

# **Fife Industrial Innovation Investment Programme – Tranche 3 Investment**

## **Summary Business Case**

Edinburgh and South East of Scotland City Region  
Deal

**Version No: 1.0**  
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## 1. Summary Business Case

- 1.1. The Fife Industrial Innovation Investment (Fife i3) Programme is being delivered as part of the Edinburgh and South East Scotland City Region Deal's innovation theme. The Programme is delivering a sustained investment programme in modern business premises to support the delivery of Inclusive Growth and Innovation in Fife.
- 1.2 The Fife i3 Programme is addressing market failure in the private sector provision of essential business infrastructure required to increase the stock of serviced employment land capable of development, as well as developing new employment units.
- 1.3 This Document sets out the final phase of the 10-year Programme which was approved in 2019. The programme has faced considerable challenges due to COVID, Brexit and elevated levels of inflation. This has slightly altered the original projected benefits as projects are costing more to deliver. However, the programme is still delivering good outputs and providing longer term benefits to the local economy.

Table 1: Expected programme benefits

	<b>Original FBC 2018</b>	<b>Tranche 2</b>	<b>Tranche 3</b>	<b>Reason for movement</b>
Permanent jobs (net average p.a.)	1095	1035	833	Loss of land at Fife Interchange North as a result of planning requirements. Fewer site servicing projects as sites taken forward by private sector.
Gross Construction Jobs (cumulative)	596	625	591	Rising costs has resulted in increased expenditure, and reduced project outputs
GVA (Gross Value Added) per £1 invested	£28	£24	£21	Rising costs has resulted in increased expenditure, and reduced project outputs.
Cost per job	£44,340	£49,224	£69,707	Due to the inclusion of VDLF and other funding (partly to address additional COVID costs), alongside the

				reduction in the projected number of jobs.
Office floorspace	2,300 m <sup>2</sup>	928 m <sup>2</sup>	889 m <sup>2</sup>	Since COVID, office demand has an uncertain outlook, with significant shift to home working.
Industrial floorspace	9,700m <sup>2</sup>	9,784 m <sup>2</sup>	9,377m <sup>2</sup>	Change in scope to respond to increasing development costs.

- 1.4 The Fife i3 Programme is now well established with a track record of delivering projects and realising its benefits. Tranche 2 of the programme included development of the Benefits Realisation Framework and carbon assessments for new projects. The latter is well established to inform the Full Business Case for Tranche 3. 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.
- 1.5 The Fife i3 Programme is on track to meet its strategic objectives of:
- Increasing the supply of modern business accommodation
  - Facilitating investment by the private sector, by servicing employment land
  - Working in partnership with the Edinburgh and South East Scotland City Region Deal Data-Driven Innovation Programme, to assist 1,000 businesses across the region to become innovation-active, to reduce their costs and improve their productivity
  - Ensuring 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.
- 1.6 The Fife i3 Programme is creating conditions for start-ups and SMEs (Small, Medium Sized Enterprises) grow, innovate, and internationalise – to create more businesses in Fife and more jobs. It is creating a “ladder” of new, modern, flexible business property across a range of locations, sizes and uses.
- 1.7 The Fife i3 Programme investment has both 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. Further, investment of this scale will have major benefits for

supply chain businesses located in Fife, the wider east central belt and Scotland more generally.

- 1.8 The Programme now varies slightly from the Programme Business Case as a result of what has been delivered or expected to be delivered during Tranches 1 and 2 as included in Tables 2 and 3. This is due to a reassessment of the sites and adapting plans, based on market demand, which were included in the Programme Business Case. The sites removed from the programme are shown in Table 4.

Table 2: Tranche 1 Outputs:

<b>Projects Delivered</b>	<b>Description</b>
Acquisitions 2 sites	Ridge Way, Dalgety Bay (2.59 ha)  Fife Interchange North, Dunfermline (6.77 ha)
New Build 2 sites	Flemington Rd, Glenrothes(1,095 m2)  Dunnikier Industrial estate, Kirkcaldy (762 m2)

Table 3: Tranche 2 Expected Outputs:

<b>Projects to be delivered</b>	<b>Description</b>	<b>Status</b>
Site Servicing 3 sites	Fife Interchange North, Dunfermline (1.89ha)  Lochgelly Site Servicing (2ha)  Ridge Way, Dalgety Bay (2.59ha)	Completed  Spring 2024  Liaising with potential purchaser
Site Disposals 3 sites	Ridge Way, Dalgety Bay (2.59 ha)  Fife Interchange North, Dunfermline (1.89)  Lochgelly (2ha)	Conditional Legal Agreement in place (All sites)
New Build 7 sites	West Way, Dalgety Bay Business Units (1393m2)  Levenmouth Business Park, Buckhaven Business Units (Phase 1) (741m2)  Fife Interchange North, Dunfermline Business Units (2300m2)	Completed  Completed Q4 23/24  To be completed Summer 2024

	Flemington Road, Glenrothes Business Units Refurbishment/Phase 2 (685m <sup>2</sup> )	Onsite Q1 24/25. Estimated Completion Summer 2025.
	John Smith Business Park, Kirkcaldy Business Units (952m <sup>2</sup> )	Onsite 24/25
	Cowdenbeath Flexible Business accommodation (356m <sup>2</sup> )	Onsite 24/25
	Levenmouth Business Park, Buckhaven Business Units (966m <sup>2</sup> )	Onsite 24/25

1.9 The Programme did not proceed with some of the sites that were included in the Programme Business Case and the Tranche 2 Business Case. The table below explains the rationale for this.

Table 4: Sites Removed from the Programme set out in the Programme Business Case

Site and Location	Project Type	Reason for Removal
Beech Way, Dalgety Bay	Acquisition and Site Servicing	Purchase unsuccessful.
Rosyth Waterfront	Site Servicing	Private sector proceeding to develop the site.
Mitchelston Industrial Estate, Kirkcaldy	Site Servicing	No agreement with landowner.

1.10 During Tranche 3, the projects that will be delivered will achieve excellent long-term benefits in terms of job numbers and private sector leverage. After assessment of the options, the recommended Tranche 3 portfolio of sites is:

Table 5: Tranche 3 Sites

Projects:	Site Size	Projected Construction Jobs Supported (All projects):	Forecast of Permanent Jobs to be created:

New Build – Flemington Road, Glenrothes	929m <sup>2</sup>	169	459
Refurb – Kirkcaldy Office Accommodation	82m <sup>2</sup>		
Site Servicing – Levenmouth Business Park, Buckhaven	5.47ha		
Site Servicing – John Smith Business Park, Kirkcaldy	2.78ha		
Site Servicing – Dunnikier Business Park, Kirkcaldy	3.2ha		
Forecast Private Sector Leverage including Tranche 3 Projects			£49.36m

## 2. Accountancy Treatment

The assets created by the Fife Industrial Innovation Investment Programme will become the assets of Fife Council. These are transferred to the Council's 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 ( up to a value of £5.2m) are being used to fund the programme to repay borrowing. Any maintenance and management costs are being met from the rental income in line with the assumptions in the Financial Model. Any surplus will be managed by Fife Council's Place Directorate in accordance with the Council's Medium-Term Financial Strategy.

## 3. The Financial Case - Funding Profile

3.1 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. 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; VDLF, Levenmouth Reconnected programme, Developer Contributions and TIF (Tax Incremental Funding) to remediate challenging sites. This funding approach is captured in the financial model, which now

includes more refined information on the expected costs and delivery timetable for the programme.

- 3.2 Since the development of the Programme Business Case, the financial modelling shows some movement in the expected NPV (Net Present Value) for the programme. This is principally due to changes to the Programme to respond to elevated levels of inflation, including additional investment being used to support the delivery of the Programme.
- 3.3 The Business Case for Tranche 3 shows an insignificant increase in the Programme surplus from £14 million in the Programme Business Case to £14.6 million. The NPV for the programme is expected to be a surplus of £3.8 million – this is a significant increase from the original Programme Business Case, which showed a £0.177 million NPV surplus. The main reasons for the increase in the forecast surplus is a revision of maintenance cost assumptions.
- 3.4 Any surplus will be managed by Fife Council's Place Directorate in accordance with the Council's Medium-Term Financial Strategy, the terms of the offer of grant from Scottish Government, and the Minute of Agreement with the accountable body (City of Edinburgh Council). The Edinburgh And South East Scotland City Region Deal Grant Offer 2023-24 states that the Scottish Ministers expect that the programme will not dispose of any asset funded with the Grant funds, in part or in whole, within 10 years of the Asset being acquired or developed, unless the Asset has become obsolete.
- 3.5 However, for the Fife i3 Programme, the funding approach in the Programme Full Business Case, approved by partners, and endorsed by the Governments, agreed that the capital receipts up to a value of £5.2m could be reinvested into the Programme. Current projections are that the Capital Receipts will be £3.7m due to the removal of site servicing projects as summarised in Table 4 above.
- 3.6 The Programme investment has increased by £9.6m. This is a combination of other external funding from VDLF, TIF and Levenmouth Reconnected grant funds and an additional capital contribution from the Council's Capital Investment Plan.
- 3.7 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 in Table 6.

Table 6: Financial Modelling Results and Movement from Programme Business Case to Current Position

Financial Modelling Results (£m)	NPV of (Surplus) / Deficit	(Surplus) / Deficit	Investment	Capital Receipts	Interest (%)
Programme Base Case - 3.75% BCIS	(0.2)	(14.1)	48.4	(5.3)	3.6
Tranche 2 Business Case	(3.6)	(15.7)	49.7	(5.2)	3.6
Tranche 3 Business Case Update	(3.8)	(14.6)	58.0	(3.7)	3.5
Movement T3 to Programme Business Case	(3.6)	(0.5)	9.6	1.6	0.1

Note: figures may not sum due to rounding

- 3.6 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. There has been advancement of grant drawdown as at year 4 of £1.466m and then draw down continues in line with the financial plan from Year 5 to Year 8.

Table 7: Movement in Grant Profile from Programme Business Case to Current Position

Note: figures may not sum due to rounding. <b>Movement in Grant Profile from Programme Full Business Case to Current Position</b>	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	2028/29 Year 10	TOTAL
City Deal Financial Plan		(2.840)	(3.748)	(5.173)	(6.317)	(8.046)	(2.852)	(3.928)	(2.096)	(0.0)	(35.000)
Base Case – Programme Business Case 3.75% BCIS		(3.243)	(3.665)	(4.489)	(4.119)	(7.863)	(5.410)	(3.745)	(2.465)	(0.0)	(35.000)
Current Position * (Tranche 3)	(1.433)	(3.620)	(4.288)	(3.885)	(6.317)	(8.046)	(2.852)	(3.928)	(0.630)	(0.0)	(35.000)
Tranche 1 Total			(9.341)	Tranche 2 Total		(18.248)	Tranche 3 Total		(7.410)	Total	(35.000)

Table 8 – Grant Breakdown by Tranche

ESES Region Grant	City	Yrs 0-4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Yr 11	Total
		2019/20 – 2022/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	29/30 £m	£m
Tranche 1		8.332	4.774	5.585	3.177	0.121	0	0	0	21.989
Tranche 2		4.894	0.645	0.834	4.044	1.264	0	0	0	11.682
Tranche 3		0	0	0	0	1.329	0	0	0	1.329
SG/UK Total		13.227	5.419	6.419	7.221	2.714	0	0	0	35.000

**Tranche 3 grant amount £1.329m**

#### 4. Benefits Realisation Approach

- 4.1 Benefits are monitored and assessed through the Fife i3 Programme Change Control process. Changes are captured through Exception Reports, compared against the baseline level set in the Project Business Case. New benefits projections are captured in the Exception Report if approved by the Fife i3 Programme Board.
- 4.2 The Fife i3 Programme is a long-term investment programme. It is part of the Deal's Innovation activities. The ambition is to have more innovation-active businesses in Fife, i.e., businesses that are engaged in all forms of innovation. In the medium term, the ambition is to increase business investment in formal innovation such as research and development. This will deliver improved productivity and higher value jobs for the local authority areas and the city Region. Short term outputs for the innovation activity includes Community Benefits, Construction and supply chain jobs and Site Occupancy. The medium-term impact is jobs and in the longer-term sustained employment/wage rate uplifts.
- 4.3 The Fife i3 Programme ensures that the Fife i3 Programme's innovation objectives are met by implementing an application process for potential tenants for the new industrial units to ensure the Council selects businesses that have: an aspiration to grow (turnover and/or staff numbers); are enthusiastic about the benefits that new ways of working can bring and are committed to developing this; and will put fairness and equality at the heart of their workforce planning.

#### 5 Climate Change Benefits

5.1 Since the Programme Business Case for the i3 Programme was approved, the Scottish Government has developed Carbon Guidance for City Region Deals, [Scottish City Region and Growth Deals: carbon management guidance for projects and programmes - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/consultations-petitions/embedded/Scottish-City-Region-and-Growth-Deals-carbon-management-guidance-for-projects-and-programmes-2020.pdf) . During Tranche 2, the Fife i3 programme is adopted this voluntarily, to measure and reduce the carbon impacts from its activities.

5.2 Based on the experience from Tranche 2, Carbon Assessment Forms have been completed for the Tranche 3 projects. The carbon impact costs have been captured and included in the carbon assessment and the economic assessment. Fife Council aims to make reductions to the figure by introducing modern methods of construction and using low carbon products where possible during the build.

5.3 This Business Case updates each of the five cases with the latest information available. It considers the detailed arrangements for delivery of the upcoming tranche and affirms that:

- The most economically advantageous investment programme is being delivered, also considering sustainability and inclusion objectives;
- The Programme is affordable and financially viable;
- The required outputs and benefits can be successfully delivered.

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.