

# Report

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Report to:	<b>Executive Committee</b>
Date of Meeting:	<b>15 August 2018</b>
Report by:	<b>Executive Director (Community and Enterprise Resources)</b>

Subject:	<b>Glasgow City Region City Deal – East Kilbride Community Growth Area, Outline Business Case</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ set out the Outline Business Case for the East Kilbride Community Growth Area
- ◆ advise the Committee on the next steps in developing the project

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the Outline Business Case for the East Kilbride Community Growth Area be approved;
- (2) that the proposed next steps in developing the project be approved;
- (3) that grant funding be sought in accordance with the City Deal Grant Distribution Process outlined in the Assurance Framework in relation to preliminary costs; and
- (4) that the relevant business cases be developed with the precise arrangements

## 3. Background

3.1. The Council is 1 of 8 local authorities who, with the UK Government and the Scottish Government, are signatories to the £1.13 billion Glasgow City Region City Deal signed on 20 August 2014.

3.2. The City Deal initiative comprises an initial list of 20 key projects which are intended to collectively drive economic growth across the City Region.

3.3. The proposed East Kilbride Community Growth Area (CGA) forms part of a larger South Lanarkshire Council City Deal project which covers 4 Community Growth Areas at Newton, Larkhall, Hamilton and East Kilbride. It is one of four South Lanarkshire Council City Deal funded projects, the others being Cathkin Relief Road (complete), Greenhills Road and Stewartfield Way.

3.4. Governance arrangements for the City Deal initiative are defined within the associated Assurance Framework. This sets out requirements for the development of Business Cases for individual projects. The first level of business case, the Strategic Business Case, was approved for the four Community Growth Areas as a whole by the Executive Committee on 26 August 2015.

3.5. Each Outline Business Case for each project requires to be formally approved via the:-

- Member Authority Council
- City Deal Chief Executives' Group
- City Deal Cabinet

3.6. On 18 August 2015, the City Deal Cabinet approved Strategic Business Cases for all 4 South Lanarkshire Council City Deal Projects.

#### **4. Current Position**

4.1. Each of the four CGAs are progressing at a different rate, influenced by market conditions and developer engagement. East Kilbride CGA has been progressed to the stage that an Outline Business Case can now be produced building on the Strategic Business Case in terms of:-

- Strategic Case
- Economic Case
- Commercial Case
- Financial Case
- Management Case

The Executive Summary of the East Kilbride CGA Outline Business Case is set out in Appendix 1.

4.2. The production of the Outline Business Case is another key milestone and provides the basis for further development of the project. The approval of this Outline Business Case by the City Deal Cabinet on 14 August 2018 will be conditional on SLC Executive Committee approval being given on 15 August 2018.

4.3. It is intended that this culminates in the development and completion of a series of Full Business Cases from 2019/20, following completion of statutory processes and project tendering arrangements.

#### **5. Employee Implications**

5.1. There are no direct employee implications from this project as existing resources within Planning and Economic Development Services are currently tasked with the management and delivery of this City Deal project.

#### **6. Financial Implications**

6.1. The total cost of the City Deal CGA's is expected to be £62.3million spent over a 15 year period. Project expenditure will be focussed on education, transport and community infrastructure. Over the lifetime of the CGA projects, grant totalling £53.6million (86%) is expected from City Deal with the balance of funding (14%) being met by the Council. However, consideration has also been given to how developers' contributions will fund works. This will be considered at the full business case stage for each project element contained within each of the CGA's. The projects that will form the key elements of the East Kilbride CGA are being developed in partnership with other Council Resources and will be brought forward for Committee consideration as part of the Full Business Case(s) approval process referred to in paragraph 4.3 above.

6.2. A full and robust monitoring process will be put in place following approval of projects by the City Deal Cabinet.

6.3. The City Deal Assurance Framework allows grant to be awarded at each Business Case stage (Strategic, Outline and Full) to meet the costs incurred by the Council leading up to the approval of the Full Business Case(s) and the formal award of

contracts associated with capital expenditure. Approval to incur expenditure of up to £1.3 million on the East Kilbride CGA is included in the Outline Business Case.

## **7. Other Implications**

7.1. The City Deal Cabinet has a Risk and Issues Management Strategy to be applied across all City Deal projects. The purpose of this strategy is to provide a systematic and effective method by which risks can be consistently managed. It adopts a best practice approach, describes the specific risk management techniques and standards to be applied and the responsibilities for achieving effective risk management. The Council is required to apply this strategy across each of its City Deal projects to ensure consistency across all City Deal projects. This will be a key tool in mitigating project risks and thereby limiting our financial risk associated with our share of City Deal project costs.

7.2. The statutory processes associated with the approval of the East Kilbride CGA have considered the following sustainability agenda items and are subject to monitoring and review as detailed proposals for each phase of the development progress:-

- encourage energy efficiency through the orientation and design of buildings
- choice of materials and the use of low and zero carbon generating technologies
- support sustainable water resource management
- support sustainable waste management
- consider the lifecycle of the development
- encourage the use of sustainable and recycled materials in construction
- support habitat connectivity
- consider active travel and sustainable transport links

## **8. Equality Impact Assessment and Consultation Arrangements**

8.1. This report does not introduce a new policy, function or strategy or recommend a significant change to an existing policy, function or strategy, and, therefore, no impact assessment is required.

8.2. Consultation has taken place with relevant Resources within the Council and the proposed developers.

**Michael McGlynn**

**Executive Director (Community and Enterprise Resources)**

31 July 2017

### **Link(s) to Council Values/Objectives**

- Support the local economy by providing the right conditions for growth, improving skills and employability
- Develop a sustainable Council and communities
- Improve the quality, access and availability of housing
- Improve the road network and influence improvements in public transport
- Strengthen partnership working, community leadership and engagement

### **Previous References**

- Executive Committee, 26 August 2015

### **List of Background Papers**

East Kilbride Community Growth Area Outline Business Case

**Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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## APPENDIX 1 – Executive Summary - East Kilbride Community Growth Area

- i. The East Kilbride Community Growth Area (CGA) Outline Business Case (OBC), was prepared in March 2018 reflecting guidance from the City Deal Programme Management Office on the preparation of Business Cases.
- ii. The East Kilbride CGA site is made up of 2,056 private and 294 affordable homes. In addition, a further 294 affordable homes will be delivered at another off-site location. The total scale of CGA enabled development is therefore 2,644 new homes – the total rounded value of 2,600 is taken forward consistently in this OBC document.

### The Strategic Case

- iii. The OBC is for £11.6m funding – £10.0m City Deal (86%) and £1.6m SLC (14%) – to enable development of East Kilbride CGA through provision of off-site road infrastructure, investment in the local education infrastructure, and sustainable transport interventions. The project enables development of 2600 homes at East Kilbride, meeting an identified shortfall of housing across the city region. The private housebuilder will deliver follow-on investment of £200m in on-site infrastructure and housing construction, plus Section 75 contributions of £19m and additional £3.3m investment in the off-site trunk roads network.
- iv. City Deal intervention addresses market failure and delivers additionality in terms of time, scale and quality. 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 (2600 homes over 12 years) and the counterfactual option (1400 homes over 19 years).
- v. 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.
- vi. The strategic aim for East Kilbride CGA is *“to secure the delivery of 2,600 new homes at an advanced market-driven development rate that will accommodate 8,500 residents and increase the sustainability of the local community. In the longer term this will support 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.”*
- vii. The project scope is defined in Table ES1.

CGA	Developer	City Deal/ SLC/ S75 Outputs	Follow-On Outputs
East Kilbride	CALA Homes Abbey Lynch BMJ	<ul style="list-style-type: none"> <li>• New Jackton Primary School</li> <li>• Our Lady of Lourdes Primary School Extension</li> <li>• Calderglen Secondary School works</li> <li>• St Andrews &amp; St Brides Secondary School works</li> <li>• Local road network upgrade</li> <li>• Trunk Road Network</li> <li>• Park &amp; Ride at Hairmyres Rail Station</li> <li>• Cycle Networks</li> </ul>	<p>2,600 new houses over 12 years plus trunk road network upgrades – preferred option OR 1,400 new houses over 19 years – counterfactual option</p>

viii. The objectives of the project are to:

- Deliver the maximum 2,600 houses to meet identified shortage and need;
- Deliver education infrastructure for current and future residents;
- Deliver off-site transport improvements; and
- Generate additional economic value (jobs and GVA).

ix. SLC has adopted a robust approach to risk management – a working Risk Register has been developed (Appendix 5) 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**

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

xi. 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 five alternatives were selected/ appraised and considered against the counterfactual:

- Counterfactual – East Kilbride CGA is forecast to be completed over 19 years but with infrastructure funding limited to the S75, less efficient solutions will be delivered and the maximum site capacity is constrained at 1,400 houses, the additional voluntary developer contribution in the offsite trunk roads network will not be secured;
- Option 1 – fund the road infrastructure only / no schools – this will enable delivery of 1,400 houses and will not bring forward site completion as the capacity constraints within the school system remain and cannot be resolved in the short term as no additional funding is available;
- Option 2 – fund the school investment only / no roads – this unlocks new school capacity and brings development forward slightly for completion over 17 years, but with less off-site infrastructure, development capacity is constrained at 1,400 houses; and
- Option 3 – fund the proposed road and school infrastructure – addressing both constraints and allowing the 2500 houses to be built over 12 years and securing the additional voluntary developer contribution of £3.3m in the off-site trunk roads network.

xii. 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 level with GVA benefits discounted (at 3.5%) today’s values.

xiii. 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 East Kilbride CGA.

- xiv. 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 required to deliver the East Kilbride CGA project is defined as:
- City Deal £11.6m – split 86% City Deal (£10.0m) and 14% SLC (£1.6m) for off-site transport and education infrastructure;
  - Developer S75 £19.0m – as per their legal commitment in the S75 Agreement;
  - Developer – Additional Voluntary Contributions – £3.3m, dependent on CD funding; and
  - Leveraged private £200m – house building and on-site infrastructure.
- xv. Achieving success at East Kilbride (and the scale of identified benefits) is dependent on securing follow-on investment from CALA Homes (as lead developer) and their selected housebuilding partners. This is identified in, and will be monitored via, the Risk Register. CALA Homes has a long-standing commitment to development at East Kilbride and embedded self-interest in completing the CGA. In the absence of interest from the identified housebuilding partners, SLC will work with CALA to secure alternative developer(s) and achieve the target 2,600 houses built over 12 years.
- xvi. SLC will be responsible for delivering the City Deal funded off-site infrastructure – and the S75 works – with CALA Homes having responsibility for delivery of the follow-on housing investment and the additional trunk roads works. Procurement and delivery by SLC will be in line with the City Deal Assurance Framework – the Sourcing Methodology is attached at Appendix 13, with construction scheduled between 2018 and 2029.

### **The Financial Case**

- xvii. East Kilbride is one of four sites that make up the South Lanarkshire CGA project, submitted at SBC and approved for £62.3m City Deal funding – this is the overall scheme budget, with £11.6m allocated to East Kilbride. The discounted cost of this (at 3.5%) equates to £9.8m in today's prices.
- xviii. As per the principle of the City Deal Infrastructure Fund, SLC will contribute 14% of the overall capital cost. Additional funding will be leveraged via the S75 Agreement and additional voluntary contributions (developer) and private sector funding from the housebuilders.
- xix. SLC will take on the resultant revenue responsibilities arising from operation and maintenance of the new infrastructure, equating to £3.3m per annum, nominal (largely staffing costs at the school), totalling £39m discounted cost over a 25 year period.
- xx. SLC has ultimate responsibility for cost over-runs beyond the level of financial budget/ approval for the CGAs – an allowance of 25% has been made for Optimism Bias within the costs. VAT has been treated as recoverable.
- xxi. There are no major financial risks for the City Deal Infrastructure Fund – East Kilbride CGA equates to less than 1% 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**

- xxii. East Kilbride 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 Resources within SLC will lead the delivery of the project, ensuring alignment against other SLC CGA and Roads projects.

- xxiii. 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.
- xxiv. SLC Economic Development Services 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.
- xxv. The key objectives and critical success factors (as defined in the Strategic Case) have ensured that the development of the East Kilbride 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 a need for future (planned) investment by the private sector to deliver the new houses.