

# Edinburgh and South East Scotland City Region Deal Joint Committee

**10am, Friday 1 March 2024**

## **Fife Industrial Innovation Investment Programme - ESESCR Deal - Tranche 3 Business Case**

Item number 6.5

### **Executive Summary**

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This paper seeks approval for the third and final tranche of investment (years 7 – 10) 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 3.**

### **1. Recommendations**

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- 1.1 To approve the Summary Business Case (SBC) included as an Appendix to this report;
- 1.2 To note that the Full Business Case (FBC) was approved by Fife Council's Cabinet Committee on 11 January 2024, The Full Business Case is confidential and was approved under "NOT FOR PUBLICATION by virtue of paragraphs 8 & 9 of Part 1 of Schedule 7A of the Local Government (Scotland) Act 1973". The approval confirms 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 Joint Committee on 1 March 2019, and the Full Business Case for Tranche 2, which was approved on 5 March 2020.

### **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 in 2019, along with a detailed business case for years four to six of the programme (Tranche 2). This Business Case (Appendix 1) sets out the detailed arrangements for years seven to ten of the Fife i3 Programme (Tranche 3) and confirms the agreed profile for investment, grant drawdown and Council's capital contribution.
- 2.3 The investment plans for Tranche 3 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 and 2 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.

- 2.4 The programme is on track to deliver 10,266m<sup>2</sup> of new business accommodation and provide over 16ha (gross) of immediately available, serviced employment land.

### 3. Main report

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- 3.1 The Programme Business Case was based on delivery of a total of £48.4m investment over 10 years. The total programme of investment in this updated Business Case has increased to £58m because of rising costs of site servicing and construction. Inflation and interest rates are still historically high and continue to impact the construction industry causing the prices to rise. The additional investment comes from Vacant and Derelict Land Funding (VDLF), the Levenmouth Reconnected Programme, The Fife Task Force, and additional Capital Investment by Fife Council. The Programme also benefits from capital receipts estimated at £3.7m which are generated by the sale of serviced sites. These are being reinvested into the Programme.
- 3.2 Some minor changes have been made to the i3 Programme in Tranche 3 to respond to
- Cost increases;
  - Private sector interest;
  - Lessons learned;
  - The requirement to reduce carbon; refurbishment to reduce the overall carbon footprint of the programme and manage costs has been introduced;
  - Lower than expected capital receipts;
  - Rephasing and consolidation of specific projects to manage delays, to deliver improved value for money, and to keep the Programme within budget;
  - Uncertainty about the medium/long-term demand for office space after COVID.
- 3.3 An update on each project in the Programme is provided in Paragraph 1.8 (Table 2,3 and 4) of the appended Summary Business Case. Overall, there is a small variation 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 which are industry wide.
- 3.4 An Economic Impact Assessment (EIA) was undertaken to appraise the impact of the Fife i3 Programme on key economic indicators as part of the Programme Business Case. This was updated in the Tranche 2 Business Case. The EIA uses economic data and evidence, alongside key assumptions (multipliers) to model the impact of the programme, the multipliers are based on a fixed 'snap shot' model of the economy for a set period of time. The inputs and assumptions have been updated in line with Tranche 1 and 2 delivery (actual and expected). The modelling should be considered indicative. The expected programme benefits are shown in Section 1.3 of the appended Summary Business Case.

- 3.5 The Project and Programme Management roles, responsibilities, and processes for both external and internal reporting and issue management within the council and the City Region Deal are now well established. These arrangements will continue for Tranche 3. This provides three formal escalation points/ gateways for decision-making within Fife Council, depending on their severity and importance. The Fife i3 Programme 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 significant issues that threaten the programme's viability.

## 4. Financial impact

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- 4.1 The Programme Business Case forecasted 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 (carried out in 2018 to inform the City Region Deal) and the Tranche 3 Business Case are shown in Table 6, of the appended Summary Business Case. This Tranche 3 Business Case shows an insignificant increase in the Programme surplus to £14.6m. The NPV for the programme is now expected to be a surplus of £3.8m. Any surplus will be managed by the Council's Place Directorate in accordance with Fife Council's Medium-Term Financial Strategy.
- 4.2 The movement in grant profile from the City Deal Financial Plan is shown in Paragraph 3.6, Table 7 of the appended Summary Business Case. It is based on claims being made annually in arrears for 79% of costs incurred. There has been advancement of grant drawdown as at year 4 of £1.466m. Draw down is then forecast to continue in line with the financial plan from Year 5 to Year 8.

## 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 innovation active businesses to work in new ways that allow them to succeed and create new and better jobs. The Fife i3 Programme actively supports [www.ESESCommunities.org](http://www.ESESCommunities.org) - the online community benefits portal matching communities and worthy causes with suppliers and business in the City Region Deal area. This helps 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 Benefits Realisation Plan for the Edinburgh and South East Scotland City Region Deal.
- 5.3 The methodology adopted for the Tranche 2 Business Case has informed the project selection for Tranche 3. However, it is now based on all potential employment sites included in the Fife Employment Land Audit carried out in 2022. These were assessed in terms of priority and risk, based on agreed Fife Council priorities e.g., the FIFEplan (the Local Development Plan for Fife). These factors include:

- Supports strategic business clusters
- Well located to strategic growth corridors (M90, A92) and public and active travel corridors
- Fit with existing predominant land use
- Potential impact on sensitive and incompatible land uses
- Potential to deliver lower-cost business space
- Greenfield – greenfield sites are 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, make use of the existing infrastructure (e.g., district heat network, air source or solar power)?
- Vacant and Derelict Land – will the project remediate vacant and derelict land?

5.4 The Fife i3 Programme is now well established with a track record of delivering projects and realising its benefits. This third and final Business Case continues to adopt the H.M. Treasury Green Book 5-Case methodology and continues to demonstrate how its delivery is closely aligned to wider strategies and objectives; Best value for money; Achievable in commercial and practical terms; and affordable.

## 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 [Edinburgh and South East Scotland City Region Deal Joint Committee. Friday 5 March 2020 \(Item 5.4\)](#)

## 7. Appendices

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7.1 Tranche 3 Summary Business Case