Item 7 (a)

12th February 2019

Glasgow City Region - City Deal

Cabinet

Report by Director of Regional Economic Growth

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PMO Evaluation:
Inverclyde Council – Strategic Business Case
Inchgreen

Purpose of Report:

To report to the Cabinet on the evaluation of Inverclyde Council's Strategic Business Case (SBC) for Inchgreen.

Recommendations:

It is proposed that the Cabinet:-

I. notes that the SBC for Inchgreen is considered to be compliant with the H.M. Treasury Green Book requirements; and

II. approves the Strategic Business Case for Inchgreen, including the funding request of £0.150m.

1. Purpose

1.1 To report to the Cabinet on the evaluation of Inverclyde Council's Strategic Business Case (SBC) for Inchgreen.

1.2 The Executive Summary of the project is attached at Appendix 1.

1.3 The submission of this business case for appraisal is considered as confirmation that Inverclyde Council approves the inclusion of this business case as part of the City Deal programme as stated in the current Glasgow and Clyde Valley City Deal Assurance Framework (10 March 2015) in section 4.1.1.

1.4 Inverclyde Council approved this Business Case (v7) on 27 November 2018 at their Environment and Regeneration Committee.

1.5 The Chief Executives' Group considered this Business Case on 31st January 2019 when it was agreed that it be submitted to Cabinet for approval.

2. Review of the SBC

2.1 Following appraisal, the PMO considers that the Inchgreen SBC is compliant with H.M. Treasury Green Book for a Strategic Business Case.

3. Scope

3.1 The scope is consistent with what was agreed and developed as part of the initial infrastructure projects modelled by KPMG. There are a number of gaps identified in the assessment table (identified and explained in the table itself) which will need to be addressed at OBC stage.

4. Financial

4.1 The cost of the project is £9.427m all funded from City Deal Infrastructure Fund comprising City Deal Grant and members' contribution. This SBC is seeking £0.150m to develop to OBC. This funding will be spent on technical assessments and related studies.

4.2 A full financial analysis has been carried out as part of the evaluation of the business case for the project funding. This is a Strategic Business Case (SBC) for Inchgreen. The drawdown of this funding will be completed on the basis of actual eligible expenditure, in association with the grant drawdown principles outlined within the Assurance Framework.

5. Benefits Realisation

5.1 The benefits of the project are expected to be contained within the OBC and FBC. The PMO will identify and report on the benefits attributed to each of the project components as the subsequent business cases are submitted.

6. Legal and Procurement

6.1 The SBC includes a list of key legal issues which are described at a high level. Recognition is given throughout the business case to the need for land acquisitions, statutory consents, powers and agreements with key partners. These legal matters should be considered in more detail in the project OBC and FBC.

7. Future Business Case Development

7.1 Reflecting the comments made during the appraisal of the SBC, the PMO has identified a number of areas where it will expect further detail to be provided within the OBC that are subsequently submitted and these are contained in the appraisal table.

8. Recommendations

8.1 It is recommended that Cabinet:

I. notes that the SBC for Inchgreen is considered to be compliant with the H.M. Treasury Green Book requirements; and

II. approves the Strategic Business Case for Inchgreen, including the funding request of £0.150m.

Appendix 1

1.0 Executive Summary

The Inchgreen proposal was developed as part of the initial twenty infrastructure projects modelled by KPMG and David Simmonds Consultancy which formed the City Deal Infrastructure Fund.

The selection process for the site involved consideration against a long list of option sites for other eligible infrastructure initiatives, both within Inverclyde and within the rest of the City Region which resulted in a ranking order based on GVA/£.

Inchgreen sits in east Greenock, immediately to the west of Port Glasgow. The site is recognised as a Strategic Economic Investment Location in the Clydeplan Strategic Development Plan, and the adopted and emerging Local Development Plan. Clydeplan and the emerging Local Development Plan recognise the City Deal status of the site.

The site under consideration extends to some 10.77 ha and is bordered by the River Clyde in the north; the A8 trunk road in the south; James Watt Dock in the west; and Inchgreen Drydock in the east. The site offers immediate access onto the A8 Trunk Road, which links to the M8, Glasgow Airport and Scotland's motorway network, and from a marine perspective the River Clyde.

The site has had a number of uses in the past, primarily associated with shipbuilding but is currently used as a concrete batching plant, for car storage, derelict food manufacturing unit, and occasional marine related activity but its major asset is that it includes a much sought after 600m of deep water quay wall.

The Council, through the local development plan process, has seen fit to protect the maritime status of the site, including the adjacent dry dock for specialist marine services.

The Council and Peel Ports have both received a number of enquiries for marine related activities. In order to make the project viable, a novel approach has been taken in developing the Strategic Business Case for a project which will be a state aid compliant joint venture between Peel Ports and Inverclyde Council including the strategic acquisition of two additional sites. The final land uses for the overall site will include a training facility for fishermen, a fishing vessel manufacturing facility, a fish processing plant, a marine manufacturing facility, and the remainder of the site used for heavy marine operations thus unlocking the site to a wider range of uses / users. An option to consider the use of the Inchgreen Dry Dock will be considered as the iterations of the business case develops.

This Strategic Business Case advances the Inchgreen proposal, provides an updated SBC and seeks an allocation of up to £150,000 from City Deal to develop the project to Outline Business Case.

It is anticipated the funding required from City Deal will remain substantially unchanged as detailed in the previous SBC at £9.427 million.

This Strategic Business Case summarises the rationale for intervention and the case for change. Information on the context including the economic baseline is summarised alongside the strategic case and how the project and project options fit with wider policies and objectives.

1.1 Strategic Business Case

Inchgreen seeks to address site and market failure associated with legacy infrastructure issues (ground conditions / contamination / inadequacy of public infrastructure /development risk) which have resulted in significant under utilisation / dereliction of this high profile site and exploit economic opportunity by addressing the negative externalities of the site and accelerate development activity by attracting significant new investment. Through job creation, with a variety of required skillsets, the site will help Inverclyde contribute to addressing some of its socio economic issues.

The site has been associated with ship building in the past and since the demise of ship building it has been underutilised, indeed part of it has been included within the Derelict and Vacant Land supply on a number of occasions. Based on desk research it is highly likely that the site will be contaminated.

Peel Property own a large proportion of the site however the ability to develop the site is hindered by two factors, two further users and a conflicting commercial interest. Unfortunate circumstance, in the form of a catastrophic fire, has resulted in one of users relocation from the site thus potentially allowing a strategic acquisition.

The demand for modern industrial premises adjacent to deep water accessible quay wall has increased in recent times and whilst commercially sensitive the Council and Peel Ports are in dialogue with interested parties keen to see solutions develop on the site. Therefore the City Deal intervention addresses long-standing market failure and delivers additionality benefits in terms of time, scale and quality. The rationale for City Deal investment is the additional economic value generated. The Inchgreen proposals support investment, address market failure with the preferred option demonstrating clear benefits over the do-nothing or counterfactual option. The Inchgreen proposal fits with, and contributes toward, a wide range of policy aspirations at national, regional and local levels. It supports economic, planning, and social/community outcomes within City and regional policy. The project contributes to the priorities of the City Deal fund by means of:

- Creating investment
- Creating jobs
- Supporting unemployed people back into work
- Securing capital funding and leveraging private investment
- Delivering additional GVA and spreading the benefits of economic growth.

The economic case presents and test a series of alternative options – including the counterfactual or 'do nothing' options, before setting out the outline of the preferred way forward that can meet the identified need and deliver value for money (VfM) for the public sector. These elements will be developed and fully tested in the OBC.

1.2 Strategic Case

Investment at Inchgreen is required to bring a strategic asset and a viable site asset back into positive use. The investment through City Deal will allow the site to address its potential, unlock value, provide for investment and support inclusive growth.

Investment will deliver sustainable social and economic benefits across the region and specifically within disadvantage communities in Greenock and Port Glasgow that suffer high-levels of deprivation and limited employment opportunities, by providing a range of sustainable job opportunities.

Investment at Inchgreen addresses the rationale for intervention (strategic need for investment; policy objectives; market failure – externalities/ public goods / equity). Public sector intervention is required to address abnormal site costs associated with former uses and lever new and additional private sector investment activity.

The project objective is to unlock the potential of the site and addresses the long-standing market failure created by barriers to investment resulting from historic land-use activity.

Project	Developer(s)	City Deal Funding	Follow-On Outputs
Inchgreen	Inverclyde Council Peel Ports Group Private Sector Operators	Site Acquisition Site Remediation Access & Services Quay Works Advance Bldg. Unit	Investment by private sector following site remediation and infrastructure investment.

Project Objectives

The over-arching vision for Inverclyde to create, attract and safeguard more and better jobs with an emphasis on the private sector that delivers a more prosperous, competitive, balanced and sustainable local economy, delivering economic regeneration for the benefit of all our businesses, residents, and communities.

The Inchgreen project vision looks to unlock new and additional economic growth, secure the remediation of important waterfront assets and secure new follow-on leverage investment into the region in a manner that is inclusive and sustainable.

Project objectives are tabulated within the SBC and include:

- create investment opportunity in identified growth sectors
- support Inverclyde's economic objective of delivering jobs and access to employment with a range of jobs that support area regeneration
- remediate a brownfield site with constraints that act as a barrier to investment
- bring a high value waterfront asset into positive use and invests in an under-utilised economic asset

The vision supports the priorities of the City Deal fund, creating new jobs, supporting unemployed people into work, leveraging private sector investment, delivering additional GVA (detailed assessment to be advanced within the OBC) and delivers jobs in an area of long-term deprivation supporting inclusive growth.

Rationale for Investment - Addressing Market Failure

Green Book guidance defines the rationale for public sector intervention associated with market failure. Failure in markets to deliver ‘optimum’ outcomes provides a rationale and case for public sector intervention. Market failure at Inchgreen includes:

- **Externalities**
  Abnormal costs for addressing legacy historical land uses blight redevelopment of land. Costs associated with infrastructure and re-development outweigh low land values in areas under-going restructuring and regeneration and restrict commercial investment.
- **Public Goods**

  Infrastructure investment connecting and enhancing the public transport network delivers wider social benefits. These deliver no opportunity or mechanism to charge for the use of these goods, add to development costs and create a dis-incentive for investment. Public sector investment in environment and public infrastructure the presents a rationale for public sector investment.

1.3 Economic Case

The economic case develops a framework for project development and summarises the main options or project configurations that could deliver the project need, address the project objectives and overcome the constraints on investment that currently restrict economic opportunity.

Strategic Options / Long List Options / Short-List Options

The SBC presents and tests a range of options (strategic - including physical/ non-physical and options and interventions ranging from Do-Nothing to full Site Re-development.

INCHGREEN: Exploring and setting a Framework of Options Strategic Options (Green indicate preferred/ Yellow: Further Consideration; Brown: Discounted route of travel – short-listed option)				
Scope	**Do Nothing**	**Physical intervention:** Addresses the sector’s needs for enhanced infrastructure, enabling the City Region and Scotland to compete		
		Remediate Site Only	**Remediate + Infrastructure**	**Remediate +Infrastructure +Land**
Approach/Solution				
	IC Grant Support	**IC Procure**	**Partnership Procure**	**Private Sector Procure**
	IC establish a grant fund. Little control over programme or scope and delivery dates.	IC lead. IC own none of the land and delivery requires a partnership approach	IC and PPG lead acquiring if agreed additional land and advancing scheme with market with all parties involved	Similar structure to grant. Limited private sector appetite and limited control from public investment
Delivery				
	Inverclyde Council Lead	Riverside Inverclyde Lead	Private Sector Lead	Land-owners lead
Implementation				
	Single Phase	**Twin Phased**	**Multiple Phases**	**Bespoke Delivery**
Funding				
	City Deal Supported	**IC Fund**	**Private Sector**	**Other Grant Programmes**

Key

Option Advanced to OBC	Option to be Tested at OBC	Not Advanced / Discounted

Detail of the Long List and Short List Options are provided in the Economic Case. Options have been developed by Inverclyde Council and PPG and have explored options and understandings of market demand within anticipated time-periods 2020-2025 / 2025-2030 / 2030-2035+.

Short-Listed Proposals

The options considered to offer the best fit with the objectives and considered most capable of maximising social value are highlighted in green. Comparative assessment and further detailed assessments including assessment alongside the Do-Nothing Option will be advanced within the OBC and are outlined within Section 3.0 - SBC Economic Case.

Developing the optimum solution requires the identification and delivery of an option that is market-facing and reflects investor need and can take advantage from the sites assets to secure a strong and compelling investment proposition. The discussions by the partners (IC/PPG) suggest that the best fit with objectives will be the investment in infrastructure that responds to the market failure and create a viable follow-on investment site for industries with active interests in Clyde waterfront and marine accessible sites.

Outline Project Scope & Investment Allocation

Development of Inchgreen will create a West of Scotland key Clyde Waterfront site with deep water access. Intervention to deliver this will involve site preparation, site clearance and remediation works together with investment associated with upgrading of infrastructure (marine / access / services & utilities) to create a market ready investment site.

Main elements could include:

- Quay upgrading
- Site Preparation and Site Clearance
- Site Infrastructure Works (Utilities / Services / Access)
- Advance High Portal Manufacturing Unit

The draft/indicative investment requirements are at Early Feasibility/ Proof of Concept stage and will need to be developed along with detailed configurations and layout options with the OBC.

Direct Activity Inchgreen Public Sector Investment	Follow-on Activity Inchgreen Private Sector Investment
Inchgreen Site Infrastructure Investment • Site consolidation/ acquisition • Site preparation and remediation • Infrastructure including utilities / quay works • One-Off Construction Jobs / Skills Dev.	**Inchgreen Follow-On Investment** • Commercial investments • Commercial floorspace (m^2) • Business investment activity • Jobs / Skills Dev.
Site infrastructure investment is scheduled for 2022-2023 2019-2020 Development Phase 2020-2021 Contract & Procurement	Follow-on investment assumes phased delivery thereafter – 30% by 2025; 60% by 2030; 100% by 2035 2022-2035 Investment Phase

2021-2023	Construction Phase	2022-2050	Operational Phase

1.4 Commercial Case

The City Deal Procurement Strategy 2015 – 2020 jointly developed and agreed between all of the GCR City Deal Member Authorities provides a framework for procurement and the provisions for community benefits. Inverclyde Council and PPG are exploring the arrangements as to how best to advance the project and set in place the appropriate mechanisms for commercial accountability. Discussions on the form of the commercial agreement are at an early stage and are based on entering into a Joint Development Agreement.

The Inchgreen project forms a package of relatively standard engineering works. The contract works would include development infrastructure including land remediation, geo-technical and civil engineering activity associated with site works, roads and quay access, utility services and industrial development.

Inverclyde Council and PPG are exploring the arrangements as to how best to advance the project and set in place the appropriate mechanisms for commercial accountability. Discussions on the form of the commercial agreement are at an early stage and are anticipated to be based on the parties forming a Joint Development Agreement.

IC/PPG anticipate at least at this stage, a flexible approach to procurement to ensure best value for the public purse. Procurement arrangement will allow for a range of options to procure services and works including professional services, main contractors, sub-contractors and specialist activities for construction and civil engineering projects including traditional and design-build options.

The procurement strategy will accord with Public Procurement rules and IC Corporate Procurement Strategy. The Council Procurement Strategy is currently under review offering opportunity for the Council's to input to an innovative and forward-thinking procurement function that can support the delivery of the project and the objectives going forward.

1.5 Financial Case

Inchgreen is at an early development phase. Project costs have been estimated by the project delivery team (IC/PPG) and provide allowances for contingencies, Optimism Bias (undertaken at a project level) and inflation based on estimated RPI increases from the Office for Budgetary Responsibility.

Inchgreen is a key part of the Inverclyde Council City Deal projects approval agreed for City Deal funding. City Deal Infrastructure Fund will contribute 100% of the overall capital cost levering significant follow-on investment from the private sector.

The infrastructure and land assembly costs require a total investment of the order of £9.427 million. Detailed costs assessment and risk/OB assessment will form part of the OBC. Current costs include for Capital Costs of £8.427million and professional fees and consenting costs of £1.0million. Costs to develop the SBC to Outline Business Case are estimated at £150,000. These include technical assessments and related studies including due diligence and technical surveys relevant to OBC reporting.

Inverclyde Council will have ultimate responsibility for cost management and cost control within a development agreement that transfers risk to the contractor/private sector. VAT has been treated as recoverable.

Inchgreen is an infrastructure led project with a specific site focus. No wider financial dependencies are envisaged and the project whilst dependent upon formal approvals between Inverclyde Council and PPG, and the approval of their respective parent boards / Members has limited wider dependencies. The scope and capital programme will require development and may be impacted by changes within the development of the project proposals through to OBC. Feasibility studies (Site Investigations / Geo-technical Evaluation / Marine Assessments) will be advanced in parallel with the OBC and provide additional detail to inform costs.

The expenditure profile (high-level assumptions) for Inchgreen could anticipate:

	2019/20	2020/21	2021/22	2022/23	Total
Feasibility Studies	£100,000				£100,000
OBC Development	£50,000				£50,000
Stakeholder Engagement	Incl.				
Design Team Fees	50,000	150,000	150,000	100,000	450,000
Capital Works		£2,000,000	£3,927,000	£1,800,000-	£7,727,000
Contract Contingency			£	£550,000	£550,000
Optimism Bias		-	-	550,000-	£550,000
		-	-	-	
Total	**£200,000**	**£2,150,000**	**£4,077,000**	**£3,000,000**	**£9,427,000**

1.6 Management Case

Inchgreen will be managed by Inverclyde Council compliant to the City Deal governance and reporting standards. The Environment, Regeneration and Resources Directorate within the Council will lead the delivery of the project. Project governance are by a Project Board with defined roles assigned to Senior Responsible Officer, Project Sponsor, Project Manager and a partnership Project Team.

Inverclyde Council and PPG will establish a management agreement which will oversee the delivery of the project and be responsible to the respective boards/committees of the parent bodies i.e. Environment and Regeneration Committee of Inverclyde Council and Peel Operations Board.

Project governance will utilise standard Project Management protocols. Individual project elements will be transferred to the appropriate Inverclyde Council team for operational management. A detailed governance and project management delivery plan is under preparation including assignment of named officers.

Lead Body:	Inverclyde Council working in partnership with PPG
Design Team:	Selected by competitive tender / procurement
Contract Delivery:	PPG with ESPD Procurement under NEC-3
Management of Facility:	IC/PPG Development Agreement

The key objectives and critical success factors ensure Inchgreen adopts a coordinated approach to sustainability – environmental, economic, social and community – and the financial appraisal confirms that the project is financially sustainable, if infrastructure and remediation support funding is available through City Deal.

Inverclyde Council and PPG are progressing a dialogue with State Aid Unit of Scottish Government and are aware of the issues associated with State Aid for this project. It is likely that a Joint Venture Agreement would be established based upon the Market Economy Investor Principle between Inverclyde Council and PPG but it is too early to confirm this at this stage.

Project	Outline Summary / Description	Third party involvement	Funding Required For:	Outcomes / Impacts / Value Added (Preferred Option) *	Private Sector and other Leverage	Total Project Investment Ask £
INCHGREEN **Creating a market ready site for jobs and investment**	**Inchgreen – Special Asset** Inchgreen is an important economic asset on the Clyde. A deep-water quay with supporting hinterland of industrial land that can offer excellent access (marine + terrestrial) and good connectivity to markets. Inchgreen as a strategically located waterfront site has a range of opportunity with perhaps the strongest potential in the marine engineering/operations sector(s) exploiting its marine access quays, and marine infrastructure. The detailed activity and infrastructure needs of the sector is under assessment. This will be further reviewed and reported at OBC stage. The target is to bring the site back into productive use and address the market failure associated with negative development costs associated with ground conditions and infrastructure. **Inchgreen Site** Inchgreen offers a site extending to 10.7 ha (26.5acres) located immediately adjacent to the Inchgreen Dock with 600 metres of deep water 8.0m LAT) dock and an access seaway 10.0m LAT Lack of investment in the last 40 years has led to sub-optimal land-use activity (storage/ bulk commodities/maintenance yards /derelict land). **Investment Unlocking Barriers to Growth** Development Site Nett Developable Area 10+ha • Creates a viable site investment proposition supporting follow-on investment by private sector • Addresses barriers to investment and market failure • Accelerates investment and generates jobs and wider socio-economic benefits	**Public/Private Partnership** Inverclyde Council will develop the project with the current landowners (Peel Ports Group) and test and validate the most appropriate model as the project is developed. Investment options will be further investigated with arrangements such as Joint Venture / SPV or other structures considered at OBC Adjacent landowners have indicated willingness to dispose/sale of sites subject of valuation and programme. The OBC will develop the SBC outline model and test land acquisition options. The scope and extent of the site (and any extensions) will be fully appraised within the OBC.: • Risk End Quarry (2.7ha / 6.67acres) • McKecknie Jess (0.9ha / 2.3acres)	**Enabling Infrastructure** The SBC outline the barriers to growth. Inadequate infrastructure and legacy ground conditions sterilise the land asset for other than low grade/non-economic activity. The objective of the project is to secure the redevelopment of a quality waterfront asset, address vacant & derelict and under-utilised physical assets and create a market ready site securing employment and economic opportunities. Investment funding is envisaged around a series of physical interventions. These are currently anticipated to include: Land Acquisition £3.5m Quay Upgrading £0.7m Site Works/Site Prep £1.0 m Dredging £0.5m Site Works/Utilities £0.3m Advance Building Unit £1.8m **Capital Works Total £7.7 m** Contingency (15%) £1.1m Fees (5.0%) £0.6m **Total £9.4 million** A long-list of options and short-listed options are assessed within the SBC. Funding is sought to advance the OBC and detailed technical assessments.	**Economic Assessment** The investment focus is on creating added value activity and high value jobs. Evaluation of options has focussed on interventions that facilitate/enable further private sector/industry investment Economic interest exists in the market. Market failure exists due to the high level of abnormal costs (negative cost externality). Public investment has potential to deliver significant benefits (public good) and follow-on private sector investment.	**Enabling Investment** Investment leverage associated with operator investment/ outline proposals has been estimated (based on broad industry benchmarks to be verified at OBC) of circa £30-35m.	**Inchgreen** The City Deal proposition for Inchgreen are based on its fundamental strategic value for industrial activity that supports the regional economy. The SBC outlines the long-list / short listed options and sets out the direction of travel and the next steps. The proposal as amended is based on a comparable level of investment to the earlier submission. **Total City Deal Funding Request:** **£9.5million** **Total Private Sector investment** **£30-£35million**