

# Edinburgh and South East Scotland City Region Deal Joint Committee

**10am, Friday 5 March 2020**

## **Fife Industrial Innovation Investment Programme – ESESCR Deal - Full Business Case for Tranche 2**

Item number 5.4

### **Executive Summary**

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This paper seeks approval for the second tranche of investment (years 4 – 6) of the Fife Industrial Innovation Investment (i3) Programme. The Fife i3 Programme is a ten-year investment programme in innovation, business property and employment land in Fife.

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## **Fife Industrial Innovation Investment Programme – Edinburgh and South East Scotland City Region Deal - Full Business Case for Tranche 2**

### **1. Recommendations**

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- 1.1 To approve the Full Business Case (FBC) included as Appendix 1 to this report;
- 1.2 To note that the Full Business Case (FBC) included as Appendix 1 to this report has been approved by Fife Council's Policy & Coordination Committee on 23 November 2020, confirming Fife Council's commitment of the resource required for delivery;
- 1.3 To note that this paper follows the Full Business Case for the Fife i3 Programme, which was approved by this Committee on 1 March 2019; and
- 1.4 To note that a further Full Business Case for the third tranche (years 7 – 10) of investment will be prepared in 2023/24.

### **2. Background**

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- 2.1 The Fife Industrial Innovation Investment (i3) Programme is being delivered as part of the Edinburgh and South East Scotland City Region Deal's innovation theme. The 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.
- 2.2 The business case for a ten-year programme of investment has been approved, along with a detailed business case for the first three years of the programme (Tranche 1). This Business Case (Appendix 1) sets out the detailed arrangements for years four to six of the Fife i3 Programme (Tranche 2) and confirms the agreed profile for investment, grant drawdown and Council's capital contribution.
- 2.3 Since the original Programme business case was approved, the COVID-19 pandemic has affected programme delivery (in particular costs and timescales) and this updated business case reflects a base case expected scenario that factors in the latest information on this and other risks. This is a time of significant uncertainty and, where possible, actions to mitigate risk are being identified and developed in parallel with the delivery of the Programme.

- 2.4 The investment plans for Tranche 2 also reflect a stronger focus on carbon reduction and management measures than the original business case, following the declaration of a climate emergency. The preparation of this business case draws on feasibility work undertaken during Tranche 1 of the programme to explore opportunities to improve the carbon efficiency of the programme across the building life cycle (construction, operation, demolition and/or re-use). This work is ongoing and will continue to inform the approach.
- 2.5 The programme is on track to deliver almost 4,000m<sup>2</sup> of new business accommodation and provide 4.8ha (gross) of immediately available, serviced employment land.

### 3. Main report

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- 3.1 The original Full Business Case for Tranche 1 was based on delivery over 10 years of a total of £48.4m investment. The total programme of investment outlined in this updated business case has increased in response to rising costs of site servicing and construction, bringing the total investment to £50m. The additional investment comes from the Vacant and Derelict Land Fund (VDLF).
- 3.2 Some changes have been made to the Programme to respond to:
- Cost rises (both prior to, and as a result of, COVID-19)
  - Private sector interest in engaging with the Programme to deliver some outputs in a different way
  - Lessons learned from Tranche 1 (particularly in relation to procurement)
  - An increased focus on carbon reduction and a desire to explore refurbishment activity as a means of managing costs and reducing the overall carbon footprint of the programme's activities
  - Lower than expected capital receipts in the early years of the Programme due to loss of net site area available for disposal
  - Rephasing and consolidation of some projects to manage some delays, to deliver improved value for money, and to keep the Programme on budget
  - Reconsideration / delay of projects delivering office space to account for uncertainty about medium/long-term office market prospects post-COVID.
- 3.3 An update on each project in the Programme is provided in Section 3.3 (Table 3) of the appended Full Business Case. Overall, there is a reduction in the expected programme outputs, and an increase in the level of investment required to deliver these outputs. This has arisen due to the significant cost increases (mainly associated with COVID-19). Ongoing cost rises are assumed to continue throughout Tranche 2 of delivery.
- 3.4 An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of the Fife i3 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 updated in line with Tranche 1

delivery (actual and expected). The expected number of permanent jobs created by the Programme has reduced slightly from 1,095 to 1,035. This is still in line with expectations of around a thousand jobs, and the modelling should be considered indicative. The Benefits Realisation Approach for the Programme is shown in Appendix 3 of the Tranche 2 FBC.

- 3.5 Arrangements for internal reporting and issue management within the Council are now established. It is envisaged that these arrangements will continue throughout Tranche 2. This provides three formal escalation points for issues / gateways for decision-making within Fife Council, depending on their severity and importance. The Fife i3 Programme ultimately reports to the Edinburgh and South East Scotland City Region Deal Executive Board and its Joint Committee. As well as regular monthly reporting, this is the escalation point for major issues that threaten the programme's viability.

## 4. Financial impact

- 4.1 The updated Full Business Case for Tranche 2 shows a small increase in the Programme surplus from £14 million in the Programme Business Case to £15.7 million. The NPV for the programme is expected to be a surplus of £3.5 million – this is an increase from the original Programme Full Business Case, which showed a £0.177 million NPV surplus. Any surplus will be managed by Fife Council's Enterprise and Environment Directorate in accordance with Fife Council's medium-term financial strategy.
- 4.2 The results of the latest financial modelling and the movement between the financial modelling for the Programme Business Case and Tranche 2 Business Case are shown in Section 7 of Appendix 1.
- 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 City Deal Financial Plan, the Programme has advanced spend in Year 1, and is on profile for the remainder of its delivery. It is assumed that there will be a reduction in grant in Year 9, recouping early advancement, however this could vary to respond to pressures elsewhere in the wider City Deal Programme.

	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)
Current Position*	(1.433)	(2.840)	(3.748)	(5.173)	(6.317)	(8.046)	(2.852)	(3.928)	(0.663)	(35.000)

\* variable BCIS during Tranche 2

## 5. Alignment with Sustainable, Inclusive Growth Ambitions

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- 5.1 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 innovation focus of the Fife i3 Programme offers an opportunity to support companies to work in new ways that allow them to succeed and create new and better jobs. The Fife i3 Programme aligns with the City Region Deal's Integrated Regional Employability & Skills Programme (IRES), which includes a data-driven innovation (DDI) targeted skills gateway. Together these deliver a strong contribution to inclusive growth.
- 5.2 The commitment to this is unchanged from the original Fife i3 Programme Full Business Case and aligns with the recently approved Benefits Realisation Plan for the Edinburgh and South East Scotland City Region Deal.
- 5.3 Moving into Tranche 2, all sites have been reassessed and a number of new sites considered, based on proximity to the public transport e.g. the Fife Circle railway line. New assessment criteria have been added to support a stronger focus on their low carbon potential and overall sustainability in line with the climate emergency declaration locally and nationally.
- 5.4 The additional criteria considered were:
- Greenfield – greenfield sites are generally not preferred unless they fulfil other sustainability criteria or make a significant contribution to other strategic objectives
  - Passive design – can the site accommodate a passive design, particularly in relation to the orientation of the building to maximise passive solar gain?
  - Renewables – does the site have access to any renewable energy source (e.g. district heat network, air source or solar power)?
  - Vacant and Derelict Land – will the project remediate vacant and derelict land or property?

## 6. Background reading/external references

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- 6.1 [Edinburgh and South East Scotland City Region Deal Joint Committee. Friday, 1st March 2019 10.00 am \(Item 5.4\)](#)
- 6.2 [Fife Council Policy & Coordination Committee. 23 November 2020 \(Item 11\).](#)

## 7. Appendices

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- 7.1 Appendix 1 – Fife Industrial Innovation Investment Programme – Tranche 2 Investment Full Business Case

# **Fife Industrial Innovation Investment Programme – Tranche 2 Investment**

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

Edinburgh and South East of Scotland City Region Deal

**Version No: 0.0**

Issue Date: October 2020

## Purpose of this document

This document sets out the Full Business Case for years 4 to 6 (Tranche 2) of the Fife Industrial Innovation Investment (i3) Programme. It builds on the Full Business Case for the Fife i3 Programme, which was developed and approved in March 2019<sup>1</sup>. This set out the principles of the Programme and a detailed plan for years 1 to 3 (Tranche 1) of investment.

This document updates each of the five cases with the latest information available, including the outlook for recovery from the COVID-19 pandemic and the Programme response to the climate emergency. It considers the detailed arrangements for delivery of the upcoming tranche and affirms that:

- the most economically advantageous investment programme is being delivered;
- the Programme is affordable and financially viable; and
- the required outputs and benefits can be successfully delivered.

## Version history

Version	Date Issued	Brief Summary of Change	Owner's Name
Draft 0.0	17.08.20	First Draft Table Outline	K Marsh
Draft 1.0	24.09.20	First Draft	K Marsh
Draft 2.0	12.10.20	Updated draft reflecting financial model results	K Marsh
FINAL	05.11.20	Approved by FC P&C Cttee	K Marsh

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[https://democracy.edinburgh.gov.uk/documents/s9936/Full Meeting Papers Edinburgh and South East Scotland City Region Deal Joint Committee 01.03.19.pdf](https://democracy.edinburgh.gov.uk/documents/s9936/Full_Meeting_Papers_Edinburgh_and_South_East_Scotland_City_Region_Deal_Joint_Committee_01.03.19.pdf) (see Item 5.4)

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# 1. Executive summary

## Overview

The Fife Industrial Innovation Investment (i3) Programme is being delivered as part of the Edinburgh and South East Scotland City Region Deal's innovation theme. The 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.

The business case for a ten-year programme of investment has been approved, along with a detailed business case for the first three years of the programme (Tranche 1). This business case sets out the detailed arrangements for years four to six of the Fife i3 Programme (Tranche 2).

Since the Programme FBC was approved, the COVID-19 pandemic has affected programme delivery (in particular costs and timescales) and this updated business case reflects a base case expected scenario that factors in the latest information on this and other risks. This is a time of significant uncertainty and, where possible, actions to mitigate risk are being identified and developed in parallel with the delivery of the Programme.

The investment plans for Tranche 2 also reflect a stronger focus on carbon reduction and management measures than the original business case, following the declaration of a climate emergency. The preparation of this business case draws on feasibility work undertaken during Tranche 1 of the programme to explore opportunities to improve the carbon efficiency of the programme across the building life cycle (construction, operation, demolition and/or re-use). This work is ongoing and will continue to inform the approach.

## Phasing and Delivery

The original FBC was based on delivery over 10 years of a total of £48.4m investment. The total programme of investment outlined in this updated business case has increased this is in response to rising costs of site servicing and construction. The additional investment comes from Vacant and Derelict Land Funding (VDLF).

Some changes have been made to Tranche 1 delivery to respond to:

1. Cost rises (both prior to, and as a result of, COVID-19)
2. Private sector interest in developing a site that was originally envisaged for City Deal development – this has created an opportunity to replace a build project with site servicing activity (and servicing a larger site area than originally envisaged)
3. Lessons learned from procurement – much larger than expected economies of scale from procuring larger projects
4. A desire to explore refurbishment activity as a means of managing costs and reducing the overall carbon footprint of the programme's activities
5. Lower than expected capital receipts due to loss of net site area available for disposal (partially recovered in Tranche 1, with further efforts in Tranche 2)

6. Delay to the planned works at Fife Interchange North which have arisen due to site constraints. A risk mitigation plan developed before the Programme commenced to advance preparatory work for a site at Dalgety Bay has been activated and these sites will be reordered, bringing forward the site at Dalgety Bay and pushing back Fife Interchange North. This brings an added opportunity to combine two planned phases of build out into a single consolidated project, delivering improved value for money. The Dalgety Bay project build has also increased in size from 966 m<sup>2</sup> to 1,393 m<sup>2</sup> of floorspace constructed

Overall these changes result in

- An additional 739 m<sup>2</sup> of floorspace (including 692 m<sup>2</sup> of refurbished space)
- 1.7 Ha less serviced land
- An additional £2.8 million in Programme investment costs for this Tranche – these have been met from a combination of Fife Council capital investment, Vacant and Derelict Land Fund (VDLF) grants and accelerated drawn down of City Region Deal grant.

During Tranche 2 further amendments are envisaged to the delivery of the Programme, specifically:

1. Review of commitments to reflect anticipated cost increases relating to Brexit, COVID-19 and carbon reduction measures, and the need to continue to deliver the Programme within the agreed overall funding available
2. Review of all new build projects to look at carbon reduction opportunities, improving building flexibility and future-proofing – a budget allowance of 10% of original expected costs has been added to all Tranche 2 and Tranche 3 projects to allow for changes to be implemented
3. Reconsideration / delay of projects delivering office space to account for uncertainty about office market prospects post-COVID
4. Additional build at West Way, Dalgety Bay, delivering more floorspace at this location – this project will be accelerated and will now be delivered during Tranche 1 of the Programme
5. A single phase build out at Fife Interchange North, with the previously envisaged Tranche 1 investment delayed to Tranche 2 and the two projects combined. The overall floorspace being delivered has reduced from 2,787 m<sup>2</sup> to circa 2,300 m<sup>2</sup>. The site will still be acquired and serviced during Tranche 1.
6. Development of risk mitigating measures reflecting the significant uncertainty in the wider environment relating to land values, development costs, rental demand and the wider macroeconomic environment.

Overall these changes result in

- A reduction in completed floorspace of 2,381 m<sup>2</sup>
- No change to the expected area of land serviced

- A reduction of £1.8 million in Programme investment costs for this Tranche. This offsets some aspects of increase during Tranche 1 that were simply accelerated spend, rather than additional monies.

It is envisaged that further changes will be required to Tranche 3 of the Programme. At this point these have not been explored in detail, but it is clear that the development envisaged in the original Programme FBC is no longer deliverable due to accelerating costs beyond the level of inflation used to develop the original business case and the financial implications of changes to respond to the climate emergency. In order to put forward a viable Programme the following changes have been made to Tranche 3:

1. The two investments proposed in Glenrothes – the Queensway Innovation Centre and the industrial investment at Westwood Park have been combined into a single project. The exact nature and location of this investment will be determined when there is more clarity on the longer term nature of any changes arising from COVID-19. The combined budget for this is £5.8m (the original budget for both projects being delivered separately totalled £9.1m). An assumed build out of circa 1,600 m<sup>2</sup> has been assumed for the purposes of modelling benefits.
2. The development of 966 m<sup>2</sup> at Site 3 in Dalgety Bay has been removed from the Programme. The site will still be serviced in Tranche 2 of the Programme as originally envisaged but will then be marketed for sale rather than developed by Fife Council.

Overall these changes result in

- An increase in completed floorspace of 132 m<sup>2</sup>
- No change to the expected area of land serviced
- An increase of £0.9 million in Programme investment costs for this Tranche. This balances the total budget for the Programme as a whole.

The impact of these changes for each Tranche and for the Programme as a whole is summarised in the table below:

**Table 1: Overview of Expected Programme Outputs**

	Original FBC	Updated FBC	Variance
<b>Phase 1 (Years 1-3)</b>			
New Build	3,227 m <sup>2</sup>	3,966 m <sup>2</sup>	+ 739 m <sup>2</sup>
Site Servicing	7.8 ha unlocked	6.1 ha unlocked	- 1.7 ha
Acquisitions	2	2	No change
Investment	£13.5m	£16.3m	+ £2.8m
<b>Phase 2 (Years 4-6)</b>			
New Build	7,063 m <sup>2</sup>	4,682 m <sup>2</sup>	- 2,381 m <sup>2</sup>
Site Servicing	3.9 ha unlocked	3.9 ha unlocked	No change
Acquisitions	0	0	No change
Investment	£23.9m	£22.1m	- £1.8m
<b>Phase 3 (Years 7-10)</b>			
New Build	1,932 m <sup>2</sup>	2,064 m <sup>2</sup>	+ 132 m <sup>2</sup>
Site Servicing	47 ha unlocked	47 ha unlocked	No change
Acquisitions	0	0	No change
Investment	£10.2m	£11.1m	+ £0.9m
<b>Broadband</b>			
Investment	£0.7m (over 10 years)	£0.5m (over 7 years)	- £0.2m
<b>Programme Total</b>			
New Build	12,222 m <sup>2</sup>	12,105 m <sup>2</sup>	- 1,510 m <sup>2</sup>
Site Servicing	59 ha unlocked	57 ha unlocked	- 2 Ha
Acquisitions	2	2	No change
Investment	£48.4m	£50m	+ £1.6m

The need for flexibility during the 10-year investment programme continues to be required. Several factors could potentially alter which projects should be prioritised. These factors include:

- Securing of statutory consents;
- Abnormal costs e.g. onerous ground conditions;
- Changes in market conditions and the wider economy (especially as a result of COVID-19);
- Changes in development costs, including construction costs (especially as a result of COVID-19 and BREXIT); and
- Specific investment opportunities that may emerge.

The Programme will be formally reviewed at the end of Phases 1 and 2, and upon its completion. Lessons learned from reviews will be incorporated into future projects and phases. Work to prepare for the Tranche 3 business case will begin in Quarter 3 of financial year 2023/24.

## **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.

Moving into Tranche 2, all sites have been reassessed and a number of new sites considered, based on proximity to the Fife Circle railway line. New assessment criteria have been added to support a stronger focus on low carbon potential and overall sustainability.

The additional criteria considered were:

- Greenfield – greenfield sites are generally not preferred unless they fulfil other sustainability criteria or make a significant contribution to other strategic objectives
- Passivehus – can the site accommodate a passivehus design, particularly in relation to the orientation of the building to maximise passive solar gain?
- Renewables – does the site have access to any renewable energy source (e.g. district heat network, air source or solar power)?
- Vacant & Derelict Land – will the project remediate vacant and derelict land or property?

Phase 1 of the programme is developing sites at:

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

Industrial market demand has held relatively firm in the face of COVID-19 disruption and whilst there are some short term challenges, it is not anticipated that the Programme will suffer from a long term drop in rental income from these properties. There is, however, significant uncertainty around prospects for office demand. Whilst it is envisaged that the office market will strengthen again within the lifetime of the Fife i3 Programme, it is not clear at this point what the specific requirements of office occupiers will be. It is therefore proposed that office projects in Tranche 2 will be subject to review and possible reconfiguration or delay. This business case sets out current preferred options for these projects but it is anticipated that these will be subject to change beyond what would normally be expected at this stage of development.

This affects proposed projects in:

- Kirkcaldy Town Centre;
- Cowdenbeath Town Centre; and
- Queensway Business & Technology Park (Innovation Centre Project).

## Expected Benefits

An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of the Fife i3 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 updated in line with Tranche 1 delivery (actual and expected). The table below summarises the movement predicted by the EIA model between the preparation of the Programme FBC and the latest position.

**Table 2: Overview of Expected Programme Benefits**

	Original FBC	Updated FBC	Reason for movement
Permanent jobs (net average p.a.)	1095	1035	Loss of land at Fife Interchange North as a result of planning requirements. Reduction in scope of some projects to reduce floorspace completed.
Gross Construction Jobs (cumulative)	596	1,229	Inclusion of VDLF and other funding – partly to address additional COVID costs – based on assumptions from FBC and new metrics may be required to reflect significant changes created by COVID-19.
GVA per £1 invested	£28	£24	Rising costs meaning increased expenditure, and reduced project outputs
Cost per job	£44,340	£49,224	Inclusion of VDLF and other funding – partly to address additional COVID costs, alongside reduction in projected number of jobs

The Benefits Register is set out in Appendix 3.

## 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 innovation focus of the Fife i3 Programme offers an opportunity to support companies to work in new ways that allow them to succeed and create new and better jobs. The Fife i3 Programme aligns with the City Region Deal's Integrated Regional Employability & Skills Programme (IRES), which includes a data-driven innovation (DDI) targeted skills gateway. Together these deliver a strong contribution to inclusive growth.

The commitment to this is unchanged from the original Fife i3 Programme Full Business Case and aligns with the recently approved Benefits Realisation Plan for the Edinburgh and South East Scotland City Region Deal.

## **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 i3 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.

For Tranche 1 of the programme, these risks were allocated to Fife Council. The intention during Tranche 2 is to begin to risk-share with the private sector on some projects through different development models (e.g. joint ventures).

## **Funding and Affordability**

The Programme FBC showed a surplus of £14m, and the NPV for the programme was expected to be 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.

This updated FBC shows a small increase in the Programme surplus from £14 million in the Programme Business Case to £15.7 million. The NPV for the programme is expected to be a surplus of £3.5 million – this is an increase from the original Programme FBC, which showed a £0.177 million NPV surplus. Any surplus will be managed by the directorate in accordance with Fife Council's 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. As well as regular monthly reporting, this would be the escalation point for major issues that threaten the programme.

Arrangements for internal reporting and issue management are now established and it is envisaged that these arrangements will continue throughout Tranche 2 of the Programme. This provides three formal escalation points for issues / gateways for decision-making within Fife Council, depending on their severity and importance:

- The Fife i3 Programme Manager
- The Fife i3 Programme Board
- The Sustainable Growth and City Deals Board.

## 2. Introduction

### 2.1 Objective of this Business Case

1. This document sets out the Full Business Case for years 4 to 6 (Tranche 2) of the Fife Industrial Innovation Investment (i3) Programme. It builds on the Full Business Case for the Fife i3 Programme, which was developed and approved in March 2019. The Programme business case can be found online at [https://democracy.edinburgh.gov.uk/documents/s9936/Full Meeting Papers Edinburgh and South East Scotland City Region Deal Joint Committee 01.03.19.pdf](https://democracy.edinburgh.gov.uk/documents/s9936/Full%20Meeting%20Papers%20Edinburgh%20and%20South%20East%20Scotland%20City%20Region%20Deal%20Joint%20Committee%2001.03.19.pdf) (see Item 5.4). The Programme business case set out the principles of the Programme and a detailed plan for years 1 to 3 (Tranche 1) of investment.
2. This document updates each of the five cases with the latest information available, including the outlook for recovery from the COVID-19 pandemic. It considers the detailed arrangements for delivery of the upcoming tranche and affirms that:
  - the most economically advantageous investment programme is being delivered, also taking into account sustainability and inclusion objectives;
  - the Programme is affordable and financially viable; and
  - the required outputs and benefits can be successfully delivered.

### 2.2 Structure of this Business Case

3. This Final Business Case adopts the 5-Case structure and together these show how the ongoing delivery of 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

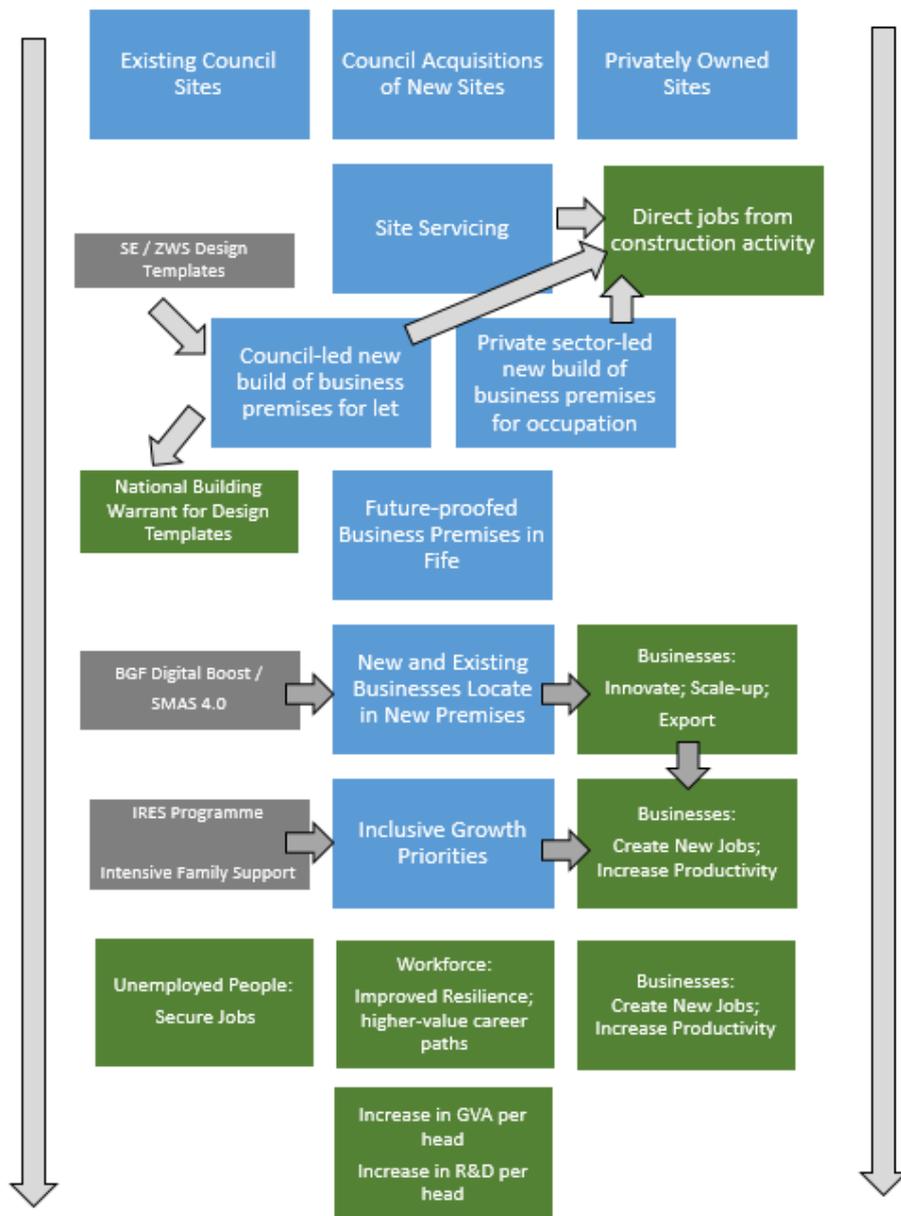
4. The principal stakeholders for the Programme's delivery are Fife Council, the partners in the Edinburgh and South East of Scotland City Deal, and Scottish Enterprise in its role as national economic development agency but also in its role as a current and potentially future joint venture partner. Other important stakeholders include the Fife Economy Partnership; the Fife business community; private landowners and developers; and the workforce in Fife and other parts of the City Region.

### 3. Programme Description

#### 3.1 Overview

- The Fife i3 Programme is being delivered as part of the Edinburgh and South East Scotland City Region Deal’s innovation theme. The 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. The diagram below provides an overview of the Programme, including both public and private sector-led elements.

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



### 3.2 Phasing and Delivery

6. The Fife i3 Programme is being delivered in three Tranches of investment:
  - Tranche 1 (Years 1 to 3 of the Programme): 3-year duration
  - Tranche 2 (Years 4 to 6 of the Programme): 3-year duration
  - Tranche 3 (Years 7 to 10 of the Programme): 4-year duration
7. The business case for a ten-year programme of investment has been approved, along with a detailed business case for the first three years of the programme (Tranche 1). This business case sets out the detailed arrangements for years four to six of the Fife i3 Programme (Tranche 2). The updated 10-year Investment Programme is set out in Table 9.
8. The Fife i3 Programme builds on and complements previous investment in site infrastructure e.g. Queensway Industrial Estate and a number of previous projects funded by Fife Council, Scottish Enterprise and Scottish Government. It includes direct investment by the Council in its existing land holdings, and new acquisitions, as well as working in partnership with private sector landowners and developers to leverage additional investment and funding into Fife and the City Region. The Programme will also explore alternative development models as part of the upcoming Tranche of investment.
9. The original FBC was based on delivery over 10 years of a total of £48.4m investment. The total programme of investment outlined in this updated business case has increased to £50m – this is in response to rising costs of site servicing and construction. The additional investment comes from Vacant and Derelict Land Funding (VDLF).
10. Some changes have been made to Tranche 1 delivery to respond to:
  - Cost rises (both prior to, and as a result of, COVID-19)
  - Private sector interest in developing a site that were originally envisaged for City Deal development – this means replacing a build project with site servicing activity (and servicing a larger site area than originally envisaged)
  - Lessons learned from procurement – much larger than expected economies of scale from procuring larger projects
  - A desire to explore refurbishment activity as a means of managing costs and reducing the overall carbon footprint of the programme's activities
  - Lower than expected capital receipts due to loss of net site area available for disposal (partially recovered in Tranche 1, with further efforts in Tranche 2)

11. During Tranche 2 further amendments are envisaged to the delivery of the Programme, specifically:
- Review of commitments to reflect anticipated cost increases relating to Brexit, COVID-19 and carbon reduction measures, and the need to continue to deliver the Programme within the agreed overall funding available
  - Review of all new build projects to look at carbon reduction opportunities – a budget allowance of 10% of original expected costs has been added to all Tranche 2 and Tranche 3 construction projects to allow for changes to be implemented
  - Reconsideration / delay of projects delivering office space to account for uncertainty about office market prospects post-COVID
  - Additional build at West Way, Dalgety Bay, delivering more floorspace at this location – this project will be accelerated and will now be delivered during Tranche 1 of the Programme
  - A single phase build out at Fife Interchange North, with the previously envisaged Tranche 1 investment delayed to Tranche 2 and the two projects combined. The overall floorspace being delivered has reduced from 2,787 m<sup>2</sup> to circa 2,300 m<sup>2</sup>. The site will still be acquired and serviced during Tranche 1.
  - Development of risk mitigating measures reflecting the significant uncertainty in the wider environment relating to land values, development costs, rental demand and the wider macroeconomic environment.
12. It is envisaged that further changes will be required to Tranche 3 of the Programme. At this point these have not been explored in detail, but it is clear that the development envisaged in the original Programme FBC is no longer deliverable due to accelerating costs beyond the level of inflation used to develop the original business case and the financial implications of changes to respond to the climate emergency. In order to put forward a viable Programme the following changes have been made to Tranche 3:
- The two investments proposed in Glenrothes – the Queensway Innovation Centre and the industrial investment at Westwood Park have been combined into a single project. The exact nature and location of this investment will be determined when there is more clarity on the longer-term nature of any changes arising from COVID-19. The combined budget for this is £5.8m (the original budget for both projects being delivered separately totalled £9.1m). An assumed build out of circa 1,600 m<sup>2</sup> has been assumed for the purposes of modelling benefits.
  - The development of 966 m<sup>2</sup> at Site 3 in Dalgety Bay has been removed from the Programme. The site will still be serviced in Tranche 2 of the Programme as originally envisaged but will then be marketed for sale, rather than developed by Fife Council.

13. Fife Council worked with Scottish Enterprise and Zero Waste Scotland, within a wider UK and global challenge of climate change and the government objectives set-out in policies such as "Making Things Last" - the Scottish Government policy for a "circular economy strategy to build a strong economy, protect our resources and support the environment" Scottish Enterprise, Zero Waste Scotland, Construction Scotland Innovation Centre and their partners launched PORTAL, as a new-way of thinking about how we deliver quality industrial space and premises in Scotland. PORTAL is an approach to building. Not a building solution, It is a product based on improving the value of our buildings while also taking positive steps towards meeting the challenges of the Circular Economy. The PORTAL product is built around a methodology and toolkit that offers a staged approach to designing industrial buildings. For further detail see: <https://www.cs-ic.org/innovationcentre/innovation-support/online-resources/project-portal/>
14. During Tranche 1 this work has been further developed with consultants appointed to carry out a feasibility review of the standard specification and cost plans for the industrial units at Fife Interchange North that have been developed by the Council over the last 3 years by using the Portal framework. The intention is that the findings from this feasibility work will influence the approach to delivery in Tranche 2 of the Programme.
15. The need for flexibility during the 10-year investment programme continues to be required. Several factors could potentially alter which projects should be prioritised. These factors include:
  - 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 (due to COVID-19 related and other factors) and
  - Specific investment opportunities that may emerge.
16. The Programme will be formally reviewed at the end of Tranches 1 and 2, and upon its completion. Lessons learned from reviews will be incorporated into future projects and tranches, and the approach set out in this FBC will be continuously refined in advance of, and during, its delivery. Work to prepare for the Tranche 3 business case will begin in Quarter 3 of financial year 2023/24.
17. The first tenants of the Programme are expected to take up leases in spring 2021. This is later than outlined in the Programme FBC. The delay is due to a complete construction site shutdown due to COVID-19 restrictions and an eventual resumption with additional distancing measures in place, which mean that work is progressing at a slower rate than previously envisaged. There is uncertainty over the duration of build required for the remainder of Tranche 1 and subsequent tranches. This business case assumes that Tranche 2 projects will take longer, and cost more, with a base case assumption that draws on experience from site restart onwards in Tranche 1 (i.e. it assumes no additional complete lockdowns, although it is recognised that this remains a possibility it is not possible to predict or

programme these). In all cases the Programme will respond to Government guidance on safety measures and this may result in additional delays.

18. A Programme letting and disposal policy and an engaging tenancy application process have been developed as part of Tranche 1 delivery, however at the time of the preparation of this business case these had not yet gone live. Work has also begun to develop links with other parts of the Data-Driven Innovation (DDI) Programme, in particular the DDI Hubs. It is envisaged that these links will strengthen once the Fife i3 Programme has
  - property available for rent that may be suitable for tenants whose requirements can't be accommodated by the DDI Hubs and
  - tenants in situ who can benefit from access to some aspects of the DDI Programme.
19. These linkages form part of a wider package of tailored support for all tenants in the Fife i3 Programme that focuses on innovation support and raising awareness of digital opportunities.

### **3.3 Prioritisation of Sites**

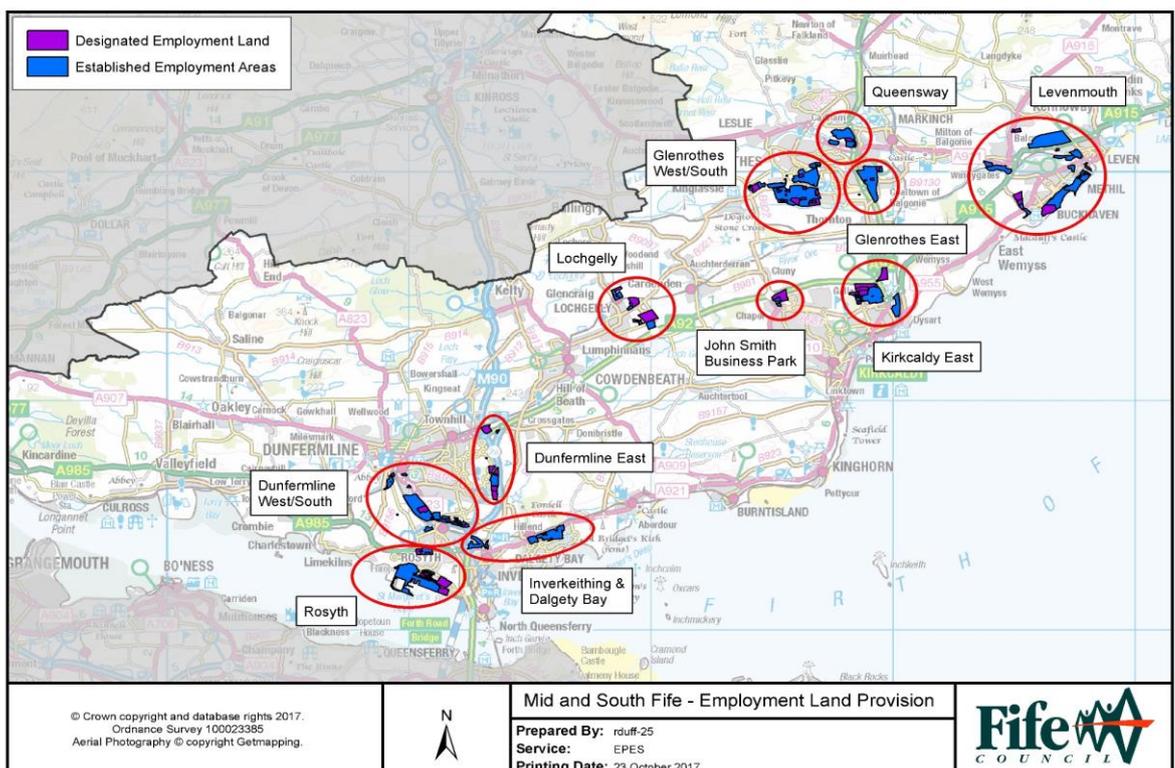
20. All potential employment sites within the Fife Employment Land Audit<sup>2</sup> including Fife Council's industrial portfolio were assessed in terms of priority and risk, based on the criteria drawn from agreed Fife Council priorities e.g. those detailed in FIFEplan. These factors include:
  - Supports 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.
21. 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.
22. Tranche 1 of the programme is developing sites at:
  - Queensway Industrial Estate, Glenrothes
  - Fife Interchange, Dunfermline
  - Dunnikier Business Park, Kirkcaldy
  - The Avenue, Lochgelly and
  - Hillend and Donibristle Industrial Estate, Dalgety Bay.

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<sup>2</sup> [https://www.fifedirect.org.uk/uploadfiles/publications/c64\\_FINAL\\_ELA20161.pdf](https://www.fifedirect.org.uk/uploadfiles/publications/c64_FINAL_ELA20161.pdf)

23. Moving into Tranche 2, all sites were reassessed and additional sites considered, with criteria added to support a stronger focus on low carbon potential and overall sustainability.
24. The additional criteria considered were:
  - Greenfield – greenfield sites are generally not preferred unless they fulfil other sustainability criteria or make a significant contribution to other strategic objectives
  - Passive design – can the site accommodate a passive design, particularly in relation to the orientation of the building to maximise passive solar gain?
  - Renewables – does the site have access to any renewable energy source (e.g. district heat network, air source or solar power)?
  - Vacant & Derelict Land – will the project remediate vacant and derelict land or property?
25. The geographical spread of projects across Fife is set out in Figure 2. This is unchanged from what was envisaged in the Programme FBC, although some changes to the specifications, detailed designs and site layouts will be incorporated to reflect the increased focus on carbon reduction. The Programme will continue to adapt and respond to opportunities for carbon reduction and more sustainable practices.

**Figure 2: Map of Fife i3 Programme Investment Locations and relevant Employment Land Designations**



26. Since the Programme FBC was approved, the COVID-19 pandemic has affected programme delivery (in particular costs and timescales) and this updated business case reflects a base case expected scenario that factors in the latest information on this and other risks. This is a time of significant uncertainty and, where possible, actions to mitigate risk are being identified and developed in parallel with the delivery of the Programme.
27. Industrial market demand has held relatively firm in the face of COVID-19 disruption and whilst there are some short-term challenges, it is not anticipated that the Programme will suffer from a long term drop in rental income, or loss of demand, from these properties. There is, however, significant uncertainty around prospects for office demand. Whilst it is envisaged that the office market will strengthen again within the lifetime of the Fife i3 Programme, it is not clear at this point what the specific requirements of office occupiers will be. It is therefore proposed that office projects in Tranche 2 will be subject to review and possible reconfiguration or delay. This business case sets out current preferred options for these projects but it is anticipated that these will be subject to change beyond what would normally be expected at this stage of development.
28. This affects proposed projects in:
- Kirkcaldy Town Centre;
  - Cowdenbeath Town Centre; and
  - Innovation Centre Project at Queensway Business & Technology Park.
29. The investment plans for Tranche 2 also reflect a stronger focus on carbon reduction and management measures than the original business case, following the declaration of a climate emergency. The preparation of this business case draws on feasibility work undertaken during Tranche 1 of the programme to explore opportunities to improve the carbon efficiency of the programme across the building life cycle (construction, operation, demolition and/or re-use).
30. All proposed Projects outlined in the Programme Business Case are briefly outlined in the Table below, with a short update on their current status:

**Table 3: Project Updates**

Site and Location	Project Type	Latest Update
<b>Tranche 1</b>		
Glenrothes – Queensway Ind Est	Construction – Business Units, use class 4, 5 and 6	Floorspace increased from Programme FBC. Project completion delayed due to COVID-19 by approx. 6 months.
Dunfermline – Fife Interchange N.	Site Servicing	Project delayed due to issues with foul water drainage by approx. 1 year.

Dunfermline – Fife Interchange N. (Phase 1)	Construction – Business Units, use class 4, 5 and 6	This project has been moved into Tranche 2 and combined with Phase 2 Build Project.
Kirkcaldy – Dunnikier Business Park	Construction – Business Units, use class 4, 5 and 6	This project has been delayed due to COVID-19 by approx. 6 months but is otherwise unchanged.
Dalgety Bay – Hillend & Dalgety Bay Ind Est, Ridgeway	Site Acquisition	This project is now complete.
Lochgelly – The Avenue	Construction – Business Units, use class 4, 5 and 6	This project has been closed and replaced with a site servicing project (detailed below).
Lochgelly – The Avenue	Site Servicing	A private sector interest has emerged, and it is now proposed that a site of approx. 2 ha is serviced at this location. A portion will then be sold for private development (similar to what was proposed in the Programme FBC).
Dalgety Bay – Hillend & Dalgety Bay Ind Est (Site 3)	Site Acquisition	Expected to go ahead as envisaged in Programme FBC.
Dalgety Bay – West Way	Site Servicing	Expected to go ahead as envisaged in Programme FBC.
Glenrothes – Queensway Ind Est New project (pilot)	Refurbishment – use class 4 and 5	A new project to refurbish an existing building. This supports wider regeneration efforts on this Industrial Estate and offers a potential carbon and cost saving.
Dalgety Bay – Hillend & Dalgety Bay Ind Est	Construction – Business Units, use class 4, 5 and 6	Additional floorspace to be delivered at this location to benefit from economies of scale in procurement. This project will be accelerated from Tranche 2 to replace the build project at Fife Interchange North.
<b>Tranche 2</b>		
Dalgety Bay – Hillend & Dalgety Bay Ind Est, West Way	Construction – Business Units, use class 4, 5, 6	This project will now be delivered during Tranche 1.

Dalgety Bay – Hillend & Dalgety Bay Ind Est, Site 1 & Site 3	Site Servicing (x2)	Expected to go ahead as envisaged in Programme FBC.
Kirkcaldy – John Smith Business Park	Construction – Business Units, use class 4 and 5	Expected to go ahead as envisaged in Programme FBC. Possibility of developing additional floorspace (new build or refurb) at this location in event of any underspend elsewhere
Dunfermline – Fife Interchange North	Construction – Business Units, use class 4, 5, 6	Site will be acquired during Tranche 1 – due to delay in acquisition this project will be delivered in a single phase, and the combined floorspace will be reduced from 2,787 m <sup>2</sup> to circa 2,300 m <sup>2</sup>
Buckhaven – Levenmouth Business Park	Construction – Business Units, use class 4, 5, 6	Expected to go ahead as envisaged in Programme FBC.
Glenrothes – Flemington Road,	Construction – Innovation Centre, use class 4 and 5	Significant doubt over the scope, specification and timing of this project. COVID-19 impact on office / innovation provision is still not clear. <b>Project delayed until Tranche 3.</b>
Kirkcaldy – Town Centre	Construction (or refurb / fit out) – office space, use class 4	No site identified yet for this to go ahead. Significant doubt over the scope, specification and timing of this project. COVID-19 impact on office / innovation provision is still not clear. <b>Project delayed until Tranche 3.</b>
Cowdenbeath – Town Centre	Construction – office space, use class 4	Preferred site and partner identified – project specification under review to enable self-contained provision to reduce unplanned interaction between tenants. Expected to go ahead with modifications. The budget has been reduced to reflect the changed specification.

Tranche 3		
Glenrothes – Further Investment	Construction (nature and location tbc)	This project will combine the proposed investment in the Queensway Innovation Centre and at Westwood Business Park. The combined budget has been reduced and it is envisaged that there a single development of circa 1,600 m <sup>2</sup> will be brought forward
Dalgety Bay – Hillend & Dalgety Bay Ind Est, Site 3	Construction – Business Units, use class 4, 5, 6	This project will be closed. Once this site is serviced (during Tranche 2) it will be immediately marketed for sale
Kirkcaldy – Mitchelston Ind Est	Site Servicing	Expected to go ahead as envisaged in Programme FBC.
Rosyth – Waterfront	Site Servicing / Infrastructure	Expected to go ahead as envisaged in Programme FBC.
Kirkcaldy – Town Centre	Construction – Innovation Centre	Delayed from Tranche 2, this project is likely to change significantly in its scope.

31. The two new projects at Lochgelly (change form construction to site servicing) and Glenrothes, Queensway Industrial Estate (refurbishment of Q10) are set out in more detail in Appendix 1.

### 3.4 Programme Objectives and Expected Benefits

32. The Strategic Objectives for the Fife i3 Programme, set out in the Programme FBC are, by 2029:
- To increase the supply of modern business accommodation and facilitate investment by the private sector, by servicing 60 ha of employment land; and building 12,000 m<sup>2</sup> of 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.

33. Whilst there has been a small reduction on the expected outputs of serviced land and business floorspace, the Programme is still on track to deliver its objectives and support the creation of around 1,000 permanent skilled jobs.
34. The Fife i3 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.
35. 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.
36. These strategic objectives developed for the Programme business case remain relevant and continue to be the guiding principles of all investment and activity delivered by the Programme.
37. An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of the Fife i3 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 updated in line with Tranche 1 delivery (actual and expected) and the revisions to the Programme planned for Tranches 2 and 3 put in place to keep the Programme viable despite significant changes to external conditions.
38. The table below summarises the movement predicted by the EIA model between the preparation of the Programme FBC.

**Table 4: Overview of Expected Programme Benefits**

	<b>Original FBC</b>	<b>Updated FBC</b>	<b>Reason for movement</b>
Permanent jobs (net average p.a.)	1095	1035	Loss of land at Fife Interchange North as a result of planning requirements
Gross Construction Jobs (cumulative)	596	1,229	Inclusion of VDLF and other funding – partly to address additional COVID costs – based on assumptions from FBC and new metrics may be required to reflect significant changes created by COVID-19.
GVA per £1 invested	£28	£24	Rising costs meaning increased expenditure, and reduced project outputs
Cost per job	£44,340	£49,224	Inclusion of VDLF and other funding – partly to address additional COVID costs, alongside reduction in projected number of jobs

39. The Benefits Register is set out in Appendix 3. This shows the expected level of benefits from the programme in relation to:

- Private sector investment leveraged
- Companies supported to become innovation-active
- Direct jobs created by specific investment location
- Salary levels for “better quality jobs” supported by the programme
- Rental levels by specific investment location (subject to inflation increases, and in line with market rents for the local area)
- Sites acquired and, where relevant, serviced and disposed.

## 4. Strategic case

### 4.1 The Strategic Context

40. This section sets out how the Programme will contribute to the relevant strategic objectives at local, regional and national levels. Since the preparation of the Programme FBC, a number of additional relevant strategic documents have been published. This FBC takes a number of key changes into account including findings and recommendations from

- Scottish Infrastructure Commission’s Key Findings (Jan 2020) and Delivery Findings Reports (July 2020)
- The Scottish Government’s inclusive growth outcomes and equalities work
- Climate Fife – The Sustainable Energy and Climate Action Plan (SECAP) for Fife
- The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019
- The Emerging National Transport Strategy
- The report findings of the Advisory Group on Economic Recovery (Higgins Report)
- The interim Regional Spatial Strategy for Edinburgh and South East Scotland
- The emerging Regional Growth Framework for the Edinburgh and South Scotland City Region

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

41. 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;
- Scotland’s Economic Strategy
- The Scottish Government’s Inclusive Growth Outcomes Framework and the “5 Ps” of Productivity, Population, Participation, People and Place)
- The Infrastructure Commission for Scotland’s Phase 1 Key Findings Report “A Blueprint for Scotland” (January 2020) and Phase 2 Delivery Findings Report (June 2020), and its key recommendations on
  - Prioritising an Inclusive Net Zero Carbon Economy
  - Enabling Sustainable Places
  - Delivering a Thriving Construction Sector, with a focus on skills development and modern methods of construction
 which have strongly informed the refresh of priorities for Tranche 2 of the Programme
- The Climate Change (Emissions Reduction Targets) (Scotland) Act 2019
- The report findings of the Advisory Group on Economic Recovery (Higgins Report)
- The Emerging National Transport Strategy
- A Manufacturing Future for Scotland Action Plan, 2016

42. 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 i3 Programme to relevant National Outcomes and Strategies**

<b>Scottish Government Purpose</b>	To create a more successful country with opportunities for all through increasing sustainable economic growth			
<b>Scottish Government National Outcomes</b>	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
<b>Scottish Government National Strategies</b>	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
<b>Strategic outcomes</b>	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.
<b>Contribution by the Fife Investment Programme</b>	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
<b>Longer-terms outcomes supported by the Programme</b>	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		

43. The Fife i3 Programme contributes to regional and local policy objectives outlined in:
- The Edinburgh and South East of Scotland City Region Deal;
  - Draft SESplan 2016;
  - The interim Regional Spatial Strategy for Edinburgh and South East Scotland
  - The emerging Regional Growth Framework for the Edinburgh and South Scotland City Region
  - Climate Fife – The Sustainable Energy and Climate Action Plan (SECAP) for Fife
  - Fife's Local Outcome Improvement Plan – The Plan4Fife;
  - Fife's Economic Strategy 2017 – 2027; and
  - FIFEplan 2017.
44. 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**

45. The proposed Fife i3 Programme is designed to meet an identified, long-term supply challenge in Fife for modern office and industrial space and effective employment land.
46. The Programme Business Case drew on research by Ryden, carried out in 2014, which identified widespread obsolescence in Fife's Industrial Estates, Business Parks and mixed (industrial / office) estates. The Ryden report also highlighted the lack of an effective employment land supply, recognising that 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.
47. These challenges around effective land supply and modern property continue to exist, despite the significant disruption of COVID-19.

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

48. Fife Council is the largest single landlord in Fife for commercial property and therefore has been able to monitor demand over the course of the pandemic. Whilst some challenges remain with rental arrears, most tenants are now back on a positive footing and demand (as evidenced by enquiries) has largely recovered for industrial property. Office demand has a much more uncertain outlook, with significant shift to home working for most office staff it is unclear at this stage what the longer term equilibrium will look like but early indications are that not all office workers, or employers, will return to a working pattern of five-days in the office. Meantime, until a vaccine is developed, the risk of short-term disruption, is acute and ongoing and most pronounced in the office sector.
49. The Programme Business Case was based on long-term trends away from heavy manufacturing and more businesses seeking smaller, more 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.
50. Fife's business base is more dependent on SMEs than the Scottish average and the strongest demand is strongest for units up to around 500 m<sup>2</sup>. The Fife i3 Programme targets this market specifically with modern, flexible properties of around 100 m<sup>2</sup> (some with options to combine to deliver larger units).
51. Uptake of employment land has been relatively constant since 2013 at around 40 ha per year of completed development. A period of lockdown in 2020 will affect completions, but there is little indication of a slowdown in the underlying demand, with enquiries for sites during Tranche 1 of the Fife i3 Programme remaining strong.

### 4.3.3 Market Failure

52. 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 per m<sup>2</sup> built, inclusive of all construction costs and professional fees. The private sector through the Fife Investment Delivery group has indicated that, at this cost, development in Fife is unviable. Early procurement activity for Tranche 1 delivered a cost of c £2,750 per m<sup>2</sup> constructed (pre COVID-19) – these costs have risen by a further 14 – 15% as a result of COVID-related additional costs.
53. There is clear market failure for private sector provision of the essential infrastructure required to increase the stock of serviced employment land capable of development, as well as developing new employment units.
54. 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 continues to satisfy the requirements of both local and mobile occupiers.

### 4.3.4 Programme Delivery Approach

55. In Tranche 1 of the programme, the individual projects were undertaken directly by Fife Council on sites within its control to minimise risk of slippage. Tranche 1 also included acquisitions of sites to be serviced in subsequent tranches.
56. Work has been commissioned to consider different approaches to stimulate private sector investment and risk share with partners in the private sector and this is being developed in preparation for Tranches 2 and 3 of the Programme. Specific opportunities have been identified and discussion with potential Joint Venture partners have begun.
57. All properties and sites delivered by the Fife i3 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. A policy for letting and disposal has been drawn up and agreed for the Programme during Tranche 1 to ensure that tenants have the innovation focus that the Programme is designed around.

## 5. Economic case

### 5.1 Economic Objectives of the Fife i3 Programme

58. The Fife i3 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 4 below.

**Figure 4: 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 Options Appraisal

59. The table below sets out options considered for the delivery of the Fife i3 Programme looking at the areas of
- Scope – the extent and coverage of the Programme’s activities
  - Solution – the nature of the response
  - Delivery – the nature of implementation (in this case construction and property management)
  - Implementation – the duration of the Programme
  - Funding – the funding approach and sources used
60. It highlights where a change to the Preferred Way Forward (PWF) has been identified between current thinking and what was outlined in the Programme Business Case.

**Table 5: Options Appraisal**

	Option 1	Option 2	Option 3
Scope (no change to PWF)	Focus all investment on mid-Fife	Focus all investment on areas with higher demand (Forth Bridgehead and Dunfermline)	Balance investment over the six areas covered by Edinburgh & SE Scotland City (Programme Business Case PWF)
Solution (change to PWF to increase focus on carbon reduction and re-use of existing assets)	Focus exclusively on site servicing and new build – a mix of office and industrial property (Programme Business Case PWF)	Focus mainly on-site servicing and new build, with a small refurbishment element to deliver carbon and financial savings – principally focus on industrial / hybrid space, reduced office investment	Reduce site servicing and new build elements to bring forward a significant refurbishment programme (potential consideration for Tranche 3, or by variation to Tranche 2)
Delivery (no change to PWF)	Procure using design and build or other private sector led approaches – to be explored during Tranche 2	Procure using in-house methods (Programme Business Case PWF)	Develop Joint Ventures with private sector (or other public sector) partners – to be developed during Tranche 2
	Outsource management of property	Manage in-house via Fife Council Business Property Team (Programme Business Case PWF)	No management – dispose of property on completion
Implementation (no change to PWF)	Implement over 8 years, in three phases	Implement over 10 years, in three phases (Programme Business Case PWF)	Implement over 12 years, in four phases
Funding (change to PWF to bring in a wider range of funding sources)	Fund via a mix of <ul style="list-style-type: none"> <li>• City Deal grant</li> <li>• Fife Council capital and</li> <li>• capital receipts generated by the Programme</li> <li>• private sector leverage and</li> <li>• VDLF</li> </ul> Explore potential low carbon funding sources	Fund via a mix of <ul style="list-style-type: none"> <li>• City Deal grant</li> <li>• Fife Council capital and</li> <li>• capital receipts generated by the Prog</li> </ul>	Fund via a mix of <ul style="list-style-type: none"> <li>• City Deal grant</li> <li>• Fife Council capital and</li> <li>• capital receipts generated by the Prog</li> <li>• and private sector leverage</li> </ul> (Programme Business Case PWF)

### 5.3 Economic Appraisal findings

61. An Economic Impact Assessment (EIA) has been undertaken to appraise the likely impact of Fife Industrial Innovation Investment Programme on key economic indicators. The model is the same as that used to develop the Programme FBC.
62. 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 a bespoke rising rate
    - 21/22: 7%
    - 22/23: 11%
    - 23/24: 16%
    - 24/25: 21%
    - 25/26 onwards: 3.75% in line with a BCIS (Building Cost Information Service) average rate pre-COVID

All other assumptions are unchanged from the Programme Business Case:

- 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 (gross) 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
  - £30m in private sector investment will be levered by the Programme.
63. The Fife i3 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.
64. The EIA is based on the development proposals set out for the Programme in Table 9. The key inputs and findings of the assessment are summarised below:

**Table 6: Modelling Inputs**

	Input	
	Programme FBC	Updated FBC
Office floorspace	2,300 m <sup>2</sup>	928 m <sup>2</sup>
Industrial floorspace	9,700m <sup>2</sup>	9,784 m <sup>2</sup>
Capital Cost	£48.4m	£50m

Source: Fife Council

**Table 7: Modelling Outcomes and Impacts**

<b>GVA (Gross Value Added) Impact</b>	<b>Programme FBC</b>	<b>Updated FBC</b>
NPV (Net Present Value) of Net GVA	£711m	£530m
NPV of Construction	£191m	£178m
<b>Job Impact</b>		
Direct Net Jobs (average per annum)	1,095	1,035
Gross Construction Jobs (cumulative over life of Programme)	596	625
<b>Tax Impact</b>		
NPV of Direct Net Income Tax	£35m	£26m
NPV of Direct National Insurance	£53m	£40m
NPV of Direct Net Corporation Tax	£7m	£5m
NPV of Gross Non-Domestic Rates Income	£10,000	£6,000

65. Based on the preferred option for delivery, an additional £24 of GVA is generated for every £1 spent (down from £28 in the Programme FBC). Overall, the programme will increase GVA in Fife by an estimated 1.88% (down from 1.94% in the Programme FBC).

**Table 8: Summary of Programme Impacts on Key Indicators**

Key Indicator	Programme FBC	Updated FBC
GVA (NPV of Net GVA = £530m)	1.94% annual uplift in Fife's GVA	1.88% 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	£49,224
GVA generated, per £ spent	£28	£24

#### 5.4 Overall findings: the preferred option

66. 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 builds in an increasing focus on the response to the climate emergency. The Programme generates £24 of GVA for every £1 invested by the public sector. The programme will be developed in tranches with opportunities to review successes and lessons learned between tranches.

## 6. Commercial case

### 6.1 Key contractual arrangements

67. 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 i3 Programme input into this profile. This was updated during the Programme FBC
68. City of Edinburgh Council as the Accountable Body for the Edinburgh and South East of Scotland City Region Deal have entered into a Minute of Agreement with Fife Council that sets out the contractual obligations on Fife Council in respect of the City Region funding, the outputs and reporting.
69. In Year 1 of its implementation (2019/20) the Fife i3 Programme advanced City Region Deal grant funding of £1.4m. This was available to the Fife i3 Programme due to underspend in the wider City Region Deal. It is anticipated that a further advancement in grant will be made available to the Fife i3 Programme in Year 2 (2020/21).

### 6.2 Agreed risk allocation mechanism

70. 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 i3 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 Tranche 1 of the programme these risks have been 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.
71. The intention during Tranche 2 is to begin to risk-share with the private sector on some projects through different development models (e.g. joint ventures) and early discussions have taken place with potential partners and Joint venture models explored.
72. An update on Programme risks is prepared annually as part of the Edinburgh and South East Scotland City Region Deal Annual Report<sup>3</sup>. This report is published on the website for the City Region Deal <http://esescityregiondeal.org.uk/>

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<sup>3</sup> The latest Annual Report is available here

<https://static1.squarespace.com/static/55c87967e4b05aa55020f656/t/5f58a05ce81c0c5f1363efd5/1599643749050/2019-20+Annual+Report+-+City+Region+Deal+%28updated+08-09-20%29.pdf>

### 6.3 Prioritisation of Sites

73. All potential employment sites within the Fife Employment Land Audit<sup>4</sup> 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.
74. 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.
75. Tranche 1 of the programme is developing sites at:
- Queensway Industrial Estate, Glenrothes
  - Fife Interchange, Dunfermline
  - Dunnikier Business Park, Kirkcaldy
  - The Avenue, Lochgelly and
  - Hillend and Donibristle Industrial Estate, Dalgety Bay.
76. Moving into Tranche 2, all sites have been reassessed and additional sites considered (any site identified within 2000m of a Fife Circle railway station), with criteria added to support a stronger focus on low carbon potential and overall sustainability.
77. The additional criteria considered were:
- Greenfield – greenfield sites are generally not preferred unless they fulfil other sustainability criteria or make a significant contribution to other strategic objectives
  - Passive design – can the site accommodate a passive design, particularly in relation to the orientation of the building to maximise passive solar gain?
  - Renewables – does the site have access to any renewable energy source (e.g. district heat network, air source or solar power)?
  - Vacant & Derelict Land – will the project remediate vacant and derelict land or property?

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<sup>4</sup> [https://www.fifedirect.org.uk/uploadfiles/publications/c64\\_FINAL\\_ELA20161.pdf](https://www.fifedirect.org.uk/uploadfiles/publications/c64_FINAL_ELA20161.pdf)

78. The geographical spread of projects across Fife is set out in Figure 2 (above). This is unchanged from what was envisaged in the Programme FBC, although some changes to the specifications, detailed designs and site layouts will be incorporated to reflect the increased focus on carbon reduction. The Programme will continue to adapt and respond to opportunities for carbon reduction and more sustainable practices.
79. Fife Council worked with Scottish Enterprise and Zero Waste Scotland Scotland, within a wider UK and global challenge of climate change and the government objectives set-out in policies such as "Making Things Last" - the Scottish Government policy for a "circular economy strategy to build a strong economy, protect our resources and support the environment" Scottish Enterprise, Zero Waste Scotland, Construction Scotland Innovation Centre and their partners launched PORTAL, as a new-way of thinking about how we deliver quality industrial space and premises in Scotland. PORTAL is an approach to building. Not a building solution, it is a product based on improving the value of our buildings while also taking positive steps towards meeting the challenges of the Circular Economy. The PORTAL product is built around a methodology and toolkit that offers a staged approach to designing industrial buildings. See: <https://www.cs-ic.org/innovationcentre/innovation-support/online-resources/project-portal/>
80. During Tranche 1 this work has been further developed with consultants appointed to carry out a feasibility review of the standard specification and cost plans for the industrial units at Fife Interchange North that have been developed by the Council over the last 3 years by using the Portal framework. The intention is that the findings from this feasibility work will influence the approach to delivery in Tranche 2 of the Programme.
81. Areas for focus for this work include:
- modern methods of construction
  - structural frame options and cladding
  - low-cost maintenance solutions for external works
  - low carbon options - heating solutions and the impacts of a passive solution and a "fabric first" approach.
82. In order to respond to the expected requirements of the climate change agenda all new build projects in Tranches 1 and 2 have had a 10% budget increase applied to allow for implementation of design changes that reduce carbon and future-proof the buildings.

## 6.4 Development Plan

83. The key project delivery dates, project investment and outputs are shown in the Table below:

Table 9: Overview of Delivery Programme

		Capital Investment (£m)		Outputs			Tranche 1	Tranche 2			Tranche 3	
		Prog FBC	Updated FBC	Prog FBC	Current FBC			Years 0 - 3	22/23	23/24		24/25
									Year 4	Year 5		Year 6
<b>Tranche 1</b>												
1	Glenrothes - Flemington	New Development	2.1	3.6	766	1,115	sq m	In delivery				
2	Dunfermline - Fife In'chge North	Site Servicing	3.0	1.8	6.45	2.8	ha (gross)					
3	Dunfermline - Fife In'chge North (delayed)	New Development	2.4	0.0	929	0	sq m	Prog FBC				
4	Kirkcaldy - Dunnikier	New Development	2.1	2.5	766	766	sq m	In delivery				
5	Dalgety Bay - Site 1	Site Acquisition	0.7	0.8	0	0	-	Complete				
6a	Lochgelly - The Avenue (closed)	New Development	2.7	0.0	766	0	sq m	Closed				
6b	Lochgelly - The Avenue	Site Servicing	0.0	1.3	0	2	ha (gross)					
7	Dalgety Bay - Site 3	Site Acquisition	0.3	0.4	0	0	-					
8	Dalgety Bay - West Way	Site Servicing	0.2	0.2	1.32	1.32	ha (gross)					
17	Glenrothes - Queensway	Refurbishment	0.0	1.4	0	692	sq m	New				
9	Dalgety Bay - West Way (accelerated)	New Development	0.0	4.3	0	1,393	sq m	T2 FBC	Prog FBC			
		<b>TRANCHE 1 TOTALS</b>	<b>13.5</b>	<b>16.3</b>	<b>3,227</b>	<b>3,966</b>	<b>sq m</b>	739	-1.7	2.8		
					<b>7.8</b>	<b>6.1</b>	<b>ha (gross)</b>					
<b>Tranche 2</b>												
9	Dalgety Bay - West Way (accelerated to T1)	New Development	2.9	0.0	966	0	sq m	T2 FBC	Prog FBC			
10	Glenrothes - Q'way Inn. Centre (delayed & combined with p19)	New Development	5.0	0.0	1,393	0	sq m		Prog FBC			T2 FBC
11	Dunfermline - Fife In'chge North 1 and 2	New Development	5.8	10.6	1,858	2,300	sq m	Prog FBC	Prog FBC	T2 FBC		
12	Buckhaven - Levenm'th Bus Park	New Development	2.9	4.3	966	966	sq m					
13	Kirkcaldy - JSBP	New Development	3.6	5.5	952	952	sq m					
14	Kirkcaldy - Innovation Hub - delayed to Tranche 3	New Development	1.7	0.0	464	0	sq m				Prog FBC	T2 FBC
15	Cowdenbeath - Innovation Hub	New Development	1.6	1.0	464	464	sq m					
16	Dalgety Bay - Site 3	Site Servicing	0.3	0.5	1.32	1.32	ha (gross)		Prog FBC			
18	Dalgety Bay - Site 1	Site Servicing	0.1	0.2	2.59	2.59	ha (gross)		T2 FBC		Prog FBC	
		<b>TRANCHE 2 TOTALS</b>	<b>23.9</b>	<b>22.1</b>	<b>7,063</b>	<b>4,682</b>	<b>sq m</b>					
					<b>3.9</b>	<b>3.9</b>	<b>ha (gross)</b>					
								-	2,381	0	-1.8	
<b>Tranche 3</b>												
19	Glenrothes - Further Investment (combined with p10)	New Development	3.3	5.8	966	1600	sq m		Prog FBC			
21	Dalgety Bay - Site 3 (closed)	New Development	3.3	0.0	966	0	sq m					
22	Kirkcaldy - Mitchellston	Site Servicing	2.1	2.1	32	32	ha (gross)					
23	Rosyth - Waterfront	Site Servicing / Infrastructure	1.5	1.5	15	15	ha (gross)					
14	Kirkcaldy - Innovation Hub - delayed to Tranche 3	New Development	0.0	1.7	0	464	sq m				Prog FBC	
		<b>TRANCHE 3 TOTALS</b>	<b>10.2</b>	<b>11.1</b>	<b>1,932</b>	<b>2,064</b>	<b>sq m</b>					
					<b>47.0</b>	<b>47.0</b>	<b>ha (gross)</b>					
	Broadband		0.7	0.5					132	0	0.9	
		<b>PROGRAMME TOTAL</b>	<b>48.3</b>	<b>50.0</b>	<b>12,222</b>	<b>10,712</b>	<b>sq m</b>					
					<b>58.7</b>	<b>57.0</b>	<b>ha (gross)</b>			-	<b>1,510</b>	

## 6.5 Contractual Arrangements

84. The partners in the Edinburgh and South East of Scotland City Region Deal, including Fife Council, are developing a regional approach to delivering community benefits from procurement to help deliver Inclusive Growth in the City Region. Fife Council published its Procurement & Commercial Strategy 2019-2024. The Council believes that public procurement contracts can help realise a wide range of social and environmental benefits, including more and better employment opportunities. Fife Council has also adopted a 'Construction Charter' which applies to construction projects and seeks commitment to upholding and maintaining standards. The Council uses a strategic framework of support to provide a single point of contact and end-to-end support to procuring areas, contractors and individuals to maximise sustainable outcomes. One of the Council's recovery priorities is to adopt a more progressive procurement of goods and services as recommended to deliver Community Wealth Building by advancing greater economic, social and environmental benefits, within the economy.
85. For Tranche 1, the programme's Procurement Strategy used existing Frameworks and Contracts. This approach supported the pace of delivery required to meet investment timescales agreed with regional partners. Fife Council's Building Services acted as the principal contractor for construction activities and Transportation Services for site servicing activities. During Tranche 1, the Council had hoped to test out alternative procurement strategies but delays from the COVID-19 lockdown meant that this was not possible without further risk of delay. This approach will continue for Tranche 2 investment. Alternative strategies may be tested during Tranche 2 depending on the impact of Covid-19 and the UK's exit from the European Union on market conditions.
86. Following the award of a procured project and any subsequent individual work packages, the contractor is required to support the Inclusive Growth objectives through the delivery of agreed community benefits. There are six main ways in which the procurement helps deliver Inclusive Growth in the city region:
- New employment opportunities
  - Working with local supply chains through the Scottish Supplier Development Programme
  - Sustainability/reduced carbon
  - Fair work practices
  - Education and outreach and
  - Community cohesion.
87. Supplier engagement will be at the core of delivering Inclusive Growth supported by good procurement. Fife Council's Property and Building Services 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.

88. A series of engagements has been developed with the national Supplier Development Programme, with support and advice available for potential contractors to help them develop the expertise required to deliver these projects and to produce high quality tenders. This is aligned with the Fife i3 Programme plan to raise awareness of tender opportunities as they occur.

## **6.6 Accountancy treatment**

89. 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

90. The Fife i3 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. In order to cope with additional costs and to take advantage of specific opportunities to strengthen the Programme additional funding has been brought in from Fife Council capital to support a new project that pilots a refurbishment approach; and from VDLF to remediate challenging sites. This funding approach underpins the financial modelling undertaken, which now includes more refined information on the expected costs and delivery timetable for the programme.

### 7.2 Summary of assumptions used in the Financial Model

91. The financial model makes the following key assumptions:
- Bespoke inflation assumptions have been applied based on BCIS rates for the next 5 years of the Programme. These rates reflect expected ongoing COVID-19 disruption:
    - 21/22: 7%
    - 22/23: 11%
    - 23/24: 16%
    - 24/25: 21%
    - 25/26 onwards: 3.75% in line with a typical BCIS (Building Cost Information Service) average rate pre-COVID.
92. The maintenance cost assumptions have also been refined since the Programme FBC was developed:
- Operational / day-to-day maintenance is assumed at 0.17% of development capex and is 85% recovered from tenants
  - More significant maintenance (e.g. new roof, windows, boiler replacement, etc) is assumed at 0.15% of development capex, but no allocation is made until Year 11 of the Programme
93. All other assumptions are unchanged from the Programme Business Case and are used consistently in both the financial and economic 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 (gross) 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
- £30m in private sector investment will be levered by the Programme.
- Net Developable Site Area (Ha) is 60% of gross site area
- Of the gross internal area of space that could be built over a site, we assume only 70% of that potential is built out
- Site enabling works to bring employment sites up to a developable standard is assumed at £150,000 per Ha (gross site area) – these assumptions are refined when site investigation work is completed
- 70 jobs are created per Ha
- As properties are completed, they are not all immediately occupied. In the first year following completion 40% are assumed to be rented; in year 2, 60%; in Year 3 85%; and in Year 4 100%. Although these percentages are based on a “full occupancy rate” of 85%
- Rents differ on the basis of estimated market rents in each local area
- Management costs are assumed to be 7.5% of rental income;

### 7.3 Overall affordability

94. Since the preparation of the Programme Business Case, the financial modelling shows some movement in the expected NPV (Net Present Value) for the programme. This is principally caused by a changes to the Programme to respond to the COVID-19 pandemic, including additional investment being used to support the delivery of the Programme.
95. This updated FBC shows a small increase in the Programme surplus from £14 million in the Programme Business Case to **£15.7 million**. The NPV for the programme is expected to be a surplus of **£3.5 million** – this is an increase from the original Programme FBC, which showed a £0.177 million NPV surplus. The main reasons for the increase in surplus is revision of maintenance cost assumptions. Any surplus will be managed by the directorate in accordance with the medium-term financial strategy.
96. The results of the latest financial modelling and the movement between the financial modelling for the Programme Business Case and the latest position are shown below:

**Table 10: Financial Modelling Results and Movement from Programme FBC to Current Position**

Sensitivities (£m)	NPV of (Surplus) / Deficit	(Surplus) / Deficit	Investment	Capital Receipts	Interest (%)
Base Case - FBC 3.75% BCIS	(0.2)	(14.1)	48.4	(5.3)	3.64
Tranche 2 FBC Update	(3.5)	(15.7)	50.0	(5.3)	3.64
Movement	3.3	1.6	1.6	(0.0)	0

Note: figures may not sum due to rounding

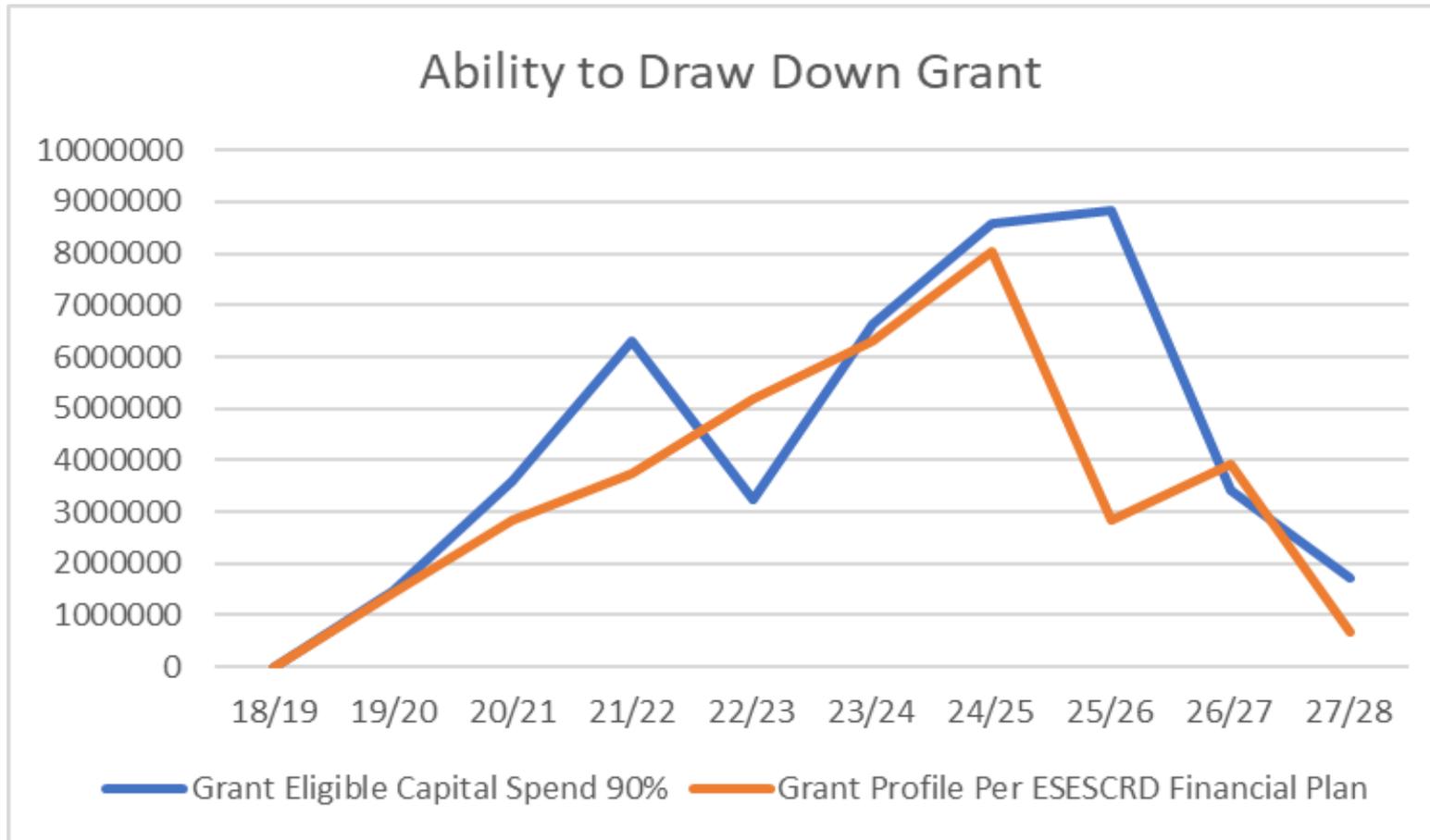
97. The movement in grant profile from the City Deal Financial Plan is shown below, this is based on claims being made annually in arrears for 79% of costs incurred. Compared to the Financial Plan this results in advancement of grant drawdown in Year 2 (relating to Year 0 and 1 activity), followed by 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 11: Movement in Grant Profile from Programme Full Business Case to Current Position**

	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)
Current Position * (variable BCIS during Tranche 2)	(1.433)	(2.840)	(3.748)	(5.173)	(6.317)	(8.046)	(2.852)	(3.928)	(0.663)	(35.000)

\* current position aligns with City Deal Financial Plan, but shows advancement of grant in Year 1, and reduction to offset this in Year 9

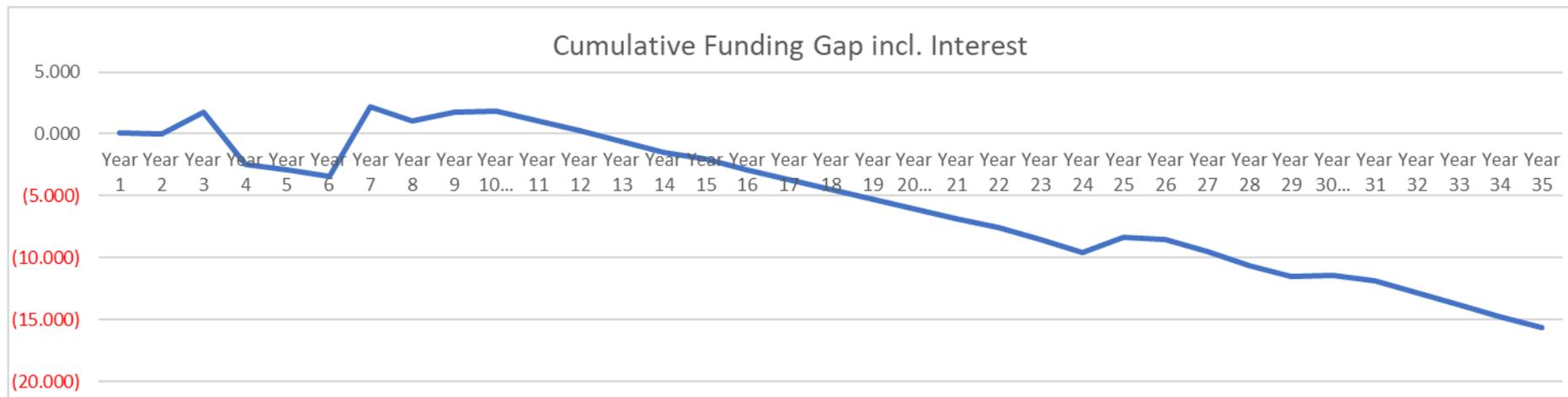
98. The alignment between Programme activity and grant drawdown is shown in Figure 6. This shows that in Year 4 of the Programme eligible spend significantly exceeds the available grant profile, whilst in Year 5 the eligible spend is insufficient to draw down the available grant. In order to smooth the peak in Year 4, it is possible to delay a project so that it straddles Years 4 and 5. This change will be implemented in the event that there is no unplanned slippage elsewhere, but can be considered a risk mitigating action against delays on early Tranche 2 projects.

**Figure 5: Eligible Capital Spend Vs Grant Profile**

## 7.4 The Council's Debt Requirement

99. Figure 7 (below) shows the funding gap for the duration of the programme. Overall Borrowing peaks at £2.25m in Year 7 and is repaid by 2032. 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 Fife Council's Medium-Term Financial Strategy. This differs from the Programme FBC, which showed a borrowing peak in Year 5 of £6.2m.

**Figure 6: Cumulative Funding Gap Including Interest (£m) over 35 years**

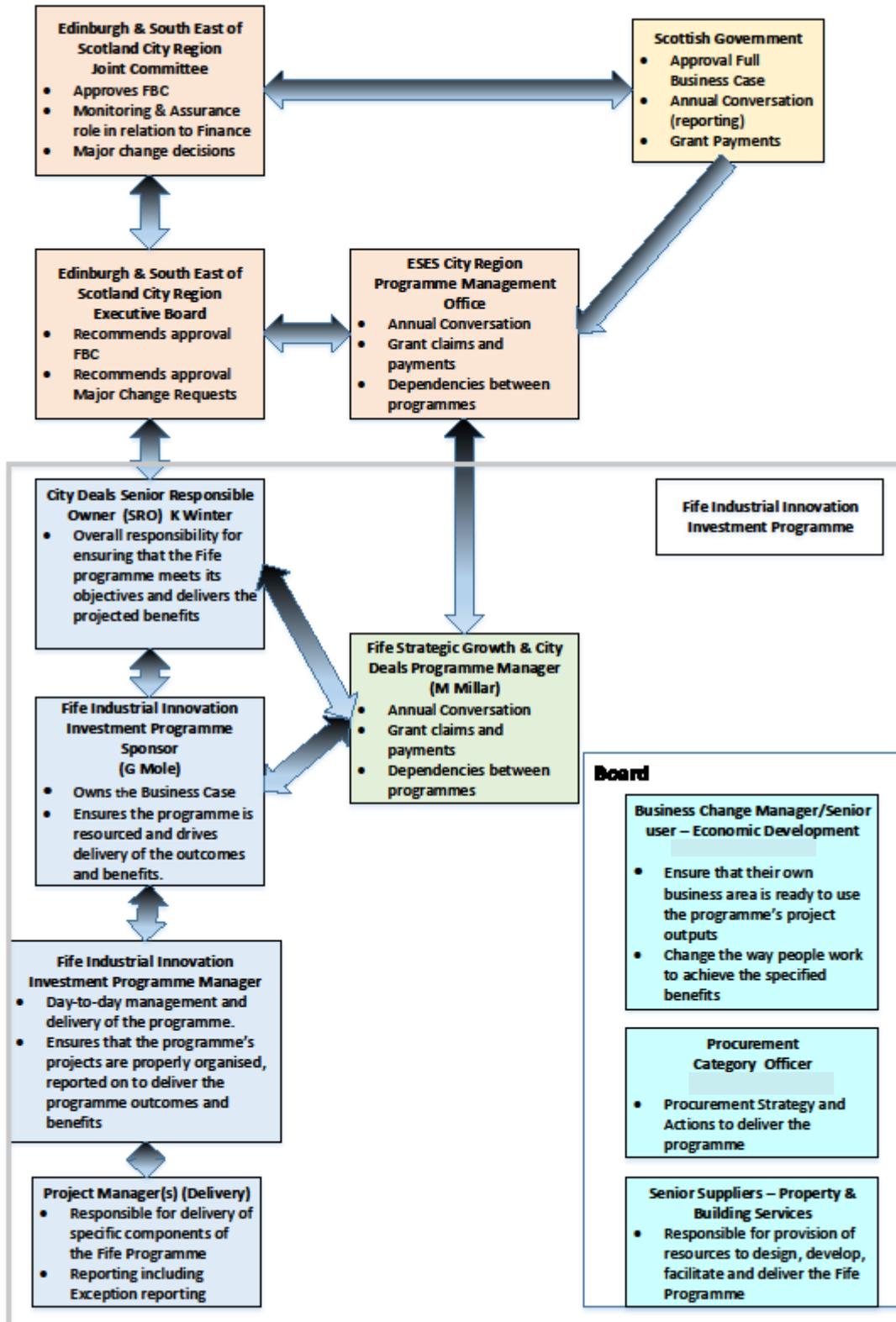


## **8. Management case**

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

100. The governance structure for the Edinburgh and South East Scotland City Region Deal and how the Fife Industrial Innovation Investment Programme fits with this set out at <http://esescityregiondeal.org.uk/about-us>. This was agreed as part of the Deal document.
101. The Fife Industrial Innovation Investment Programme reports to the Edinburgh and South East Scotland City Region Deal Executive Board and its Joint Committee.
102. Fife Council established a Sustainable (formerly Strategic) Growth and City Deals Programme Board in 2018 to provide strategic direction and oversee all city deal activities, programmes and projects. Its remit includes management of the Fife Industrial Innovation Investment Programme, to ensure it is controlled and benefits realised. The Fife Sustainable Growth and City Deals Programme Board also integrates the governance relating to both Edinburgh and South East Scotland and Tay Cities Deals. The individual project and programme management arrangements for the Fife Industrial Innovation Investment Programme that were set up at the start of Tranche 1 are shown below:
103. A Programme Board for the Fife i3 Board has also been established and is responsible for management of the Programme. The individual project and programme management arrangements are shown below:

Figure 7: Project and Programme Management Arrangements

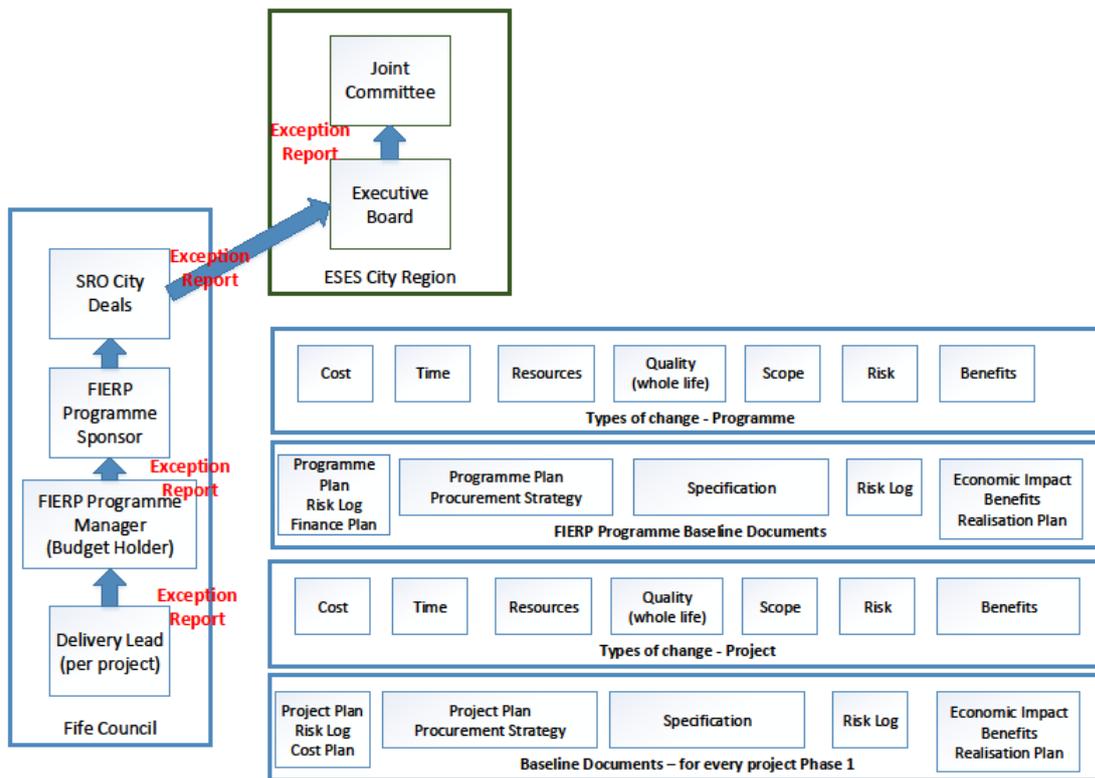


104. During Tranche 1, the Board used the Association of Project Managers (APM) Assurance toolkit to develop an action plan to set up the governance processes to ensure that these complied with best practice. Corporate processes for benefits, change, risk, issue and opportunity, stakeholder and communications management have been tailored by the Fife i3 Programme. The Programme has been able to sustain its investment programme during Tranche 1 and the COVID-19 restrictions.

## 8.2 Managing Change

105. The Deal Document set out the regional partners' processes for decision-making and management of change. During Tranche 1, project and programme tolerances for the Fife i3 Programme were agreed by the Programme Board 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 8: Change Control Process**



106. Major change decisions are escalated from the Fife Industrial Innovation Investment Programme to the Executive Board and if appropriate to the Joint Committee. During Tranche 1, the change activity related to actions to mitigate against the impact of COVID-19 on the programme's costs and timescales, to sustain the realisation of programme benefits and actions to respond to opportunity to improve value for money for the programme. All projects in Tranche 1 established their baselines as set out in Figure 11. The Programme baseline documents were also approved by the Board. These will be reviewed as part of the preparation for delivery of Tranche 2.

### **8.3 Benefits realisation**

107. The Benefits Register was set out in Appendix 5 to the FBC approved in March 2019. During Tranche 1, the Edinburgh and South East of Scotland City Region developed its Benefits Realisation Approach. The approach for the Fife i3 Programme is set out in Appendix 3. These are managed and reviewed through the Governance and change management processes.

### **8.4 Approach to risk management**

108. The main programme risks relate to delivery and viability; finance; and legal. A copy of the risk register for Tranche 2 is set out in Appendix 4. Actions to mitigate risk are developed and managed as part of the Project and Programme governance established in Tranche1. Risks within the control of Fife Council, (staff capacity, appropriate governance arrangements, early site investigation and utility scoping), are actively managed. Mitigation strategies relating to the wider economic environment (economic instability, interest rates) are tracked and are deployed in response to change. All risks are regularly reviewed and managed by the Programme Board.

### **8.5 Programme and project evaluation arrangements**

109. Each project has its own detailed Business Case setting out its expected contribution to the Fife i3 Programme outcomes, and how and when these will be measured and monitored. These are approved by the Programme Board if within tolerances. Further reviews are carried out after the procurement is completed for each project; and when each project is completed and ready for service. Lessons learned are a regular part of these reviews. Benefit Realisation Reviews will also be conducted once the projects are completed and occupied.
110. A programme evaluation will be carried out after 5 years in line with the overall review of the City Region programme. The evaluation will capture lessons learned from individual project reviews and for the wider programme including:
- 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

111. It is recommended that the Full Business Case for Tranche 2 of the Fife i3 Programme is approved, and the programme be authorised to proceed into delivery.

**Signed:**

**Date:**

This section will be completed subject to approval and/or amendment by Fife Council Policy and Coordination Committee on 19 November

**Senior Responsible Owner, Fife i3 Programme**

## Appendix 1: New Projects

<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. Originally it was envisaged that this project would consist of site servicing of a small site area and a subsequent build project.</p> <p>Fife Council has been approached by a private sector developer looking to construct business property for let and has therefore altered the proposal at this location to service a much larger site area (circa 2 ha) and dispose of these sites.</p>
<p>Glenrothes Queensway Industrial Estate Q10 Building Refurbishment</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 Regeneration Action Plan and has focused investment in this area in recent years.</p> <p>This project will comprise part of an overall property transaction with the owner of existing commercial premises at Flemington Road, Queensway Industrial Estate which will facilitate the relocation of part of the owner's existing business accommodation to a redundant Council owned building and which will allow the demolition of former office accommodation which has been vacant for some years and which otherwise could not be demolished. As part of the transaction the Council will secure ownership of an existing under-utilised stand-alone warehouse building owned by the company which will be subdivided and refurbished to provide a terrace of small business units for employment uses within use class 4, 5 and 6 extending to a total of 692 m<sup>2</sup>. The refurbishment and provision of this accommodation would support a more environmentally sustainable approach by re-purposing second-hand accommodation, enhancing thermal efficiency thereby reducing energy demand as well as reducing the impact of embedded carbon in new build construction. This will also contribute further to the delivery of the Queensway Regeneration Action Plan and complement earlier/ongoing investment in the area. The contribution to net zero carbon ambitions will be assessed as the project develops.</p>

## Appendix 2: Programme Approvals

Copies of Programme Documentation are available on request from report author

Date	Board	Document	Status
180412	Policy & Coord C#	Outline Business Case (Private Paper) - Fife Industrial Estates Regeneration Programme, Edinburgh & South East of Scotland City Region Deal.	Approved
180412	Policy & Coord C#	Financial Model - OBC (Informed Financial Profile and commitments within ESES City Region Deal document).	Approved
190124	Policy & Coord C#	Full Business Case - Fife Industrial Innovation Investment Programme (Fife i3 P)	Approved
190124	Policy & Coord C#	Financial Model FBC - variations from OBC profile	Approved
190103	ESES Joint C#	Fife Industrial Innovation Investment (Fife i3) Programme Business Case	Approved
190103	ESES Joint C#	Financial Model for JC Business Case	Approved
190212	Fi3P	Change Request: Westway, Dalgety Bay - approach to split costs with Taskforce Units	Approved
190212	Fi3P	Assurance Review (Thomas & Adamson) and Action plan	Approved
190212	Fi3P	Change Control and Tolerances Approach (Benefits Section not yet completed)	Endorsed
190212	Fi3P	Procurement Strategy	Approved
190312	Fi3P	Fife i3 Programme Roles & Responsibilities	Endorsed
190312	SG&CD	Roles and Responsibilities Decision: the paper was agreed, subject to minor clarifications in recommendations 2 and 3 and Figure 2.	Approved
190321	SG&CD	Change Control / Tolerances Approach (Benefits Section not yet completed) Decision: the process set out in the paper was endorsed by the board as a current position to support delivery, subject to further work with the PMO and SBC on what constitutes "major / significant" and to develop benefits tolerances	Approved
190321	Fi3P	PF01 Flemington Road, Queensway, Glenrothes (Build)	Approved
190411	Fi3P	Site and road layout plans for Fife Interchange North, Dunfermline	Approved
190411	Fi3P	Updated PF01 Flemington Road (build) - Once financial profiles are prepared, this info to be slotted into PF01; compare with the Programme FBC, noting any variations; and final version circulated to Board by email for approval	Further work
190509	Fi3P	Exception report: Fife Interchange Site Servicing – Substation. Agreed to accept quote from Scottish Power for Substation	Approved
190509	Fi3P	Risk & Opportunity Management Plan	Approved
190509	Fi3P	PF01 Fife Interchange North (Site Servicing/Acquisition).	Approved

190613	Fi3P	PF01 Ridge Way, Dalgety Bay (Build) – subject to adding £30,000 of Vacant and Derelict Land Fund expenditure agreed for site investigation work	Approved
190613	Fi3P	PF01 West Way, Dalgety Bay (Site Servicing)	Approved
190613	Fi3P	PF01 Dunnikier, Kirkcaldy (build)	Approved
190613	Fi3P	PF01 Cochrane Way, Dalgety Bay (Acquisition)	Approved
190711	Fi3P	PF01 The Avenue, Lochgelly, (build)	Approved
190711	Fi3P	PF01 Westway, Dalgety Bay (build)	Approved
190711	Fi3P	PF01 Fife Interchange North, Dunfermline (build)	Approved
190711	Fi3P	Exception Report: Fife Int N (Site Servicing/Acquisition) underspend. Recommendation agreed - to pursue in more detail <u>both</u> Option 3 (Additional Build at Flemington Road, Queensway Ind Est, Glenrothes) and Option 2 (Additional Infrastructure Investment at The Avenue, Lochgelly). Option 8 (Programme Contingencies) is the default for any residual monies.	Approved
190808	Fi3P	Exception Report: Set financial tolerances for Ridge Way, Dalgety Bay acquisition (Lower £627k - £660k upper)	Approved
190808	Fi3P	Q1 Financial Performance Report	Approved
190808	Fi3P	Y2 (2020/21) financial forecast for ESES City Region Deal	Approved
190808	Fi3P	Exception Report: West Way, Dalgety Bay (Site Servicing) – Agreed to "do nothing" to secure additional Electricity Supply to avoid additional cost of £25k	Approved
190912	Fi3P	Exception Report: Levenmouth Business Park (Tranche 2 Project) Power. Agreed early expenditure of £30,048 from the City Deal Levenmouth Business Units budget, in respect of the proportion of the sub-station costs.	Approved
190912	Fi3P	ESES CRD Q2 Financial Performance Report	Approved
190912	Fi3P	Communications Plan	Approved
191010	Fi3P	Letting and Disposal Policy	Approved
191114	Fi3P	Cross Service Payment process	Approved
191114	Fi3P	Financial model review - inflation assumptions	Approved
191114	Fi3P	Exception Report: The Avenue, Lochgelly (timescales)	Approved
191114	Fi3P	Change request: Flemington Road, Glenrothes. Extension to the tender period agreed (retrospective). All endeavours will be made to mitigate any delayed start after 4th Nov 2019.	Approved
191114	Fi3P	Programme Management Plan	Approved
191212	Fi3P	The Quality Assurance Management Plan reviewed. Agreed to be amended to include a link to the Change Control document and to set out how exception reporting will include quality (A111). The quality process section to be amended to include a design review and pre-tender evaluation process (A112).	Further work (completed 200514)
191212	Fi3P	Document Management Plan (interim approach)	Approved
191212	Fi3P	ESES CRD Q3 performance report	Approved

191212	Fi3P	Financial Model update	Approved
191212	Fi3P	Tenant Application Process	Approved
200204	Fi3P	Private Sector Leverage Realisation Plan	Approved
200319	Fi3P	Change request: COVID-19 Review	Approved
200409	Fi3P	Fife i3 Programme Master Schedule	Approved
200409	Fi3P	Exception report: Flemington Road, Glenrothes - site closure	Approved
200514	Fi3P	Updated Programme Quality Assurance Management Plan (include the resources required to manage and administer the various contracts should be clearly identified)	Approved
201008	Fi3P	Benefits Management Plan	Approved
201008	Fi3P	A Development Models Options Plan	Continue to next stage of development
N/A	Fi3P	The Monitoring and Evaluation Framework for the Fife i3 Programme	In development
N/A	Fi3P	Change Control and Tolerances Approach – Benefits Section	In development
N/A	Fi3P	Close-out (handover) procedures for site servicing and build projects	In development

## Appendix 3: Benefits Register

### Expected Project Benefits – Construction Projects

#### During Construction

Benefit name (and type)	Measure(s)	Baseline per measure(s)	Date of baseline	Target per measure(s)	Benefit Owner	Timescale	Programme end benefit	Actual result to date per measure(s)
Community benefits (external)	Awaiting regional approach							
Construction jobs supported	Jobs supported by construction contracts let	NA	Year 0	<ul style="list-style-type: none"> <li>• 100 jobs (cumulative during Tranche 1)</li> <li>• 600 jobs (cumulative over the lifetime of the Programme)</li> </ul>	Service Manager – Major Works, Environment & Building Services (Steve Anderson)	<ul style="list-style-type: none"> <li>• By end March 2022</li> <li>• By end March 2029</li> </ul>		

### On Completion of Project Build

Benefit name (and type)	Measure(s)	Baseline per measure(s)	Date of baseline	Target per measure(s)	Benefit Owner	Timescale	Programme end benefit	Actual result to date per measure(s)
Tranche 1 - Floorspace completed (internal)	Floorspace (m <sup>2</sup> ) completed Vs expected floorspace for the project in the approved programme business case	NA	NA	<b>Tranche 1 Projects</b> <ul style="list-style-type: none"> <li>• 1. Flemington – 1,115 m<sup>2</sup></li> <li>• 3. Fife Interchange Phase 1 – 1,421 m<sup>2</sup></li> <li>• 4. Dunnikier – 766 m<sup>2</sup></li> <li>• 6. Q10 (refurb) – 692 m<sup>2</sup></li> </ul>	Fife i3 Programme Manager (Ronnie Hair)	<ul style="list-style-type: none"> <li>• By end of March 2022</li> </ul>	3,994 m <sup>2</sup> of floorspace constructed in Tranche 1 of the programme	

### On Occupation of Units

Benefit name (and type)	Measure(s)	Baseline per measure(s)	Date of baseline	Target per measure(s)	Benefit Owner	Timescale	Programme end benefit	Actual result to date per measure(s)
Rents achieved (internal)	Rents achieved - £ per m <sup>2</sup>	Based on market assessment FBC	N/A	<b>Tranche 1 Projects (£ per m<sup>2</sup> in year 1, rising at 2% p.a)</b> <ul style="list-style-type: none"> <li>• 1. Flemington – £65</li> <li>• 3. Fife Interchange – £75</li> <li>• 4. Dunnikier – £70</li> <li>• 6. Q10 (refurb) – £65</li> </ul>	Service Manager Economic Development (Pamela Stevenson)	One year post-completion of each project	Positive programme NPV	
Jobs created per development (external)	No of employees based in City Deal premises (actual and forecast)	FBC assumptions	NA	<b>Tranche 1 Projects</b> <ul style="list-style-type: none"> <li>• 1. Flemington – 24</li> </ul>	Service Manager Economic Development (Pamela Stevenson)	Three years post-completion of tranche (85% occupancy)	85 direct jobs created by Tranche 1 projects by Year 6 Multiplier	

				<ul style="list-style-type: none"> <li>• 3. Fife Interchange – 30</li> <li>• 4. Dunnikier – 16</li> <li>• 6. Q10 (refurb) – 15</li> </ul>		expected)	effects based on assumptions to be estimated	
Companies with innovation outlook (external)	No of City Deal units leased to companies that meet letting criteria inc. commitment to balanced workforce and innovation aspects of Scottish Business Pledge.	NA	NA	<b>Tranche 1 Projects</b> <ul style="list-style-type: none"> <li>• 1. Flemington – 7</li> <li>• 3. Fife Interchange – 8</li> <li>• 4. Dunnikier – 5</li> <li>• Q10 (refurb) – 5</li> </ul> (80% = 25 across Tranche 1)	Service Manager Economic Development (Pamela Stevenson)	In line with occupation of properties, subject to ongoing review	Higher Business Expenditure on R&D per head Vs Fife average	

### Post Occupation

Benefit name (and type)	Measure(s)	Baseline per measure(s)	Date of baseline	Target per measure(s)	Benefit Owner	Timescale	Programme end benefit	Actual result to date per measure(s)
Private sector leverage	Capital investment by tenants fitting out interior	N/A	N/A	<p><b>Tranche 1 Projects</b></p> <ul style="list-style-type: none"> <li>• 1. Flemington – £90,000</li> <li>• 3. Fife Interchange – £90,000</li> <li>• 4. Dunnikier – £60,000</li> <li>• Q10 Refurb – £40,000</li> </ul> <p>(average £10,000 per new build unit, £8,000 per refurbished unit = £280,000 from Tranche 1 projects)</p>	Service Manager Economic Development (Pamela Stevenson)	One year post-occupancy	Private sector leverage of £30m across programme	

**Expected Project Benefits – Serviced Sites (including acquisitions, disposal and land deals) Projects  
On Completion**

Benefit name (and type)	Measure(s)	Baseline per measure(s)	Date of baseline	Target per measure(s)	Benefit Owner	Timescale	Programme end benefit	Actual result to date per measure(s)
Tranche 1 – Ha of Immediately Available Serviced Land (external)	Ha of Immediately Available Serviced Land Vs expected Ha for the project in the approved programme business case	NA	NA	<b>Tranche 1 Projects</b> <ul style="list-style-type: none"> <li>• 2. Fife Interchange – 6.45 Ha (gross)</li> <li>• 6B. Lochgelly 2 Ha (gross)</li> <li>• (7. West Way – 1.32 Ha (gross))</li> </ul>	Fife i3 Programme Manager (Ronnie Hair)	By end of March 2022	7.8 Ha (gross) of land serviced and available in Tranche 1 of the programme	<b>Tranche 1 Projects</b> <b>On track to deliver</b> <ul style="list-style-type: none"> <li>• 2. Fife Interchange – 1.7 Ha (gross)</li> <li>• 6B Lochgelly tbc (subject to site investigations)</li> <li>• 7. West Way – 1.32 Ha (gross)</li> </ul> <b>TOTAL 6.1 Ha</b>

Tranche 1 Sites Acquired (internal)	Sites brought into Council ownership for future servicing / development	NA	NA	FC ownership of <ul style="list-style-type: none"> <li>• Fife Interchange North (Dunfermline)</li> <li>• Ridge Way (Dalgety Bay)</li> <li>• Cochrane Way (Dalgety Bay)</li> </ul>	Fife i3 Programme Manager (Ronnie Hair)	By end of March 2022	Input to site servicing and construction projects (internal benefit)	<ul style="list-style-type: none"> <li>• Ridge Way (Dalgety Bay) acquisition complete</li> </ul>
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### Post Completion

Benefit name (and type)	Measure(s)	Baseline per measure(s)	Date of baseline	Target per measure(s)	Benefit Owner	Timescale	Programme end benefit	Actual result to date per measure(s)
Tranche 1 – Capital Receipts from Sale of Land (internal)	£ value of capital receipts received in-tranche	NA	NA	<b>Tranche 1 Projects</b> Receipts not expected until Tranche 2	Fife i3 Programme Manager (Ronnie Hair)	Beginning during FY 22/23	Supports positive prog NPV. Delivers financial support to realise other benefits.	
Private sector investment (external)	Private sector investment – new-build and fit-out of premises on serviced sites	NA	NA	<b>Benefits from Tranche 1 Projects are not expected until Tranche 2. Average of £0.5m per Ha</b> <ul style="list-style-type: none"> <li>• 2. Fife Interchange – £1.4m</li> <li>• 6B Lochgelly - £1m</li> <li>• 7. West Way – £660,000</li> </ul>	Service Manager Economic Development (Pamela Stevenson)	Beginning during FY 22/23 and ongoing	Private sector leverage of £30m across programme	

**Expected Project Benefits – Business Innovation**  
**Post Completion**

<b>Benefit name (and type)</b>	<b>Measure(s)</b>	<b>Baseline per measure(s)</b>	<b>Date of baseline</b>	<b>Target per measure(s)</b>	<b>Benefit Owner</b>	<b>Timescale</b>	<b>Programme end benefit</b>	<b>Actual result to date per measure(s)</b>
Better Quality jobs (external)	Salary in line with (or higher than) Programme FBC assumptions (via post-occupancy annual survey)	N/A	N/A	Fife i3 Tenants & occupiers, and any related supply chain, etc  Industrial employment with salaries over £30,100  Office employment with salaries over £26,600	Service Manager Economic Development (Pamela Stevenson)	One year post-occupancy, and ongoing	At least 80% of direct jobs created are higher wage jobs	
Innovation Active Companies (external)	Follow-on innovation activity	N/A	N/A	Fife i3 Tenants & occupiers, and related supply chain, etc  Business Gateway engagement and/or relevant activities	Service Manager Economic Development (Pamela Stevenson)	One year post-occupancy, and ongoing	The Programme supports Innovation which leads to higher productivity and protects jobs	

## Appendix 4: Risk Register

### High Level Programme Risks – Summary and Mitigation

Risk	Mitigation
<p>Cost increases due to higher construction inflation than assumed in the Business Case (including increases driven by a potential no-deal Brexit and/or related to COVID-19), with consequent reduction in outputs.</p>	<p>Looking for opportunities to align other funding, such as VDLF, to support Programme Delivery. Considering prioritisation of sites to reduce overall scope if required.</p>
<p>Programme underspend due to third party delay with site acquisitions and/or servicing.</p>	<p>Monitoring closely and opportunities to advance other projects identified in case of delays</p>
<p>Changes in the wider policy environment, including COVID-19 restrictions and requirements, that impact on the delivery or requirements of the programme (planning, building control, environment, etc) and increase costs or slow down delivery.</p>	<p>Key policies are being monitored closely, in particular implications of COVID routemap and its implications for the Programme. Opportunities to future-proof the Programme's outputs are being actively considered e.g. installing additional ventilation systems. Some degree of risk and uncertainty is inevitable.</p>
<p>A lack of private sector appetite to invest and low tenant demand due to a slowing or weakening in the economy which would reduce expected leverage and / or jobs.</p>	<p>Ongoing market testing and discussion with potential investors and tenants across proposed programme locations.</p>
<p>A lack of suitable occupiers for the industrial premises (prepared to innovate and work with the Universities to deliver inclusive growth).</p>	<p>Letting policy developed and agreed by Programme Board that makes it clear what the tenant requirements are. Tenancy application process in development to deliver on this.</p>