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## **BORDERLANDS INCLUSIVE GROWTH DEAL: NATURAL CAPITAL PROGRAMME BUSINESS CASE**

**Report by Director, Resilient Communities**

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### **SCOTTISH BORDERS COUNCIL**

**31 AUGUST 2023**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 This report provides an update to Council on progress with the Programme Business Case for the Natural Capital Programme, which is required to draw down funding from the Borderlands Inclusive Growth Deal.
- 1.2 The Programme Business Case has been approved by the Scottish Government, and will be submitted to the Borderlands Partnership Board for approval at its meeting on 13 September 2023. The Programme Business case is attached as Appendix 1.
- 1.3 The Programme Business Case is part of a continuous set of approval milestones for the programme in accordance with HM Treasury Green Book guidance. The initial Natural Capital Strategic Proposition was brought to Council in November 2020. The pilot business cases described in the Programme Business Case will be brought before Council in due course.

#### **2 RECOMMENDATIONS**

##### **2.1 I recommend that Council:-**

- (a) Approves the Programme Business Case set out in Appendix 1 as the next stage of approval for the programme.**

- (b) Notes that individual Business Justification Cases are being finalised for the Species Rich Grassland (and Solway Marine and Whole Farm Audit) projects. A Full Business Case is being finalised for the Woodland Creation project. These business cases will be brought before Council in due course.**

### 3 BACKGROUND

3.1 The Programme Business Case sets out the justification and objectives of the Natural Capital programme. The document notes *'The natural capital assets of the Borderlands region in Scotland underpin a great deal of its economic activity and prosperity, through both direct dependency sectors such as agriculture and fishing, forestry, and the visitor economy, and those that indirectly depend on the natural economy as land-based sectors such as hospitality, food and drink, manufacturing, energy, renewables, and utilities.'*

3.2 The Natural Capital Programme in Scotland is a £5m capital and revenue programme that is part of an overall Natural Capital Programme across the regional Borderlands Inclusive Growth Deal, a comparable programme of natural capital projects will be delivered across the English Local Authority areas when clarification is obtained on future agricultural support mechanisms south of the Border.

3.3 The overall aims of the programme are to demonstrate the need to deliver innovation in land use management through a series of initiatives comprising 6 pilot projects in the South of Scotland.

The projects will highlight the role of natural capital in underpinning -

- regional economic development
- community development
- land-use planning
- innovative sustainable land management

3.4 They will also enable investment to help to transform current practices and influence emerging economic and agricultural support policy. The contribution of £5m from the Borderlands Inclusive Growth Deal will help to fund the pilot projects, with accessible funds allocated equally between revenue and capital spend. Scottish Borders projects can draw down £2m and Dumfries & Galloway projects £3m.

3.5 The Programme Business Case has been developed by partners and at the time of writing of this report is being reviewed by the Scottish Government with approval anticipated imminently. The document is presented for approval by the Council.

3.6 The Scottish programme is being led by Scottish Borders Council with Dumfries and Galloway Council acting as the Accountable Body, and South of Scotland Enterprise as a key project partner. Each partner will oversee the delivery of 2 projects, with project management being provided by expert Delivery Partners.

### 3.7 Scottish Borders Council Projects

#### a) Species Rich Grassland

The overall objective of the pilot is to develop a more ecologically sustainable approach to hill livestock farming by supporting and promoting the rural economy and sustainable land management. This will focus on Species-rich Grassland (SRG) and the conservation of the Northern Brown Argus (NBA) butterfly in the Scottish Borders, and Dumfries and Galloway, using the butterfly as a flagship for Species-rich or flower -rich grassland.

#### b) Integrated Land Use & Woodland Creation

This project will take a catchment scale approach to integrated land use and woodland creation to enable the integration of farming and forestry at a landscape scale. It will create up to 600ha of mixed woodland, demonstrating multiple benefits of planting a wide range of different woodland types. These benefits will timber production and natural flood management, identifying alternative revenue models associated with woodland creation, and overcoming siloes to adopt a sustainable agri-forestry model.

3.8 The full set of 6 constituent projects are described below:

<b>Project name (with project lead)</b>	<b>Description</b>
Species Rich Grassland (Agri-environment) (Scottish Borders Council)	To develop a more ecologically sustainable approach to hill livestock farming including habitat restoration.
Whole Farm Audits & Advisory (Agri-environment) (Dumfries & Galloway Council)	Audit 12 farms to test a new Natural Capital centred approach to whole farm auditing and support for project development.
Woodland Creation (Scottish Borders Council)	Creation of up to 700ha of integrated and targeted mixed woodland, demonstrating multiple benefits of planting.
Sustainable Solway Economy: Coastal & Marine (Dumfries & Galloway Council)	Restoration and expansion of coastal, intertidal, and marine habitats.

Data Audit and Mapping (South of Scotland Enterprise)	Innovative approaches to Artificial Intelligence interpretation of satellite data to understand the natural capital data needs of partners.
Natural Capital Investment Plan (South of Scotland Enterprise)	To unlock blended and innovative finance opportunities to enhance our Natural Capital assets and deliver ecosystems services.

## 4 KEY ELEMENTS OF THE PROGRAMME BUSINESS CASE

4.1 The Programme Business Case has been prepared in accordance with HM Treasury guidance and is based on the five-case model: Strategic; Economic; Commercial; Financial; and Management. The Programme Business Case is set out in Appendix 1.

### 4.2 Strategic Case

In the Strategic Case of the Programme Business Case, the case for change is set out, noting *'The vision is to demonstrate the potential for a progressive natural capital-based economy to underpin the region's prosperity. This closely aligns with Scotland's strategic ambitions for a robust and resilient wellbeing economy, with South of Scotland's vision to be "green, fair and flourishing by 2031" with natural capital driving green growth, and with the Borderlands Growth Deal's ambition "for the Borderlands to reach its potential for everyone, delivering green growth and attracting new businesses and investment".'*

The Case for Change is summarised in 5 Investment Objectives:

- **Strategic Objective 1:** By 2030, deliver the six Scottish-led innovation pilot projects, delivering economic outputs, demonstrating best practice nationally, and disseminating lessons to support scaling and to influence future policy.
- **Strategic Objective 2:** Deliver holistic economic benefits for the regional economy, through the maintenance, restoration, and enhancement of natural capital, with additional benefits for the environment and communities, supported by a strategic cross-border relationship
- **Strategic Objective 3:** Align with existing initiatives, such as the South of Scotland RLUP pilot, and activity south of the border, to improve understanding of current land and marine uses, the benefits delivered, their interdependencies and drivers for change, and how to ensure future uses deliver

economic benefits, both direct and additional, as well as wider social and environmental outcomes

- **Strategic Objective 4:** Deliver strategic capacity building within regional businesses, organisations and supply chains and better equip regional workers for skilled jobs in the natural capital-based economy of the future
- **Strategic Objective 5:** By 2030 develop a long-term investment plan for the region that capitalises on private and blended finance opportunities through both responsible private sector and public sector sources

4.3 The Strategic Case also details the significance of the asset and how the programme's aims align with strategies and plans at the national, regional and local level.

#### 4.4 **Economic Case**

The Economic Case is structured around an Options Assessment based on investment objectives from the Strategic Case and Critical Success Factors (CSFs).

The programme's Critical Success Factors (CSFs) are presented in the Economic Case as the key criteria for investment against which the options for the programme were appraised. The CSFs are:

- **Business Need** - the extent to which the Programme will align with current business needs identified in the Strategic Case
- **Strategic Fit** - the extent to which the Programme fits within the strategic context of existing policy drivers and developing land-use planning initiatives
- **Additionality** – the extent to which the Programme will deliver additional to (i.e. not duplicating) existing policy efforts, and therefore meaningfully contribute to meeting Scottish Government objectives
- **Benefits Optimisation** - the extent to which the Programme will sustain and further unlock the economic value of the natural economy across direct, indirect, and additional holistic benefits
- **Potential Achievability** – the extent to which the scope is achievable within the timeframe and resources available within the Borderlands Inclusive Growth Deal terms and will ensure an ongoing legacy programme

- **Supply-side Capacity and Capability** – the extent to which there is appropriate resourcing, with the capacity and capability to deliver the transformation required (in terms of new ways of working, thinking and partnership building)
  - **Potential Affordability** – the extent to which the scope is affordable within the Borderlands Inclusive Growth Deal funding committed to the natural capital theme, whilst noting the ambition to secure and lever in additional resources.
- 4.5 An Options Appraisal was carried out for the programme. An initial long list was filtered which resulted in 3 shortlisted options being assessed alongside a 'do nothing' option. The preferred option is a programme of cross-sector demonstration of innovative land and marine management practices and sharing of best practice, regionally and nationally, combined with long term planning for the region.
- 4.6 The Economic Case also shows that the programme is expected to deliver significant economic benefits for the South of Scotland across three main benefit typologies: incidental (temporary result of the pilots), direct (persistent) and downstream (scaled up long term results of the pilots). Across these typologies, there are two main benefit categories: economic (e.g. employment, GVA, cost savings/efficiencies) and environmental/natural capital (e.g. carbon sequestration / GHG emissions reduction, timber production, food provision).
- 4.7 The economic and environmental/natural capital benefits of the Preferred Option have been monetised, for example:
- **Incidental employment** – 100 Direct FTEs, and a further 41 Indirect FTEs, supported in total across the programme delivery period, or c. 16 FTEs per year. Borderlands GVA per FTE: £66,873 (sector F – construction).
  - **Direct employment and GVA** –55 direct FTE jobs will be created across the delivery period, or c. 5.5 FTEs per year. Borderlands GVA per FTE: £93,035 (sectors A-E Production).

The Economic Case also assesses the financial value of the other benefits noted above and calculates the overall economic benefits of the programme £55.5m over a 25 year period and a Benefit-Cost Ratio of 4.6:1 which according to HM Treasury Guidance is "very high value for money".

#### 4.8 **Commercial Case**

The Commercial Case outlines the procurement strategy for the programme together with associated contract management considerations. The projects that make up the Natural Capital programme will be brought forward separately on a timeframe to be agreed with the Programme Board and the Borderlands Partnership and within the timescale of the overarching programme. The projects will adhere to the procurement requirements of funders in terms of the appointment of Delivery Partners and contractual arrangements. Approaches to maximising Community Wealth Building opportunities will also be explored.

#### 4.9 **Management Case**

The Management Case outlines the management structure, governance, and arrangements to ensure the delivery, monitoring and evaluation of the project. The governance structure is currently led by a Working Group that was established to oversee the development and approval of the Programme Business Case. This will be augmented by the establishment of a Programme Delivery Board with representation from key stakeholders, including Scottish Borders Council. It will be the responsibility of the Programme Board to monitor the delivery of project outputs.

4.10 The Programme Business Case is part of a continuous set of approval milestones for the programme in accordance with HM Treasury Green Book guidance. A Full Business Case is required for the Woodland Creation Project (due to the total project budget exceeding the Green Book FBC threshold of £1m), and Business Justification Cases are being produced for the other 5 projects. These will be brought to Council in due course.

## **5 IMPLICATIONS**

### **5.1 Financial**

- (a) Officers remain in discussions with Scottish Government officials regarding the overall Borderlands financial profile for 2023-24 and beyond. Council will be updated on the financial position when this is clarified. Currently, the total funding position for the Natural Capital programme delivery of projects in both Scottish Borders and Dumfries and Galloway is set out below.



<b>Source of funding</b>	<b>Totals</b>
Borderlands Inclusive Growth Deal	£5m
Anticipated Public Sector	£3.34m
Anticipated Private Sector	£0.42m
<b>Totals</b>	<b>£8.77m</b>

- (b) A total of £3.77m is required for the delivery phase of the programme in addition to the investment being provided through the Borderlands Inclusive Growth Deal. This funding will be met from a range of sources, including Scottish Forestry (Forestry Grant Scheme). Council will be informed of the financial profiles for the individual pilots when their business cases are submitted for approval.

## 5.2 Risk and Mitigations

The programme has a risk register laying out all strategic and operational risks with associated mitigations, and this feeds into a wider risk register that the Council maintains for the Borderlands Inclusive Growth Deal programme. The programme risk register is updated and reported to the meetings of the Programme Board.

## 5.3 Integrated Impact Assessment

As part of the Programme Business Case and Project Business cases submission to Government, Integrated Impact Assessments require to be completed. Integrated Impact Assessment will be prepared and submitted to Council for approval to ensure that the projects meet the requirements of the Equality and Fairer Scotland duties.

## 5.4 Sustainable Development Goals

The development of the programme will contribute to the ambitions to be a green, fair and flourishing region, helping to achieve net zero ambitions, and support community wealth building and thriving places. An assessment of this contribution towards the outcomes of the 17 UN Sustainable Development Goals will be undertaken as the programme is taken forward. The projects are currently undertaking Carbon Impact Assessments as part of the Business Case process.

## 5.5 **Climate Change**

As the programme is taken forward, there will be specific assessments undertaken to assess embodied carbon emissions during its implementation and lifecycle. The Carbon Impact Assessment required by Government will also allow for the measurement of carbon impacts. Benefits relating to the five themes set out in the Council's Climate Change Route Map— Resilience, Transport, Nature-based solutions, Energy and Waste— will also be assessed.

## 5.6 **Rural Proofing**

This report does not affect or amend rural proofing policies.

## 5.7 **Data Protection Impact Statement**

There are no personal data implications arising from proposals contained in this report.

## 5.8 **Changes to Scheme of Administration or Scheme of Delegation**

There are no changes to the Scheme of Administration or the Scheme of Delegation as a result of the proposals within this report.

# 6 **CONSULTATION**

- 6.1 The Acting Chief Financial Officer, the Interim Chief Officer Corporate Governance (and Monitoring Officer), the Chief Officer Audit and Risk, the Director of People Performance & Change, the Clerk to the Council and Corporate Communications have been consulted on this report.

**Approved by**

**Jenni Craig**  
**Director, Resilient Communities**

## Author(s)

Name	Designation and Contact Number
Sam Smith	Chief Officer, Economic Development 01835 825612
Louise Cox	Sustainability and Climate Change Manager 01835 824000

**Background Papers:** None.

**Previous Minute Reference:** Council – 26 November 2020.

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