

PERTH AND KINROSS COUNCIL

Finance and Resources Committee

12 JUNE 2024

PERTH WEST PROGRESS REPORT

**Report by Strategic Lead – Economy, Development & Planning
(Report No. 24/184)**

1. PURPOSE

- 1.1 This report provides members with an update on the progress made in respect of the funding and income streams that will offset the estimated expenditure to deliver the first phase of the Perth West investment project.
- 1.2 In order to secure effective, serviced employment land with industrial and commercial occupiers at the proposed Perth EcoInnovation Park (PEIP) at Perth West, enabling infrastructure is required. This infrastructure will also facilitate new housing development (including the proposed net zero carbon Lamberkine Village). This report considers the funding and income streams.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
 - Note the anticipated decision path detailed in the report.
 - Agree to proceed with Stage 1 of pre-construction works at an estimated cost of c£1.55m against the capital allocation of £3m in 2024/25.
 - Asks Strategic Leads for Economy, Development & Planning, Strategic Lead and for Legal and Governance and Strategic Lead – Finance & Business Support to report back on progress.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
 - Section 4: Background/Main Issues
 - Section 5: Proposals
 - Section 6: Conclusion
 - Appendices

4. BACKGROUND / MAIN ISSUES

- 4.1 It is difficult for private developers to raise finance for significant upfront infrastructure investment because lenders are reluctant to accept risk with no guaranteed return, or the length of time over which borrowing would be repaid. As a result, such infrastructure is normally provided by the public sector with a long-term legal obligation on developers to meet a proportionate

cost through developer contributions. Without public intervention at Perth West, the PEIP will not be provided for many years, weakening Perth's competitiveness given the undersupply of available, serviced industrial and commercial plots.

4.2 The development of Perth West will support the delivery of key Council strategies:

- Corporate Plan: develop a resilient, stronger, and greener economy, tackle climate change and support sustainable places, and tackle poverty.
- PK Climate Change Strategy and Action Plan: a national net zero exemplar for decarbonisation of transport and energy.
- Tay Cities Regional Economic Strategy and the emerging Perth and Kinross Economy Action Plan: create better paid and higher skilled jobs and high value economic outputs in energy and clean technologies, support an enterprising mindset.
- Perth City Plan: make Perth a carbon-neutral city by 2040.
- Perth and Kinross Local Development Plan 2 (LDP2): promote the sustainable economic growth of the area to the year 2029. LDP2 allocated 262.3ha for residential, commercial and community uses at Perth West (Site MU70). The southern part of Perth West allocation is promoted by the landowner, the John Dewar Lamberkine Trust (JDLT). Planning Permission in Principle was granted in November 2023 (application reference 20/00667/IPM). It includes 1,500 homes (Lamberkine Village) up to 26ha of commercial development (PEIP) and other community infrastructure.

4.3 Due to the short supply of available employment land in the Perth area (and across the wider Council area), and the need to diversify Perth's economy, the strategic rationale is to deliver serviced employment land in advance of any residential development providing future contributions to infrastructure costs. This requires investment upfront in enabling infrastructure to access the site and deliver the first phase of the development: Specifically, the enabling infrastructure will:

- Deliver an underpass under the A9 to access the site and establish active travel infrastructure from Perth West into Perth City. This will minimise the impact on traffic generated by the development and support sustainable transport choices.
- Deliver a commercial business park of 11ha of serviced employment land (PEIP Phase 1).
- Support business growth and create high value jobs in the clean growth sector. Approximately 1,000 jobs could be created when the PEIP is fully developed and occupied over both phases.
- Create a national exemplar of net zero carbon development. Phase 1 will incorporate a smart local energy system, where energy can be generated, stored, and used locally.

A second, longer-term phase will provide up to 15ha of employment land and 500 homes, subject to further private sector infrastructure provision.

- 4.4 In March 2023, the Council considered the Outline Business Case for the PEIP and approved capital funding of £10 million towards the cost of delivering enabling works for Phase 1 of the project (Report 23/73 refers).
- 4.5 At its meeting on 31 January 2024, the Finance & Resources Committee approved the re-phasing of £3m of expenditure on Perth West enabling works from the 2023/24 financial year to 2024/25 pending the outcome of ongoing negotiations with the landowner (Report 24/41 refers).
- 4.6 At its budget meeting on 28 February 2024, the Council remitted officers to provide a progress report to the Finance & Resources Committee on 12 June 2024 in relation to securing the remainder of the funding to deliver the first stage of the project (Report 24/64 refers).
- 4.7 The current cost estimate for the infrastructure for Phase 1 of the Perth West development is £32.8 million. Table 1 below shows the estimated costs (derived from cost consultant estimates). Varying ranges of Optimism Bias (OB) have been applied and shown as a percentage. The initial cost estimates included an OB of 30% given that only outline designs have been prepared, but those that generally apply to roads infrastructure (23% structures, 15% roads) have also been included. The final choice of OB will depend on how much risk the Council is willing to accept. The costs make an assumption on inflation, but they do not include land purchase costs.

	Cost (£m) 30% OB	Cost (£m) 23% OB	Cost (£m) 15% OB
Underpass + Innovation Highway Link to PEIP + Platforming + Utilities	32.84	31.35	29.65

- 4.8 The current approved General Fund Capital Budget 2024/25 - 2029/30 includes the following funding assumptions for the Perth West enabling works:

Funding streams	£m
Council Budget allocation (Report 23/73 refers)	10
Tay Cities Deal Funding	5
Future land sales or borrowing funded from PEIP future commercial rental income	5
Developer Contributions	13
Total	33

- 4.9 The current estimate of pre-construction costs for the Perth West project in relation to site investigation and design is approximately £2.208m and can be split into two stages:
- Stage 1: estimated £1.552m for design development for planning and site investigations and for planning and Environment Impact Assessment, Orders, and consents.
 - Stage 2: estimated £0.656m for detailed design, contract preparation for tender, procurement, and site supervision for construction.

The revised timeframe for delivering the enabling works is now likely to be towards the end of 2028 at the earliest. A Procurement Strategy was prepared for design work for the underpass and related works and a contractor selected and will be awarded subject to the Council's capital budget consideration.

5. PROGRESS TO DATE

- 5.1 The Council's funding strategy for the enabling works for Perth West relies on the above identified funding streams to be secured and an update is provided for each below. Key milestones in the project development are also detailed to provide an anticipated decision path for the Committee to consider.

Tay Cities Deal Funding

- 5.2 A Tay Cities Deal grant of £5m has been earmarked for Perth Innovation Highway which is the innovation element of the enabling infrastructure involving the installation of digital infrastructure and Intelligent Transport Systems to manage transport in and around the site and the corridor between the site and Perth city centre. The Outline Business Case will be considered by Tay Cities Management Group in July 2024. A Full Business Case needs to be approved by the Tay Cities Region Joint Committee late 2024. Due to delays in OBC and FBC submission and approvals and in the project development, allocated funding from years 2022/23, 2023/24 and 2024/25 has been placed in Year 10 (2029/30) of the Tay Cities Deal Programme. However, the Council will be able to ask for acceleration to bring funding forward from Year 10 to align with project construction timescale and spend. The following table provides the current Tay Cities Deal allocation profile for the project (£000):

2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	Total
0	550	505	500	500	2,945	5000

Future land sales

- 5.3 Receipts of c£5m from sales of serviced employment land have been identified as a funding stream. There were based on the direct sale of 27 acres (11ha) of employment land @ £190,000/acre. Current evidence of market prices is now closer to £150,000/acre which would deliver a sale receipt of c£4m. However, it is important to note that sales would not be effective before construction has been completed beyond 2028 and would be realised over a period of years possibly to 2035. In that context, it is difficult to estimate market price so far ahead.
- 5.4 An important consideration is also to retain some control of the use of the employment land to align with our ambitions to promote PEIP as a catalyst to attract suitable developers and occupiers. Control of the use could be achieved in different ways:
- Retaining land ownership and act as the site developer either directly or as part of an agreement with a private developer. This would mean that £5m

- capital receipts would not come forward with the need to increase borrowing but would generate a revenue stream to fund borrowing.
- Transferring ownership via sale or long-term ground lease with development agreement. This would mean that capital receipts would come forward in line with market price at the time of sale.

5.5 In any case, one key element to realise our ambitions would be to stimulate demand to attract developers and business occupiers to PEIP. Different marketing and promotion activities have been carried out to attract interests from developers and business occupiers (e.g. Scottish Cities Alliance Cities Week, Tay Cities Clean Growth Cluster, SCDI/UKDBT investment portfolio). There is an indication of strong interest from businesses in the transport, logistics and energy sector to occupy the PEIP and develop innovative uses, for example Stagecoach is interested in developing a state-of-the-art Electric Vehicle facility. However, the Council does not yet have formal commitment from any potential PEIP business occupiers. The challenge for businesses is that they cannot commit without certainty of delivery and what would be offered in terms of servicing. This conundrum is the principal driver of market failure in the provision of employment land in many parts of the country.

Developer Contributions

- 5.6 The contributions are focusing on the development of 1,000 residential units for which a plan has been produced by JDLT, and 11 ha for PEIP. It is also anticipated that a second planning application, by Muir Homes, would be submitted during 2024 and associated developer contributions would also be required, potentially spreading the cost between two private developers rather than solely obligating JDLT. Contributions would still to be based on a build out of 1,000 units in total and if that were to transpire appropriate legal agreements would have to be put in place to secure developers' contributions from Muirs Home. An indicative amount of £13m in total has been identified as a proportionate sum for such contributions towards the delivery of Phase 1.
- 5.7 JDLT has now agreed in principle to the transfer 11 ha of employment land in Phase 1 to the Council at a price still to be negotiated and the related land for the transport infrastructure to be transferred for nil consideration. Formal legal contracts have not yet been put in place.
- 5.8 JDLT has also now agreed in writing to the principle of providing £13m in contributions. The negotiation to secure this sum legally will continue to secure such commitment. It is important to note that even when this commitment is secured, its payment is dependent on the completion of residential units and therefore the Council still carries some risk.
- 5.9 Should the Council be willing to carry risk, it is recommended that the Committee agree to proceed with stage 1 of pre-construction works at an estimated cost of c£1.55m against the capital allocation of £3m in 2024/25. This would allow a review of estimated costs, risks and adjust the OB as well as keeping a reasonable timescale for project completion and help firm-up position during negotiations. Negotiations to secure a full financial solution

would continue alongside pre-construction works. However, if a legal agreement ultimately cannot be secured, the pre-construction works would become abortive costs and create a revenue budget pressure.

- 5.10 If the Council is unable to accept this risk, pre-construction works would be delayed until a legal agreement is finalised, inevitably delaying the completion of the project beyond 2029/30.

Key milestones and proposed decision path

- 5.11 Key milestones have been identified as anticipated decision path if recommendations are agreed:
- Approval of £1.55m to fund design works (June 2024).
 - Appointed of Design Consultant (July 2024).
 - Start infrastructure planning and concept design works (July/August 2024).
 - Signature of Heads of Terms and Agreements securing in principle £13m of developer contributions and transfer of land ownership by December 2024.
 - Approval of Tay Cities Deal Full Business Case by March 2025.
 - Decision on employment land disposal or retention by March 2025.
 - Formal legal agreements implementing Heads of Terms to be put in place/ready to sign off by March 2025
 - Approval of full funding strategy by the Council by March 2025.
 - Issue of Tender for design and construction (June 2025) (Future tender strategy will determine if contract is procured as Traditional or Design & Build).
 - Planning permission granted by March 2026.
 - Contractor in place by March 2027.
 - Start of construction (April 2027).
 - Completion of main construction by December 2028.
- 5.12 It should be noted that there may be an opportunity to accelerate this programme through early identification of opportunities and collaborative working from all parties who are engaged to deliver the contract.
- 5.13 It is recommended that the Committee note the anticipated decision path and agree to proceed with Stage 1 of pre-construction works at an estimated cost of c£1.55m against the capital allocation of £3m in 2024/25.

6. CONCLUSION

- 6.1 The Council has agreed to support the Perth West project and is working with JDLT, the current landowner to secure future industrial and commercial occupiers as well as housing development. The upfront cost of enabling infrastructure is estimated at c£33m and the proportionate cost of the enabling infrastructure to be recovered through future developer contributions is estimated at c£13m. Other financing sources have been identified including Council funding, the Tay Cities Regional Deal and future land sales.
- 6.2 It has not yet been possible to finalise an agreement with the landowner to secure the developer contributions to the project however a written in principle

agreement has been reached. Officers are confident that a finalised agreement can be reached when there is greater certainty over the total project costs which requires pre-construction works to be undertaken. Accordingly, and considering the anticipated economic benefits, it is recommended that the Council be prepared to carry the risk of proceeding before there is a fully funded scheme in place, by commencing pre-construction works at an estimated cost of c£1.55m from the approved capital allocation of £3m.

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Approved

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APPENDICES

- None

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

- 1.1 The objectives of the Perth and Kinross Community Plan/Single Outcome Agreement together reflect proposed action towards environmental, social, and economic well-being, necessary for delivering and achieving sustainable development. The proposal therefore relates to the following 2 priorities:

- (i) *Skills, learning and development*
- (ii) *Employability*

Corporate Plan

- 1.2 The objectives of the Council's Corporate Plan collectively reflect proposed action towards environmental, social, and economic well-being, necessary for delivering and achieving sustainable development. The proposal therefore relates to the following 2 priorities:

- (i) *People and businesses are increasingly able to prosper in a local economy which support low carbon ambitions and offers opportunities for all;*
- (ii) *Perth and Kinross is a safe and vibrant place, mitigating the impact of climate and environmental change for this and future generations.*

2. Resource Implications

Financial

- 2.1 This report recommends proceeding with stage 1 of pre-construction works at an estimated cost of c£1.55m against the capital allocation of £3m in 2024/25. However, if a legal agreement ultimately cannot be secured for developers' contributions and the project cannot proceed, the pre-construction works would become abortive costs and create a budget revenue pressure.

Workforce

- 2.2 This report has no direct workforce implications

Asset Management (land, property, IT)

- 2.3 This report has no direct asset management implications.

3. Assessments

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties. The Equality Impact Assessment undertaken in relation to this report can be viewed clicking [here](#).

This section should reflect that the proposals have been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:

- (i) Assessed as **not relevant** for the purposes of EqIA.

This proposal is presented as an update in an advisory capacity only.

Strategic Environmental Assessment

- 3.2 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

Option 1 However, no action is required at this stage. An Environment Impact assessment would be carried out as part of the pre-construction works.

Sustainability

- 3.3 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. Under the Climate Change

(Scotland) Act 2009 the Council also has a duty relating to climate change and, in exercising its functions must act:

- in the way best calculated to delivery of the Act's emissions reduction targets;
- in the way best calculated to deliver any statutory adaptation programmes; and
- in a way that it considers most sustainable.

The pre-construction works would provide information on how the project would contribute towards sustainable development.

Legal and Governance

- 3.4 This report would provide funding towards a consultancy contract to carry out pre-construction works and has identified the need to sign Heads of Terms with a view to securing legal agreements to secure £13m of developer contributions and the ownership of the land for phase 1 development and the enabling infrastructure.

Risk

- 3.5 This report has finance, legal and reputational risks.

4. Consultation

Internal

- 4.1 The Strategic Lead, Legal and Governance and the Strategic Lead, Finance and Business Support have been consulted.

5. Communication

- 5.1 Not available (n/a).

2. BACKGROUND PAPERS

- 2.1 None