Executive Summary

This document presents an update for the Larkhall Community Growth Area Outline Business Case (OBC) – the update was prepared in March 2019, reflecting revised guidance from the Programme Management Office on the preparation of Business Cases. It is, however, important to note that while additional information has been prepared, the project has not changed and the content of the OBC is based on information and data as of the original OBC submission in December 2016, albeit with additional information that was not presented in the earlier OBC (e.g. net additional economic benefits).

The Strategic Case

This OBC is for £20.15m City Deal funding – £17.3m City Deal (86%) and £2.8m SLC (14%) – to enable development of the Larkhall CGA through provision of offsite road infrastructure, and education/ leisure facilities. The project enables development of 1,750 homes at Larkhall, meeting an identified shortfall of housing across the city region. The private housebuilder will deliver follow-on investment of £238m in on-site infrastructure and housing construction, plus Section 75 contributions of £17.5m. In addition SLC will invest a further £12.85m. The total investment at Larkhall CGA is therefore £288.5m over a 15 year period from 2018, equating to £228m NPV when discounted at 3.5%.

City Deal intervention addresses market failure and delivers additionality in terms of time (ten years faster), scale (750 additional homes) and quality (enhanced off-site infrastructure). The rationale for City Deal investment is made on the basis of the additional economic value that will be generated i.e. the difference between the intervention option (full delivery over 15 years) and the counterfactual option (full delivery over 25 years).

The project proposal fits with, and contributes toward, a wide range of policy aspirations at the local, regional and national levels – particularly against economic, housing, planning, community and transport thematic areas. It also contributes to the priorities of the City Deal fund, creating new jobs, supporting unemployed people into work, securing Government capital funding, leveraging private sector investment, delivering additional GVA and spreading the benefits of economic growth.

The strategic aim for Larkhall CGA is *"to secure the delivery of 1,750 new homes at an advanced market-driven development rate that will accommodate 5,000 residents and increase the sustainability of the local community. In the longer term this will support the improvement in GVA in South Lanarkshire by working with housing developers to build new, high quality, affordable homes (including social housing) to meet the current South Lanarkshire needs and the demand arising from our growing and ageing population."*

The project scope is defined in Table ES1.

Table ES1: Project Scope

CGA	**Larkhall**
Developer	Persimmon Homes plus other developer partners to be finalised
City Deal (CD/SLC), Additional SLC, S75	Holy Cross High School Extension Larkhall Academy Improvements Glengowan Primary School Extension Larkhall Leisure Improvements Road Network Upgrade
Follow-On	1,750 new houses over 15 years (preferred option) On-site roads/ utilities infrastructure, greenspaces and local facilities

The objectives of the project are to:

- deliver the maximum 1,750 houses to meet identified shortage and need for new homes;
- deliver education infrastructure for current and future residents;
- deliver off-site transport improvements; and
- generate additional economic value (jobs and GVA).

SLC has adopted a robust approach to risk management – a working Risk Register has been developed and will be managed by SLC in line with City Deal Assurance Framework requirements. A range of internal, external and emerging risks have been identified, but there are no significant risks for the City Deal programme.

The Economic Case

The economic case presents and tests a series of alternative options – including the counterfactual or 'do nothing' option – before a preferred solution that meets the identified needs and delivers Value for Money for the public sector.

Based on a thorough review by experienced and skilled stakeholders, and analysis against categories for scope, service solution, service delivery, implementation and funding, a series of four alternatives were selected/ appraised and considered against the counterfactual:

- Counterfactual – 1,000 houses will be built over 25 years, with some off-site improvements to roads and nurseries funded from S75 contributions up to 2044;
- Option 1 – roads/ no schools – 1,450 houses will be built over the 25 year appraisal period (plus a further 300 over the following five years), with off-site road infrastructure funded from S75 and City Deal;
- Option 2 – schools/ no roads – 1,190 houses will be built over the 25 year appraisal period plus a further 160 over the following four years), with off-site education infrastructure funded from S75 and City Deal; and
- Option 3 – roads and schools – 1,750 houses will be built over 15 years, with investment in off-site road/ schools/ leisure infrastructure to bring the development forward earlier than planned and increase the scale of development.

Each of the alternative options are tested using a SWOT analysis that outlines strengths, weaknesses, opportunities, threats, risks, costs, benefits (gross and net), dis-benefits, value for money, and consideration against scoring and value metrics. The approach follows HM Treasury Green Book requirements – to allow comparison between options all costs are discounted (at 3.5%) to today's values, all benefits are presented at the net direct level with GVA benefits discounted (at 3.5%) to today's values.

The comparison between options adopts a net direct approach with the impacts of the counterfactual option deducted from the preferred solution (Option 3) to arrive at net additional. Option 3 is further tested for risk and sensitivity before it is confirmed as the preferred solution for City Deal investment at Larkhall CGA.

The Commercial Case

Option 3 was defined and refined to meet the needs of key partners and stakeholders, including local residents, SLC, City Deal partners, housebuilders and transport bodies. Following analysis of potential funding options from public and private sector, the funding (in nominal values) required to deliver the Larkhall CGA project is defined as:

- City Deal £20.15m for off-site transport, education and leisure infrastructure (split 86/14);
- SLC £12.85m – additional infrastructure investment;

- Developer S75 £17.5m – as per the legal commitment in the S75 Agreement, with contributions to off-site roads, education and leisure facilities; and
- Developer £238m – house building and on-site infrastructure.

Achieving success at Larkhall (and delivering the scale of identified benefits) is dependent on securing the follow-on investment from the lead developer and selected housebuilding partners. This is identified in, and will be monitored via, the Risk Register. However, the developers has a long-standing commitment to development at Larkhall and embedded self-interest in completing the CGA – indeed since approval of the original OBC in December 2016 work on-site has now commenced. In the absence of continued interest from the identified housebuilding partners SLC will work with the site owners to secure alternative developer(s) and achieve the target 1,750 houses built over the 15 year period.

SLC will be responsible for delivering the City Deal funded off-site infrastructure – and the S75 works – with the developers having responsibility for delivery of the follow-on housing investment. Procurement and delivery by SLC will be in line with the City Deal Assurance Framework.

The Financial Case

Larkhall is one of four sites that make up the South Lanarkshire CGA project, submitted at SLC and approved for £62.3m City Deal funding – this is the overall scheme budget, with £20.15m allocated to Larkhall. The discounted cost of this (at 3.5%) equates to £17.6m in today's prices.

As per the principle of the City Deal Infrastructure Fund, SLC will contribute 14% of the overall capital cost. Other funding will be leveraged via the S75 Agreement, additional SLC investment and private sector funding from the housebuilders.

SLC will take on the resultant revenue responsibilities arising from operating and maintenance of the new infrastructure, equating to £3.2m per annum (largely staffing costs at the schools) totalling £32m discounted cost over a 25 year period.

There are no major financial risks for the City Deal Infrastructure Fund – Larkhall CGA equates to c. 2% of the total fund budget, but financial risks have been identified in the Risk Register and will be monitored/ managed by SLC on a proactive basis.

The Management Case

Larkhall CGA will be managed by SLC in accordance with the standards required by the City Deal governing principles. Project roles have been assigned to Senior Responsible Officer, Project Sponsor, Project Manager and an internal Project Team. Community and Enterprise Services within SLC will lead the delivery of the project, ensuring alignment against other SLC CGA and Roads/ Education projects.

Individual project elements will be transferred to the appropriate SLC team for operational management as they complete – there has been early and ongoing liaison to ensure an effective route map is in place.

SLC Regeneration will have responsibility for the long-term monitoring and evaluation of the project benefits, including community benefits, in line with the M&E Plan, using in-house resource and supplemented by external specialist consultants as required. The economic impact model developed to appraise the gross and net benefits of the alternative options allows for the activities to be measured and performance tracked against the forecast profile.

The key objectives and critical success factors (as defined in the Strategic Case) have ensured that the development of the Larkhall CGA is embedded in a holistic approach to sustainability – environmental, economic, social and community – and the financial appraisal confirms that the project is financially sustainable, albeit with the need for future (planned) investment by the private sector to deliver the new houses.

In summary City Deal investment in the Larkhall CGA generates the following results:

Category	**Sub-Category**	**Result**
GVA	Net Direct at GCR by 2035	£175m NPV
	Net Direct at Scotland by 2035	£282m NPV
	Net Additional at GCR by 2035	£111m NPV
	Net additional at Scotland by 2035	£176m NPV
	Net Direct at GCR over 25 years	£188m NPV
	Net Direct at Scotland over 25 years	£297m NPV
	Net Additional at GCR over 25 years	£107m NPV
	Net Additional at Scotland over 25 years	£169m NPV
Benefit Cost Ratio	Total Public Sector Costs by 2035	£48m NPV
	Total Public Sector Costs over 25 years	£59m NPV
Construction Employment (PYEs)	Gross Enabling Infrastructure Development Jobs at GCR (Person Years of Employment) by 2035	390
	Net Additional Enabling Infrastructure Construction Jobs at GCR (Person Years of Employment) by 2035	340
	Gross Development/ Follow On Construction Jobs at GCR (Person Years of Employment) by 2035	1,900
	Net Additional Development Follow On Construction Jobs at GCR (Person Years of Employment) by 2035	840
Operational Employment – Permanent Jobs	Gross Operational FTEs by 2035	370
	Net Additional FTEs by 2035	110 @ GCR
Private Sector Investment	Direct Project Private Sector Investment by 2035 (£m)	£201m NPV
	Net Additional Private Sector Investment (Follow-on developments) by 2035	£118m NPV