key assumptions to model the impact of the programme. The inputs and assumptions have been refined and updated since the Outline Business Case, to reflect more accurate information, particularly relating to Phase 1 projects. The full assessment is included in Appendix 3.

The EIA estimates that the Direct Net Jobs (average per year) is 1,095 and the Gross Construction Jobs (cumulative over life of Programme) are 596. The preferred option generates £28 of Gross Value Added (GVA) for every £1 invested by the public sector and a cost per job of £44,340. The programme will be developed in phases with opportunities to review impact between phases. The Benefits Register is set out in Appendix 5.

## **Inclusive Growth and Innovation**

The Inclusive Growth Challenges for the City Region and a Framework to tackle these are set out in Pages 6/10 of the [City Region Deal](#) document. The Scottish Government's Inclusive Growth Assessment of Fife in 2016, which was undertaken to support the work of Fife Task Force, concluded that the number one opportunity/constraint to Inclusive Growth was Digital and new business methods take up. The Fife Industrial Innovation Investment Programme and joint working with the City Region's Data Driven Innovation Programme will help tackle this constraint/opportunity. In the short term, the Fife Industrial Innovation Investment Programme will help accelerate Inclusive Growth across the city region as it delivers a significant programme of construction.

A regional approach to community benefits is being developed to help maximise the opportunity. Over the medium and long term, the programme will deliver new jobs as the new business property is occupied. In addition, the Full Business Case for the Integrated Regional Employability and Skills Programme has been approved by the Joint Committee. It is envisaged that there will be opportunities for both programmes to work together to deliver Inclusive Growth opportunities in Fife.

## **Programme Risks**

The risks relating to Interest Rates, Construction and Completion, Operating Risks, Demand Risk, Force Majeure and changes in Law, Political, Regulatory, Environmental and Social Risks associated with the delivery of the Fife Industrial Innovation Investment Programme will be allocated to the party that is best placed to manage them in a cost-effective way to maximise value for money, including to the private sector. This allocation and/or transfer will include the occurrence and impact of the risk, be informed by market conditions and transaction costs. For Phase 1 of the programme these risks will be allocated to Fife Council. The allocation of risk will be reviewed as part of the Programme reviews outlined in Paragraph 16 and for Phases 2 and 3 when different development models will be considered by Fife Council. The risk register for the programme is included in Appendix 6 of the Full Business Case.

## **Funding and Affordability**

Since the preparation of the Outline Business Case, the financial modelling shows significant movement in the expected NPV (Net Present Value) for the programme. This is principally caused by a change in the assumed rate of inflation for the projects from the general rate of inflation (2%) to the BCIS (Building Cost Information Service) rate (3.75%). The updated model also reflects more detailed design and costing of the Phase 1 projects, which has been undertaken since the Outline Business Case was agreed.

The Programme shows a surplus of £14m, and the NPV for the programme is a £0.177m surplus. The results of the latest financial modelling and the movement between the financial modelling for the Outline Business Case and Full Business Case are shown in Section 7. The financial model is included in Appendix 4.

Overall Borrowing peaks at £6.2m in Year 5, and is repaid by 2034. Thereafter the programme is projected to generate a surplus to the end of the 35 year programme life. Any surplus will be managed by the directorate in accordance with the medium term financial strategy.

## **Project and Programme Management Arrangements**

The Fife Industrial Innovation Investment Programme ultimately reports to the Edinburgh and South East Scotland City Region Deal Executive Board and its Joint Committee in terms of the City Region Deal governance. Fife Council authorised participation in the Joint Committee and City Deal governance in June 2018. Work is underway to agree an operational Minute of Understanding between the University of Edinburgh (lead for the Data Driven Innovation Programme) and Fife Council.

Fife Council has established a Strategic Growth and City Deals Programme Board to provide strategic direction and oversee all city deal activities, programmes and projects. Its remit includes management of the Fife Industrial Innovation Investment Programme, the Fife Tax Incremental Finance schemes and all other City Deal projects to ensure their inter-dependencies are managed and benefits realised. The Fife Strategic Growth and City Deals Programme Board will also integrate the governance relating to both Edinburgh and South East Scotland and Tay Cities Deals. More detail is provided in Section 8, with Project and Programme Management Arrangements outlined in Figure 10.

The process for control of changes that exceed project and programme tolerances is set out in terms of cost, time, resources, quality, scope, risk and benefits in Figure 11. Where project or programme tolerances are exceeded, exception reports are triggered and escalated in line with agreed procedures. Each project will be managed by officers under delegated authority. A gateway approach will be used to manage key decision points in each project.

## 2. Introduction

1. This Full Business Case outlines how the Fife Industrial Innovation Investment Programme will be delivered and seeks approval to invest £48.4m of public funds in site infrastructure and the construction of modern business premises over a period of 10 years. The Fife Industrial Innovation Investment Programme will increase the supply of serviced employment land and new industrial, office and business space across 10 locations in mid and south Fife. This will support the delivery of Inclusive Growth and Innovation in Fife by providing the conditions for start-ups and SMEs to grow, innovate and internationalise in order to create more businesses, and more jobs.

### 2.1 Objective of this Business Case

2. The objective of this Full Business Case is to set out how the programme will be delivered, detailing the individual projects and locations. It also sets out how the programme will help to deliver Inclusive Growth and improve the innovation and productivity performance of Fife's businesses, contributing to strategic objectives at the national, regional and local levels.
3. The Outline Business Case previously set out how the proposed investment meets the strategic objectives at national, regional and local levels; the anticipated economic outcomes and why investment is required; how the proposals would be delivered in commercial terms; the viability of the investment proposals; and, finally, how the proposals would be achieved and managed.

### 2.2 Structure of this Business Case

4. This Final Business Case adopts the 5-Case structure and together these show how the Fife Industrial Innovation Investment Programme is:
  - Closely aligned to wider strategies and objectives – **the strategic case.**
  - Best value for money – **the economic case.**
  - Achievable in commercial terms – **the commercial case.**
  - Affordable – **the financial case.**
  - Achievable in practical terms – **the management case.**

### 2.3 Key Stakeholders

5. The principal stakeholders for the programme are Fife Council, the partners in the Edinburgh and South East of Scotland City Deal, Scottish Enterprise in its role as national economic development agency but also in its role as a joint venture partner as part of a strategic employment land partnership agreement at Fife Interchange North. Other stakeholders include the Fife Economy Partnership, the Fife business community and private landowners and developers.

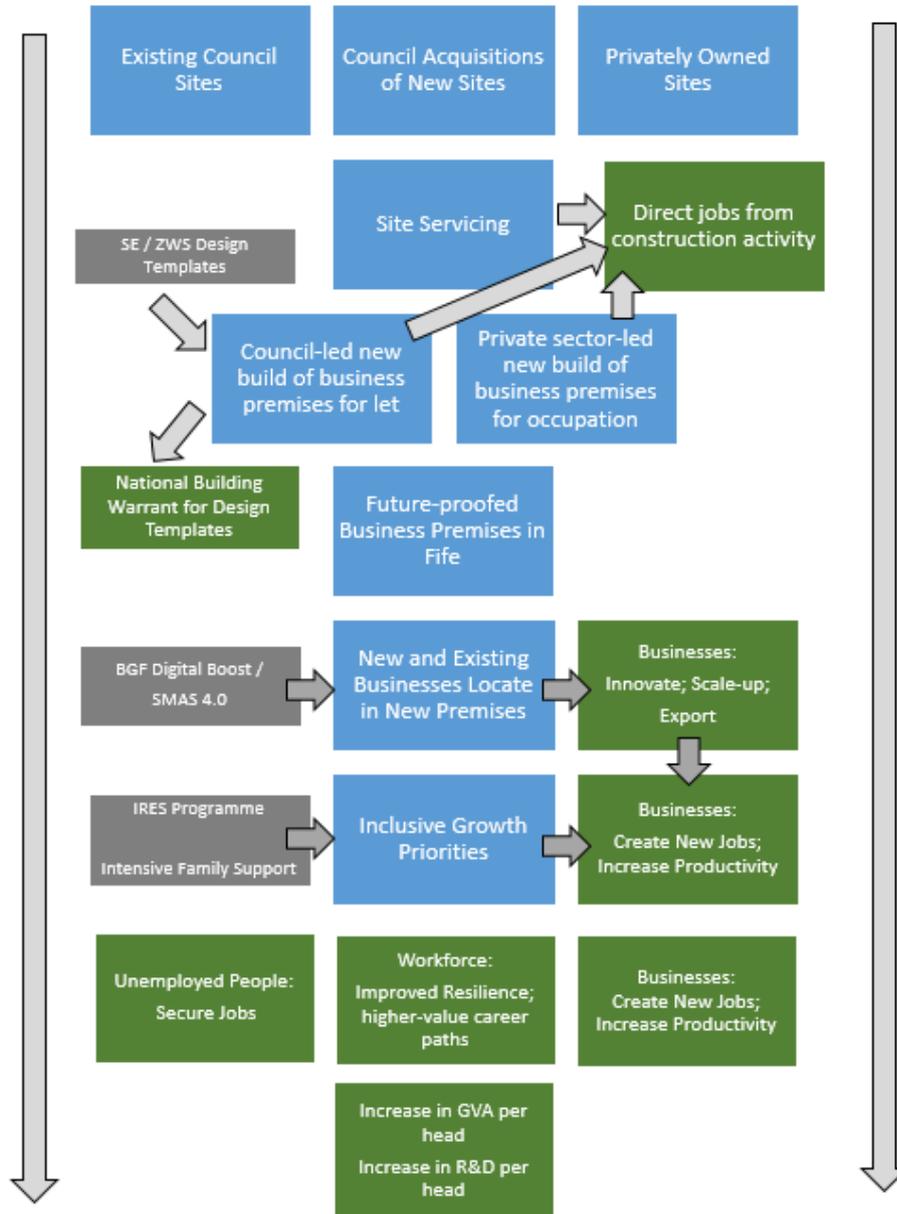
## 3. Programme Description

### 3.1 Overview

6. The Fife Industrial Innovation Investment Programme will deliver a sustained investment programme in modern business premises to support the delivery of Inclusive Growth and Innovation in Fife. It will increase the supply of serviced employment land and new industrial, office and business space in Fife. This will be achieved through direct investment by the Council in its existing land holdings, and new acquisitions, as well as working in partnership with private sector land owners and developers to leverage additional investment and funding into Fife and the City Region. The programme will also explore alternative development models.
7. The Fife Industrial Innovation Investment Programme will invest in Fife's key strategic industrial estates, providing a physical presence for modern employment design in these locations. The Council is working with Scottish Enterprise and Zero Waste Scotland to develop design templates for future-proofed industrial premises. This will also consider opportunities to reduce development costs to close, or reduce, the development deficit.
8. The Council intends to build demonstrators of these designs and will consider obtaining approval for a National Building Warrant to encourage re-use by other local authorities and the private sector. These design templates will:
  - reduce development, construction and whole life operating costs of new industrial premises;
  - address future energy usage, other resources and environmental sustainability goals;
  - offer the flexibility, adaptability and technological capabilities required by future manufacturing;
  - support circular economy goals by using sustainable materials, end of life resource recovery and recycling; and
  - incentivise innovative production methods across the construction sector.
9. Fife Council has existing Action Plans for the regeneration of two of Fife's strategic industrial estates and is also a partner in the Development Framework for Rosyth with Scottish Enterprise and private sector landowners. Alongside the delivery of the Fife Industrial Innovation Investment Programme, the Council intends to develop more Regeneration Action Plans and is considering widening the scope to include utilities and waste. The next priority is Mitchelson/Randolph Industrial Estates, Kirkcaldy.
10. In parallel, Fife Council, Business Gateway Fife, National Agencies and the regional Higher Education Partners will target businesses within the industrial estates and nearby to raise awareness of digital opportunities, initially using Business Gateway Fife's Digital Boost programme and Scottish Manufacturing Advisory Service's (SMAS) Manufacturing 4.0 Review to help businesses to scale up output, maximise margins and deliver better performance and value to customers. The Fife Industrial Innovation Investment Programme aims to accelerate the adoption of data driven innovation. Fife Council is part of the Integrated Regional Employability and Skills

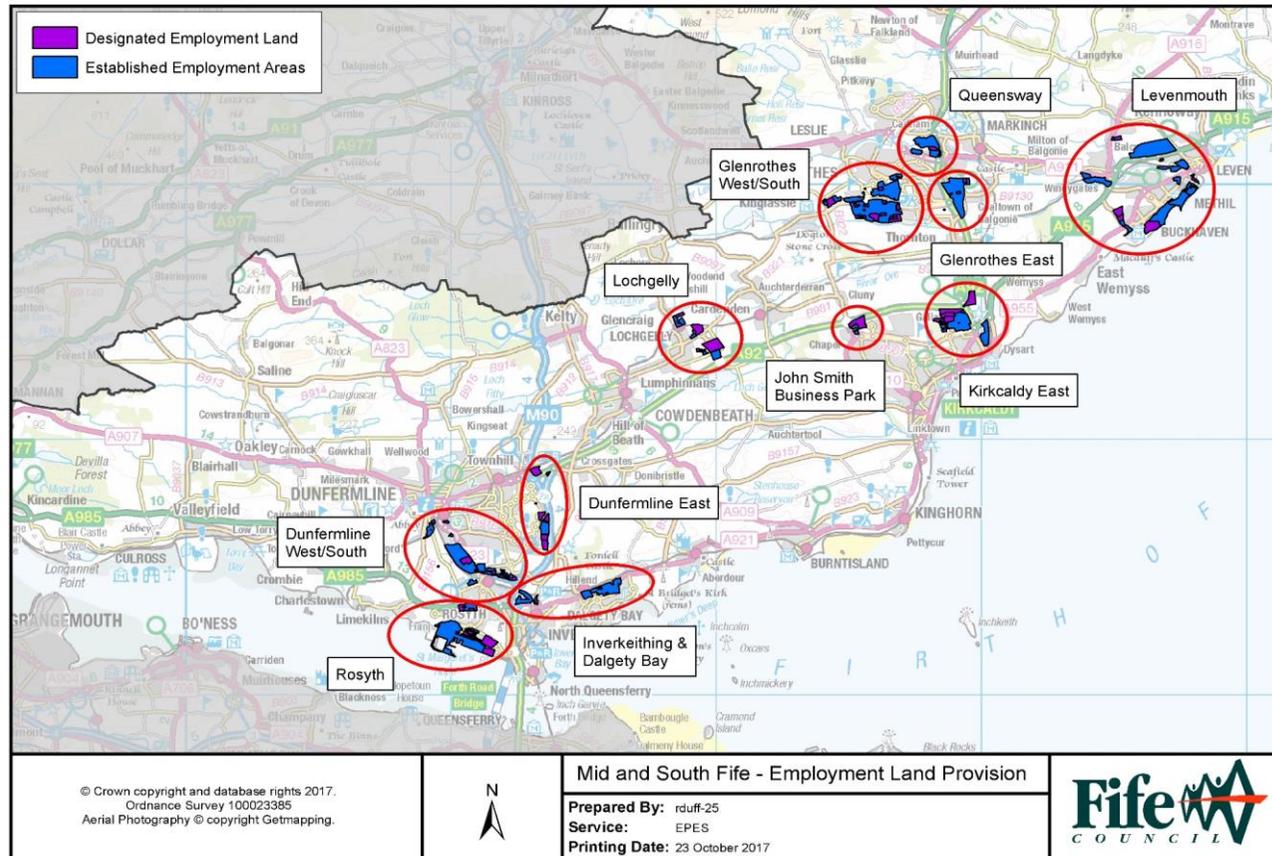
(IRES) programme to upskill the workforce in data skills. Figure 1 provides an overview of the programme, including both public and private sector-led elements.

**Figure 1: Overview of Fife Industrial Innovation Investment Programme**



- The Programme will balance the requirement to improve inclusion for residents in areas of Fife that suffer from higher levels of social deprivation and unemployment, whilst also investing in areas that offer clear opportunities to encourage private sector investment in areas of established demand with a shortage/lack of supply e.g. the Bridgehead. In prioritising its investments, Fife Council will also invest in both brownfield and greenfield sites to balance the risk of adverse ground conditions with Inclusive Growth priorities. The geographical spread of projects across Fife is set out in Figure 2.

Figure 2: Map of Fife's Strategic Business clusters including designated Employment land.



### 3.2 Phasing and Delivery

12. The Fife Industrial Innovation Investment Programme will be delivered in three phases, summarised in Table 1.

**Table 1: Preferred Project Investment Scenario**

<b>Phase 1 (Years 1-3)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	3227m2	£10.1
Site Servicing	7.8 ha unlocked	£3.3
Acquisitions	2	£1.0
	<b>Sub Total</b>	<b>£14.4</b>
<b>Phase 2 (Years 4-6)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	7063m2	£21.3
Site Servicing	3.9 ha unlocked	£0.4
Acquisitions	0	£0
	<b>Sub Total</b>	<b>£21.7</b>
<b>Phase 3 (Years 7-10)</b>	<b>Description</b>	<b>Investment (millions)</b>
New Build	1932m2	£7.9
Site Servicing	48.6 ha unlocked	£3.6
Acquisitions	0	£0
	<b>Sub Total</b>	<b>£11.5</b>
Broadband infrastructure, digital technologies and innovative building methods		£0.8
	<b>TOTAL</b>	<b>£48.4</b>
Capital receipts		<b>(£5.2)</b>

13. The overall investment of £48.4m will comprise £35m from Scottish Government and £9.2m from Fife Council, representing 72% / 19% apportionment respectively, with the remaining 9% funded from capital receipts. Additionally, the programme is expected to lever at least £30m of private sector investment in the fitting out of the new business space and in developing the serviced sites delivered by the programme.
14. The 10-year programme of investment and development is set out in Appendix 1. More detail on individual sites and projects is provided in Appendix 2. This programme builds on and complements previous investment in site infrastructure e.g. Levenmouth Business Park and a range of previous projects funded by Fife Council, Scottish Enterprise and Scottish Government.
15. Flexibility is required during the 10-year investment programme, as several factors could potentially alter which projects should be prioritised. These factors include:
  - Delays in acquiring sites;
  - Securing of statutory consents;
  - Abnormal costs e.g. onerous ground conditions;
  - Changes in market conditions and the wider economy;
  - Changes in development costs, including construction costs; and
  - Specific investment opportunities that may emerge.
16. The Programme will be reviewed at 18 months (Quarter 3 2020/21) as part of the preparation for Phase 2; and at the end of Phases 1 and 2. Lessons learned from reviews will be incorporated into future projects and phases.

### **3.3 Prioritisation of Sites**

17. All potential employment sites within the Fife Employment Land Audit [https://www.fifedirect.org.uk/uploadfiles/publications/c64\\_FINAL\\_ELA20161.pdf](https://www.fifedirect.org.uk/uploadfiles/publications/c64_FINAL_ELA20161.pdf) including Fife Council's Industrial portfolio were assessed in terms of priority and risk, based on the criteria drawn from agreed Fife Council priorities e.g. those detailed in FIFEplan. These factors include:
  - Supports strategic business clusters;
  - Well located to strategic growth corridors (M90, A92);
  - Fit with existing predominant land use;
  - Potential impact on sensitive and incompatible land uses; and
  - Potential to deliver lower-cost business space.
18. The short list of sites was further refined for their deliverability within the City Deal timescales and to ensure a balance of investment between mid and south Fife, brownfield and greenfield sites. During the programme lifetime, the sites will be reviewed again in the preparation of Phase 2 after the first 18 months of delivery and to prepare for Phase 3. Further reviews may be undertaken to respond to market demand, provided the anticipated outputs can be delivered. To develop this Final Business Case, the sites have been prioritised further to manage risk and advance the creation of new jobs in Phase 1.

### 3.4 Objectives and Expected Benefits

19. The Strategic Objectives for the Fife Industrial Innovation Investment Programme, by 2029, are:
  - To increase the supply of modern business accommodation and facilitate investment by the private sector, by servicing 60.3 ha (reduced from 75 ha in OBC) of employment land; and building 12,222 m<sup>2</sup> (reduced from 14,000 m<sup>2</sup> in OBC) new business accommodation with at least £30m Private Sector investment levered.
  - Working in partnership with the Edinburgh and South East Scotland City Region Deal Data-Driven Innovation Programme, to assist 1,000 businesses to become innovation-active, to reduce their costs and improve their productivity.
  - To ensure that Fife businesses sustain and improve their economic performance as the City Region progresses towards becoming the Data Capital of Europe, through improved value from their data and the adoption of digital technologies to create/safeguard jobs and turnover.
20. The Fife Industrial Innovation Investment Programme is intended to create conditions for start-ups and SMEs to grow, innovate and internationalise – to create more businesses in Fife and more jobs. It will create a “ladder” of new, modern, flexible business property across a range of locations, sizes and uses. The site selection follows the strategy laid down in draft SESplan2 (2016) and approved FIFEplan (2017), by focusing on business clusters and strategic growth corridors. The Scottish Government’s Inclusive Growth Assessment of Fife in 2016 concluded that the number one opportunity/constraint to Inclusive Growth was Digital and new business methods take up. The Fife Industrial Innovation Investment Programme and joint working with the City Region’s Data Driven Innovation Programme will help tackle this constraint/opportunity.
21. Innovation is being defined as “doing things in new, hopefully better, ways” that ultimately lead to a transformational change in business performance and local economy mix and strength. In the longer-term, Fife 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. The aim is to create a long-term investment programme in Fife that can be replicated elsewhere in the City Region through other economic development and investment projects.

## 4. Strategic case.

### 4.1 The Strategic Context

22. This section sets out how the Programme will contribute to the strategic objectives set out in the Outline Business Case.

### 4.2 Contribution to National, Regional and Local Policy Objectives

23. The strategic objectives for the Fife Industrial Innovation Investment Programme contribute to national policies outlined in:

- UK Government’s Industrial Strategy White Paper; ‘Building a Britain fit for the future’;
- Scotland’s Purpose and National Outcomes; and
- A Manufacturing Future for Scotland Action Plan, 2016.

24. Figure 3 sets out how Fife Industrial Innovation Investment Programme contributes to Scotland’s Purpose and National Outcomes.

**Figure 3: The contribution by the Fife Industrial Innovation Investment Programme to relevant National Outcomes and Strategies**

Scottish Government Purpose	To create a more successful country with opportunities for all through increasing sustainable economic growth			
Scottish Government National Outcomes	Scotland is the most attractive place for doing business in Europe	We realise our full economic potential with more and better employment opportunities for our people	Well-designed, sustainable places	We are renowned for our research and innovation
Scottish Government National Strategies	Scotland’s Economic Strategy – Increasing competitiveness AND tackling inequality			
	Realising Scotland’s full potential in a digital world	Scotland Can Do; Boosting Innovation	National Planning Framework	Low Carbon Scotland
Strategic outcomes	Internationally competitive, digitally mature businesses across all sectors	Directly encourage more business innovation; make best use of University research, knowledge and talent to drive growth	Successful, sustainable places that support sustainable economic growth and regeneration	Reducing our carbon emissions and adapting to climate change; transition to a low carbon economy.
Contribution by the Fife Investment Programme	Adoption of data-driven innovation and digital technologies	More organisations in Fife are innovation-active	Locations for programme investment reflect strategic priorities in existing or designated employment areas	Increased supply of modern premises that meet or exceed environmental standards
Longer-terms outcomes supported by the Programme	Improved economic performance		Strong and inclusive growth, with access to opportunities for a wide range of individuals in Fife	The Programme influences wider approaches to building sustainability across Scotland
	Fife businesses extract more value from their data and adopt digital technologies to create / safeguard jobs and turnover	Fife businesses reduce their costs and improve their productivity		

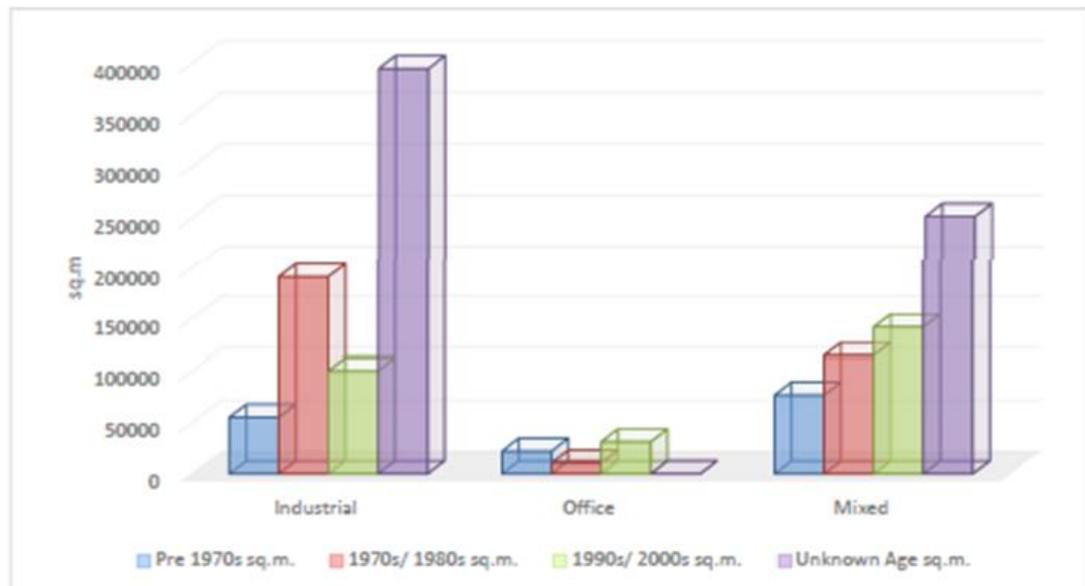
25. Fife Industrial Innovation Investment Programme contributes to regional and local policy objectives outlined in:
- The Edinburgh and South East of Scotland City Region Deal;
  - Draft SESplan 2016;
  - Fife’s Local Outcome Improvement Plan – The Plan4Fife;
  - Fife’s Economic Strategy 2017 – 2027; and
  - FIFEplan 2017.
26. The Inclusive Growth Challenges for the City Region and a Framework to tackle these are set out in Pages 6/10 of the [City Region Deal](#) document. In the short term, the Fife Industrial Innovation Investment Programme will help accelerate Inclusive Growth across the city region as it delivers a significant programme of construction. Over the medium and long term, the programme will deliver new jobs as the new business property is occupied.

### 4.3 The Case for Change

#### 4.3.1 Supply – Business Property and Employment Land

27. The proposed Fife Industrial Innovation Investment Programme is designed to meet an identified, long-term supply challenge in Fife for modern office and industrial space and effective employment land.
28. Research by Ryden in 2014, identified that the employment premises in Fife are located across thirty-eight Industrial Estates, seven Business Parks and fourteen mixed estates (comprising both traditional industrial and office accommodation). The strategic business clusters are mapped out in Figure 2. The report concluded that most of the current supply of property is obsolete and uneconomic to refurbish due to its age and failure to comply with current business requirements.

**Figure 4: Summary of Fife’s Business Property Stock Composition, 2014**

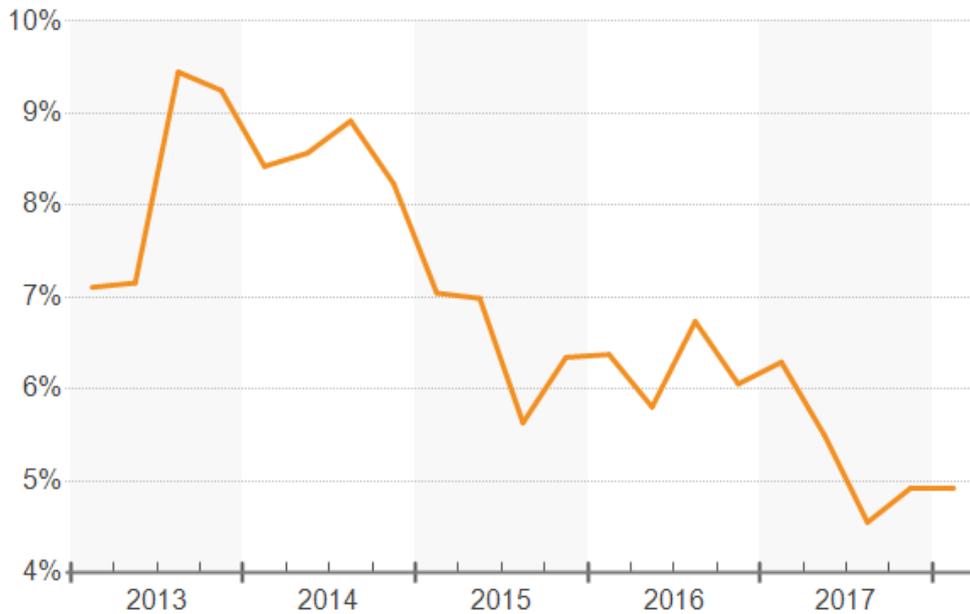


Source: Ryden

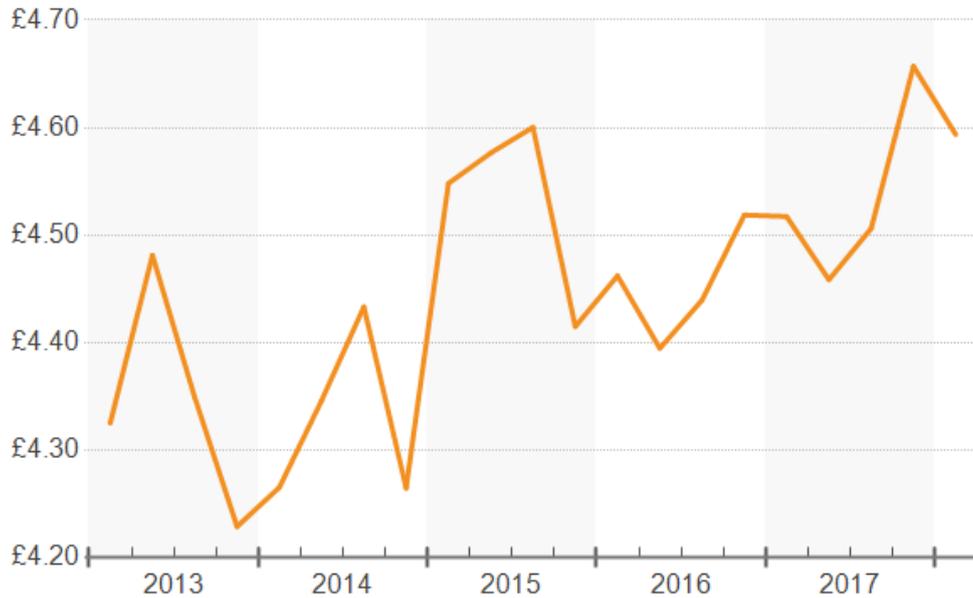
Note: the stock of “unknown age” includes all pre-1970 stock

- 29. Fife Council is the largest single landlord in Fife for commercial property. The Council’s business property portfolio comprises around 240 business tenants across a total of 32 locations in both office and industrial properties extending to a total of around 47,400m<sup>2</sup>. The portfolio currently has an occupancy level of 94% (floor area). Vacant units are marketed in an open and transparent manner to secure Best Value, a statutory requirement for the Council. All rental and other commercial lease terms are on standard commercial terms that any commercial developer would expect. No tenant is provided with any commercial advantage and all commercial leases are fully compliant with State Aid regulations. This approach will continue in the delivery of the Fife Industrial Innovation Investment Programme.
- 30. The vacancy rate for the Council’s business property portfolio has reduced over the last 5 years as set out in Figure 5. This has corresponded with an increase in average industrial rental values for units up to 1,000 m<sup>2</sup> as set out in Figure 6.

**Figure 5: Fife Industrial Property, Vacancy Rates 2013 – 18**

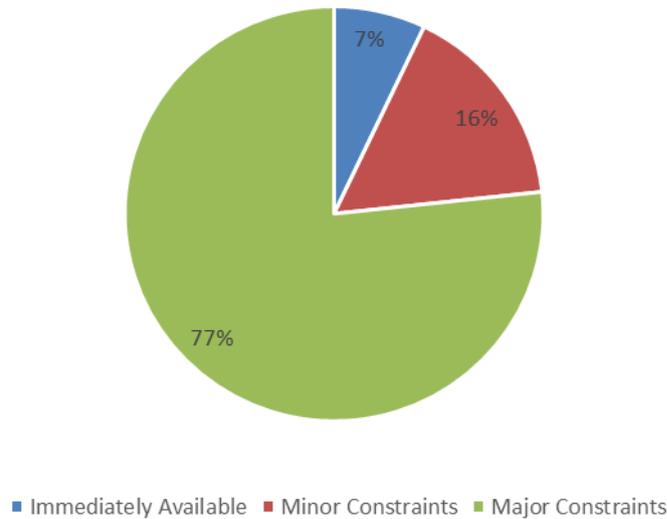


Source: Fife Council / CoStar, 2018

**Figure 6: Asking Rent, Industrial Values (per ft<sup>2</sup>), 2013 – 18**

Source: Fife Council / CoStar, 2018

31. Since 2014, Fife Council has 55 approved planning applications for **new commercial developments**. If all permitted developments come to fruition, then this potentially increases Fife's commercial property stock by almost 182,000 m<sup>2</sup> of floor space. 77% of these applications were in mid and south Fife across Use Classes 4, 5 and 6. Approx. half of these were in Use Class 4.
32. Whilst Fife has a good supply of strategically located employment land, few sites have appropriate infrastructure and utilities to render them effective for immediate development. The latest Fife Employment Land Audit (2016) indicates that, in total, some 940 ha of land across Fife is allocated for employment use. However, only 7% is immediately available, with a further 16% identified as having minor constraints (see Figure 7). This does not constitute an effective employment land supply. The Fife Industrial Innovation Investment Programme will deliver approximately 60 ha of immediately available serviced employment land over 10 years.

**Figure 7: Fife Employment Land Audit, 2016**

Source: Fife Employment Land Audit, Fife Council, 2016

#### 4.3.2 Demand – Business Property and Employment Land

33. Economic forecasters are anticipating that, as businesses become more reliant on technology, the type of business premises that will be required will change. Traditional manufacturing and industrial premises suitable for heavy manufacturing will become less relevant in the future to businesses seeking smaller and flexible premises, capable of adaptation for a range of technology uses. Modern technology could include higher levels of automation, 3D and laser printing, with increased demand on data analytics required within most industry sectors, gigabit broadband connections and the ability to incorporate, for instance, sensor technology.
34. As at 2017, there were 10,105 enterprises in Fife compared to 8,490 enterprises in 2007. Over the same period total turnover increased from £9.49bn to £12.99bn representing an increase of 36.8%. Economic forecasts indicate that Fife's economy will continue to evolve from traditional manufacturing and industrial towards higher-technology and less labour-intensive sectors. It is anticipated that by 2028, the largest employment growth in Fife will be in Administrative and Support Services (13%), Construction (11%) and Professional, Scientific and Technical (11%). By comparison, Manufacturing is forecast to contract by c11% over the same period.
35. Since 2011, occupier demand for industrial buildings has been very strong, particularly for units up to 500 m<sup>2</sup>. Three-quarters of the 443 transactions in Fife recorded in Co-Star since January 2011 have been for units less than 499m<sup>2</sup>. Demand tapers off for larger units, with only 2.25% of transactions for units larger than 3000m<sup>2</sup>. A review of the Fife property market by Ryden in 2017 concluded that there is a diverse and more bespoke range of requirements for 1,000-3,000m<sup>2</sup> units, including scientific, manufacturing, education, construction, healthcare, motor trade, trade counter and food and drink uses.

36. The Fife Industrial Innovation Investment Programme will deliver small, flexible business units aimed at small to medium sized businesses within Use Class 4 i.e. responding to the requirements of businesses within light manufacturing, food and drinks manufacturing, engineering, construction and electronics sectors as well as a range of service-based companies who may operate, for example, a hybrid model of administrative and technical functions. The units will be targeted at local businesses who have outgrown their existing accommodation or seeking to re-structure their operations and unable to do so. The units will not be targeted at any one sector so that they are capable of use by a wide range of business occupiers so long as the use complies with Use Class 4. The units will be constructed in terraces to provide a range of units from 99m<sup>2</sup> to 140m<sup>2</sup> that could be amalgamated into larger units of up to 450m<sup>2</sup> to respond to the demand for larger units from inward investors.
37. Since 2014 the Council's Business Property team have received just over 600 enquiries and concluded 156 leases. Since late 2017, there have been 12 new leases of industrial property in Fife by landlords other than Fife Council. Rental values for south Fife ranged from £67 - £76 per m<sup>2</sup> and £56 - £63 m<sup>2</sup> for mid Fife properties. The estimated yields range from 9 – 12% with lease terms of between one and five years. There have been six sales of industrial/warehouse units since 2014, with yield ranging from 5.28% to 14% depending on the condition of the property. Despite strengthening demand and increasing rental values, a development deficit remains and there is a lack of private sector investment to develop or refurbish stock. The Financial Model, set out in Appendix 4, for the Fife Industrial Estates Regeneration Plan has assumed similar rental values for its operating income. In 2018, seven new units developed by Fife Council in Glenrothes as part of the Fife Taskforce were leased at £62m<sup>2</sup>, with all units occupied within three months of completion.
38. Uptake of employment land has been relatively constant since 2013 at around 40 ha per year of completed development.

#### **4.3.3 Market Failure**

39. The build cost of the industrial units within the Fife Industrial Innovation Investment Programme is based on an open tender construction contract entered in 2017 by the Council for a similar specification and uses. This cost analysed to c £2,200 m<sup>2</sup> inclusive of all construction costs and professional fees. The private sector through the Fife Investment Delivery group has indicated that at these costs development in Fife is unviable. There is clear market failure from the private sector in providing the essential infrastructure required to increase the stock of serviced employment land capable of development, as well as developing new employment units.
40. The Fife Industrial Innovation Investment Programme will help to deliver the required public sector intervention. As mentioned in paragraph 7, Fife Council intends to collaborate with Zero Waste Scotland and Scottish Enterprise to seek innovative ways to reduce the cost per m<sup>2</sup> of new development. The development deficit in Fife is estimated to be £1,000 – £1,500 per m<sup>2</sup> for industrial property £1,400 – £1,900 per m<sup>2</sup> for office and business centre developments (Source: Fife Council).

41. The Fife Industrial Innovation Investment Programme will deliver “patient, committed” investment in commercial property – both for local businesses seeking to grow and for inward investors. The prioritisation of sites in strategic locations and growth corridors will satisfy the requirements of both local and mobile occupiers. The programme will deliver in three phases, reviewing and learning from each site and phase delivered. Section 3.3 outlines how the sites were prioritised and paragraphs 15 and 16 set out how the programme will respond to changes in demand and other factors.

#### **4.3.4 Programme Delivery Approach**

42. In Phase 1 of the programme, the individual projects will be undertaken directly by Fife Council on sites within its control to minimise risk of slippage. Preliminary designs and site investigations are being done in parallel with the Full Business Case at the Council’s risk. Further employment land servicing and construction projects will be delivered as part of Phases 2 and 3. Consideration is being given as to how the Council may effectively stimulate private sector investment which may include, for instance, setting up appropriate joint venture structures.
43. Initial engagement with private sector partners has taken place to assess demand but will intensify during Phase 1 so that this can be included in the preparations for Phase 2. An Infrastructure Investment Group, comprising public and private sector property and economic development professionals, has been set up as part of the Fife Economy Partnership. It has been tasked with reviewing potential delivery options.
44. All properties and sites delivered by the Fife Industrial Innovation Investment Programme will be marketed openly and as widely as possible. The Council uses commercial property websites e.g. Costar, Novaloca, both widely used by property agents throughout the Scotland and UK. The Council has extensive experience of working with national agencies to promote Fife to prospective inward investors as well as local businesses through the Council’s Business Property Team, the Invest in Fife partnership and Business Gateway Fife. The Council maintains a database of all companies seeking either land and/or property to support them to find premises that meet their requirements.

## **5. Economic case**

### **5.1 Financial Scenarios Considered in the Outline Business Case**

45. Fife Council, working with its regional and national partners, has considered the interventions that could be taken and how Fife Council will intervene. The types of innovation being considered include:
- Collaboration arrangements between occupiers in the industrial estates related to resource and energy use;
  - Organisations introducing new products, processes, business models. Supply-chain and working arrangements.
46. The Outline Business Case considered a range of financial scenarios. Only one of these – variable grant payments made annually in arrears – produced a positive NPV (Net Present Value). This scenario formed part of the Edinburgh and South East Scotland City Region Deal agreed in August 2018. Therefore, this Business Case provides more information on that scenario alone. More detail on the assumptions used are shown in the Financial Model in Appendix 4.
47. The Fife Industrial Innovation Investment Programme is expected to deliver Inclusive Growth and Investment in line with the Edinburgh and South East Scotland City Region Deal agreed in August 2018. This section sets out how the economic impact will be delivered from the funding investment in new commercial premises and site servicing in Fife. This is summarised in Figure 8 below.

**Figure 8: Pathway From Intervention to Impact**

Input →	Activity →	Outputs →	Outcome →	Impact
<b>Funding for new commercial premises and site servicing</b>	New commercial premises are built by public sector of required size and with modern specification to allow businesses to optimise and streamline processes	Private sector investment in new buildings and processes	Ability to grow using additional profitability and hire more staff, and more higher value jobs	Increased employment rate
		Removal of cost from business processes, leading to enhanced productivity		
	Employment land servicing	Increased supply of fully serviced employment land; new business units built by private sector occupier	Leverage of private sector investment in additional premises built by private occupiers	Possibly involves better jobs, with a better career path, contributing to higher median weekly earnings
<b>Innovation support activities</b>	Community benefits from construction, including training and modern apprenticeships	% of procurement spend in city region	Businesses committed to innovation improve their competitiveness and increase sales	Uplift in Gross Value Added (GVA) per head
	Businesses are supported to be innovation-active	% of occupiers committed to innovation activity	Outcomes from Data driven research projects with city region's universities	Business expenditure on R&D per head (£) increases
	Businesses undertaking SMAS Reviews and data-driven research projects	Drawdown of innovation funding e.g. specialist grant support to realise projects		

Source: Fife Council and Scottish Enterprise

## 5.2 Contractual Arrangements

48. The partners in the Edinburgh and South East of Scotland City Region Deal, including Fife Council, are developing a regional Procurement Strategy to help deliver Inclusive Growth in the City Region. Fife Council is also reviewing its own Procurement Strategy during 2018/19. The Council's Corporate Procurement team is working with the Council's Building Services Team to prepare a Procurement Strategy for the Fife Industrial Innovation Investment Programme. For Phase 1, the programme's procurement activities will predominately use existing Frameworks. Fife Council Building Services will act as the principal contractor for construction activities. If no framework is available, the Phase 1 procurement activities will be consolidated where practicable, to shorten the time to procure and to achieve the best price. During Phase 1, as these Frameworks come to an end, or new Frameworks are put in place, the Programme will adopt the regional procurement approach.
49. Fife Council intends to commit to adopting the regional approach to Community Benefits from procurement that is being developed as part of the regional Procurement Strategy. Following the award of a procured project and any subsequent individual work packages, the contractor will be required to support the City Region Deal Inclusive Growth objectives through delivery of agreed community benefits. There are six main ways in which the regional procurement best practice intends to help deliver Inclusive Growth in the city region:
  - Delivery of new employment opportunities;
  - Working with local supply chains through the Scottish Supplier Development Programme;
  - Sustainability;
  - Fair work practice;
  - Education and outreach; and
  - Community cohesion.
50. The City Region Deal Partners are developing a consistent framework for contracts. They have also developed a consistent evidence base of regional inclusion priorities and are committed to common reporting. This will help Fife Council identify targets for their suppliers in their community benefit clauses.
51. Supplier engagement will be at the core of delivering Inclusive Growth supported by good procurement. The City Region partners, including Fife Council will support suppliers to shape delivery of these benefits and provide supplier support and tendering training when bidding direct or as a sub-contractor of a prime contractor.
52. A Procurement Action Plan is also being developed for Phase 1 of the Fife Industrial Innovation Investment Programme from the outline programme set out in Appendix 1. Procurement activities will include Topographical Surveys, Ecology Reports; Civil and Structural Engineers to undertake Site Investigations, Drainage Strategies, UKWIR Testing, Air Quality Reports; Simplified Building Energy Models, and the construction of Buildings and Roads.

### 5.3 Economic Appraisal findings

53. An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of Fife Industrial Innovation Investment Programme on key economic indicators. The inputs and assumptions have been refined and updated since the Outline Business Case, to reflect more accurate information, particularly relating to Phase 1 projects. The full assessment is included in Appendix 3.
54. The EIA uses economic data and evidence, alongside key assumptions to model the impact of the programme. Programme impacts are assessed over a 30-year timeframe. The key assumptions are:
- Inflation has been added at the rate for construction (3.75%) this is the BCIS (Building Cost Information Service) rate and is consistent with the financial modelling;
  - The displacement rate is 25%;
  - Financial contributions by Fife Council and Scottish Government are fixed in nominal terms;
  - The first year of the programme is 2019/20;
  - Job densities are 1 FTE per 47 m<sup>2</sup> (Net Internal Area) for completed buildings, and 70 jobs per hectare of serviced land unlocked to reflect the end use being Use Class 4;
  - Employment multipliers (Type II, reflecting indirect and induced effects) are 1.7 for office and 2.03 for industrial employment;
  - The properties will have an average 15% vacancy rate from completion, throughout the lifetime of the programme
  - At least £30m in private sector investment will be levered
55. The Fife Industrial Innovation Investment Programme investment would have both a regional and national impact on the business infrastructure in east central Scotland. This includes direct and indirect employment as well as increased household income and demand for local services. Furthermore, investment of this scale would have major benefits for supply chain businesses located in Fife, the wider east central belt and Scotland more generally.
56. The EIA is based on the development proposals set out for the Programme in Appendix 1. The key inputs and findings of the assessment are summarised below:

**Table 2: Modelling Inputs**

	Input
Office floorspace	2,300m <sup>2</sup>
Industrial floorspace	9,700m <sup>2</sup>
Capital Cost	£48.4m

Source: Fife Council

**Table 3: Modelling Outcomes and Impacts**

<b>GVA (Gross Value Added) Impact</b>	
NPV (Net Present Value) of Net GVA	£711m
NPV of Construction	£191m
<b>Job Impact</b>	
Direct Net Jobs (average per annum)	1,095
Gross Construction Jobs (cumulative over life of Programme)	596
<b>Tax Impact</b>	
NPV of Direct Net Income Tax	£35m
NPV of Direct National Insurance	£53m
NPV of Direct Net Corporation Tax	£7m
NPV of Gross Non-Domestic Rates Income	£10,000

57. Based on the preferred option for delivery, an additional £28 of GVA is generated for every £1 spent. Overall, the programme will increase GVA in Fife by 1.94%, and will reduce Fife's unemployment rate to 3.6% (see Table 4):

**Table 4: Summary of Programme Impacts on Key Indicators**

<b>Key Indicator</b>	
GVA (NPV of Net GVA = £711m)	1.94% annual uplift in Fife's GVA
Jobs (Direct Net Jobs ave. p.a.)	Reduction of 0.6% in Fife's unemployment rate
Qualitative Impacts	<ul style="list-style-type: none"> <li>• Increase in private sector investment</li> <li>• New premises to support and stimulate economic growth</li> <li>• Increase in innovation activity in Fife companies</li> <li>• Improved quality of jobs, and better career paths</li> </ul>
Cost per job	£44,340
GVA generated, per £ spent	£28

## **5.4 Overall findings: the preferred option**

58. The preferred option combines new build and servicing of employment land to open up new sites for private development, alongside an innovation programme to benefit occupants of new premises and those in surrounding areas. It balances investment across mid and south Fife and generates £28 of GVA for every £1 invested by the public sector. The programme will be developed in phases with opportunities to review successes and lessons learned between phases.

## **6. Commercial case**

### **6.1 Key contractual arrangements**

59. The partners in the Edinburgh and South East of Scotland City Region Deal, including Fife Council developed an Implementation Plan and a Financial Agreement that profiled the drawdown of the City Region funding based on the Outline Business Cases. The Outline Business Case for the Fife Industrial Innovation Investment Programme input into this profile. Table 6 and Paragraph 66 sets out the variation to this profile as a result of the development of the Full Business Case.
60. City of Edinburgh Council as the Accountable Body for the Edinburgh and South East of Scotland City Region Deal will enter into a Minute of Agreement with Fife Council on approval of this Full Business Case that will set out the contractual obligations on Fife Council in respect of the City Region funding, the outputs and reporting.

### **6.2 Agreed risk allocation mechanism**

61. The risks relating to Interest Rates, Construction and Completion, Operating Risks, Demand Risk, Force Majeure and changes in Law, Political, Regulatory, Environmental and Social Risks associated with the delivery of the Fife Industrial Innovation Investment Programme will be allocated to the party that is best placed to manage them in a cost-effective way to maximise value for money, including to the private sector. This allocation and/or transfer will include the occurrence and impact of the risk, be informed by market conditions and transaction costs. For Phase 1 of the programme these risks will be allocated to Fife Council. At key points in the construction programme key risks will be transferred to contractors, and opportunities will be sought to take approaches that reduce or transfer risk wherever possible. The allocation of risk will be reviewed as part of the Programme reviews outlined in Paragraph 16 and for Phases 2 and 3 when different development models will be considered by Fife Council.



## **6.4 Accountancy treatment**

63. The assets created by the Fife Industrial Innovation Investment Programme will become the assets of Fife Council. These will be transferred to the Business Property Portfolio on completion. Subject to the terms of the offer of grant from Scottish Government, and the Minute of Agreement with the accountable body (City of Edinburgh Council) the rental income and any capital receipts will be used to fund the programme in order to repay borrowing. Any maintenance and management costs will be met from the rental income in line with the assumptions in the Financial Model. Any surplus will be managed by Fife Council's Enterprise and Environment Directorate in accordance with the Council's Medium Term Financial Strategy.

## **7. Financial case**

### **7.1 Profile of Funding**

64. The Outline Business Case explored different funding arrangements for the drawdown of City Deal grant. The preferred proposal is that the Fife Industrial Innovation Investment Programme is funded from an annual, variable Scottish Government grant; Fife Council capital funding; capital receipts from the sale of developed land; and rental receipts from leased premises. This funding approach underpins the financial modelling undertaken, which now includes more refined information on the expected costs and delivery timetable for the programme.
65. The grant funding arrangements allow time for decisions on potential re-phasing to be made in response to identified risks, to ensure that the financial profiling outlined here is delivered and that underspend is avoided. This is discussed further in Section 8.4

### **7.2 Overall affordability**

66. Since the preparation of the Outline Business Case, the financial modelling shows significant movement in the expected NPV (Net Present Value) for the programme. This is principally caused by a change in the assumed rate of inflation for the projects from the general rate of inflation (2%) to the BCIS (Building Cost Information Service) rate (3.75%). The updated model also reflects more detailed design and costing of the Phase 1 projects, which has been undertaken since the Outline Business Case was agreed.
67. The Programme shows a surplus of £14m, and the NPV for the programme is a £0.177m surplus. The results of the latest financial modelling and the movement between the financial modelling for the Outline Business Case and Full Business Case are shown below:

**Table 6: Financial Modelling Results and Movement from Outline Business Case to Full Business Case**

<b>Sensitivities (£m)</b>	NPV of (Surplus) / Deficit	(Surplus) / Deficit £m	(Surplus) / Deficit by Yr25	Investment	Capital Receipts	Interest	Annual Revenue Grant	No of Annual Grant Payments
Base Case - OBC	(2.3)	(15.3)	(8.4)	47.8	(5.2)	1.5	(8.0) to (2.1)	8.0
Base Case - FBC 3.75% BCIS	(0.2)	(14.1)	(7.1)	48.4	(5.3)	1.5	(8.0) to (2.1)	8.0
Movement	2.1	1.2	1.3	0.6	(0.1)	0.0		0.0

Note: figures may not sum due to rounding

68. The movement in grant profile from the City Deal Financial Plan is shown below, this is based on claims being made annually in arrears for 79% of costs incurred. Compared to the Financial Plan this results in advancement of grant drawdown in Year 2 (relating to Year 0 and 1 activity), followed by slippage for three years. The slippage principally relates to re-profiling of some activity on Levenmouth Business Units from Year 3 to Year 5 of the programme. The full detail of the financial modelling is included in Appendix 4.

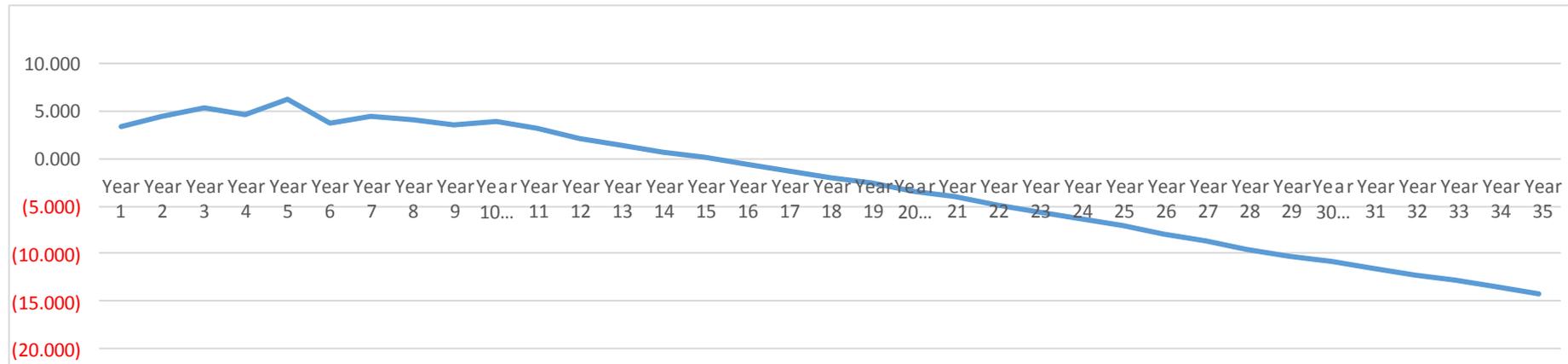
**Table 7: Movement in Grant Profile from City Deal Financial Plan to Full Business Case**

	2018/19 Year 0	2019/20 Year 1	2020/21 Year 2	2021/22 Year 3	2022/23 Year 4	2023/24 Year 5	2024/25 Year 6	2025/26 Year 7	2026/27 Year 8	2027/28 Year 9	TOTAL
City Deal Financial Plan			(2.840)	(3.748)	(5.173)	(6.317)	(8.046)	(2.852)	(3.928)	(2.096)	(35.000)
Base Case - FBC 3.75% BCIS			(3.243)	(3.665)	(4.489)	(4.119)	(7.863)	(5.410)	(3.745)	(2.465)	(35.000)
Movement in Grant Profile			(0.403)	0.083	0.684	2.198	0.183	(2.558)	0.183	(0.369)	(0.000)

### 7.3 The Council’s Debt Requirement

69. Figure 9 (below) shows the funding gap for the duration of the programme. Overall Borrowing peaks at £6.2m in Year 5, and is repaid by 2034. Thereafter the programme generates a surplus to the end of the 35 year programme life. Any surplus will be managed by Fife Council’s Enterprise and Environment Directorate in accordance with the Council’s Medium Term Financial Strategy.

**Figure 9: Cumulative Funding Gap Including Interest (£m) over 35 years**



### 7.3 Sensitivity Analysis

70. Sensitivity analysis has been carried out to evaluate some of the key variables and assumptions within the financial model and to determine where the main financial risks and opportunities lie within the programme. The base case shows a £14.1m surplus, which has a Net Present Value surplus of £0.2m. Variables to the base case have been modelled and result in a range of results from £20.4m surplus to £6m surplus.

**Table 8: Sensitivity Analysis**

Sensitivities (£m)	NPV of (Surplus) / Deficit	(Surplus) / Deficit £m	(Surplus) / Deficit by Yr25	Investment	Capital Receipts	Interest	Annual Revenue Grant	Change in NPV
Base Case	(0.2)	(14.1)	(7.1)	48.4	(5.3)	1.5	(8.0) to (2.1)	-
<b>Positive Impact on Base Case</b>								
Construction Costs decrease by 10%	(4.2)	(20.4)	(12.9)	43.8	(5.3)	0.6	(8.0) to (2.1)	(4.0)
Occupancy increased from 85% to 95%	(1.7)	(19.6)	(10.4)	48.4	(5.3)	1.3	(8.0) to (2.1)	(1.5)
Business Accelerator - No Empty rates costs	(0.9)	(16.8)	(8.7)	48.4	(5.3)	1.4	(8.0) to (2.1)	(0.7)
Rental Income Price increase by 5%	(0.6)	(15.6)	(8.0)	48.4	(5.3)	1.4	(8.0) to (2.1)	(0.4)
Interest 1% decrease	(0.5)	(14.5)	(7.5)	48.4	(5.3)	1.1	(8.0) to (2.1)	(0.3)
Capital Receipts increase by 5%	(0.3)	(14.4)	(7.4)	48.4	(5.5)	1.4	(8.0) to (2.1)	(0.1)

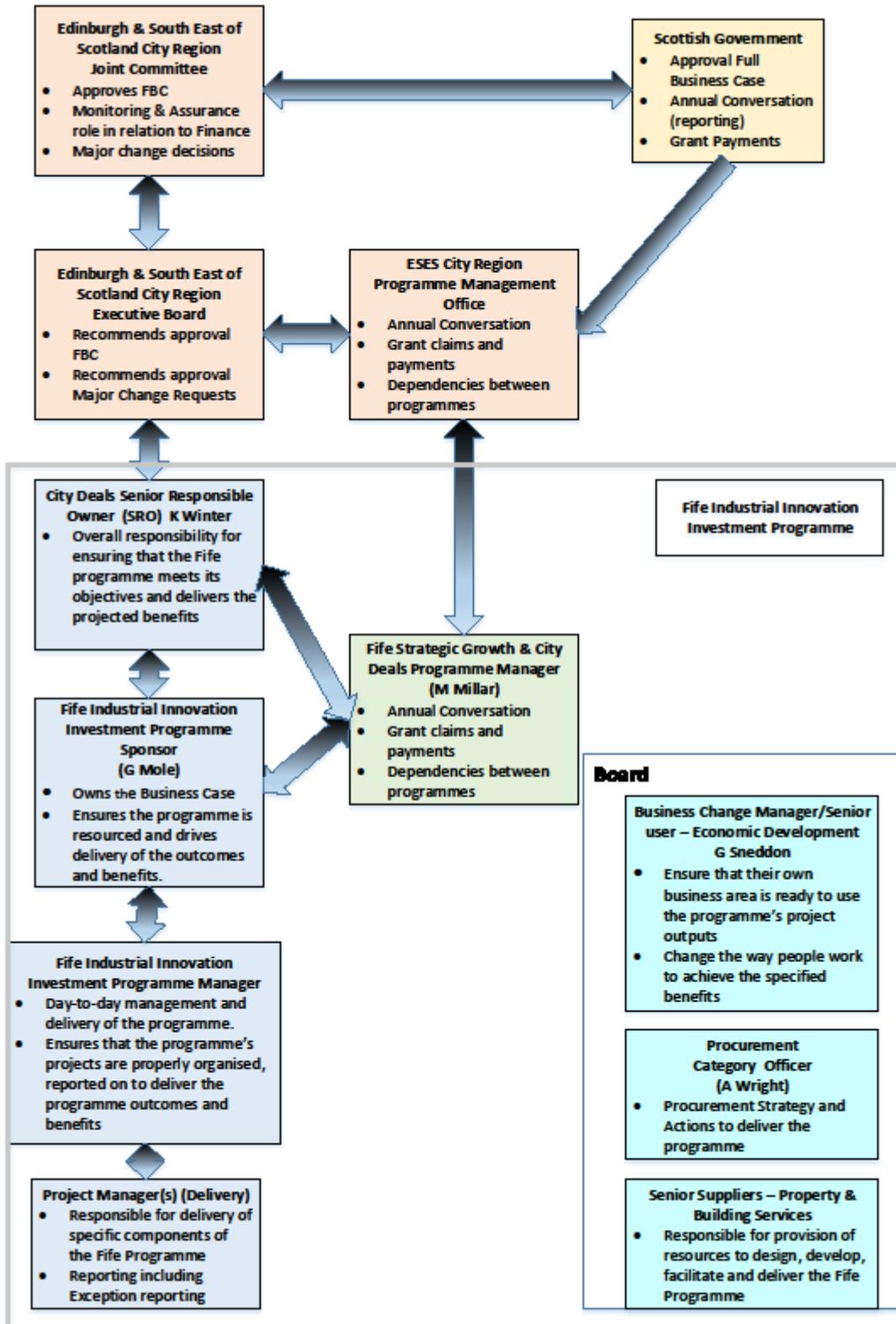
Negative Impact on Base Case								
Capital Receipts reduce by 5%	(0.1)	(13.8)	(6.9)	48.4	(5.0)	1.5	(8.0) to (2.1)	0.1
3 year delay in Capital receipts	(0.1)	(14.1)	(7.0)	48.4	(5.3)	1.5	(8.0) to (2.1)	0.1
Grant drawn at 79% of previous year	0.2	(13.9)	(6.9)	48.4	(5.3)	1.7	(7.9) to (2.5)	0.4
Rental Income Price reduce by 5%	0.2	(12.6)	(6.2)	48.4	(5.3)	1.5	(8.0) to (2.1)	0.4
Interest 2% increase	0.4	(13.3)	(6.3)	48.4	(5.3)	2.2	(8.0) to (2.1)	0.6
2 year delay in developments being available	0.4	(13.1)	(6.1)	48.4	(5.3)	1.7	(8.0) to (2.1)	0.6
Occupancy reduced from 85% to 75%	1.2	(8.5)	(3.8)	48.4	(5.3)	1.6	(8.0) to (2.1)	1.4
Construction Costs 10% increase	4.6	(6.0)	0.5	53.1	(5.3)	3.6	(8.0) to (2.1)	4.8

## **8. Management case**

### **8.1 Programme and Project Management Arrangements**

71. The Edinburgh and South East Scotland City Region Deal includes a regional governance structure and how the Fife Industrial Innovation Investment Programme fits with this is available on the Accelerating Growth webpages (see <http://www.acceleratinggrowth.org.uk/about-us/>)
72. The Fife Industrial Innovation Investment Programme will report to the Edinburgh and South East Scotland City Region Deal Executive Board and its Joint Committee. Fife Council authorised participation in the Joint Committee and City Deal governance in June 2018. Work is underway to agree a Minute of Understanding between the University of Edinburgh (lead for the Data Driven Innovation Programme) and Fife Council.
73. Fife Council has established a Strategic Growth and City Deals Programme Board to provide strategic direction and oversee all city deal activities, programmes and projects. Its remit includes management of the Fife Industrial Innovation Investment Programme, the Fife Tax Incremental Finance schemes and all other City Deal projects to ensure their inter-dependencies are managed and benefits realised. The Fife Strategic Growth and City Deals Programme Board will also integrate the governance relating to both Edinburgh and South East Scotland and Tay Cities Deals. The individual project and programme management arrangements are shown below:

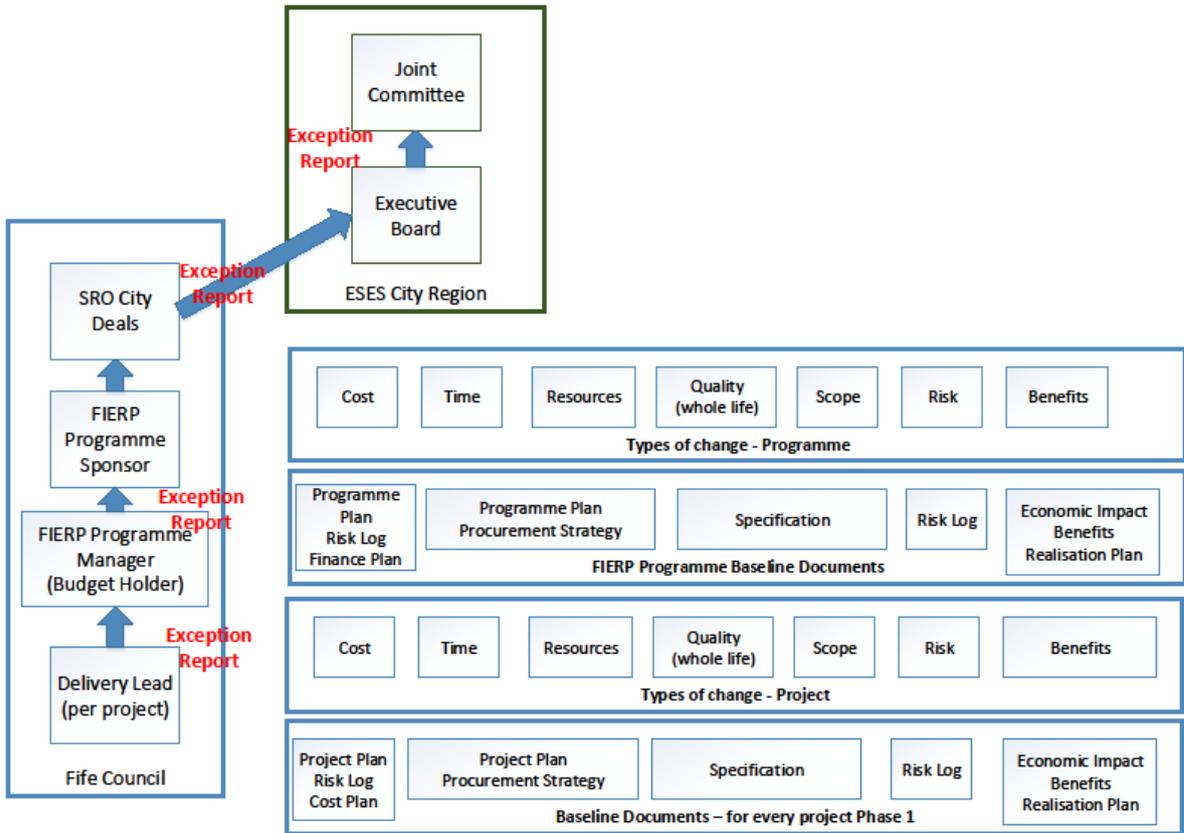
Figure 10: Project and Programme Management Arrangements



## 8.2 Managing Change

74. Project and programme tolerances are set out in terms of cost, time, resources, quality, scope, risk and benefits. Where project or programme tolerances are exceeded, exception reports are triggered and escalated as outlined below:

**Figure 11: Change Control Process**



75. Tolerances will be agreed by the relevant Board and reviewed between programme phases.

## 8.3 Benefits realisation

76. The Benefits Register is set out in Appendix 5. The benefits relate to the Outcomes set out in Figure 8: Intervention Pathway and the Economic Appraisal set out in Section 5.3.1. These will be managed and reviewed through the Governance and change management processes.

## 8.4 Approach to risk management

77. The programme risks relate to delivery and viability; finance; and legal. A copy of the risk register is set out in Appendix 6. Plans to mitigate risk have been developed. Risks within the control of Fife Council, (staff capacity, appropriate governance arrangements, early site investigation and utility scoping), are being

actively managed. Mitigation strategies relating to the wider economic environment (economic instability, interest rates) have been developed and will be deployed in response to changes or developments. All risks will be regularly reviewed and reported to the Programme Board.

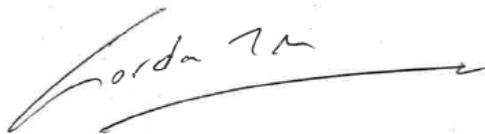
#### **8.4 Programme and project evaluation arrangements**

78. Each project requires its own detailed Business Case setting out its expected contribution to the Fife Industrial Innovation Investment Programme outcomes, and how and when these will be measured and monitored. These will require Committee approval for Fife Council, as well as City Deal approval. Further reviews will be carried out after the procurement is completed for each project; and when each project is completed and ready for service. Benefit Realisation Reviews will also be conducted.
79. A programme evaluation will be carried out at 18 months and again during Year 3 of the programme, as Phase 1 nears completion. This is an essential aid to improving future project performance, achieving best value for money from public resources, improving decision-making and learning lessons for both the Edinburgh and South East Scotland City Region Deal Board and others. The evaluation will capture lessons learned from individual project reviews and for the wider programme and will be used to inform the detailed planning for Phase 2. This will include:
- Post-occupancy surveys with tenants of new-build units (undertaken around 6 months after occupation) to identify any missed opportunities and/or over-specification in order to optimise future investment plans;
  - Regular ongoing tenant satisfaction survey results to identify longer-term maintenance or management issues;
  - Lessons learned from procurement, construction and marketing/letting activities;
  - Tracking of business performance associated with the programme including actual employment achieved, plans for growth and innovation activity; and
  - Regular discussion with Scottish Borders Council and other stakeholders to share best practice and lessons learned.

### **9. Recommendation**

80. It is recommended that the Full Business Case for the Fife Industrial Innovation Investment Programme is approved, and the programme be authorised to proceed into delivery.

**Signed:**



**Date: 19/02/2019**

**Interim Chief Officer - Business & Employability  
Programme Sponsor**

## Appendix 1 – Investment Programme Oct 2018

### Phase 1 – Years 1 to 3

Location	Project	Description	Proposed Use	Estimated cost (£m)	Start Year	No. of Years	Estimated Rental (£/m <sup>2</sup> )	Employment land unlocked (Ha)	Construction Cost (£/m <sup>2</sup> )	Gross floor area development built (m <sup>2</sup> )
Glenrothes	Queensway Development	766m <sup>2</sup> /8,250 ft <sup>2</sup> , Use Classes 4, 5 and 6	Industrial Development	£2.0	Yr. 1	1	£65		2,700	766
Fife Interchange Dunfermline	Phase 1 infrastructure - North	Site servicing – 6.4ha	Site servicing	£2.9	Yr. 1	2		11.7 Net Dev		
Fife Interchange	Phase 1 build Use Class 4, 5 and 6	929m <sup>2</sup> /10,000 ft <sup>2</sup> new build	Industrial Development	£2.1	Yr. 2	1	£75		2,700	929
Kirkcaldy	Dunnikier Business Park	766m <sup>2</sup> /8,250 ft <sup>2</sup> office/ industrial units	Industrial Development	£2.0	Yr. 3	1	£70		2,700	766
Hillend/ Donnibristle Inverkeithing	Strategic site acquisition	Site acquisition	Industrial Development	£0.6	Yr. 3	1				
Lochgelly	The Avenue	766m <sup>2</sup> /8,250 ft <sup>2</sup> of small industrial workshops	Industrial Development	£2.3	Yr. 3	1	£60		2,700	766
Hillend/ Donnibristle Inverkeithing	Site servicing at Westway	Site servicing – 1.32ha	Site servicing	£ 0. 2	Yr. 4	1				

Hillend/ Donnibristle Inverkeithing	Strategic site acquisition	Strategic site acquisition	Acquisition	£ 0.3	Yr. 4	1				
<b>Years 1 to 3 sub total</b>				<b>£ 12.5</b>					<b>3,227</b>	

**Phase 2 – Years 4 to 6**

Location	Project	Description	Proposed Use	Estimated cost (£m)	Start Year	No. of Years	Estimated Rental (£/m <sup>2</sup> )	Employment land unlocked (Ha)	Construction Cost (£/m <sup>2</sup> )	Gross floor area development built (m <sup>2</sup> )
Hillend/ Donnibristle Inverkeithing	Development at Westway	929m <sup>2</sup> /10,000 ft <sup>2</sup> industrial	Industrial Development	£2.4	Yr. 4	2	£75		2,700	929
Glenrothes	Queensway Innovation Centre	1,393m <sup>2</sup> /15,000 ft <sup>2</sup> development Use Class 4	Office Development	£4.0	Yr. 4	2	£95		3,000	1,394
Fife Interchange Dunfermline	Phase 2 build	1,858m <sup>2</sup> /20,000 ft <sup>2</sup> - Use Class 4, 5 and 6	Industrial Development	£4.7	Yr. 4	2	£75		2,700	1,858
Levenmouth	Levenmouth Business Park	Development of 929m <sup>2</sup> /10,000 ft <sup>2</sup> office/industrial units	Industrial Development	£2.3	Yr. 5	1	£60		2,700	929
John Smith Business Park Kirkcaldy	Flexible business space	952m <sup>2</sup> /10,250 ft <sup>2</sup> development of Use Classes 4/5/6	Industrial Development	£2.9	Yr. 5	2	£75		3,006	952
Kirkcaldy	Town Centre innovation Hub	464m <sup>2</sup> /5,000 ft <sup>2</sup> office development	Office Development	£1.3	Yr. 6	1	£100		2,691	465

Cowdenbeath	Cowdenbeath Innovation Hub	464m <sup>2</sup> /5,000 ft <sup>2</sup> office	Office Development	£1.3	Yr. 6	1	£90		2,702	465
Hillend/Donnibristle	Site servicing Cochrane Way	Site servicing – 1.32ha	Site servicing	£0.3	Yr. 6	1				
Hillend/Donnibristle	Site servicing Ridgeway	Site servicing – 2.59ha	Site servicing	£0.1	Yr. 6	1				
<b>Years 4 to 6 sub total</b>				<b>£19.1m</b>						<b>6992m<sup>2</sup></b>

### Phase 3 – Years 7 to 10

Location	Project	Description	Proposed Use	Estimated cost (£m)	Start Year	No. of Years	Estimated Rental (£/m <sup>2</sup> )	Employment land unlocked (Ha)	Construction Cost (£/m <sup>2</sup> )	Gross floor area development built (m <sup>2</sup> )
Glenrothes	Westwood Park	929m <sup>2</sup> /10,000 ft <sup>2</sup> development Use Classes 4, 5 and 6	Industrial Development	£2.5	Yr. 7	1	£65		2,700	929
Hillend/Donnibristle	Development at Cochrane Way	929m <sup>2</sup> /10,000 ft <sup>2</sup> . industrial	Industrial Development	£2.5	Yr. 8	1	£75		2,700	929
Kirkcaldy East	Mitchelston Industrial Estate	Construction of access road – unlocks 32ha	Site servicing	£1.5	Yr. 8	2				
Rosyth	Strategic Infrastructure	Strategic infrastructure	Site servicing	£1.0	Yr. 9	2				

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Hillend/Donnibristle Inverkeithing	Site servicing at Fullmer Way	Site servicing – 15ha	Site servicing	£0.35	Yr. 10	1
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1858m2

**Years 7 to 10  
sub total**

**£7.4m**

**All Programme Phases**

**Estimated  
cost (£m)**

**Years 1 to 10  
total**

**£39.0m**

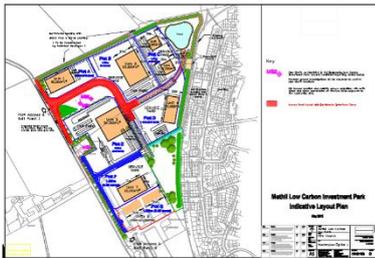
**Appendix 2 – Outline of the Individual Projects within the Programme**

**South Fife Projects**

<p>Dunfermline Fife Interchange North</p> 	<p>Fife Interchange, forms part of a Strategic Joint Venture Agreement between Scottish Enterprise and Fife Council that aims to maximise the economic development of several key sites in Fife. Fife Interchange is situated immediately to the west of the M90 and extends in total to 20.33 ha. A substantial part of the site has been developed with the construction of the Amazon UK Fulfilment Centre in 2011.</p> <p>The southern site is the subject of a separate Tax Incremental Finance agreement with Scottish Government.</p> <p>The site to the north of Amazon UK is referred to as Fife Interchange North and is included in this Programme. 2,787m<sup>2</sup> will be built through this Programme in Phase 1 and 2 with the rest of the site serviced for private sector investment.</p> <p>The intention is to create a major Business Park at Fife Interchange across the three sites to provide a base for a wide range of business sectors including renewables, food and drink, logistics/distribution and, construction sectors.</p>
<p>Inverkeithing Hillend and Donibristle Industrial Estate</p> 	<p>Hillend and Donibristle Industrial Estate is recognised as a strategically important employment and economic hub that accommodates around 120 businesses and 2000 jobs. This location is in high demand from a range of businesses from sole traders to internationally recognised companies. The estate is vitally important to the economy of Fife hosting seven of the top 100 businesses in Fife.</p> <p>The estate evolved from a military airfield and is showing signs of its age with associated problems of obsolescence, vacancy and dereliction. Given the importance of the estate as a strategic location near the Forth bridgehead and the businesses that it accommodates, Fife Council has worked with consultants and businesses to develop a pragmatic regeneration action plan which, if successfully implemented, will secure the future of the estate. There are a variety of vacant and dilapidated industrial buildings and sites throughout the industrial estate that offer the opportunity for redevelopment and regeneration.</p> <p>Programme activity will include site acquisition, site servicing (5.23ha) and new build (1932m<sup>2</sup>) across all three Phases.</p>

<p>Rosyth Waterfront</p> 	<p>Gateway Rosyth is a strategic collaboration to promote Scotland's International Gateway, Rosyth, working in partnership with Fife Council, Scottish Enterprise and all three landowners. Rosyth is an international port on the east coast of Scotland with a proven track record in complex project mobilisation and delivery. It is 12 miles from Edinburgh Airport and West Edinburgh. Rosyth also benefits from direct connections to national road and rail networks and has access to North Sea Oil and Gas fields, Offshore Renewable Energy sites and European ports. Programme activity in Phase 3 may include site acquisition and site servicing.</p>
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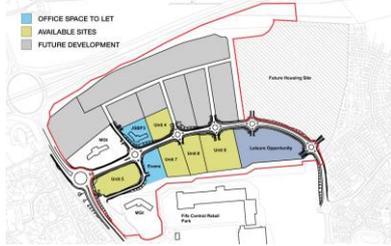
## Mid Fife Projects

<p>Buckhaven Levenmouth Business Park</p> 	<p>A limited provision of essential utilities, site stabilisation and site servicing has been undertaken by Fife Council at the Levenmouth Business Park. This is a 15 ha business park adjacent to the A915, on the south west edge of Buckhaven that is subject to a Tax Incrementation Finance agreement with Scottish Government. This is intended to provide additional space to support activity on the main Energy Park Fife site, primarily through supply chain activities. The masterplan envisages the construction of 10 industrial units with a total floor area of 18,500 m<sup>2</sup>. The Fife Industrial Innovation Investment Programme will construct a terrace of 966m<sup>2</sup>, subdivided into smaller units. It is likely that these will attract Small Business Bonus relief from Non-Domestic Rates and will not affect the Tax Incrementation Finance scheme. However, it will deliver activity on the site and help stimulate private sector investment.</p>
<p>Kirkcaldy Dunnikier Business Park</p> 	<p>Dunnikier Business Park is located within the Mitchelston Industrial Estate. This is a serviced site and several sites have already been developed with workshop/industrial units. The Fife Industrial Innovation Investment Programme investment responds to market demand to deliver local jobs in an area of high unemployment.</p> <p>766m<sup>2</sup> of industrial development be developed in Phase 1. In Phase 3 site servicing will be carried out to unlock further employment land.</p>

<p>Lochgelly The Avenue Business Park</p> 	<p>The proposed development site is owned by Fife Council. It is a prime development opportunity in a thriving and vibrant business/ industrial park. The access road has already been constructed so the site is suitable for immediate development. Potential uses include light industrial, office, manufacture or storage and distribution subject to obtaining planning permission. The programme will develop 766m<sup>2</sup> of industrial development in Phase1.</p>
<p>Kirkcaldy Innovation Hub</p> 	<p>Fife Council aims to develop a network of innovation and enterprise hubs throughout Fife's main town centres. The ambition is to inspire entrepreneurs and business growth in the local economy. The Innovation Hub will initiate increased local provision of enterprise and business services to commercial and social entrepreneurs and business start-ups. It will engage with and stimulate home business owners, sole traders and micro businesses to locate or have access to "hot desk hub-space" and innovation and enterprise support services within their local community and town centre location.</p>
<p>Glenrothes Queensway Industrial Estate &amp; Innovation Centre</p> 	<p>Queensway Industrial Estate is one of Glenrothes' highest profile and formerly most popular industrial estates which has over many years been home to a wide range of businesses. However, the age and condition of existing buildings, derelict land and property, retail encroachment, poor image and a lack of management and maintenance, has resulted in the Estate being unable to realise its full economic potential. To secure the future success of the Estate, the Council prepared a Queensway Regeneration Action Plan to attract inward investment and to provide opportunities for local businesses to grow in Glenrothes and deliver significant employment opportunities. Private sector investment is underway to create a Data Centre and District Heating Scheme.</p> <p>This project will build 766m<sup>2</sup> industrial units in Phase 1. In Phase 2 a 1,394m<sup>2</sup> Innovation Centre will be developed and further sites acquired for servicing and private sector investment.</p>
<p>Cowdenbeath Innovation Hub</p>	<p>Like the Kirkcaldy "Innovation Hub" proposal set out above, the programme includes investment to develop an innovation Hub in Cowdenbeath to engage with and stimulate home business owners, sole traders and micro businesses to locate or have access to "hot desk hub-space" and support services within their local community and town centre location.</p>

## Kirkcaldy

### John Smith Business Park



John Smith Business Park is one of Fife's premier business parks adjoining the A92, situated in a high-profile location on the northern edge of Kirkcaldy. There is a Development Framework in place with some private sector investment underway. The Programme will invest in 952m<sup>2</sup> new industrial space to provide small units to attract growing businesses to the Business Park in Phase 2.

### **Appendix 3: Economic Appraisal**

Available on request from report author

## **Appendix 4: Financial Model**

Available on request from report author

## Appendix 5: Benefits Register

Benefit ID	Benefit Title and Description	Link to Fife Industrial Innovation Programme Objectives	Owner	Planned Outcome	Stakeholders and Beneficiaries	Measure Description & Expected Result	Baseline Measure	Frequency
BEN 001	GVA per head (£)	Ensure that Fife businesses sustain and improve their economic performance	Gordon Mole	Economic growth is resilient, sustainable and inclusive	Fife Economy Partnership; Fife residents	Measures the value produced by the economy against Fife's population. The value is expected to increase as businesses become more competitive and productive.	£20,276 (2016)	Annual
BEN 002	Business expenditure on R&D per head (£)	Ensure that Fife businesses sustain and improve their economic performance	Gordon Mole	Economic growth is resilient, sustainable and inclusive	Fife Economy Partnership; Fife residents	Measures the investment by businesses in innovation - their future competitiveness. This is expected to increase.	£78 (2016)	Annual
BEN 003	Number of businesses per 10,000 population	Ensure that Fife businesses sustain and improve their economic performance	Gordon Mole	Economic growth is resilient, sustainable and inclusive	Fife Economy Partnership; Fife residents	Measures the business density. The measure is expected to increase.	245 (2016)	Annual
BEN 004	Employment rate (%)	Ensure that Fife businesses sustain and improve their economic performance	Gordon Mole	Economic growth is resilient, sustainable and inclusive	Fife Economy Partnership; Fife residents	Measures the proportion of the working age population in employment	74.6% (2016)	Annual
BEN 005	Median Weekly Earnings (full time employ	Ensure that Fife businesses sustain and improve their economic	Gordon Mole	Economic growth is resilient, sustainable and inclusive	Fife Economy Partnership; Fife	Measures the income generated for residents from jobs in Fife based businesses. Expected to	£530.50 (2016)	Annual

	ees) resident s' analysis	performance			resident s	increase.		
BEN 006	Employ ment in high- skilled occupat ions (%)	Ensure that Fife businesses sustain and improve their economic performance	Gordo n Mole	Economic growth is resilient, sustainable and inclusive	Fife Econom y Partner ship; Fife resident s	Measures the skills levels of jobs in Fife based businesses. Expected to increase.	40.6% (2016)	Annual

## Appendix 6: Risk Register

Risk	Potential impact	Likelihood	Suggested mitigations
<b>Delivery and Viability risks</b>			
<p>As a result of insufficient officer capacity and capability to deliver the Fife Industrial Innovation Investment Programme, there is a risk that the programme phasing is optimistic, which may result in delays and cost over-runs.</p>	<p>May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.</p>	<p>Possible - all allocated resources currently to City Deal are allocated part-time until Final Business Case is complete so there will be competing demands for officer time available. Transition to full time work on Industrial Estates Programme will take place in 2019/20.</p>	<ul style="list-style-type: none"> <li>• Ongoing review of the operational resources available and supplement with additional technical resources;</li> <li>• Re-phase the programme of investment so that it can be delivered by existing resources.</li> </ul>
<p>As a result of failure to put in place an effective governance structure, there is a risk that the programme does not have the required controls, which may result in cost over-runs and project delays.</p>	<p>May be unable to deliver the objectives of business case. Reputational, political and legal impact of poor governance.</p>	<p>Potential - requires a clear strategy and engagement.</p>	<ul style="list-style-type: none"> <li>• Ensure appropriate governance structure is in place with key stakeholders represented and that they have the requisite skills.</li> </ul>
<p>As a result of not locking down the Specifications for the projects in Phase 1 programme early, there is a risk that the delivery of projects is delayed, which may result in delays in the drawdown of the City Region Deal funding.</p>	<p>May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.</p>	<p>Possible – The Fife Industrial Innovation Investment Programme Board has signed off the preliminary designs; this will be a key role for the Board.</p>	<ul style="list-style-type: none"> <li>• Ensure appropriate approval milestones are built into the project plans.</li> <li>• City Deals Programme Management unit to ensure Programme Management roles are adhered to.</li> </ul>

Risk	Potential impact	Likelihood	Suggested mitigations
<p>As a result of failure to put in place an effective governance structure, there is a risk that the programme does not have the required controls, which may result in cost over-runs and project delays.</p>	<p>May be unable to deliver the objectives of business case. Reputational, political and legal impact of poor governance.</p>	<p>Possible – this requires a roles and processes for governance of the programme within Fife Council.</p>	<ul style="list-style-type: none"> <li>• Ensure appropriate governance structure is in place with key stakeholders the requisite skills and authority are represented.</li> </ul>
<p>As a result of the lack of market demand for employment space, there is a risk that forecast occupancy levels are not achieved, which may result in less rental income and capital receipts</p>	<p>May be unable to deliver the objectives of business case. Reputational, political and legal impact.</p>	<p>Possible – this requires ongoing engagement with occupants and agents in the Fife Commercial Property market to assess changing requirements.</p>	<ul style="list-style-type: none"> <li>• Adopt proximity to strategic transport corridors as a key prioritisation criterion, based on industry consultation and market research.</li> <li>• Deliver the sizes and types of commercial property most relevant to the Fife market.</li> </ul>
<p>As a result of a lack of suitable occupiers of the industrial premises (prepared to innovate and work with the Universities), there is a risk that the programme is unable to contribute to the Innovation theme, which may result in no improvement in the innovation performance in the Fife Economy.</p>	<p>Reduction on in projected Programme benefits for a project affected by this risk.</p>	<p>Possible but the programme is not reliant on specific government policies or industry sectors. There is an existing track record of joint working on innovation interventions that will form the basis of this activity.</p>	<ul style="list-style-type: none"> <li>• Work with the Universities and National Agencies to establish how the innovation will be delivered, baselined and monitored.</li> <li>• Develop a process that will evolve over the time period of the Fife Industrial Innovation Investment Programme.</li> </ul>
<p><b>Financial risks</b></p>			

Risk	Potential impact	Likelihood	Suggested mitigations
<p>As a result of delays in the build timetable, there is a risk that City Region Deal funding is not drawn down as profiled in the financial plan, which may cause affordability issues for the Governments and Fife Council.</p>	<p>Delays in commercial development. Increase in level of unsupported borrowing. Revenue projections not as anticipated.</p> <p>Negative reputational impact.</p>	<p>Possible – although these risks are largely controllable by the Council, timescales are indicative, requiring further technical work</p>	<ul style="list-style-type: none"> <li>• Early engagement with Utility providers and early investigation of ground conditions.</li> <li>• Effective contract management and programming.</li> <li>• Manage the funding drawdown with an effective debt management strategy.</li> </ul>
<p>As a result of underestimation of costs or cost overruns, there is a risk that the programme does not deliver the outputs (m2 built), which may result in a failure to deliver full outcomes (jobs / private sector leverage) in the business case.</p>	<p>May increase levels of unsupported borrowing as a result of reduced drawdown of grant. May increase debt costs. Longer payback period possible.</p>	<p>Possible – current cost plans are indicative, from Quantity Surveyors, based on recent similar projects</p>	<ul style="list-style-type: none"> <li>• Detailed technical appraisal and costings will be undertaken before a Contract is approved by the Fife Industrial Innovation Programme Board.</li> <li>• Fixed price contracts will be used where possible.</li> <li>• Use of effective contract management and programming processes.</li> </ul>

Risk	Potential impact	Likelihood	Suggested mitigations
<p>As a result of economic instability, there is a risk that the private sector investment does not happen or is significantly delayed, which may result in failure to deliver private sector leverage benefits.</p>	<p>Reduction in projected Programme benefits for a project affected by this risk.</p>	<p>Possible but the programme is not reliant on specific government policies or industry sectors. The private sector leverage forecasts in the Financial Model are based on prudent assumptions.</p>	<ul style="list-style-type: none"> <li>• Ensure that the modelling assumptions are prudent and based on a realistic scale of build out.</li> <li>• Early on ongoing engagement with project partners and statutory bodies, e.g. Scottish Enterprise.</li> </ul>
<p>As a result of the programme not meeting the needs of industry, there is a risk that forecast occupancy levels are not achieved, which may result in less rental income and capital receipts.</p>	<p>The Fife Industrial Innovation Programme is ill suited to market requirements and does not fully unlock its development potential.</p>	<p>Limited as the infrastructure plan is based on extensive market knowledge and experience. The programme has adopted a phased approach to implementation to build in flexibility in the planning of the development programme.</p>	<ul style="list-style-type: none"> <li>• Ongoing review and alignment of the project specifications to ensure programme addresses anticipated requirements.</li> <li>• Ensure programme provides enough flexibility to react to changes in likely development demand.</li> </ul>

Risk	Potential impact	Likelihood	Suggested mitigations
<p>As a result of increased interest rates, there is a risk that the cost of debt increases which may result in the business case becoming unviable.</p>	<p>The level of unsupported borrowing may increase.</p> <p>The debt cost may increase.</p> <p>The payback period may increase.</p>	<p>High - as current rates are at a historic low and this is a potential consequence of Brexit.</p>	<ul style="list-style-type: none"> <li>• Undertake sensitivity analysis of the base case to confirm affordability of debt pricing movements. Appropriate use of hedging.</li> <li>• Model a range of scenarios to develop the optimal financial package for the programme.</li> <li>• Model borrowing on the council's consolidated pool rate to reduce interest rate increase exposure.</li> </ul>
<p><b>Legal and Technical risks</b></p>			
<p>As a result of not locking down the Phase 1 programme early, there is a risk that the development of the final business case is delayed, which may result in delays in the drawdown of the City Deal funding.</p>	<p>May be unable to meet the financial plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.</p>	<p>Limited as the Phase 1 programme will be approved by Fife Council at Committee prior to submission to City Deal and Government approvals.</p>	<ul style="list-style-type: none"> <li>• Early and ongoing stakeholder engagement prior to consideration for approval by the Council, the City Deal and the Governments.</li> </ul>
<p>As a result of not having a regional economic strategy with regional/ sectoral priorities, there is a risk that we only attract business with low-value generic jobs, which may result in a missed opportunity to create higher value sector specific jobs.</p>	<p>May result in fewer benefits from the investment and less impact on the goals of Inclusive Growth and Innovation.</p>	<p>Possible – the distributional impact of the City Deal investment will be reduced.</p>	<ul style="list-style-type: none"> <li>• Work with regional partners to develop a regional economic strategy based around the city region's sectoral assets.</li> </ul>

Risk	Potential impact	Likelihood	Suggested mitigations
<p>As a result of late engagement with Utility providers, there is a risk that the utilities cannot meet site requirements within required timescales, which may result in delays and cost over-runs.</p>	<p>May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.</p>	<p>Limited as although the Phase 1 programme will be approved by Fife Council at Committee prior to submission to City Deal and Government approvals, work is underway with the Utility providers for the initial sites to be delivered. A similar approach will be adopted for later phases.</p>	<ul style="list-style-type: none"> <li>• Early and ongoing stakeholder engagement prior to consideration for approval by the Council, the City Deal and the Governments.</li> </ul>
<p>As a result of failure to carry out enough ground investigations early in the build programme, there is a risk that unexpected ground works are required before any buildings can be erected, which may result in delays and cost over-runs.</p>	<p>May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.</p>	<p>Limited as, although Phase 1 of the programme will be approved by Fife Council in 2019, work is underway to carry out the necessary investigation work for the initial sites to be delivered. A similar approach will be adopted for later phases.</p>	<ul style="list-style-type: none"> <li>• Early and ongoing investigation of ground conditions of sites included in Phase 1 of the Programme.</li> <li>• Early investigation of the initial sites for Phase 2 during Phase 1.</li> </ul>
<p>As a result of not using a proven specification for the Industrial Units, there is a risk that the spec does not meet Planning &amp; Building Regulations, which may result in delays to the delivery plan and cost over-runs.</p>	<p>May be unable to meet the Financial Plan agreed with City Region Deal partners, building work needs to begin on site early 2019/2020 and continue at pace to meet the delivery plan.</p>	<p>Limited as, during Phase 1 of the programme previous specifications for units will be used. Innovation will be adopted in later phases.</p>	<ul style="list-style-type: none"> <li>• As a result of not using a proven spec for the Industrial Units, there is a risk that the spec does not meet Planning &amp; Building Regulations, which may result in delays to the delivery plan and cost over-runs.</li> </ul>