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To: Councillor Young, Convener; Councillor Allan, Vice-Convener; and Councillors Cameron, Crockett, Dickson, Donnelly, Jackie Dunbar, Graham, Laing, Malone, McCaig, Milne, Noble, Reynolds and Yuill.

Town House,
ABERDEEN 10 August 2012

FINANCE AND RESOURCES COMMITTEE

The Members of the **FINANCE AND RESOURCES COMMITTEE** are requested to meet in Council Chamber - Town House on **FRIDAY, 17 AUGUST 2012 at 2.00 pm** for the additional meeting.

JANE G. MACEACHRAN
HEAD OF LEGAL AND DEMOCRATIC SERVICES

BUSINESS

1 DETERMINATION OF EXEMPT ITEMS OF BUSINESS

2 GENERAL

- 2.1 Aberdeen Tax Incremental Financing (TIF) Business Case (Pages 1 - 188)
- 2.2 Possible Proposal for Temporary Café at Union Terrace Gardens (Pages 189 - 194)

3 HUMAN RESOURCES

- 3.1 Chief Officer Voluntary Pay Restraint (Pages 195 - 198)

ITEMS WHICH THE COMMITTEE MAY WISH TO CONSIDER IN PRIVATE

4 PROPERTY

- 4.1 Property Sales (Pages 199 - 208)

5 **FINANCE**

5.1 North East Scotland Pension Fund - Aberdeen City Council Guarantees (Pages 209 - 212)

Please note that reports marked with an * have implications for agreed Priority Based Budget (PBB) options.

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Should you require any further information about this agenda, please contact Allison Swanson, tel. (52)2822 or email aswanson@aberdeencity.gov.uk

ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources Committee
DATE	17 August 2012
DIRECTOR	Gordon McIntosh
TITLE OF REPORT	Aberdeen Tax Incremental Financing (TIF) Business Case
REPORT NUMBER:	EPI/12/176

1 PURPOSE OF REPORT

To inform Committee of the current position with regard to the Tax Incremental Financing (TIF) Business Case, produced with the aim of securing investment in five City Centre regeneration projects.

2 RECOMMENDATION(S)

That Committee:

- (i) Scrutinises and debates the attached TIF Business case and refers it to full Council on 22 August 2012.

3 FINANCIAL IMPLICATIONS

- 3.1 The major financial implication associated with this project from the Council's perspective relates to the borrowing costs it will be required to make and the income stream that would have to be derived by way of Non Domestic Rate income to meet these costs.
- 3.2 The TIF business case demonstrates that based on the assumptions contained within the table below the Council would repay the £92 million investment required by year 20 of the TIF period.

Assumption	Value
Total Capital Expenditure	£182m
Private Sector Contributions	(£70m)
Grants	(£20m)

Prudential Requirement	Borrowing	£92m
Drawdown Start Date		01 April 2014
Drawdown End Date		31 March 2017
PWLB 25 year Interest Rate (August 2011)		4.65%
Council Interest Rate Buffer		0.55%
Total Interest Rate assumed		5.20%
Displacement		22.3%
Void Rate/Bad Debt		7.2%
Date at which TIF Baseline Frozen		September 2013
TIF Rate Capture Period		25 years
End of TIF Term		31 March 2039

- 3.3 The assumptions above are clearly subject to potential future movement, both in a positive and negative way and therefore have an attached risk associated with each of them.
- 3.4 The risks are covered in the TIF business case in Appendix 2, Section 7 and are summarised below for ease of reference. There are also a number of mitigating factors that can be implemented or undertaken to reduce or minimise the Council's exposure to risk and these are also detailed.
1. PWLB Rate is higher than that included within the model;
 2. Public Sector Contribution is higher than anticipated;
 3. NDR poundage rate decreases over time;
 4. The void level is higher than the 7.2% modelled;
 5. The level of NDR cash flow is lower than anticipated;
 6. There is no additional NDR generated;
 7. The level of private sector contributions is reduced;
 8. The level of grant funding is reduced or unsuccessful.
- 3.5 In order to understand the level of risk exposure the TIF business case also incorporates a sensitivity analysis. A sensitivity analysis provides an indication of the impact of one of the assumptions moving on the financial model.

- 3.6 For example, the PWLB rate is varied by plus or minus 1% to determine whether it would have a material impact on the model. In this example the movement does not change the ability of the investment to be repaid within the 25 years, merely the date the loan is repaid moves from year 20 using the base model to an 18 year repayment period if rates are 1% lower and 22 years if rates are 1% higher.
- 3.7 This sensitivity analysis provides a financial commentary on the impact of one of the assumptions moving, which in a project of this scale and complexity is highly likely.
- 3.8 In order to further understand the sensitivity of the base assumptions a further exercise has been undertaken to demonstrate the point at which one of the assumptions would have to move to move the model onto a position whereby the investment cannot be repaid within the 25 year TIF period.
- 3.9 This can be summarised below and demonstrates the “break even” position by year. That is, moving the base assumption to the point where the investment by the Council will not be repaid within a 25 year period.
- 3.10 What this demonstrates, by way of example, is that if the level of void moves to a point higher than X% then the investment would not be repaid within a 25 year period.
- 3.11 The TIF business case shows that the total cost of borrowing (the principal and the interest) for the £92 million investment is £149.7 million. This will be met over the period by NDR income of £221.8 million.

Assumption		Assumption	Break Even
Total Expenditure	Capital	£182m	
Private Contributions	Sector	(£70m)	
Grants		(£20m)	
Prudential Requirement	Borrowing	£92m	
Total Interest assumed	Rate	5.20%	

Displacement	22.3%
Void Rate/Bad Debt	7.2%
NDR Income	£221.8m

- 3.12 The above figures results in the Council being able to retain 50% of the NDR income stream from year 20 to 25 totalling £36 million and the same amount is redistributed back to the Scottish Government.
- 3.13 Finally, it should be noted that once the Council has constructed the relevant infrastructure within the TIF red line area there will be ongoing revenue implications for the upkeep, maintenance and running of the assets.
- 3.14 However, this would be partially offset through additional revenue funding by way of General Revenue Grant (GRG) as the Council would have higher grant indicators that would attract additional GRG. The submission of the TIF to the SFT must meet their criteria for TIF bids for capital infrastructure and therefore cannot include ongoing revenue implications.
- 3.15 In summary the TIF business case demonstrates that given the base assumptions, the model allows for the repayment of the up front investment within the 25 year period within the risk parameters set out above.

4 OTHER IMPLICATIONS

- 4.1 Should Committee decide to submit the TIF scheme to SFT, and should it subsequently be approved by Scottish Government, Legal and Democratic Services will oversee the production of a TIF Scheme Agreement between Aberdeen City Council and SFT. This will likely involve Service scrutinising the terms and conditions proposed by the SFT and reporting back to Committee on the final agreement.
- 4.2 Other implications of the TIF scheme mainly relate to the economic impact that the scheme will have on the City's economy and this is fully outlined in the TIF Business Case.
- 4.3 The TIF scheme will contribute to providing a high quality City Centre environment, that compares favourably with other global energy cities, will confirm Aberdeen is serious about competing for mobile investment and maintaining its status as a global energy city.

5 BACKGROUND/MAIN ISSUES

- 5.1 In a time of recession in the United Kingdom, Aberdeen has a buoyant economy (10 years+) and aims to be 'Aberdeen – the Smarter City'. Looking to the future major investment in the public sector assets can anchor and support sustainable growth. New investment is essential if Aberdeen is to deliver the growth related development outlined in its emerging Local Development Plan.
- 5.2 The current situation with regard to the TIF Business case, is that;
- A comprehensive business case has been prepared, as the basis for negotiating a TIF agreement with the Scottish Government. This has been designed to secure investment in five major City Centre regeneration projects.
 - Two draft documents have already been made public - the first draft in December 2011 and a second revised draft in June 2012.
 - The second public draft has been subject to further discussion with SFT, Council Members and Council Officials, over the past six weeks.
 - Discussions over the past six weeks have produced a list of issues for consideration, prior to the production of a final version of the business case. A Table listing these issues, and indicating how these have been dealt with, is included as Appendix 1 to this paper.
 - The final TIF Business Case document, which takes full account of the content of Appendix 1, is attached as Appendix 2.
 - SFT currently expect the final version of the Business Case to be formally submitted for further consideration subject to Council approval.
- 5.3 This paper seeks approval or otherwise to submit the final business case to SFT, for their further consideration and, possibly, subsequent approval by Scottish Government. It is, however, understood that this paper will be discussed and scrutinised at this Committee.
- 5.4 Should Committee decide to support submission of the Business Case, it may be three to four months for SFT and Scottish Government to indicate whether or not they are able to approve the proposed TIF scheme.

6. IMPACT

Corporate

- 5.5 This project is a project focussed on the future attractiveness, vitality and connectivity of the City Centre and links to both the **Single Outcome Agreement and Community Plan 2008**, which outlines a vision for Aberdeen City which is wealthier, greener and safer. In particular this project links to the following National Outcomes

National Outcome	Description
1	We live in a Scotland that is the most attractive place for doing business in Europe
2	We realise our full economic potential with more and better employment opportunities for our people
10	We live in well-designed, sustainable places where we are able to access the amenities and services we need
12	We value and enjoy our built and natural environment and enhance it for future generations

- 5.6 The project enables significant investment in the City's social, cultural and leisure infrastructure and can contribute to '**Aberdeen – The Smarter City.**' This in turn supports the strategic vision of Aberdeen City and Shire, which is to be recognised as one of the most robust and resilient economies in Europe with a reputation for opportunity, enterprise and inventiveness that will attract and retain world-class talent of all ages.

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- 5.7 An Equalities and Human Rights Impact Assessment (EHIRA) will be undertaken once use of the space created by the five development projects within the TIF Scheme are more clearly defined. Nevertheless, at this point in time, the project is expected to have a positive impact in terms of EHIRA, due to
- a. the positive impact these projects will have on the future sustainable development of the Aberdeen City and Shire economy,
 - b. the major contribution it will make to Aberdeen's business and social infrastructure, and
 - c. the fact that two of the five projects will provide venues for major social, leisure and cultural events for all Aberdeen citizens.

7. BACKGROUND PAPERS

Council Paper EPI/12/032 (25 January 2012, Full Council)

Appendix 1 – Issues from latest draft TIF Business Case (Working Draft 3)

Appendix 2 – Final TIF Business Case Document

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Appendix 1

Issues from latest draft TIF Business Case (Working Draft 3)

Issues from latest draft TIF Business Case (Working Draft 3)

No.	Who	Page	Paragraph	Comment	Change
SFT = Scottish futures Trust, ACCo = Aberdeen City Council Officers, CM = Council Members					
1.	SFT	Section 1- Executive Summary	1.4.3-1.4.5	Executive summary needs to include a section on the financial exposure to the Council – in terms of capital cost and income streams. Highlight the risks and the ways to mitigate them and make reference to risk table in Section. These risks also need to be factored into the overall conclusion.	2 bullets added in Overall Conclusions in Executive Summary explaining the financial risks.. Para 1.5.2 added identifying the risk in achieving the £15k philanthropic donations & £20k grants/ donations and how this will be dealt. Also the risk of the required amount of grant money being unachieved and how the mitigations, how the £35 million offered to cover City Garden Project overruns 'de-risks the situations for the Council and other issues
2.	ACCO	10	1.4.5	This quotes displacement at 10% which is the level of deadweight.	The amount if displacement is 22.3% the final sentence in this para is added to read 'and further elaborate in 1.6.3]'.
3.	SFT	Section 1		Clarify the 'But for test in the economic argument. ' But for TIF what would happen in relation to the enabling assets and subsequent economic activity. This is in the document but needs to be spelt out up front. Should link to 5.7.11.	1.4.2 describes the enabling factors. Added to para 1.4.4 'But for' the TIF some potential developments may struggle to meet objectives or incur more costs, or delays or create uncertainty. The City Gardens, City Circle and Art Gallery provide open space and visitor attractions, 'But for' TIF we have available a viable funding option.' Added to para 1.4.5 'Given Aberdeen's global economy, 'but for' the TIF scheme, given the growth prospects of the City Region inward investment ' for, global industries that are complimentary to its existing global energy industry and, growing indigenous organisations would otherwise locate/ relocate out with the UK.' Added para 1.4.6 – links to 5.7.11

4.	SFT	Section 1		Clarify the role of the Aberdeen City Garden Trust - ACGT will provide capital funding, act as developer and also make £35 m available to cover project over-runs. Link this back to the risk table in section 8	Add para 1.5.2 1.will include that ACGT will provide capital funding, act as developer for and also make the £35 million offered by the Wood Family Trust available to cover project over-runs, for the City Garden Project
5.	SFT	Section 1		In summary the executive summary needs to put greater emphasis on the: 1. "but for case" 2. assets and why they are enabling, for instance the Art Gallery. 3. rational for the Red Line Area 4. Private sector development anticipated (sector split, value, timing) 5. financial risks to the Council Counter argument around Aberdeen's apparent buoyancy and need for growth in other sectors to off-set oil & gas.	1 As per answer to 3 See section 1.4.2, 1.4.3, 1.4.4 and 1.4.5 and overall Conclusions. 2 See 1.4.4 3 TIF RLA 1.4.4 and1.4.5 City Centre covered. To properly describe why the two satellite areas are included we have added the following to section 1.3.9 to include that the AWPR creates connectivity to these areas a rejuvenated City Centre can attract mobile investment to developments' 4 Private sector development anticipated- covered off in Finance and risk section 1.7.5 Strengthened in section 1.4 and the Executive Summary Conclusions.
6.	SFT			Important to detail how the assets taken together deliver the enhancements. I.e. how are they complementary in achieving desired outcomes? Also the 'sum of parts is greater than the individual elements'.	Again back in sections 1.4.2, 1.4.3, 1.4.4 and 1.4.5 and Exec summary
7.	CM	9	1.3.12	The word 'primarily' is not needed	The has been removed
8.	ACCO	10	1.4.2	Please note here and elsewhere that the building should be referred to as "Aberdeen Art Gallery". I'd suggest that the text should be amended to, " The project is to improve, develop and extend the	Done – added text to 1.4.2 and all City Art Gallery references changed to Aberdeen Art Gallery

				Aberdeen Art Gallery. This will ensure that its current range of high quality exhibitions can be sustained and further enhanced. In addition, opportunities can then be taken to host a wider range of local, national and international exhibitions and other cultural events".....	
9.	ACCO	10	1.4.3	Please note that the Art Gallery redevelopment project is ongoing; it is now working towards completion of RIBA Stage C.	This has been matched to the text in Section 2.5 Aberdeen Art Gallery, para two enabling infrastructure.
10.	SFT	16	2.2.6	Add a paragraph on the City's strategy for anchoring oil & gas and how this relates to the TIF. Include reference to Smart Cities initiatives and make reference to Energetica corridor.	Add para- 2.27. text that includes ACC's 5 year business plan demonstrates and articulates its commitment to anchoring oil and gas. Projects like the Strategic Hydrogen Projects Aberdeen City and Shire's Digital Connectivity Strategy , Aberdeen the Smarter City. ACC's Carbon Management Plan Energetica- the Green Development Corridor where the two TIF RLA satellite areas are a part of. ACC has agreed Energetica Masterplan which is part of Aberdeen's LDP 2012.
11.	ACCO	17	2.2.9	Line 3: Superfluous second bracket and full stop	Remove bracket and full stop
12.	CM	17	2.2.10	Why is the TIF scheme critical to generating economic benefit in the RLA?	This paragraph is expanded to read: Investment in infrastructure, as part of the TIF scheme, will improve the quality, attractiveness and vibrancy of the City Centre's built environment and this in turn will make Aberdeen a more attractive place for mobile investment. The recent Scottish Government publication "Scotland's Cities: Delivering for Scotland" states that "Cities are competing for businesses, highly skilled mobile labour, tourist activity and international student populations.

					Without an attractive, high quality physical environment and diverse cultural and social activities, cities and their surrounding regions, may struggle to attract investors, workers and visitors”. By creating a high quality physical environment in the City Centre, the TIF scheme will help to attract the level of investment needed from non-oil and gas businesses that is needed to ensure the success of new development in the RLAs discussed in Section 4. and enable growth through increasing non-oil related investment. Such investment is vital if Aberdeen is to diversify its economy and increase its’ Gross Value Added (GVA) per capita which, as can be seen from the Table in Appendix 1, has seen very little overall growth compared to Edinburgh and Glasgow over the past 10 years – despite the general economic strength of the oil and gas sector.
13.	CM	17	2.2.11	This discusses past levels of GVA and goes on to discuss the benefits in GVA for both the City but the Shire. It may help to split these two issues.	This paragraph to be split after the second sentence (after (see Graph2). Remainder of paragraph to become a separate paragraph (2.2.12) after Graph 2, which reads: Whilst a vibrant City Centre with a higher quality built environment, also has the potential to benefit Aberdeenshire by attracting investment to nearby business parks, such as the one in Westhill, and creating additional business rates, this benefit has been excluded from this business case. Nevertheless, such additional, non-quantified impacts are important to consider as part of the wider economic benefits that will be realised by the City Region as a result of the TIF Scheme.
14.	SFT	19	2.2.14	Make it clearer how economic growth will be	2.2.15. Text will cover The latest GVA figures show City

				generated by production activities and that growth in these (especially renewables) will, in turn, attract and increase <u>net additional</u> growth in business services (i.e. servicing the needs of growing businesses will create additional opportunities for service sector companies that will not lead to a commensurate reduction in service sector investment in Glasgow and Edinburgh (i.e. displacement).	and Shire as a high contributor in production, it underperforms in areas such as Business Services. The City and Shires' area of GVA strength is in Production has the potential to grow complimentary industries- renewables, etc and stimulate growth in business services that support the expansion attracted by production which supplements rather than displaces business services from elsewhere. There is also potential to develop of new business within in industries whilst attracting mobile investment. The aim is to do this with the minimum of displacement and the TIF mechanism provides the opportunity to achieve this
15.	CM	22	2.3.13	Need to justify the comment regarding the TIF scheme's ability to encourage the creation of decent jobs, economic wealth on a long term sustainable basis	Add in the paragraph- 'that show how AWPR provides the physical connections to development whilst the TIF mechanism will provide enabling infrastructure, attraction and the means of repaying the TIF borrowings.'
16.	CM	27	1 st para	Need to expand on how the CGP and private donations makes this viable	Add in this paragraph- text which identifies has decreasing and limited annual capital budget and has made no funding provisions for any of the projects listed with this TIF scheme. The £70 million public sector investment in the City Garden Project, the project is unable to be delivered and, therefore, the remaining four projects will struggle to generate the additional growth required to service the additional £22 million of public investment required to initiate the remaining four projects within the TIF Scheme.'

17.	ACCO	27	4 th para	Add enabling infrastructure to make development ready as this is more than demolition.	Change text to show that ACC agreed to proceed with this project in November 2011. Clarify that professional asset management advice received is that demolition of the building will reduce the overall value of the site, the project cannot be funded from the Council's capital plan. Costs would have to be absorbed by a revenue budget which is under pressure as a result of limited funding resources and competing priorities.' In para 5 discuss the current procurement current process.
18.	CM	26-28	4 th para	Need to elaborate on the capital budget and clarify the treatment and timing of the St Nicholas House site.	Refer to pages 28-29 This has been done, see question 17.
19.	SFT	27		The St Nicholas House development. Using TIF allows for site preparation and adds to the qualitative argument for the TIF scheme. However the document needs to make it clear that any receipts will be used to repay the TIF borrowings. Also needs to be factored into the 25 year timeframe.	In the 5 th para written shows that all receipts that the Council receives from any sale of this asset will be used to reduce the project's share of TIF borrowings within the 25 year timeframe.
20.	SFT	28		The St Nicholas House development. Some reference needs to be made to the fact that any investment in enabling infrastructure will be made by a JV partner and the Council will only reimburse this when the project construction starts , some point after the start of the TIF. The document should take account of the fact that this project may need to be removed from the TIF scheme, if	Refer to pages 30-31

				a) the enabling infrastructure needs to be put in place before the start of the TIF scheme or b) the developers do not really require a public sector contribution towards enabling infrastructure costs. SFT's point here is purely that the 25yr period starts upon Council's first material capital investment. It is for the Council to decide priorities/timings etc. No element of carrying costs as currently contained in business case should be incl. Need to also factor inclusion into 25 year timeframe	
21.	ACCO	28	2.5.3	Suggested rewording for project description - "The City's Art Gallery holds a unique and significant collection of artworks. ACC plans to redevelop Aberdeen Art Gallery to ensure it remains a successful visitor attraction and to make it an even more important destination for locals, national and international visitors. It is currently regarded as one of the UK's best regional Art Galleries, however it needs significant investment to sustain this richly deserved accolade and further improve."	The text has been added as suggested."
22.	SFT	28		The City Art Gallery Redevelopment- add that this will also contribute to adding rateable square footage which will contribute to the repayment of the TIF borrowings and that, overall, this project forms a key element of the City Centre redevelopment scheme.	Added to 3 rd para– text describing how the project creates additional rateable square footage which also repays TIF Borrowings in the form of additional NNDR. It is preferable to include the Art Gallery redevelopment in the TIF Scheme as it is a key element in the City Centre Redevelopment. This project ensures that both cultural assets, the City Garden and the historic Aberdeen Art Gallery complement each other and are both sustainable

					into the future...'
23.	ACCO	29		<p>While the point about the TIF being critical to the Gallery redevelopment is noted. However, the Council has committed funding to continue the design work to RIBA Stage D. This funding was agreed by the Council in the explicit knowledge that the prior to an application to the Heritage Lottery Fund in November 2011, that a request for Capital funding will made internally and the level of Council funding will need to be known if the application is to be successful. Working back from a re-opening date in early 2017, the project's current timeline needs to be maintained. More detail can be provided if useful.</p> <p>With that in mind, and the explicit statements made by the Administration in respect of the Art Gallery redevelopment, the last sentence in para.1 needs to be amended as follows:</p> <p>"An inability to secure this match funding will impact on the Council's ability to achieve all its capital aspirations - even etc"</p>	<p>Additional 2nd para text will include that ACC has committed funding to continue the design work to RIBA Stage D. The funding was agreed with the explicit knowledge that prior to an application to the Heritage Lottery Fund in November 2012, a request for Capital funding will made internally and the level of Council funding will need to be known if the application is to be successful. It will also include that the inability to secure this match funding will impact on the Council's ability to achieve all its cultural aspirations.</p>
24.	ACCO	29		<p>Para. 2 - The need to achieve a harmony and connectivity between the City Gardens and the Art Gallery projects will be critical, however as the timelines may not coincide, we need to find an appropriate mechanism so that respective design teams can fully capitalise on each others thinking</p>	<p>Refer to changes on pages 30-31</p>

			<p>and enable full consideration to be given to achieving an integrated landscape, streetscape and other design prompts.</p> <p>Para. 3 - Please review the proposed wording in the correspondence with ACC ECS officers (29th June and 6th July) - It is incorrect to state that the failure to invest in the City Gardens and Art Gallery projects will make it more difficult to win the bid - also, we've been instructed by Council to prepare the bid, and submit it, subject to Council agreement - the word "any" is superfluous and incorrect. funding has been allocated to prepare the bid and also attract in additional funding.</p> <p>The context of the statements is appreciated, however the guidance received by ECS officers is that the level of resources and infrastructure in the city well places it to make a successful bid. ACC should therefore be VERY wary of making statements that create any impression that the failure to secure the TIF funding prejudices our bid. As has been pointed out, the previous potential bid did not factor in the TIF and it would be a high risk in terms of perception locally, as well as further a field if this impression persists.</p> <p>Other areas of the business case have reflected the timescale for other things happening being detrimentally affected by not achieving the TIF</p>	
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				<p>funding and it might be more appropriate to touch on this in a similar way in that bidding to become UKCoC may impact on other projects being achieved in currently envisaged timelines. In managing our bid communications ACC need to keep promoting the opportunity and not have to continually manage the consequences of other things, especially if we can work to achieve "clear water" between specific infrastructure projects and wider aspirations.</p>	
25.	ACCO	29	4 th para	<p>City of Culture Bid – second sentence should be less negative.</p>	<p>Final para in the section includes that ACC is currently preparing a bid for UK City of Culture in 2017. That the bid guidance is yet to be available, it is expected that a key component of a successful bid will include the demonstration of an element of capital (and revenue) investment necessary to support a portfolio of city centre venues with the capacity to host events, exhibitions and activities of national and international significance as well as to support the step change (or transformation) needed for a successful 'Year of Culture'. The infrastructure investment will enable the City to develop major international cultural alliances in support its cultural ambitions. Securing the proposed £164 million investment in the City Art Gallery and the City Garden will be a significant step towards supporting the Aberdeen City bid to become 2017 UK City of Culture.</p>
26.	CM	29	5 th para	<p>Rather than just considering the Train station</p>	<p>Changed 'Train station' to 'Transport Connections</p>

				consider changing to Transport links so as to include the Ferry, Bus and train terminals.	that cross the route'
27.	SFT	29	5 th para	Wording re connectivity and permeability is important here.	Change Project aim to read:-The aim of the pedestrian route is not only to provide connections across the City Centre but to make it a place to linger and to enjoy a variety of activities, include of working, dining, recreation, the theatre, culture and the green environment
28.	SFT	30		The North Denburn Valley Redevelopment- ACC currently has a car park and demolition of this will mean that ACC will loose a significant amount of annual receipts (c. £300K of operational revenue) in order to pursue this development - which is seen as a key element of the City Centre redevelopment scheme. This is a major financial contribution that has not been taken account of in the overall financial assessment and should therefore be highlighted as a sign of ACC's commitment to the project.	An additional paragraph has been added to reflect this change.
29.	CM	31	2 nd para	How, exactly, does the TIF scheme impact on the Denburn development	Text will include that such a development will provide quality Grade A accommodation enabling growth to support existing business and create new opportunities. By doing so it will generate additional NNDR to repay the TIF borrowings
30.	CM	34	2.6.2	Comment on the limited capital investment from the Council	Have checked this and it is consistent with the 5 year business plan.
31.	SFT	36	3.2	Elaborate ACSEF's priorities i.e. AWPR connections, City Gardens, as an investment attraction, Energetica Corridor Renewable energy,	3.2.1 to 3.2.3 expanding on the vision and priorities of ACSEF for the City and Shire, Energetica to develop a Green Development Corridor which includes the RLA, the

				skills development, anchoring oil and gas etc and possible Technology Centre of Excellence.	AWPR which will provided connections and enable the integrated transport system development and City gardens.
32.	CM	37	3.2.5	Typo	Change contributes in last sentence to contribute
33.	ACCO	41	Table Section 2, third line down	It has been noted that the funding has not yet been secured and a clearer definition should therefore be provided. To be reviewed given the Council has now committed £560,000 to take the design to RIBA stage D.	The wording will be changed to read: “Expected philanthropic funding from private sector donors.” Also added text which includes that RIBA D funding of £560k agreed by Council
34.	ACCO	42	Table Section 3, third line down	It has been noted that the funding has not yet been secured and a clearer definition should therefore be provided.	The wording will be changed to read: “Funding expected from Grant funders and via other funding mechanisms.”
35.	ACCO	42	4.2	Timeline - as above, the Art Gallery timeline is to be complete in early 2017 (second quarter) - that's month 72; the start date for construction is mid 2015; the project itself is now ongoing.	Early 2017 2n Q is month 68. Start being mid 2015 month 40.
36.	CM	44	4.3.1	Confirm whether this time table is still realistic, or alternatively amend it to take account of changed circumstances (i.e. in relation to St Nicholas House, mainly). At some point reference also needs to be made to the Table in Appendix 4, so this fits with the project development timescales.	In para 4.3.2. the text requires noting that the timescales are indicative as they are yet to be confirmed and are subject to agreement of the TIF Scheme Programme Management Board further described in Section 10. The majority of these projects are subject to a variety of processes, consents and agreements, of which can accelerate or delay the timeframes. It also requested to see Appendix 4 for further details.

37.	SMT	44	4.4	It is important in the document that it is clear that AWPR will create the transport connections for the satellite areas in TIF RLA- AECC/ A90 and Dyce Drive but that the TIF scheme is needed to support property occupiers in their efforts to encourage people, from outside Aberdeen, to come and work in these new development sites and use these new transport connections. In other words, make it clearer that the TIF is about making Aberdeen a more attractive location for people to come and work and a harder place for people to leave once they're there. Link this with Section 4.4	Text added to last bullet- to include that the developments in the AECC/ A90 and Dyce Drive satellite areas will benefit from the AWPR as this creates the transport connections for these developments but the TIF scheme will make the Aberdeen City Region an attractive option for both people from outwith and within City Region to live and work. Therefore the TIF Scheme will support development occupiers to attract the skilled workforce that is required for their investments.
38.	CM	49	5.2.3	This para could usefully expand on the Northern Lights document.	This is sufficiently covered
39.	CM	51	5.3.8	May want to say more about how, exactly, the TIF scheme impacts on efficiency and equity	This is sufficiently covered
40.	SFT	52-65	5.5-5.7	General Comment – need to closely link survey results to single displacement figure, ensuring any apparent contradictions with results and single figure (i.e. high level local demand) are explained for readers.	Undertaken by Mark Graham TBA
41.	SFT	67		SFT wish to use a “single” displacement value. They want a displacement figure and a deadweight figure in the economic impact assessment section, but only the displacement figure to be incorporated into the financial model. Business case should have a single displacement	Para 56.(.6 will be amended to read Based on the above assumptions and having regard to the potential uplifts arising from TIF that might occur outwith the City Centre (including the Dyce Drive and AECC/A90 satellite areas), the average level of deadweight ²⁸ may fall in the region of 25% over the 25

				<p>figure with evidence of how this was built up. I.e. Displacement will be a weighted average across different displacement elements. Attach example table</p>	<p>years of the TIF (i.e. accounting for both the differences in the profile and timing of development likely to arise with and without the TIF).</p> <p>The footnote will be amended to read:</p> <p>²⁸ Following submission of earlier versions of the business case, SFT have confirmed that deadweight should not be factored into the financial model and only displacement should be accounted.</p> <p>Table 8 demonstrate and supporting text demonstrates the single displacement figure based on average displacement of development type and drawn from the displacement of project type (Table 7) single displacement figure is 22.3%.</p>
42.	SFT	67	5.10	<p>A paragraph needs to be added to refer to the acknowledge the fact that different displacement levels can apply to different development segments</p> <p>SFT's view is that displacement will vary across sectors. E.g. will be higher for retail and office. Need to see analysis of how these figures are arrived at</p>	<p>A new paragraph 5.10.5 will be added to read:</p> <p>Text in para 5.10.5 considers that different development segments will most likely have a different impact in terms of displacing economic activity. Although industrial developments in Aberdeen will have low displacement impact due to the fact that these developments are servicing a global market, mainly related to the oil and gas and emerging renewable energy sectors this is not necessarily the case for the retail, office, hotel and cultural developments. These segments generally service a more local market and therefore it can be argued that they will have a higher displacement effect than industrial developments. Accordingly, following discussions with</p>

					SFT - and taking account of displacement levels used in previously approved Scottish TIF schemes. Whilst it is understood and is further demonstrated that each segment will have a varying displacement figure, a weighted average will be factored. This is discussed in detail further in this section..
43.	SFT	67	5.9.5	Remove last bullet point as this is deadweight section not displacement (dealt with in next section)	Done
44.	SFT	67-68	5.10	It would be helpful to include a section here titled "Single Displacement figure" and expand in line with discussions i.e. across sector types and tie to survey results (Possibly separate out completely from Leakage, Substitution and Multiplier Effects section given importance to TIF).	As per question 46
45.	SFT	68	5.11	Update to reflect new displacement and deadweight assumptions	Done
46.	SFT	69 79-80 81-83 87	Table 8 Fig 16 & 17 Tables 12,13,14 Table 15	Need to be clearer regarding Dead weight. This looks too much. Recommend ACC, PwC and SFT work together to make this table clearer. This will in-turn impact Figures 16 and 17, Tables 12,13,14 & 15 in Section 7 and the accompanying analysis. This also should increase the revenue collection and alter the analysis in both sections. In the Economic impact Assessment the displacement figure should be different in each of the sectors? Also. The figures in 5.12.1 do not tie up and need to be reviewed. Main point here is to separate	Displacement in Section 5 is shown at different levels in the Economic Impact Assessment- see table 10. The displacement section now has a single weighted value of 22.3% Adding two tables 7 & 8. Impacting tables 14,15, 16 & 17 (formerly 12,13,14 &15) in section 7 and figures 16&17. Finance & EBD Teams have checked figures and they match.

				displacement and deadweight out as two separate items. FTEs will, therefore, change as deadweight and displacement figures are re-stated (probably downward?) and FTEs will require to be changed throughout the document. (Similarly for GVA)	
47.	CM	69 and 75	Figures 14 and 15	Need to explain why Figure 14 (pp69) and Fig 15 (pp75) are a different shape.	Para 5.11.6 added to this para is text that notes that it is important to note that different job densities have been applied to different types of development, as set out in Table 7, and different types of development come on stream at different times over the 25 year period. Denser development types i.e. offices and retail will come on stream quicker (in the City Centre TIF RLA) whilst less dense industrial operations will come on stream later (in the outlying satellite TIF RLA).
48.	CM	70	5.11.7	Add a table, Graph and paragraph showing the growth in GVA split across the TIF RLAs	Rather than doing this focus was on improving Table 8 which is now Table 10 and adding two tables and text that explains how the original displacement figure of 10% was arrived and then the rationale displacement figure of 22.3% which considered on advice from SFT based on benchmarking and various Scottish Enterprise studies.
49.	CM	70	5.11.8	Add a table, Graph and paragraph showing the total per annum uplift in GVA split across the TIF RLAs	as above
50.	ACCO	73	6.2.3	Refers to Figure 3 in section 4.3.2 and should refer to section 4.4.	corrected
51.	ACCO	74	6.4	Refers to 20 TIF site developments. Appendix 5 only lists 19.	There are 20. 15 City Centre, 2 Dyce, 3 Bridge of Don. One City Centre development was missing and has been included in Appendix 5

52.	SFT	76	6.3.3 / 6.4	Remove reference to deadweight (and ensure consistency throughout section as per comment below)	Dead weight reference removed from 6.3.3 and 6.4
53.	ACCO	77	7.2.2	“The profile of the £92 million funded by the TIF” should read “The profile of the publicly funded £92 million of the TIF”	corrected
54.	ACCO	77	7.2.4	Third line reads “The PWLB pooled rate” but should read “The PWLB rate” – remove the word pooled.	corrected
55.	ACCO	79	7.2.12	Talks about other revenue streams but the bullet points includes items that are INCLUDED in the TIF.	7.2.12 Has been adjusted to demonstrate potential revenue excluded from NNDR and TIF Loan repayments.
56.	ACCO	81	7.4.1	Refers to Table 14 but should be Table 13.	corrected
57.	ACCO	81-82	Table 13 and Table 14	Table 13 shows £11.9m but Table 14 shows £11.8m.	Table 13 and Table 14 are now Table 15 and Table 16. These tables, due to the change in displacement being 22.3% and increased Voids rate of 7.2%.reduces the payment timetable to 20 years with NNDR collection of £13.8m. Now both Tables match
58.	SFT	77-88	Chapter 5 and Chapter 7	The issue of additionality needs to be more consistently dealt with across these two chapters. I.e. displacement is factored into the TIF capture mechanism as per TIF legislation and is used in the EIA along with deadweight. The text in section 5.10 will also be amended to more clearly confirm why a displacement figure of 10% has been arrived at or whether it is more appropriate, on reflection, to assume a higher displacement figure	PwC and ACC officials will address this point by amending the text in Chapter 5 and 7. Changes to chapter 5, sections 5.9 and 5.10 have already been covered above. However, Table 8 which is now Table 10 changed to separate the third column (Average deadweight/displacement (“but for”) into 2 separate columns for “non-additionality”. The first column will be “Displacement” and the second “Deadweight”. A weighted

				<p>(but probably not as high the 35% suggested in Chapter 7?). Table 8 should be amended to separate additionality from deadweight and all reference to deadweight should be removed from chapter 7. A paragraph should be inserted in the introduction of Chapter 7 to confirm that, although deadweight is relevant when assessing economic impact in the previous chapter, the SFT TIF guidelines stipulate that deadweight should not be included in any financial model used to determine estimated NNDR flows. As per the TIF capture mechanism contained in the Non Domestic Ratings Contributions (Scotland) Amendment Regulations 2010. Consequently Chapter 7 requires that a more thorough explanation, based purely on the anticipated displacement impact of the TIF scheme, is provided to explain the displacement figures used in the financial model. This displacement figure should be consistent with the displacement figures shown in Table 8 (once separated from deadweight). Table 8 should also be brought into the Executive Summary, since it provides a good summary analysis</p>	<p>value of 22.3% of Displacement to be applied refer to section 5.10. An average deadweight figure of 25% will be applied across all segments.</p> <p>This will have an impact on following tables and text in section 5.11</p> <p>Para 7.2.9 will be expanded to give a more thorough analysis of displacement in relation to the various development segments used in table 7. Only the displacement figures shown in Table 10 will be applied to the financial model (i.e. deadweight will be excluded from the financial model). The text in section 5.11 will also be amended to more clearly confirm why it has been deemed appropriate, on reflection, to assume a higher displacement figure the why displacement figures of 25% for non-industrial and 20% for industrial have been arrived at</p> <p>Table 10 has been brought into the executive summary and discussed accordingly.</p>
59.	CM	80	7.2.11	<p>Check these numbers. If they are correct the paragraph needs to explain more clearly whether this is a discounted figure and how it compares to make this clearer as it does not make sense.</p>	<p>PwC to check. Suggested new wording:</p> <p>Deductions are made to the Gross NNDR figure for the x% displacement assumption and for voids which have been assumed to represent 5% of the revenue after displacement. The resultant net NNDR revenue totals £190m over the 25 year period, assuming there is no</p>

					NNDR inflation over the same 25 year period. The Net Incremental Revenues (after deductions for displacement and voids) are shown in detail in Table 14 (page 82) and illustrated below, in Figure 17.
60.	CM	82	7.4.1 Table 13 and 14	Net NNDR numbers in Table 13 (£11.9 m) do not match last five rows in table14 (£11.8m). The text also needs to make it clearer whether these are discounted NPV numbers.	PWC to confirm if mismatched numbers are just due to rounding and whether they are discounted numbers.
61.	SFT	82	7.4.2	Table 14 – please clarify that the final 2 years surpluses (£11.8m in each year) is pre the split with SG? Perhaps these should be modelled as £5.9m in each year. I.e. 50% of NDRs? May have this wrong so happy to discuss if required.	Table 14 is now Table 16. Final surpluses are now £13.8m. Para 7.4.6 considers the 50:50 split. Reads ‘7.4.6. The base case financial model prepared by PwC indicates that, where all revenues are allocated to debt service, the loan could be paid off during the period 1 to 20 years of the 25 year TIF period with a potential surplus of revenue totalling £72m between years 20-25. This provides a significant “debt tail” for ACC to mitigate any shortfall in repayments in earlier years or slower than anticipated take up of new development (and thus incremental NNDR arising). Under the terms of the TIF agreement with Scottish Government any such surpluses would be split on a 50:50 basis with ACC’s share therefore being £36m in the base case. It is stipulated in the TIF Agreement that any such ACC surplus must be spent on further infrastructure improvements.’
62.	CM	85	7.4.9 7.4.10	What is the possible quantum of the interest gap (upper and lower estimates). May also need to give some examples of the ways in which ACC can manage the timing of cash flows.	See.

63.	CM	87	Para 7.5.2 and Table 15	Does not take into account the Wood Family Trust £35 m, which does away with the first sensitivity (10% increase in capital costs).	The paragraph will be amended to state that since the sensitivity analysis was completed the Wood Family Trust has confirmed that they will make a further £35 million available to cover any unexpected cost over-runs and a note added to the table.
64.	SFT	Section 7		The business case should make reference to the potential use of developer contributions payable in the TIF areas. It would be helpful to detail what the current policy is and confirm that normal practise will prevail in TIF areas. Detail (perhaps in financial/ revenues section) that any contributions received will be used to offset TIF debt (although won't necessarily be modelled for revenue purposes).	Added a section that will include other Revenue cover sales proceeds and 2 nd para -The Local Development Plan 2012 has policy and guidance regarding Developers Contributions for infrastructure. Policy I1 – Infrastructure Delivery and Developer Contributions covers the infrastructure, services and facilities such as schools, roads and essential services required to support new or expanded communities and the scale and type of developments proposed in the Masterplan Zones two satellite areas are included in these Zones but excludes development in the City Centre Area. The policy therefore excludes contributions covering the enabling infrastructure in the City Centre as it is outwith the scope of the Policy.
65.	SFT	89	8.1	Requires an expansion of risks. Risk section to be expanded to address issues discussed at meeting between SFT and ACC officials on 4 July	ACCO/PwC to add further comment.
66.	ACCO	89	Risk 1	Explain what would happen if ACGT does not come up with the remaining £15 million	Last Bullet in Risk 1 includes there is £55 million of pledged philanthropic donations with a further £15 million required. The sourcing of these funds, if not provided before hand may form part of the development agreement with ACGT
67.	ACCO	89-90	Risk 4	Bullets are not aligned	Fix alignment of bullets

68.	CM	90	Risk 4 last bullet	Typo.	This will be changed to read: Understand and influence the demand for development as ultimately it is new property occupiers that will pay the business rates used to repay the TIF borrowings.
69.	SFT	93	8.5	Make reference to discussions ACC has already had with State Aid Unit and include any wording they are comfortable with providing.	Refer to 8.5
70.	ACCO	93		Add a section on risk of NNDR	Awaiting comment from either CBRE of Aberdeenshire.
71.	ACCO	93	8.6.1	Further expansion to the Finance comments required.	See section 8.7 and conclusions. There is a Financial risk table.
72.	SFT	93	2 nd bullet	Mention the £300k pa in lost income from Denburn car park and the fact that any receipts from this development would also be used to repay the TIF debt.	Page 31, page 28 receipts to allow the city centre regeneration and to reduce the debt In risk section
73.	CM	93	8.6.1 7.7 final bullet	The comment has been made that this seems insufficient considering we have an award winning finance team. This needs more substance.	Added three sections to section 8.6 NNDR & Revenue Risk, which examines risks and mitigations to receiving NNDR. 8.7 Financial Implications and risks to ACC which explores the risks & mitigations to ACC of the TIF loan in terms of the financial model, in section 7, Sensitivity analysis, Public Works Loans Boards Rates, NNDR Poundage- what happens if it increases or decreases, Displacement & Deadweight, Voids, Public sector contribution, Adjustments to NNDR, and over all financial implications. This is followed by a Risk Table which uses a traffic light system to identify key risks. Final conclusion adds three new bullets that say the following:- The TIF business case allows for adverse movements within the model and for the TIF still to be

					deliverable within the base assumptions that have been set. It should be understood in conjunction with the possible scenario of all the base assumptions moving as the project moves forward. There are a number of risks contained within these base assumptions and the Council would have to ensure that it mitigated these risks where ever possible. Ultimately the TIF business case shows that there is a robust financial model with inherent risks that would have to be managed or mitigated where possible.
74.	CM	94	9.2.1	Typo.	Change AGCT to ACGT- done
75.	CM	95	After 9.2.1	It would be useful to know the expected time frame for completing the development agreement.	A paragraph will be inserted before 9.2.5 here to confirm the time frame for negotiating a development agreement, should the TIF business case be formally submitted to SFT and subsequently approved by Government.

FINAL TIF Business Case Document

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ABERDEEN
CITY COUNCIL

Aberdeen City Centre Regeneration Scheme

A New Level of Ambition for Aberdeen's Economic Future



TIF Business Case



ABERDEEN CITY COUNCIL

CITY CENTRE REGENERATION SCHEME

A New Level of Ambition for Aberdeen's Economic Future

TIF BUSINESS CASE

FINAL

(Version:10/08/12)

ABERDEEN CITY COUNCIL

CITY CENTRE REGENERATION SCHEME

TIF Business Case

Contents

1.	Executive Summary	5
1.1.	Conclusions	5
1.2.	Background	6
1.3.	Intervention	8
1.4.	Enabling Infrastructure (TIF Assets)	10
1.5.	Financial Analysis	13
1.6.	Economic Impact	13
1.7.	Risk	16
1.8.	Delivery and Governance	17
1.9.	Next Steps	18
2.	Introduction Context and Background	19
2.1.	The Business Case	19
2.2.	The Aberdeen Economy and TIF	19
2.3.	The Need for City Centre Regeneration	25
2.4.	The TIF Scheme Overview- Delivering Regeneration	27
2.5.	The TIF Scheme Project Selection	29
2.6.	Why is TIF needed?	40
2.7.	Conclusion	40
3.	Strategic Fit	42
3.1.	Vision and Objectives	42
3.2.	Local Policy Objectives	42
3.3.	Regional Strategic Fit	44
3.4.	Scottish Government Strategic Objectives	44
3.5.	Fit with TIF	45
3.6.	Sustainable Development	45
3.7.	Conclusion	46
4.	Infrastructure Investment Plan	47
4.1.	Introduction	47
4.2.	Prioritised Assets	48
4.3.	Timetable	51

4.4.	TIF Red Line Area (RLA)	52
4.5.	Conclusion	54
5.	Economic Impact Assessment	55
5.1.	Introduction and Purpose	55
5.2.	Economic Context	57
5.3.	Market Failure	58
5.4.	Impact Assessment Methodology	60
5.5.	Consultation Results- E-Survey Response Rates	61
5.6.	Cohort One Responses	61
5.7.	Cohort Two Responses	68
5.8.	Gross and Net Impacts-Gross Future Development Profile	75
5.9.	Counterfactual – ‘but for’ test & Deadweight	75
5.10.	Displacement	76
5.11.	Displacement, Leakage, Substitution, Multiplier Effects	78
5.12.	Net Impact	79
5.13.	Wider Benefits & Private Sector Leverage	82
5.14.	Impact of TIF on Level of Business Rates	83
5.15.	Conclusion	84
6.	Assessment of new development and business rates uplift	85
6.1.	Introduction	85
6.2.	Total Development Potential and Associated Business Rates Uplift	85
6.3.	Incremental Rates	87
6.4.	Conclusion	87
7.	Financial Analysis of TIF Borrowing	88
7.1.	Introduction	88
7.2.	Base Case Assumptions	88
7.3.	Summary of Key Base Case Inputs	93
7.4.	Base Case Results	94
7.5.	Conclusions	100
7.6.	Role of Scottish Government	101
7.7.	Conclusion	102
8.	Risk	103
8.1.	Areas of Risk	103
8.2.	Asset Creation	106
8.3.	Third Party Challenges to TIF	106
8.4.	Procurement	107
8.5.	State Aid	107
8.6.	NNDR and Revenue Generation	108
8.7.	Financial Implications and risks to ACC	108

Sensitivity Analysis	109
Public Works Loans Boards Rates	109
8.8 Conclusion	114
9. Delivery and Governance	115
9.1. Background	115
9.2. City Garden Project Management	115
9.3. TIF Agreement Management and Control	117
10. Next Steps and Approvals	118
10.1. Approval Process	118
10.2. Conclusion	118
11. Overall Conclusions	119
12. Glossary	121

Appendix 1 NUTS 3 GVA by Industry Type

Appendix 2 List of Figures, Tables, Charts and Maps

Appendix 3a Cohort 1 and 2 E-survey

Appendix 3b Cohort 1 and 2 Cover letters and background information

Appendix 3c Property Developer Questions sent to Cohort 2

Appendix 4 City Centre Regeneration Scheme Expenditure Profile

Appendix 5 Planned property development projects within the TIF Red Line Area

1. EXECUTIVE SUMMARY

1.1. Conclusions

1.2.1 Overall this TIF¹ Business Case demonstrates:

- A clear case for the regeneration of Aberdeen City Centre, using five inter-related TIF Scheme projects as a catalyst for future global investment in the city.
- Projects such as the City Gardens, Aberdeen Art Gallery, & City Circle are enabling as they are able to act both as visitor attractions, creating better access into the City Centre, as an attraction to existing and investors to the City and building on the economic base of the City. Making development projects like the St Nicholas House and North Denburn Valley also these are attractive propositions for both inward investment and end-users, enhancing the quality of space within the City.
- The ability of the TIF Scheme to stimulate development that will create new additional revenues including National Non-Domestic Rates (NNDR) to retain existing business within Scotland whilst attracting new companies, stimulate new Small and Medium-sized Enterprises (SMEs) and grow existing businesses.
- Though Aberdeen's economy is currently buoyant and is seen to be so in the next 5-10 years, this business case is designed for a 25 year term and supports how the City, building upon its oil and gas industry experience and strengths and skills can be used as the basis for encouraging new investment and economic diversification
- That 'but for TIF' ACC would be unable to fund the projects within the TIF Scheme, leading to Aberdeen seeing lower levels of economic activity over the next 25 years. Likewise it would be unrealistic for the private sector to fund projects in entirety they have no access to funding..
- It is Important to accelerating development and influencing private sector behaviours as regards investing in the City.
- That 'but for TIF' the benefits to be obtained from investing £92 million of public loan funding, potentially £20 million of grant funding and £70 million of philanthropic private funds in necessary enabling infrastructure for the five complementary development projects, if undertaken in isolation are unable to act as a catalyst for regeneration and economic growth.
- That 'but for TIF' the City misses the opportunity to unlock the potential economic growth from the significant private sector investment and generate up to 6,560 full time equivalents (FTE) jobs and an average of £115.1 million per annum of economic growth (GVA) over 25 years.
- In a 15 year period from 1997 to 2011 the City Region, delivered and occupied, new property of 3,133,890 square foot (748,890 industrial and 2,385,000 offices). This is an annual average of 208,926 square foot. On that basis it is reasonable

¹ Tax Incremental Financing

to assume that the TIF RLA is able to deliver approximately the same amount of occupied new property, over the next 25 years period, as the City Region has managed to deliver over the past 15 year period.

- That the proposed TIF Scheme can be financed and delivered using incremental NNDR revenues generated by net new development within the TIF Red Line Area (RLA) around the City Centre and two satellite development areas. Indeed, the £92 million infrastructure investment costs (plus interest) will be repaid solely through the modelled NNDR within a 20 year period from first draw-down in 2014. This is based on a pooled interest rate of 5.2% and takes account of an average displacement of 22.3% and the impact of a 7.2% void/bad debt impact.
- The TIF Scheme has the capacity to deliver significant levels of additional economic activity within the City and beyond contributing significantly to Scotland's economic performance. In this regard, and given the nature of the businesses likely to be attracted / enabled by the TIF Examples include mobile global investment, renewables, with businesses not only relocating within the city, elsewhere outwith Scotland and the UK.
- The potential financial risks for this TIF Scheme have been considered, which includes increased interest rates, increased capital costs, slower ramp up of NNDR and the financial model examines the sensitivities of these base assumptions to identify the level of risk associated with the TIF scheme and these will be managed and mitigated where possible. The base case is therefore suitably robust. Additionally £35 million is available in the form of further philanthropic donations to cover cost over runs for the City Gardens Project. This reduces the risk exposure to ACC.
- Ultimately the TIF business case shows that there is a robust financial model with inherent risks that would have to be managed or mitigated where possible that repays the £92 million investment within a 20 year period.
- That suitable development agreements and effective management structures will be put in place as part of the next steps following Scottish Government approval of the business case.

1.2. **Background**

1.2.1. Aberdeen is one of the world's key energy capitals. Looking into the future, Aberdeen must keep its best people and attract others in order to achieve a new level of ambition for the City. To do this Aberdeen must ensure that it grows its ability to generate additional revenues. Aberdeen is determined to build on what it has achieved. It wants to remain a destination of choice on the global radar. Aberdeen must be seen as a place of quality, verve and style with a City Centre that provides a rich multi layered experience

1.2.2. Clustered in Aberdeen is a sophisticated, globally connected knowledge infrastructure. Aberdeen's talents are in global demand and those working in Aberdeen come from all over the world. It is innovation-driven as it has responded over to the past 30 years to the complex demands of extracting oil and gas from hostile conditions. However, oil and gas reserves will diminish over time. So, Aberdeen is looking ahead. The investments associated with this TIF Business case will help Aberdeen address medium to long term issues (10-25 years from now)

associated with the need to attract new, non-oil and gas investment to Aberdeen and retain as many oil and gas jobs as possible over the same period. Aberdeen knows it needs to adapt its industrial base and re-examine how it creates wealth and prosperity in the medium to long-term. Aberdeen is confident that the investment outlined in this TIF Business Case will do so.

- 1.2.3. Through time Aberdeen has been at the cutting edge in the way it has used its collective imagination. The City views challenges as an opportunity and it has a long tradition of enterprise, ingenuity and inventiveness. It has been blessed with natural resources, has developed industries around these assets and, in recent years, established a rich tradition in medical research, life sciences, construction, engineering, innovation, 'know-how', innovation and entrepreneurship.
- 1.2.4. The City's vitality comes from the skills and talents of its people. Aberdeen is a world leader in many fields and an innovative engineering thread runs through all of these, such as subsea marine technology; offshore operations; integrity management and safety; and marine renewable - including deepwater offshore windfarms. This expertise will remain desirable the world over and the capabilities that go with it can be applied and migrated into other fields.
- 1.2.5. Retaining these skills and talents requires investment in the creation of a high quality living environment for talented individuals, as well as an attractive operating environment for international businesses. The regeneration of Aberdeen City Centre represents a major opportunity for Aberdeen and for the broader North East Region (City Region) to demonstrate its commitment to this goal.
- 1.2.6. By using a the TIF Scheme to leverage significant private sector donations, ACC has a unique opportunity to deliver a major City Centre Regeneration Scheme that will stimulate medium to long-term investment in the economic future of the City, the wider region and Scotland as a whole - at a time when public sector finances are under intense pressure. The ambition is to create a world class City that is recognised as a destination of choice on a global basis, making it sustainable beyond the depletion of North Sea oil and gas reserves.
- 1.2.7. The five complimentary projects within the City Centre Regeneration Scheme, and consequently, within the proposed TIF Scheme are critical to the future regeneration of Aberdeen City Centre and will act as a catalyst for accelerating development across the whole City area. This induced development will provide a base for the establishment of a defined Central Business District (CBD)², which Aberdeen currently lacks, and will accelerate development in the City Centre and to the North and North-West of the City – close to the airport at Dyce Drive (hereafter referred to as "Dyce Drive") and North of the AECC along the A90 (hereafter referred to as "AECC/A90"). In addition to being a catalyst for accelerating development, the TIF Scheme will also generate new business rates growth, making a significant contribution to Aberdeen's future development.
- 1.2.8. Through the TIF Scheme, ACC in partnership with private sector, social and cultural organisations, intends to create a vibrant, attractive and welcoming City Centre that will be a magnet for ranging from global businesses to SME's, for individuals looking for a high quality of life and for visitors of all types. The TIF Scheme provides a

² The CBD or Central Business District is focal point of a city. It is the commercial, office, retail, and cultural centre of the city and usually is the centre point for transportation networks.

mechanism for delivering a major City Centre Regeneration Scheme in Aberdeen which will deliver growth for the City and Scotland.

1.2.9. Currently the Aberdeen City Region (City Region) is enjoying a buoyant economy mainly due to the City's position as a World Energy City and a high oil price. However economic prosperity is not guaranteed and, indeed, this will become more difficult to sustain as North Sea oil reserves begin to deplete and new investment in the North Sea reduces with increasing speed. The TIF Scheme aims to both anchor the region's existing industry to the City Region, by encouraging global operators to remain in Aberdeen, whilst still participating in the local industry as well as serving their global activities. It can create the necessary conditions to attract new non-oil and gas investment. ACC recognises that regenerating its City Centre is a way of accelerating current planned developments whilst retaining and attracting the type of mobile investment that will generate additional tax revenues for the City Region and Scotland as a whole. The City Region's economy is currently bound to the success of the oil and gas industry. Without the TIF, the TIF Scheme will not be realised, meaning that it will be more difficult to attract the investment required to ensure additional revenues and the future prosperity of the region when North Sea Oil reserves are exhausted or when the cost of oil and gas exploration reaches the point where it is greater than the market value of the extracted oil and gas.

1.2.10. At a time when public sector finances are under intense pressure, ACC has a unique opportunity to invest in the economic future of the City, wider region and Scotland as a whole, by using Tax Incremental Funding (TIF) to leverage the very significant private sector donations that have been offered for the TIF Scheme and ultimately to deliver growth along with new economic activity. The ambition is to create a world class City that is recognised as a destination of choice on a global basis. But for the TIF Scheme, it will be difficult for the City to invest in the City Centre infrastructure needed to enable Aberdeen to compete with other global destinations of choice, by attracting essential mobile investment in the medium to long-term. As such without TIF, a significant opportunity for growth in Scotland will be lost.

1.3. **Intervention**

1.3.1. The City Region economy is intrinsically linked to oil and gas industries. The City Region, along with Scotland has benefited economically and socially from this for many years and, even in these economic times, will continue to benefit for the near future. Currently the development market along with the economy is buoyant and is forecast to be so into the near future. However, the oil and gas industry is changing and will ultimately decline. The recently launched Scottish Enterprise Oil + Gas Strategy 2012-2020 recognises the importance of infrastructure investment in Aberdeen City to support a long-term, strong, oil and gas sector. The challenge for ACC is to ensure that the oil and gas industry has firmly anchored roots in Aberdeen, as businesses in the supply chain internationalise their operations. At the same time, Aberdeen must continue to grow by attracting new industries by building on the City's skills base and reputation, as well as ensure it creates the conditions that will generate new revenues such as NNDR that will ensure the City Region's success into the long term future.

1.3.2. The obvious sectors to be targeted for inward investment are businesses in the de-commissioning (off-shore installations) and renewable/low carbon energy sectors. The ambition is to attract a broad base of industries, albeit with a focus on energy. The key to all of this will be the City's ability to attract global investment, support the

growth and development of local business and attract talent to support such industries over the next 15-25 years. This will only happen if Aberdeen is a place where people want to live, work and visit. A vibrant, attractive and welcoming City Centre is a prerequisite for sustainable medium to long term growth.

- 1.3.3. The actions to regenerate the City Centre are part of a medium to long term investment strategy, aimed at growing the city and diversifying the commercial base over the next 10 -25 years, as outlined in the City's recently adopted local development plan. The aim is to reduce the risks associated with strong dependence on a single industry whilst safe-guarding the role and status of that industry in the local economy. Aberdeen is still regarded by most people as the world's second oil and gas City, but it is a position that is under constant and ever-increasing challenge. The City's future prosperity will depend on its 'attractiveness of place', to secure investment and bring in talent over the medium to long term. Aberdeen's future economic prosperity will no longer be driven by (or be a 'given' because of) its proximity to North Sea oil.
- 1.3.4. Attracting new investment to Aberdeen is therefore critical to the City's sustainable growth and lies at the heart of ACC's medium to long-term economic development strategy. It is also fundamental to being able to use the TIF funding mechanism. The squeeze on public sector finances means that ACC is unable to either facilitate or contribute to such investment in the foreseeable future. ACC has chosen the five projects contained in this business case as these are the assets that will enable growth within the City that will attract and secure private sector investment. But for the TIF, attracting investment will be more difficult and private sector developments will struggle to raise finance in the current banking environment without some type of public intervention. But for the TIF, the public sector will find it equally difficult to respond to this market failure, as its budgets are squeezed and it is forced to comply with the UK Government's austerity measures
- 1.3.5. Overall responses from the Economic Impact Assessment in Section 5 indicate that in the absence of TIF, prospects for future City Centre growth are expected to decline and it will become increasingly difficult for Aberdeen to attract and retain investment.
- 1.3.6. On the other hand, the TIF Scheme will accelerate development and will influence developer's appetite to invest in Aberdeen. Ultimately, although there is a view that some of the proposed development will happen anyway, the key linkage to TIF is the fact that it both a) enables more development, and b) accelerates it. So Aberdeen gets benefit now rather than later and, consequently, the benefit is more certain than it might otherwise be.
- 1.3.7. The need for this investment is also recognised by the private sector and donations totalling £55 million have been offered towards the TIF Scheme – provided that matching public sector finance is forthcoming. An additional £35 million has also been pledged to cover any unexpected budget over-runs in the City Garden Project by the private sector, in the unlikely event that these should occur. However, the private sector cannot be expected to fund major civic and cultural assets entirely. Therefore, but for the TIF mechanism, the TIF Scheme will not be funded and significant new additional revenues, like NNDR, will fail to be realised.
- 1.3.8. The TIF mechanism provides the means to deliver the required infrastructure and economic growth by paying for growth out of growth. This business case has been produced to support the use of TIF as a mechanism for funding the public sector investment needed to deliver enabling infrastructure, which will underpin the

regeneration of Aberdeen's City Centre and help deliver growth within the City, the wider region and beyond.

- 1.3.9. The TIF Scheme will have greatest impact on the City Centre. However the TIF RLA also includes two satellite areas – one at Dyce Drive (Airport site) and the other, which is part of the Energetica Corridor, just north of Aberdeen Exhibition and Conference Centre (AECC/A90). These satellite areas have been selected because, whilst the Aberdeen Western peripheral Route (AWPR) will create connectivity to these areas, a rejuvenated City Centre will act as an attraction for mobile investment to developments in these areas magnifying the benefits. This will ensure that property built within these development areas will be quickly occupied. There is already buoyant development in traditional areas of the City Region, South of the City and to the West but again there may be projects which are accelerated in these areas due to the impact of the TIF. Therefore, inclusion of these areas in the RLA would have potentially increased the displacement impact of the TIF and, consequently, reduced any potential benefit associated with their inclusion - in terms of additional economic benefit. In other words, there was no significant benefit to be gained by including these areas in the RLA.
- 1.3.10. The TIF Scheme will rejuvenate the City Centre, creating new opportunities for the creation and expansion of local businesses that are congruent with the activities of City Centres, such as leisure, dining, recreation, finance and culture. The satellite areas to the North of the city (at Dyce Drive and AECC/A90) are most suited to mobile Global investment. Therefore, the RLA, as discussed in Section 4, will have a minimal impact on displacing business from other areas in the city, neighbouring authorities or in other places in Scotland. Indeed much of this activity will be complimentary, adding to the offering within Aberdeen (e.g. new retailers, leisure and cultural operators not in the city).
- 1.3.11. This TIF business case therefore captures locally generated, incremental and additional NNDR that will only be generated by accelerating new development across the City, as a result of the TIF's enabling infrastructure.
- 1.3.12. These incremental revenues (net of displacement) are expected to flow from development in the City Centre, Dyce Drive and AECC/A90, and the business case outlines the case for the TIF RLA and what each of the projects is likely to deliver.
- 1.3.13. The incremental revenues are modelled to meet the debt repayments on the investment raised by ACC to finance the enabling infrastructure. The TIF RLA has been drawn around the City Centre and two satellite development areas where the TIF Scheme will help to secure mobile investment and accelerate development. The NNDR Revenues within this RLA will be captured over the proposed appraisal term of 25 years'

1.4. **Enabling Infrastructure (TIF Assets)**

- 1.4.1. ACC has identified five linked and complementary infrastructure projects that will unlock regeneration of the City Centre and beyond. While this business case is based upon delivering for the whole of Aberdeen, there is specific benefit to the areas of Dyce Drive, AECC/A90 and the City Centre. Aberdeen's City Centre improvements will attract investors to develop across the City Region. A vibrant City Centre becomes an attraction for users of the new development space created within the RLA. This then delivers growth, which, in turn, creates incremental rates needed to

deliver the TIF Scheme and create a strong pull-through effect in the other development areas across the city. These projects are enabling since they not only compliment each other as part of a comprehensive City Centre Regeneration Scheme, they also create the opportunity to revitalise the City Centre through cultural and leisure offerings that will create jobs and increase economic activity across the City. The sum of parts is greater than the individual elements.

1.4.2. The five projects within the TIF scheme are:

- **St Nicholas House Redevelopment** - The former ACC building is now vacant and the site is in need of redevelopment. This project involves the investment of enabling infrastructure to pave the way for early redevelopment of the site which has a prime City Centre location. This project will create additional business rates and create new jobs. This project will likely be delivered by the private sector (subject to tender, perhaps with some involvement from ACC as part of a Joint Venture Development Company, specially established to deliver the project).
- **The City Gardens Project** - This will provide the City with a new social and cultural heart with space for outdoor performances, cultural events, a greener environment and social relaxation. This project compliments existing cultural and leisure assets, creates additional business rates and new jobs and acts as a high profile City attraction. It will be delivered by Aberdeen City Gardens Trust (ACGT).
- **The Aberdeen Art Gallery Redevelopment** - The project is to improve, develop and extend the Aberdeen Art Gallery. This will ensure that its current range of high quality exhibitions can be sustained and further enhanced. In addition, opportunities can then be taken to host a wider range of local, national and international exhibitions, and other cultural events. This project will create additional business rates, compliment other existing cultural and leisure offerings and act as another high profile City attraction. It will also enhance Aberdeen as a preferred city to live for its residents and attract others by offering a high quality of life. This project will be delivered by ACC, using appropriate building contractors (subject to tender). ACC has already committed to progress design work associated with this project up to the Royal Institute of British Architects (RIBA) Stage D³.
- **The City Circle (City Realm)** - This will provide a distinct pedestrian walking route around the City Centre involving new public realm and linking the rail and bus stations to the major shopping developments, cultural assets and business heart of a larger Central Business District area (including the St Nicholas House site and North Denburn Valley). The project aims to assist both citizens and visitors to access the City Centre. This project will be delivered by ACC, using appropriate building contractors (subject to tender).
- **The North Denburn Valley Redevelopment** - This regeneration project involves demolition and site preparation to pave the way for early redevelopment of a major site in a prime City Centre location. The redevelopment will provide a mixed use development involving the construction of City Centre offices and mixed tenure residential accommodation adjacent to the City Gardens, Theatre and Art

³ RIBA has an outline of planning with several work stages. Currently this project is in the Design Phase which has a Concept, Design and Technical work stages. Stage D is the Design work stage.

Gallery. This project will create additional business rates and create new jobs by attracting new businesses and creating economic activity within the city. It will likely be delivered as a joint venture between ACC, Grampian NHS and a private sector developer (subject to tender).

- 1.4.3. The above assets would be delivered as individual projects, under the direction of a Programme Delivery Board (See Section 9) drawn from the key stakeholders. Oversight of the TIF scheme will be undertaken by the TIF Executive. Timing risks, including the potential delay between infrastructure development and the incremental rates flow for debt repayment, would be managed by the Executive and Programme Delivery Board with delivery incentives clearly allocated to the relevant parties where applicable.
- 1.4.4. The TIF proposal has been developed on a prudent basis with only incremental NNDR revenues from new developments being hypothecated. 'But for' the TIF, some potential developments may struggle to meet objectives; or they may incur more costs including delays or create uncertainty. The City Gardens, City Circle and Art Gallery provide open space and visitor attractions, 'But for' TIF, ACC has no additional capital funds available to provide a viable funding option. However, a prudent assumption has been made in respect of new developments that could still go ahead within the RLA(s) and which support each other. The Dyce Drive and AECC/A90 developments will be accelerated as a result of the TIF Scheme, since a more vibrant and dynamic City Centre will make it easier to attract mobile investment to these developments, again building upon the City base case. The additional revenues associated with this accelerated development will be captured as part of the overall TIF mechanism. 'But for' the TIF Scheme the additional NNDR revenues from those developments will be slower to materialise, as the developments will find it harder to attract mobile investment. This is why they are included in the TIF financial model. Within the TIF NNDR revenue stream, further prudent assumptions have been made including a phased build up in incremental rates revenue and a 7.2% reduction for voids and bad debts for the duration of the TIF.
- 1.4.5. The potential displacement of business from other areas of Aberdeen and Scotland, to the TIF Scheme, will be a key consideration for the Scottish Government. If a percentage of the rates increment within the RLA were to occur at the expense of a decrease outside the RLA, due to business relocations (a displacement effect), then the Scottish Government's NNDR income may be adversely impacted resulting in a structural shortfall. Given Aberdeen's global economy and the growth prospects of the City Region, there is a real danger that 'but for' the TIF scheme, inward investment by global industries that are complimentary to its existing global energy industry, as well as growing indigenous organisations, may otherwise locate/ relocate out with the UK. The importance of global companies to the Aberdeen economy means that it is therefore unlikely that Aberdeen will be attracting businesses away from other parts of Scotland. Despite this, incremental rates revenues in the TIF financials have been reduced by 22.3% to account for any potential displacement effect. This figure has been arrived at based on a number of surveys and consultations, as well as knowledge relating to the source of recent commercial investments. This is further elaborated in paragraph 1.6.3.

1.5. Financial Analysis

- 1.5.1. The estimated total cost of delivering the assets and enabling infrastructure is £182 million. This includes £55 million that has already been pledged to the City Garden project by private donors and a further £15 million still to be raised, increasing the total private sector contribution to £70 million. It is expected that a further £20 million of funding will be secured via Grants and other funding mechanisms to enable the Aberdeen Art Gallery Redevelopment. This funding will be non-repayable. The remaining £92 million, which represents ACC's investment, is marginally over 50% of the total cost. This will be borrowed by ACC and invested in enabling infrastructure associated with the five TIF projects. The intention is to repay this borrowing using the TIF mechanism, which will allow ACC to capture net additional NNDR to repay the debt. The work would be phased over the period 2012 – 2017 with the first draw-down of borrowing in 2014.
- 1.5.2. ACGT will provide capital funding, act as developer for the City Garden project and also make the £35 million offered by the Wood Family Trust available to cover unforeseen project over-runs, should additional costs unexpectedly materialise. The provision of an additional £35 million contingency, to cover cost overruns de-risks this project for ACC. ACGT have also undertaken to raise a further £15 million of philanthropic donations, to supplement the £55 million already pledged to this project from philanthropic donations. ACC will ensure that gaining these additional funds forms part of a development agreement to ensure the fiscal integrity of this project and to further de-risk the project. ACC, has been invited, if it so chooses, to nominate a member to be part of the ACGT Board to add an additional level of scrutiny on this company.
- 1.5.3. Based on the financial model presented in this business case, the £92 million infrastructure investment costs (plus interest) will be repaid solely through the captured NNDR within a 20 year period from first draw-down in 2014. Taking account of displacement and void/bad debt effects, the anticipated NNDR revenue stream is expected to amount to £222 million. This is the amount of funding that the City would fail to "capture" if the TIF Scheme does not proceed as well as other developments outwith the redline, which have been enabled by TIF, which will flow back to the central pot again offsetting any displacement effect..

1.6. Economic Impact

- 1.6.1. Based on the TIF Scheme's Economic Impact Assessment (see Section 5) the proposed infrastructure investment is expected to stimulate the creation of approximately 2 million square feet of commercial space and accelerate the development of up to a further 1.4 million square feet of commercial space in the RLA. The TIF Scheme's economic impact assessment shows that an additional net additional 6,560 full-time equivalent (FTE) jobs will be created by 2039 as a result of this investment. Over 25 years, this is an average of 262 new jobs per annum.
- 1.6.2. The Westhill Business Park, which is located west of the City has benefited from the buoyant oil and gas economy over recent years, as have areas in the West and South of the City. However the areas for development in the City Centre and to the North of the City have not benefited to the same extent and this is the growth opportunity that

the TIF Scheme seeks to address. The East Westhill employment site was a 23 hectares (ha) development site that was included in Aberdeenshire Council's 2006 Local Plan. By 2012 the development had been completed and Aberdeenshire Council intend to expand this by including a further 23 ha extension in their next Local Development Plan. This puts the forecast economic impact of the TIF scheme in perspective since, whilst the TIF scheme aims to influence the development of 3.4 million square feet of new employment space and create 6,560 new FTE jobs over a 25 year period. Within the Aberdeen City Region, the amount of new property delivered and occupied over the 15 year period from 1997 to 2011, inclusive, was 3,133,890 square foot (748,890 industrial and 2,385,000 offices). This is an annual average of 208,926 square foot. This would suggest that the forecast economic impact associated with the TIF scheme is wholly realistic as potentially there is a spill-over effect that will assist NNDR creation in the City Region as a whole.

- 1.6.3. The amount of displacement to be discounted from NNDR has been calculated at 10% due to the fact that the responses from the initial surveys undertaken as part of the Economic Impact Assessment indicated that a level of 10% was prudent, as feedback showed around 95% of the proposed uplift in development is likely to be office and/or industrial units; and uptake of these units, given growth prospects, were likely to be either from inward investors and indigenous organisational relocations and expansions (i.e. investments that might otherwise have been made out with Scotland).
- 1.6.4. In addition, to provide key stakeholder (SFT, Scottish Government etc) with further comfort in relations to the displacement rate, the outturn of the Economic Impact Assessment was benchmarked against evidence from Scotland and the rest of the UK. After considering the relevant displacement factors for similar types of developments (i.e. inward investment and research and development/ high tech), as well as the different market segments for developments within the TIF RLA, an average weighted displacement level of 22.3% was determined to be most appropriate.
- 1.6.5. The Table below details the net additional FTE outcomes after applying deadweight, displacement, leakage and multiplier effects to the gross development profile. This represents the anticipated outcome by the end of the TIF period (year 25, 2039), once all the identified development has been completed.

Table - Gross to Net Analysis Additionality (at year 25)

Type of development	Leisure / Retail	Office	Cultural	Industrial	Hotel	Total
Gross Floor space ('000 sq ft/beds)	86	951	67	2,364	250	3,468
Deadweight	25%	25%	25%	25%	25%	N/A
Displacement	28.5%	22%	28.5%	22%	28.5%	N/A
Net of Deadweight & Displacement ('000 sq ft/beds)	40	504	31	1,253	116	1,828
FTE's Net of Deadweight and Displacement	206	2,459	80	2,769	93	5,607
Leakage	10%	10%	10%	10%	10%	10%
Multiplier Effects ⁴	1.3	1.3	1.3	1.3	1.3	1.3
Net FTEs	241	2,878	93	3,239	109	6,560

- 1.6.6. The TIF Assets have the potential to act as a regional attractor, due to the high profile nature of the TIF Scheme and to generate potential wider spill-over benefits for areas in Aberdeenshire, Moray, Angus and Dundee. This is due to the fact that some of the mobile investment, initially attracted to Aberdeen as a result of the TIF Scheme, will be in new industries such as renewables and low carbon energy - and some of this investment may eventually decide to locate in surrounding areas (such as Westhill), rather than in Aberdeen. There are also potential benefits for Aberdeenshire as a result of attracting investment to the southern part of the Energetica Development Corridor (AECC/A90). Such spillover effects will again mitigate the impact of displacement upon the central pool, as some of these rates will find their way back to the centre for allocation.
- 1.6.7. Gross Value Added (GVA) created by realising the proposed new development within the TIF RLA averages £115.1 million per annum, at Net Present Value (NPV), over the 25 years to 2039. 92.5% of this GVA is attributable to the creation of industrial and office development, with the balance fairly evenly split across retail, cultural and hotels.
- 1.6.8. It should be noted that developers with development sites inside a TIF RLA will not be subjected to similar business rates than comparable companies located outside of the RLA, since the TIF Scheme will have no direct impact upon the level of business rates levied on companies operating within a designated TIF RLA. This excludes zones subject to additional premiums such as those for Business Improvement Districts
- 1.6.9. In Scotland, the system for determining rates payable can be summarised as follows.
- Premises that are subject to business rates are given a rateable value by the Scottish Assessors Association (SAA) and local authorities then use the SAA's assessment of a property's rateable value to calculate business rates bills. The rateable value is based on the likely annual open market rent for the premises at a particular date. Rateable values are reviewed every five years (a rates revaluation) and properties that have been changed since the last revaluation (e.g. extended) can be reassessed. Current rateable values in Scotland took effect on 1 April 2010, based on rental levels at 1 April 2008 and details of the rateable value, and how it has been calculated, are shown on a property's Valuation Notice.
 - To assess the rateable value, factors such as the size of the premises and how they are used are taken into account. Different parts of the premises may be valued at different levels. For example, the front part of a shop, nearest the entrance, is more valuable than space further back or storage space in the basement. The SAA provides practice notes that explain the basic principles of valuation.
 - The business rates charged are calculated using the rateable value and the poundage rate set by the Government. In Scotland, the standard poundage rate (paid by businesses with a rateable value of £35,000 or below) is 45.0 pence in 2012-13. For example, a property with a rateable value of £10,000 is normally charged £4,500, excluding any discounts or reductions, such as Small Business Bonus, that may be applicable. This rate will apply to bills issued from 1 April 2012.
 - In 2012-13, larger businesses in Scotland (rateable value in excess of £35,000) will pay a poundage supplement of 0.8 pence, which contributes towards part of

the cost of the Small Business Bonus Scheme. However, there are reductions in the rates payable for many small businesses, and if the premises are empty. (See SAA website (<http://www.saa.gov.uk/>)).

- 1.6.10. As can be seen from the above whether or not a business is located within a TIF RLA area has no direct bearing on how business rates are calculated
- 1.6.11. If the enabling infrastructure investment, made as part of any TIF Scheme, improves the general business environment or the quality of the surrounding physical environment, it is entirely possible that this improved business and physical environment may have an impact upon the likely annual open market rent for the premises at a particular date. However, this enhanced business and physical environment could equally be offset by other factors such as a less favourable general economic climate, for example. It cannot therefore be said that a TIF Scheme will directly increase business rates.
- 1.6.12. What a TIF Scheme will do, however, is encourage new property to be constructed within the RLA and it is the business rates, generated by these new properties, that is captured under a TIF Scheme and used to fund the cost of borrowed funds invested in enabling infrastructure.
- 1.6.13. The business rates relating to new properties within a TIF RLA are therefore calculated in the same way that business rates are calculated for all business properties in Scotland, regardless of whether the property is located within a TIF RLA - as described above.
- 1.6.14. Therefore, although developers and businesses moving into a TIF RLA generate a significant amount of additional economic impact, being located within a TIF RLA will have no immediate or direct bearing on the level of business rates applicable to their property

1.7. **Risk**

- 1.7.1. Each Project within the TIF Scheme has a variety of risks. Where possible ACC will ensure that it will mitigate projects risks as and when they occur. Having a TIF Programme Delivery Board and utilising ACC's existing Project processes aims to ensure robust project delivery. The project will create assets by increasing borrowings and as ACC has no additional funds available to service such a loan. 'But for' the TIF mechanism it must ensure that the TIF Scheme is robust enough to be served within its Treasury function.
- 1.7.2. Since these projects require some form of planning consent it is important to mitigate the risk of Third Party Challenge. Procurement will be a feature of these projects and ACC will observe strict Official Journal of the European Union (OJEU) rules and processes. ACC has sought advice from the Scottish Government's State Aid Team which is comfortable with the ACC's approach. The City Gardens, Aberdeen Art Gallery and City Realm- City Circle will remain in ACC's ownership and will adhere to strict OJEU procurement rules. St Nicholas House and the North Denburn Valley redevelopments are intended for future sale to the market. So the cost of investment and additional value created by the enabling asset will be passed across as part of the sale price ensuring no disadvantage to the existing Aberdeen development market.

- 1.7.3. Whilst there is risk over generating the additional NNDR that is required, from 1997 to 2011 the City Region, delivered and occupied, 3,133,890 square foot (748,890 industrial and 2,385,000 offices) of new property. This is an annual average of 208,926 square foot. On that basis it is reasonable to assume that the TIF RLA is able to deliver approximately the same amount of occupied new property, over the next 25 years period, as the City Region has achieved to deliver a 15 year time period.
- 1.7.4. The Financial risks to ACC have been fully considered. The North Denburn Valley Redevelopment will reduce operating income of £300k per annum. To reduce this risk, officers will need to find ways to offset this loss from operating income by either income generation or creating matched savings. In total there is £90 million of philanthropic donations and grants. The City Garden Project has £55 million already pledged with a further £15 million to be raised. ACGT will hold and realise these funds and act as the project's developer. To mitigate the risk that ACC would need to make this sum available, should this sum yet to come to fruition prior to the finalisation of the development agreement it is possible to make this a condition of the required development agreement. The remaining £20 million of grants is attached to the Aberdeen Art Gallery Project. Officers will pursue a variety of grants to secure the required funds. Should there be a funding gap officers will need to consider how additional funds will be attracted, generated or secured via other fiscal arrangements.
- 1.7.5. ACGT will hold the £35 million fund offered to cover any project overruns that could incur with the City Garden Project. This removes this risk from ACC, for this particular project.
- 1.7.6. Ultimately ACC, fully understand the risks associated with the TIF project, including factors such as the ramp up of NNDR and that ultimately the success of the TIF will be dependent upon the creation of sufficient new businesses, that will create sufficient business rates to repay the funding of the enabling infrastructure. ACC also recognise that risk sits with them. Should include this statement later.

1.8. **Delivery and Governance**

- 1.8.1. A robust project governance and reporting structure will be established to provide quality assurance, cost control, accountability, responsibility and clear decision making. This will take the form of a TIF Programme Delivery Board which will comprise of representatives from all the major projects. The TIF Executive will act as an oversight body. This will ensure that the Terms and Conditions of the TIF agreement are being met.
- 1.8.2. In accordance with good practice, Gateway Reviews will be undertaken at defined stages of the design, procurement and construction processes to ensure best value and that a robust business plan exists prior to the commencement of each of the infrastructure projects. Project procurement and delivery will be undertaken under public procurement rules.

1.9. **Next Steps**

1.9.1. The approval of the Scottish Government will be sought to use the TIF mechanism to capture the additional NNDR in order to pay for the TIF investment.

1.9.2. On receipt of the Scottish Government's approval the following steps will be progressed.

- ACC will approve the terms of, and sign, the proposed TIF Agreement with Scottish Government
- Agreement will be reached on a Heads of Terms for a development agreement between ACC and Aberdeen City Garden Trust on the procurement, management, maintenance and operation of the City Garden Project.
- ACC will confirm acceptance of Scottish Government's Terms and Conditions for the TIF Scheme.
- The TIF Executive will be established.
- TIF Programme Delivery Board will be established.
- The roles and responsibilities of key executive management positions required for delivery of the TIF Scheme will be agreed.
- ACC will agree the level of NNDR revenue within the RLA for the purpose of establishing the 2013 base, from which the future uplift in rates revenue will be calculated.
- ACC will conclude Project Agreements with partners in all five TIF Scheme projects

2. INTRODUCTION CONTEXT AND BACKGROUND

2.1. The Business Case

2.1.1. This business case is produced by Aberdeen City Council (ACC) and summarises the process undertaken by Council officers, their advisers and project stakeholders to assess the potential for using TIF to enable ACC to provide the public sector investment needed to deliver the TIF Scheme. The remainder of this section explains the context and background to the business case, before then going on to discuss

- how the proposed TIF Scheme delivers various strategic objectives for the project partners (Section 3)
- the enabling infrastructure required to deliver the TIF Scheme and the associated public sector investment required to be met through TIF (Section 4);
- the estimated economic impact of the TIF Scheme including appropriate consideration of any displacement adjustments to be applied to the TIF incremental revenues (Section 5); and,
- the potential incremental revenues that could arise as a result of the TIF Scheme and how these can be captured by the TIF mechanism to service and repay borrowings (Section 6).

2.1.2. Section 7 draws together the various assumptions used to develop the business case and summarises the results of the Business Case financial analysis. This is primarily comprised of a financial modelling exercise which assesses the sufficiency of the incremental revenue captured by ACC (through the TIF mechanism) to service the prudential borrowing required to meet the TIF Scheme's total investment needs.

2.1.3. The key project risks and identified mitigation strategies are outlined in Section 8, and Section 9 focuses on the delivery and governance structures to be put in place. Finally, Section 10 sets out the steps required to implement the project, including a summary of the remaining approvals process, whilst Section 11 presents the business case's key conclusions

2.2. The Aberdeen Economy and TIF

2.2.1. Aberdeen is one of the world's key energy capitals. In this globally connected age, energy cities enable the world to operate. Energy cities are crucial global hubs. If the world is stripped of fuels such as oil and gas it would be difficult for people to pursue their lives in the globally connected way that they currently do. Energy cities therefore play a crucial role in the development of the global community.

2.2.2. Aberdeen's economic fortunes are intrinsically linked to oil and gas prices. Currently the oil price is high, so it is little surprise that Aberdeen is currently enjoying a buoyant economy. However, oil and gas are finite resources. As these reserves decline it will eventually cost more than its value to extract and these reserves will eventually run out over time. Aberdeen knows it must adapt its industrial base and re-examine how it can continue to create wealth and prosperity after North Sea oil and gas reserves are no-longer viable, and the associated investment, starts to decline. Aberdeen is confident it can do so as the TIF mechanism creates the opportunity to invest in

necessary infrastructure that will ensure Aberdeen remains an attractive place to live and do business, in the medium to long-term, allowing the economy to build on its strengths and create the conditions to increase incremental and additional revenues such as NNDR.

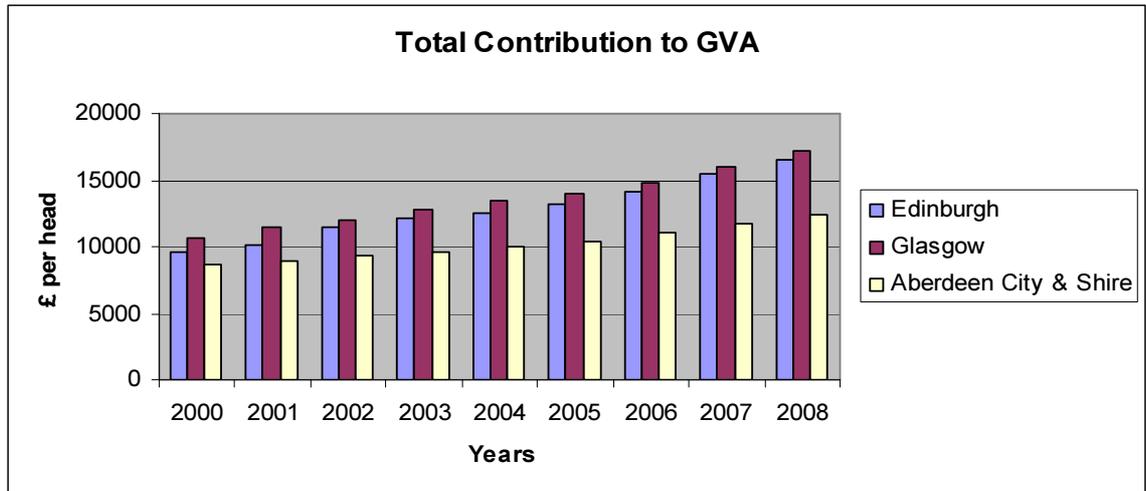
- 2.2.3. Although a peripheral City on the North East coast of Scotland, Aberdeen is renowned for its enterprise, ingenuity and inventiveness. It has been blessed with natural resources and has been able to develop industries around them - such as textiles, granite, food and agriculture, fishing, paper making and oil and gas. Aberdeen also has a rich tradition in medical research and life sciences, discovering endorphins: developing innovations like the MRI scanner; and leading the way in research related to safe pregnancies and the control of labour pain.
- 2.2.4. The City is a world leader in many fields and an innovative engineering thread runs through them all, such as in subsea marine technology, offshore operations, integrity management and safety, general marine renewables and, in particular, deepwater offshore windfarms. This expertise will remain desirable the world over, and the capabilities that go with it can be applied and migrated into other fields.
- 2.2.5. The TIF Scheme is integral to enabling the Aberdeen City Centre Development Framework 2011 and realising Aberdeen's Local Development Plan 2012 (LDP 2012) and the Aberdeen City and Aberdeenshire Structure Plan (The Structure Plan). The TIF Scheme enables and delivers a significant amount of the region's Structure Plan which fits with the Scottish National Planning Framework and the Scottish Government's recently revised economic strategy. This recognises the fact that City Centre development and regeneration is a critical element of most City development strategies
- 2.2.6. A recent publication on Sustainable Cities by Grant Thornton states that 'To become a successful City of the Future, it helps to be well positioned already, in today's terms. If you are a 'go to' City now, you have access to physical, intellectual and financial resources that will support the transition to a low-carbon economy'. The report goes on to conclude that 'While competition between cities is inevitable, smart cities will know where to compete and where to collaborate, and be capable of doing both.'⁵
- 2.2.7. ACC's 5 year business plan demonstrates and articulates its commitment to anchoring oil and gas. It has proven this through its commitment to working with public and private sector partners in projects such as the Strategic Hydrogen Projects which aim to provide energy choices through the innovation of renewable hydrogen. The Aberdeen City and Shire's Digital Connectivity Strategy also aims to provide the building blocks of a Smart City, whilst ACC's Carbon Management Plan focuses on reducing carbon emissions to create carbon and fiscal savings. In addition to these initiatives, ACC supports Energetica - the Green Development Corridor - within which both TIF RLA satellite areas are situated. ACC has already approved the Energetica Masterplan, as part of Aberdeen's LDP 2012.
- 2.2.8. The Scottish Government's current Cities Strategy 'Scotland's cities delivering for Scotland' recognises the importance of these factors and the need to take account of them within a Scottish Cities Agenda. Achieving investment via the TIF mechanism will therefore enable the TIF Scheme to assist in delivering Aberdeen's contribution to

⁵ Grant Thornton's Sustainable Cities A vision of our future landscape

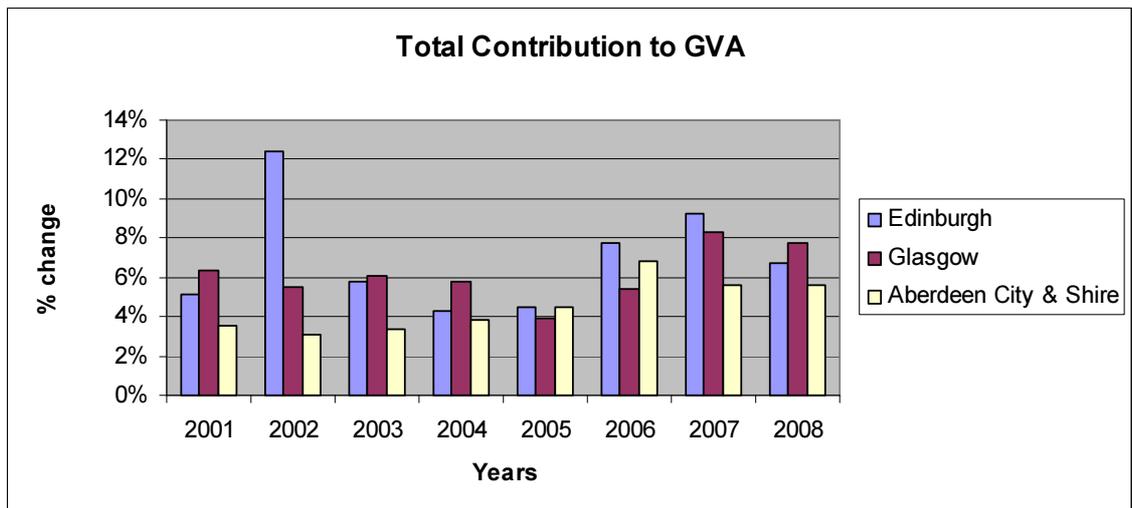
the Scottish Government's current and future economic growth strategy, whilst generating much needed additional NNDR revenues.

- 2.2.9. This TIF Scheme brings together five inter-dependent and complementary City Centre Regeneration projects that are of fundamental importance to the future economic wellbeing of Aberdeen. Given the importance of City Centre environments in influencing the location of mobile investment, these projects will provide Aberdeen with a core attractor to stimulate future City Region investment and, specifically, will act as a catalyst to accelerate development in two key satellite development areas allocated as opportunity development sites in the LDP 2012.
- 2.2.10. These two areas are; the area adjacent to Aberdeen Airport (Dyce Drive) and the area immediately to the north of Aberdeen Exhibition and Conference Centre (AECC) (see Section 4). The Dyce Drive opportunity sites are also identified in the LDP 2012, comprising opportunities for development of 108 ha of specialist employment land, as well as land release for park and ride, mixed use and hotel developments. The AECC is not only the City's key exhibition and conference centre; the area to the north hosts the Aberdeen Science and Innovation Park, which provides scope for further development within the auspices of the LDP 2012. Within this area to the North of the AECC (AECC/A90), and including the AECC itself, the LDP 2012 provides for 27.8 ha of land release, 68.4 ha of business and industry land and 16.4 ha of specialist employment land. This area also has planning consents for hotel and mixed use developments.
- 2.2.11. Investment in infrastructure, as part of the TIF scheme, will improve the quality, attractiveness and vibrancy of the City Centre's built environment and this in turn will make Aberdeen a more attractive place for mobile investment and its current residents encouraging them to stay. The recent Scottish Government publication "Scotland's Cities: Delivering for Scotland" states that "Cities are competing for businesses, highly skilled mobile labour, tourist activity and international student populations. Without an attractive, high quality physical environment and diverse cultural and social activities, cities and their surrounding regions, may struggle to attract investors, workers and visitors". By creating a high quality physical environment in the City Centre, the TIF scheme will help to attract the level of investment needed from non-oil and gas businesses that is required to ensure the success of new development in the RLAs discussed in Section 4. It can enable growth through increasing non-oil related investment. Such investment is vital if Aberdeen is to diversify its economy and increase its GVA per capita which, as can be seen from the Table in Appendix 1, has seen very little overall growth compared to Edinburgh and Glasgow over the past 10 years – despite the general economic strength of the oil and gas sector.
- 2.2.12. The table in Appendix 1 shows Aberdeen City and Shire's Headline GVA NUTS 3.4 by 6 industries at current basic prices from 2000-2008 as compared to Edinburgh City and Glasgow City. Whilst the City and Shire has a relatively large GVA per head from 2000-2008 (see Graph 1 overleaf), Scotland's two other major cities have shown a greater year-on-year increase (see Graph 2 overleaf).
- 2.2.13. A vibrant City Centre, with a higher quality built environment, also has the potential to benefit Aberdeenshire by attracting investment to nearby business parks, such as in Westhill, and creating additional business rates. This benefit has been excluded from this business case. Nevertheless, such additional, non-quantified impacts are important to consider as part of the wider economic benefits that will be realised by the City Region as a result of the TIF Scheme.

Graph 1



Graph 2



2.2.14. When total GVA is broken down between Aberdeen City and Aberdeenshire it is particularly noticeable that, whilst overall GVA annual percentage change was positive for the Shire it was negative for the City (see Table 1 below). This is similar for Employment Growth. Average GVA growth rates for the City between 2002 and 2007 show a decline in output of 0.8%. Reversing this overall decline will require intervention, as a decline in GVA relates to a decline in business rates. In order to stem such a decline, at a time when investment is difficult for the private sector, ACC recognises the need to stimulate the market through the TIF Scheme.

Table 1: GVA employment and productivity growth⁶

Annual % change	2002-2007	2008	2009	2010
GVA Growth				
Aberdeen	(0.80%)	(2.00%)	(4.50%)	(0.30%)
Aberdeenshire	1.80%	1.90%	(1.30%)	1.50%
Scottish Cities	2.10%	0.30%	(4.00%)	0.50%
English Cities	1.40%	0.40%	(5.00%)	1.30%
Employment Growth				
Aberdeen	0.00%	2.10%	(2.10%)	(2.20%)
Aberdeenshire	0.30%	2.90%	1.00%	(0.90%)
Scottish Cities	0.70%	2.80%	(2.00%)	(1.80%)
English Cities	0.10%	(0.20%)	(3.20%)	(1.20%)
Productivity				
Aberdeen	(0.90%)	(4.00%)	(2.40%)	2.00%
Aberdeenshire	1.40%	(0.90%)	(2.30%)	2.50%
Scottish Cities	1.20%	(2.10%)	(1.70%)	2.40%
English Cities	1.30%	0.20%	(1.70%)	2.80%

Source: Experian Economics Planning Service January 2011

- 2.2.15. Further detailed analysis of Table 1 shows that the average employment growth for the City was static from 2002-2007 and productivity levels have been less positive than Aberdeenshire or other cities. Furthermore, as noted in the PWC Northern Lights paper of November 2011⁷, Aberdeen requires fiscal certainty from Central Government to avoid investment jolts in the oil and gas sector, when confidence is lost through tax increases (as was experienced in the 2011 UK Government Budget) or a fall in oil prices (as was experienced in the early 1980's).
- 2.2.16. The latest figures also show that while Aberdeen City and Shire⁸ is a high contributor to GVA, it under-performs in areas such as Business Services (Graph 3 overleaf), where it has lagged behind Edinburgh and Glasgow. The City and Shires' area of GVA strength is in Production. The potential therefore exists to stimulate growth in business services that support the expansion attracted by production, which will supplement growing production rather than displace business services in Edinburgh and Glasgow. There is also potential to develop new businesses within industries like renewables by attracting mobile investment. The aim is to do this with the minimum of displacement and the TIF mechanism provides the opportunity to achieve this.

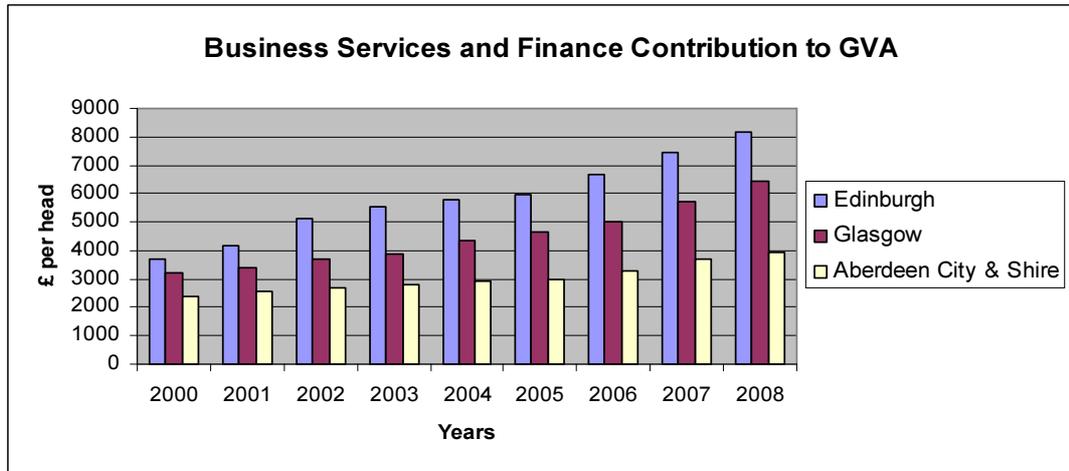
⁶ Please note that these forecasts are based on official statistics which often have a time lag. This means that data for 2010 are estimates.

⁷ <http://www.PwC.co.uk/scotland/publications/northern-lights-strategic-vision-aberdeen-energy-capital.html>

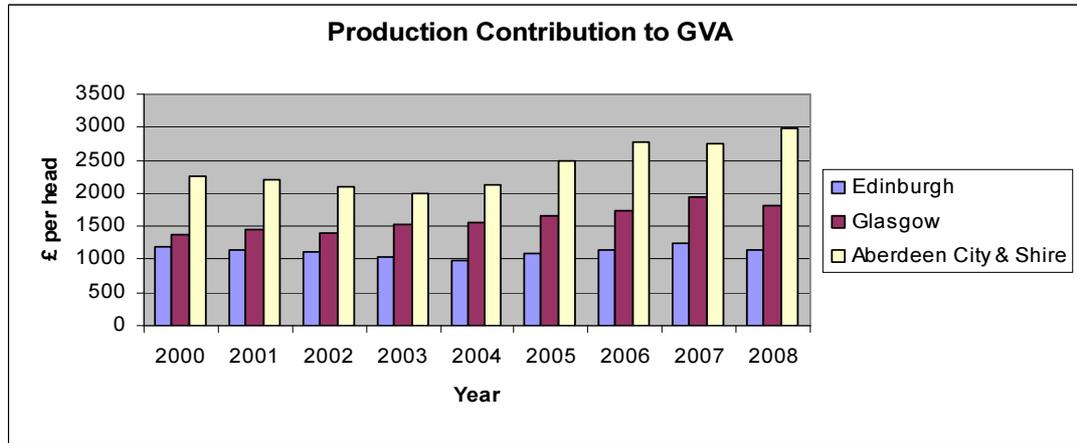
⁸ Aberdeen City and Shire, for the purposes of NUTS3GVA is treated as one area.

1.2.2

Graph 3



Graph 4



2.2.17. Graph 4 shows the production contribution of Edinburgh, Glasgow and Aberdeen. It is in this area that Aberdeen makes a significant contribution to GVA. For the benefit of Scotland, it is therefore essential that Aberdeen maintains and builds on its productive industries, whilst also building up its business services contribution to balance the City’s economic base and provide a wider range of employment opportunities for its citizens. The current high oil price currently makes Aberdeen an attractive place for investment, since this directly influences investment in the UK Continental Shelf (UKCS). However, investment levels can also be impacted by externalities such as technological innovations, changes in taxation and the cost of exploration. ACC intends to use the TIF Scheme as a mechanism for creating conditions that will encourage long-term growth and economic sustainability – thereby mitigating against the adverse economic impact of the inevitable future decline in North Sea oil and gas reserves. The aim is to create growth and additional NNDR that can both pay for this investment and, ultimately, secure the City Region’s ongoing sustainability.

2.2.18. The TIF Scheme, together with the proposed significant private sector funding contribution, will enable ACC to move forward with the redevelopment of Aberdeen City Centre, while avoiding the need to raise taxes or divert public spending away from other core services. Such City Centre redevelopment is critical to Aberdeen’s

prospects of increasing the GVA contribution of business services to the local economy

2.3. **The Need for City Centre Regeneration**

- 2.3.1. The North Sea and West of Shetland oil and gas still has an important role to play in the future of Scotland as a whole and, in particular, the North East. ACC has a clear policy to anchor the oil and gas industry in the City Region, as businesses internationalise their operations. This will boost exports, create employment and bring tax revenues at a time when the UK faces the prospect of stagnation.
- 2.3.2. The firms that operate in the North Sea have shifted significantly from being tier one operators (the 'oil majors') to tier two operators (medium-size players) and, as the scale of UKCS operations continue to reduce and become more challenging, future operators will undoubtedly shift from tier two to tier three (i.e. smaller and more agile businesses).
- 2.3.3. Still there is growth in the City Region mainly due to the buoyancy of the oil and gas industry. The West and the South of the City benefit from the available transport connections to the Scotland through the A90. There is significant development in Westhill which is in Aberdeenshire to the West of City. In the past six years 23 ha of employment land has been fully developed. Such development is more challenging to the North of the City and this is why the Energetica Development Corridor is of importance. The Aberdeen Western Peripheral Route will improve those connections but it is under legal challenge. This makes the TIF Scheme a viable attractor of mobile investment which will accelerate investment and produce the required additional NNDR.
- 2.3.4. A key growth sector for Scotland is the renewables industry and in particular the opportunities to develop, manufacture, assemble and service off-shore wind turbines and other renewable marine technologies (related to exploitation of wave and tidal movement). This is going to be an extremely competitive sector but the opportunity presents itself for the oil and gas industry in Aberdeen to exploit its competitive market advantage. This advantage stems from its extensive experience of delivering large offshore engineering projects, its proven ability to drive down costs in a deep sea marine operating environment and its ability to source the necessary 'risk capital' (from its existing oil and gas revenue base) to lead the development of Scotland's renewable energy industry.
- 2.3.5. The challenge for Aberdeen is to capture this growth opportunity by attracting smaller entrepreneurial players who have the potential to grow in this mature environment. This means attracting and retaining the most talented entrepreneurial individuals who, in a globally buoyant market for their skills, are increasingly considerate of the broader quality of life benefits a given position can afford them and their families. Aberdeen must offer, and be able to demonstrate, a sufficiently high quality of life to attract and retain such talented people.
- 2.3.6. The City's two universities work extensively with the energy sector to create real commercialisation and research opportunities. This provides Aberdeen with an academic base from which it can expand its position as a world leading Centre of Excellence in sub-sea engineering and become a world leading Centre of Excellence in off-shore de-commissioning as well as for green renewable hydrogen technologies. The aim is to attract not only international research and development opportunities

but also international students to the region and to retain the best and the brightest of these. Both of these aims require Aberdeen to have a modern, dynamic City Centre that is attractive to internationally mobile companies and the talented people they need to operate successfully.

- 2.3.7. For more than 30 years of oil and gas exploration and production in the North East of Scotland, there has been little need to consider investment in improving the quality of life, and other elements that will be needed to ensure Aberdeen will remain a competitive City in a post-oil era. As the opportunities become more challenging on the UKCS, the City will need to compete more and more on attractiveness of place to attract and retain talent, rather than on the proximity of Aberdeen to offshore oil and gas resources.
- 2.3.8. Actions to regenerate the City Centre are part of a long-term investment strategy to reduce the risk for both the City and the region's economic future, while safeguarding the energy sector. The Oil and Gas sector and its supporting supply chain has enjoyed and shared its growth in the North East of Scotland's economy for many years. However, when examining the City's economic growth, Aberdeen has performed poorly in the service sector where growth has lagged behind Scotland's other main cities (see Appendix 1). The TIF Scheme will act as a catalyst for further growth in the City's economy, by attracting and expanding City Centre service based companies offering a broader range of employment choices for its citizens by providing the types of attractions that such mobile investment expect from global cities especially to the identified RLA.
- 2.3.9. This business case will demonstrate further, in Section 5, the level of economic displacement that may be related to development within the TIF Scheme's RLA (see Section 4). The RLA was selected after considering the impact of the TIF Scheme on accelerating the level and type of development in these areas, whilst considering the level of economic displacement from across Scotland and Aberdeen's neighbouring authorities. The City Centre RLA captures the potential expansion and growth of existing business, as well as the attraction of inward investment linked to new business creation, including SMEs. The satellite RLAs of Dyce Drive and AECC/A90 are included because they will need to attract international mobile investment if they are to realise their full development potential, and this will minimize the amount of displacement that can be attributed to developments within the TIF RLA. The potential growth in the finance and business sectors will support the additional business growth planned in the LDP 2012 and stimulated by the TIF Scheme.
- 2.3.10. Aberdeen's current success story is not guaranteed to be sustainable unless the public and private sectors collaborate to maximise future potential economic growth through effective strategic planning and investment in support of this TIF Scheme, thereby creating a significant enabler for generating additional revenues. Should the City and surrounding region fail to retain oil and gas businesses - and also fail to make further investments to diversify into other areas (like renewables) - the region, Scotland and the UK risk losing valuable revenues that are collected from these businesses and from the people who work in them. It is vital for ACC to take the opportunity presented by the TIF mechanism to generate new revenues, linked to the TIF Scheme investment, within the City Centre and the two key satellite RLAs.
- 2.3.11. The private sector donors who have pledged funding towards this TIF Scheme understand that, in order to secure and grow the wider energy industry in the City, a sizeable civic investment is required to rejuvenate the City Centre for a sustainable

economic and environmental future - not just for today's citizens but for future generations

2.3.12. Aberdeen City and Shire Economic Future (ACSEF) and the Scottish Government's Seven Cities approach to Scotland's sustainable economic growth recognise that cities are the economic hubs of their regions. This is the case in Aberdeen, but the oil and gas industry based in Aberdeen means that it is also an economic powerhouse for Scotland and the UK. There is no doubt that in an increasingly global market, oil prices will rise and, even though the resources in the UKCS are becoming marginal, innovative techniques in unconventional gas exploration will ensure that the industry continues to be a cash generator in future years. This should be used as a competitive advantage, to rejuvenate Aberdeen and make it an innovative centre of excellence in all facets of energy, so that Aberdeen is not just reliant on oil & gas, but can also develop its economy around other related sectors such as renewable energy and offshore de-commissioning.

2.3.13. The public sector is currently challenged with regard to its future funding. ACC's ambitious LDP 2012 aims to release significant amounts of Industrial, Business and Housing land for development, linked to the development of a future Aberdeen Western Peripheral Route (AWPR). This is consistent with the Structure Plan, Scottish Government's Planning Framework and the refreshed Economic Strategy. TIF enables ACC to both generate and accelerate the investment potential of the LDP 2012 whilst creating the potential for additional business rates. The AWPR provides the physical connections to development whilst the TIF mechanism will provide enabling infrastructure, attraction and the means of repaying the TIF borrowings. TIF not only will repay the up-front public sector investment but will also contribute to Scotland's economic recovery by creating economic wealth and decent jobs, on a long-term, sustainable basis. 'But for' the TIF mechanism it will be highly unlikely that the private sector investments and additional revenues outlined in this business case will be realised as projected.

2.4. **The TIF Scheme Overview- Delivering Regeneration**

2.4.1. The TIF Scheme encompasses five key strategic regeneration projects (The TIF Assets) to be implemented, on a phased basis, across the City Centre under the proposed TIF Scheme. The five projects are:

- The City Garden Project.
- The St Nicholas House Redevelopment
- The Aberdeen Art Gallery Redevelopment
- The City Circle (City Realm) Pedestrian Route
- The North Denburn Valley Redevelopment

2.4.2. This business case sets out the case for investing in enabling infrastructure associated with these projects, with the aim of making Aberdeen City and the surrounding area a magnet for investors, residents and visitors, by providing cultural, business and environmental benefits and by creating a vibrant, welcoming and easy to negotiate City Centre.

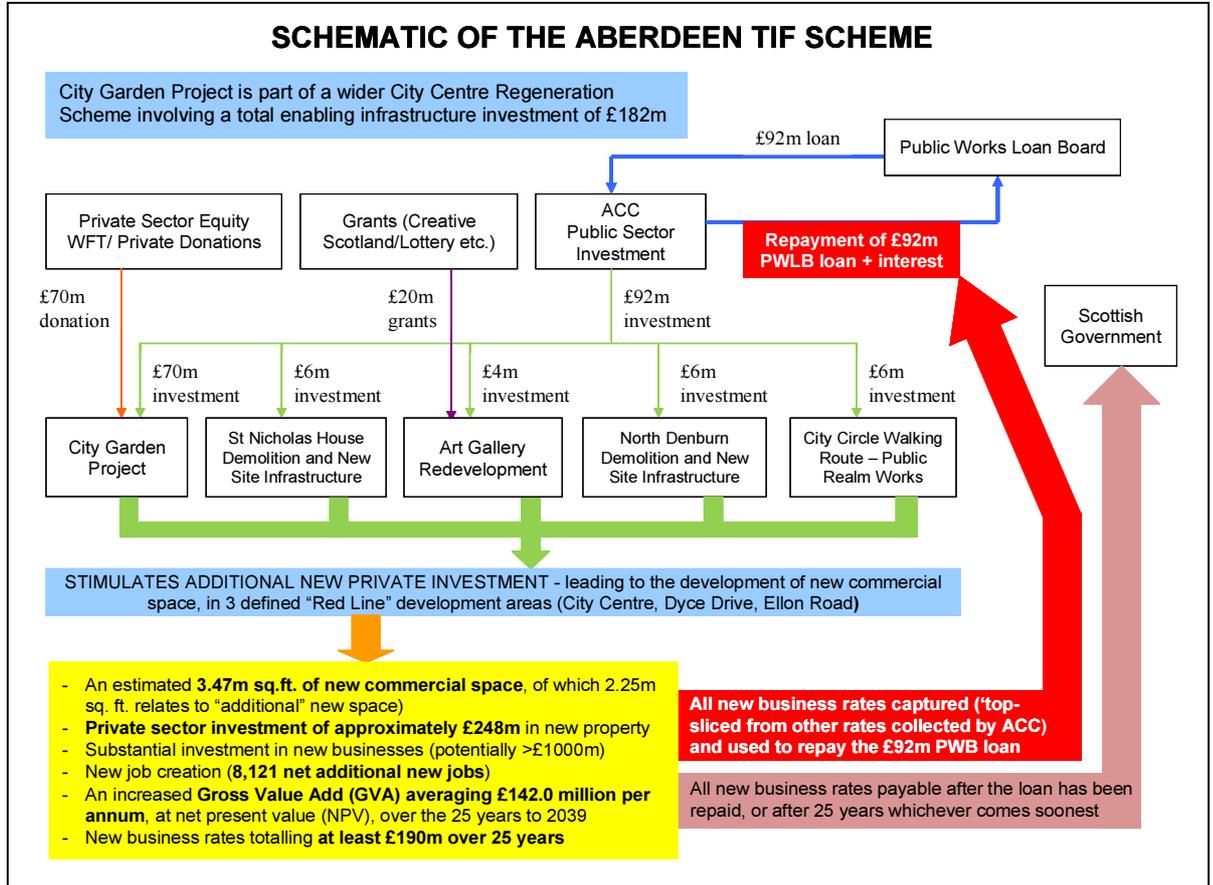
2.4.3. The TIF Scheme will create jobs through sustainable economic and environmental development and act as a catalyst for diversification and future growth. It will also deliver the cohesion, attractiveness and vibrancy that are essential for the City to become a global destination of choice for talent and for investment, by acting as an

attractor to mobile inward investment and stimulating the opportunities to grow both existing and new business from the region.

- 2.4.4. ACC has already invested in the City Centre through the redevelopment of the iconic Marischal College as its new headquarters, and is now seeking to build on this through the broader redevelopment of the City Centre. However, following the Comprehensive Spending Review undertaken by the UK Government and the resulting squeeze on public sector finances, ACC has been unable to make any provision in its capital budget for further major investment projects. The TIF mechanism not only provides the means for investment but the potential to stimulate and accelerate additional incremental revenues.
- 2.4.5. Aberdeen is one of the few cities in the world where its City Centre is not its CBD. The fact is that Aberdeen City has no CBD, which is potentially one of the main contributing factors to Aberdeen's underperformance in the business services and finance sector. Aberdeen is Scotland's only City with a truly global economy and is the UK's second Global City (the City of London is the first). Despite this there has been limited office development in the City Centre due to the lack of suitable sites. The TIF Scheme will act as a catalyst for the development of a future CBD which will ensure critical mass of employment, ideas, prosperity and sustainability. By providing essential infrastructure, the TIF Scheme will help to provide the development space needed to build office space. The TIF Scheme will therefore encourage development in the City Centre sooner, and on a larger scale, than would be the case without the TIF investment in enabling infrastructure.
- 2.4.6. Failure to support the five identified projects within the TIF Scheme would be at odds with both the Scottish Government's Economic Strategy, which aims to create a resilient Scotland that positively contributes to the economic recovery and the 'Cities Delivering for Scotland' Strategy, which outlines Aberdeen's contribution to achieving economic prosperity for Scotland.
- 2.4.7. Should ACC do nothing there is little guarantee, based on past experience, that the planned development will occur regardless of developer optimism. There are instances in the City Centre where prime development sites, like the Triple Kirks site, have already taken more than 10 years to develop, and this was before the current economic downturn. Whilst the sites identified for accelerated development as a result of the TIF Scheme may well be bought for development, there is a real chance that it could take many years to realise any development on these sites without using the TIF mechanism to invest in enabling infrastructure.
- 2.4.8. The proposed TIF Scheme also meets the objectives of ACC's LDP 2012 and associated City Centre Development Framework and has the potential to stimulate development, not only in the City Centre but also in the ambitious Energetica Corridor - which aims to create a Green Development Corridor between Dyce Drive and the AECC, to the North of the City, and Peterhead in Aberdeenshire. If the TIF mechanism cannot be utilised, this could delay this development corridor and impact on the scope, size and tenure of development within the two satellite RLAs. This would have a major negative impact on Aberdeen's expected contribution to the Energetica Development Corridor.
- 2.4.9. The proposed funding flows and expected economic benefits of the TIF Scheme are outlined in the following diagram (Figure 1). The TIF agreement puts the sharing mechanism in place during the 25 year period of the TIF Scheme. If the borrowing required to deliver the TIF Scheme can be repaid sooner, 50% of the NNDR received,

after the loan is repaid, will go back to the Scottish Government and 50% will be retained by ACC, up to the end of the original 25 year TIF Scheme period. After year 25, ACC will obtain no specific, financial benefit from the additional NNDR generated as a result of the TIF Scheme.

Figure 1: TIF Scheme Funding Flows and Economic Benefits



2.5. The TIF Scheme Project Selection

- 2.5.1. ACC has established that the five identified infrastructure projects which make up the TIF Assets are essential catalysts for the City Centre’s regeneration; for providing the means of leveraging private investment into the TIF Scheme; and for enabling the generation of additional revenues in the form of NNDR. The TIF assets are consistent with the principles of the Aberdeen LDP 2012. The TIF Scheme is therefore regarded as critical to the advancement of the City Region’s economic future, land use policy, cultural and social vision and for the continuing prosperity of the North East of Scotland and, indeed, Scotland as a whole.
- 2.5.2. The five TIF Assets in the TIF Scheme support both the Scottish Government’s Economic Strategy which aims to create a resilient Scotland that can positively contribute to economic recovery and the Cities Delivering for Scotland Strategy which outlines Aberdeen’s contribution to achieving economic prosperity for Scotland.
- 2.5.3. The five TIF Assets have been prioritised in the following order based on the strategic, economic, social and environmental challenges facing Aberdeen’s City Centre. These projects were agreed by ACC at its Council Meeting on 19 May 2010.

- **The City Garden Project**

Project Aims

The aim of the City Garden Project is to transform Aberdeen, by creating a new urban park, civic and cultural space right in the heart of the City, which reflects the City's innovation and creativity. The project will also act as a catalyst for further developments and regeneration activities in Aberdeen City Centre. This project is enabling through its capacity to increase the City Regions cultural offering, attract visitors to the City (both leisure and business tourists); enhance the environment of the City Centre in terms of security and connectivity; and provide a high quality green and cultural space in the City Centre. This will lead to the creation of a vibrant City Centre that can be used to attract new business investors into the City and prevent the potential future loss of existing investors.

Project Description

The City Garden Project will provide a forum for Aberdeen's daily life through new cultural and recreational features and will include:

- A 500-seat indoor theatre and learning centre, an exhibition hall and café,
- A 5,000-seat outdoor amphitheatre that transforms into an ice skating rink in the winter months,
- Twice as much accessible park space compared with the current garden,
- New pedestrian connections between Belmont Street and the new City Garden,
- Strengthened connections across the site and from the City Centre to the Green, the Harbour, Bus Terminus and the Train Station,
- Preserved heritage elements of the existing park including the historic Union Bridge, the balustrades, vaulted arches and existing statues,
- Recreational areas, within the green areas of the park as well as the new open plazas off of Union Street and Belmont Street,
- Year-round gardens achieved by integrating wind breaks and covered areas with robust indigenous planting,
- Design elements that exemplify the principles of environmental sustainability and aim to achieve the highest possible BREEAM⁹ rating, making the project an outstanding exemplar for sustainable design in Scotland, and
- A substantial reduction in noise and air pollution from motor and train traffic within the Denburn Valley.

A public referendum was held in February 2012 to gauge public support for the City Garden Project, as opposed to retaining the existing Union Terrace Gardens. 165,830 voting packs were sent to Aberdeen residents and 86,568 votes were cast in the referendum, a turnout of 52%. The votes were counted on 2 March 2012. 45,301 people voted to progress the City Garden Project design and 41,175 voted for retaining Union Terrace Gardens, giving a majority for the City Garden Project design of 4,126. A total of 28,702 votes were cast online, 9,154 by phone and 48,620 by postal ballot. The number of rejected ballot papers was 92.

⁹ Building Research Establishment's Environmental Assessment Method (BREEAM)

Having been endorsed by Aberdeen's voters in a public referendum, efforts are now being focussed on delivery of the project to realise an imaginative and inspiring green landscape design, with improved accessibility and connections to key parts of the City that will provide a truly stunning new and additional home for the arts and culture.

The City Garden Project will have a major economic impact on the City. It will anchor investment in the TIF Scheme by generating significant private sector leverage (50% of the capital cost is expected to be met from philanthropic private and corporate donations). The asset itself will also create additional NNDR as a council property. For the surrounding businesses the TIF Scheme provides the opportunity to grow their businesses by taking advantage of the enhanced attractiveness, accessibility and connectivity of the location; the increased activity in the gardens; and the cultural and leisure facilities it will enable. It is also expected to increase the value of neighbouring properties by improving the footfall and the general City Centre trading environment. The asset is designed to be financially self sustaining, which is common for similar assets such as the High Line in New York. The contribution that this asset will make in additional NNDR revenues will contribute to the overall repayment of the incremental rates. This TIF investment will enable additional civic and cultural assets to be established which, in turn, will act as the catalyst for future City development, especially in the RLA. ACC wishes to invest in this project because the City Garden Project will lead to the creation of real, additional economic growth and will act as a major catalyst for realising significant environmental, economic and social benefits associated with the City Centre's future regeneration.

Key Enabling Features

The proposed £70 million investment of public funds in the City Garden Project will enable a further £70 million of private sector investment in infrastructure works associated with:

- Raising the current Union Terrace Gardens to create a dynamic new landscaped parkland that draws people into its heart through connecting pathways and bridges, with double the planted garden space ranging from lawn to meadow to flower garden and woodland designed within the topography of the site,
- Covering over the Denburn dual carriageway to connect the garden to Belmont Street and provide a potential route for pedestrians to connect to the city bus and railway stations, under Union Bridge,
- Covering the main railway line north of Aberdeen Station,
- Constructing a civic and cultural centre and outdoor performance space within the topography of the Denburn Valley, and
- Interpreting the three dimensional nature of the city's development and retaining many of the historic and heritage features of the existing Union Terrace Gardens within the design.

Without the public sector investment, the additional £70 million private sector (through philanthropic and corporate donations) investment needed to secure this infrastructure investment will not be realised. ACC has a decreasing and limited annual capital budget and has made no funding provisions for any of the projects listed with this TIF scheme. Without the proposed £70 million public sector investment in the City Garden Project, the project is unable to be delivered and, therefore, the remaining four projects will be unable to generate the additional growth required to service the additional £22 million of public investment required

to initiate the remaining four projects within the TIF Scheme. This TIF scheme has greater viability to enable additional revenues with the inclusions of all five enabling infrastructure projects, including the City Garden Project. Without the private sector donations and the scale of the City Garden Project, the other four projects are not viable as a TIF Scheme. This is because these other projects cannot leverage sufficient private sector funding, or generate sufficient net additional NNDR, to realise a TIF Scheme in their own right.

This project will act as a catalyst for other private sector led and funded City Centre regeneration projects that will provide the critical infrastructure investment required to secure Aberdeen's place as a serious World Energy City and a serious contender in any future UK City of Culture bid.

As outlined in the economic impact study, within this business case, this project is the key enabler for the economic impacts that will be generated as a result of the TIF Scheme, as it will accelerate existing developments, attract new developments to the identified RLA, influence the quality of these developments and create new additional revenues for the City.

- **The St Nicholas House Redevelopment**

Project Aims

This project aims to create a fully serviced development site that provides commercial developers with a ready to use platform for the construction of new, high quality mixed use buildings on the site.

Project Description

This project ensures that the site of ACC's former headquarters will be cleared and provided with enabling infrastructure to ensure it is both desirable and ready for development. ACC wants to eliminate the risk of having a derelict high profile building in the City Centre creating a long-term eyesore during a time of economic recession.

Key Enabling Features

Greater value is created when this enabling asset is undertaken as part of the wider TIF Scheme. The enabling infrastructure for this redevelopment has the opportunity to create real additional revenues including NNDR. Currently developers are challenged in sourcing investment. Should the St Nicholas House site be sold to the private sector in an un-demolished state, there is a real risk that the building will remain derelict for some time. This would result in a site that is unable to create new and additional revenue. Whilst the building could be sold, there a real risk that it could stay empty and derelict for some time, as with other such buildings in the City, and when it is eventually developed fail to achieve the optimum additional rates that would be most economically advantageous. By investing in the enabling infrastructure ACC has the ability to make the site a more attractive investment proposition, as well as being able to influence the timing, quality and quantity of the development with an aim of generating additional revenues, including NNDR.

Investing in the creation of basic site infrastructure through the TIF mechanism will enable ACC to influence the direction of this major development within the City Centre's 'Civic Quarter', as outlined in the ACC's City Centre Development Framework. This Framework aims to deliver the region's Structure Plan and City's LDP 2012, which is an ambitious plan designed to unlock the economic potential of the City Region. The TIF mechanism provides ACC with leverage to influence the development and makes the site more attractive for investment. Therefore this key TIF asset becomes more likely to deliver the required additional revenue in an accelerated time frame.

To ensure that State Aid implications are mitigated, ACC will ensure that the most economically advantageous value for this development is achieved, in line with ACC's duty to achieve Best Value under the Local Government Act (Scotland) 2003. All receipts that ACC receives from any sale of this asset will be used to reduce the TIF borrowings within the 25 year timeframe.

ACC agreed to proceed with this project in November 2011. However, professional asset management advice received confirms that demolition of the building will reduce the overall value of the site and the project cannot be funded from ACC's current capital plan. Costs would therefore have to be absorbed by ACC's revenue budget which is already under extreme pressure as a result of limited funding resources and competing priorities.

Therefore, without TIF funding it is unlikely that ACC will have sufficient available funds to complete the enabling work. ACC has received 13 proposals regarding the development of this site. Including the project's enabling infrastructure within the TIF scheme's would provide ACC with leverage and influence in the future development on the site. When advertising the development it was indicated that ACC was prepared to work in partnership with the successful applicant. TIF Funding may assist in increasing the level of public infrastructure that such a prestige redevelopment may require.

- **The Aberdeen Art Gallery Redevelopment**

Project Aims

The aim of this project is to carry out enabling work relating to additional service, create increased additional rateable space and utility provision, structural strengthening and site preparations associated with a substantial redevelopment of the Aberdeen Art Gallery.

Project Description

The City's Art Gallery holds a unique and significant collection of artworks. ACC plans to redevelop the Aberdeen Art Gallery to ensure it remains a successful visitor attraction and to make it an even more important destination for local, national and international visitors. It is currently regarded as one of the UK's best regional Art Galleries, however it needs significant investment to sustain this richly deserved accolade and to realise further improvement and development.

Key Enabling Features

Currently, ACC is only able to make the necessary investment by using the TIF mechanism. TIF funding for the infrastructure elements of the Art Gallery Redevelopment Project could unlock other funding streams such as Lottery Funding and private donations, which will finance the remainder of this development. It is vital to secure this match funding to ensure that this redevelopment project will happen.

ACC has committed funding to continue the design work to RIBA Stage D. This funding was agreed with the explicit knowledge that prior to an application to the Heritage Lottery Fund in November 2012, a request for Capital funding will be made internally and the level of ACC's funding will need to be known if the application is to be successful. An inability to secure this match funding will impact on ACC's ability to achieve all its cultural aspirations.

The proposed TIF investment in this project will enable the Aberdeen Art Gallery to be linked to the City Garden, so that both projects jointly act as a physical focal point for all five projects within the TIF Scheme. As project's project timelines may vary there could be a different mechanism to ensure that both design teams can fully benefit on each others' expertise in order to ensure an integrated landscape, street scape and other design prompts.

The project creates additional rateable square footage which will also contribute to the repayment of the TIF borrowings in the form of additional NNDR. It is preferable to include the Art Gallery redevelopment in the TIF Scheme as it is a key element in the City Centre Redevelopment. This project ensures that both cultural assets, the City Garden and the historic Aberdeen Art Gallery complement each other and are both sustainable into the future.

The risk of not funding the Aberdeen Art Gallery redevelopment is that this redevelopment would need to find other sources of additional grant funding. ACC has a limited capital budget for competing ACC priorities, many of which are statutory in requirement and ineligible for TIF funding as they do not generate additional NNDR. To be successful in becoming the 2017 UK City of Culture, Aberdeen requires significant investment into cultural assets such as the Aberdeen Art Gallery and the City Garden, and all potential funding sources investigated.

ACC is currently preparing a bid for UK City of Culture in 2017. Whilst the bid guidance is yet to be available, it is expected that a key component of a successful bid will include the demonstration of an element of capital (and revenue) investment necessary to support a portfolio of City Centre venues with the capacity to host events, exhibitions and activities of national and international significance - as well as to support the step change (or transformation) needed for a successful 'Year of Culture'. The infrastructure investment will enable the City to develop major international cultural alliances to support its cultural ambitions. Securing the proposed £164 million investment in the Aberdeen Art Gallery and the City Garden will be a significant step towards supporting the Aberdeen City bid to become 2017 UK City of Culture.

- **The City Circle (City Realm)**

Project Aims

The aim of this project is to create a distinct pedestrian route around Aberdeen's City Centre that will improve access from the train station to the civic and cultural heart.

Project Description

The project will create a consistent streetscape, comprising of street furniture, flower arrangements, street lighting, street signs, etc, which will encourage visitors to the City to follow a recognised walking route around the City, enabling key landmarks to be signposted en route. The route will connect the Union Square Shopping Centre, Guild Street, Market Street, the Bon Accord Shopping Centre, Schoolhill, The Art Gallery, the proposed City Gardens, the Trinity Centre, Bridge Street and the Transport Connections that cross the route. It will also connect some of the planned new developments including North Denburn and the St Nicholas House site. This will raise the quality of experience for pedestrians within the City Centre and act as a "golden route" for residents and visitors alike, by providing an interesting and sustainable access route to many of the existing and potential new pedestrian areas in the City Centre.

Key Enabling Features

The City Circle is the City Realm element of this TIF Scheme. It will facilitate access to the new developments by encouraging pedestrian movement to/from the Union Square Shopping Centre and the Transport Connections that cross the route, thereby encouraging development in other parts of the City Centre. This footway will enable the movement of pedestrians around the City and increase footfall and commercial activity throughout the City Centre area.

Investing in this project will help combat the growing numbers of empty shops and business units in the City Centre and in particular in and around Union Street, where void rates are in the region of 5.3 -6.5%. This TIF Asset will provide pedestrian access to Union Square, Union Street, the Bon Accord and St Nicholas areas in the City Centre as well as access to the Cultural and green environments in the City, fundamentally rejoining the City based on its past history. It is believed that this would attract expansion of existing business, as well as new and complimentary business rather than displace retail across the City. This is due to the City Centre catering to a different demographic of custom compared to those businesses on the periphery of the City. The aim of the pedestrian route is not only to provide connections across the City Centre but to make it a place to linger and to enjoy a variety of activities, include of working, dining, recreation, the theatre, culture and the green environment. This TIF Asset, in partnership with the other four Assets within this TIF Scheme, is designed to reverse the trend of the High Street in decline and is also aimed at influencing the development areas of Dyce Drive and the AECC/A90, by creating a more vibrant and dynamic City Centre.

ACC agreed this scheme in principle in January 2012, but undertaking this project is entirely dependent upon securing funding for the various other projects included in the TIF Scheme.

- **The North Denburn Valley Redevelopment**

Project Aims

The aim of this project is to create a fully serviced development site that provides commercial developers with a ready to use platform for the construction of new, high quality mixed use buildings on the site (most likely, a high quality office and mixed tenure residential development).

Project Description

The site is currently owned by ACC and Grampian NHS and the current assets on the site are outdated and under-utilised. The enabling infrastructure required for the TIF Scheme will prepare the site for development to make the area accessible to the New City Garden and to link it to the City Realm and the Aberdeen Art Gallery.

Key Enabling Features

Without TIF, ACC will be unable to redevelop these assets or exercise any influence on future development due to limitations on its capital budget.

There is currently a lack of high quality office space in the City Centre and this investment will enable the provision of new offices to meet this demand and create more jobs in the City Centre. The current recession means that this redevelopment scheme is unlikely to happen in the near future, without public sector support towards enabling infrastructure works.

ACC believes that, as with the St Nicholas House redevelopment, investment via this TIF Scheme will accelerate and enable further private sector development and be the catalyst for the creation of a broader CBD within the City. There is a high demand for office space in the City, and a shortage of Grade A office space. Currently Aberdeen office space is achieving £34 per sqft, and the quality of this space varies due to the lack of supply and the high demand. Such a development will provide quality Grade A accommodation enabling growth to support existing business and create new opportunities. By doing so, this will generate additional NNDR to repay the TIF borrowings. This development and the adjacent City Garden development will also complement the proposed Triple Kirk's development. The TIF funding needed to make this investment will therefore provide Aberdeen City with a mechanism for enabling further development and growth in the City Centre and, in particular, for encouraging future investment in the business services sector.

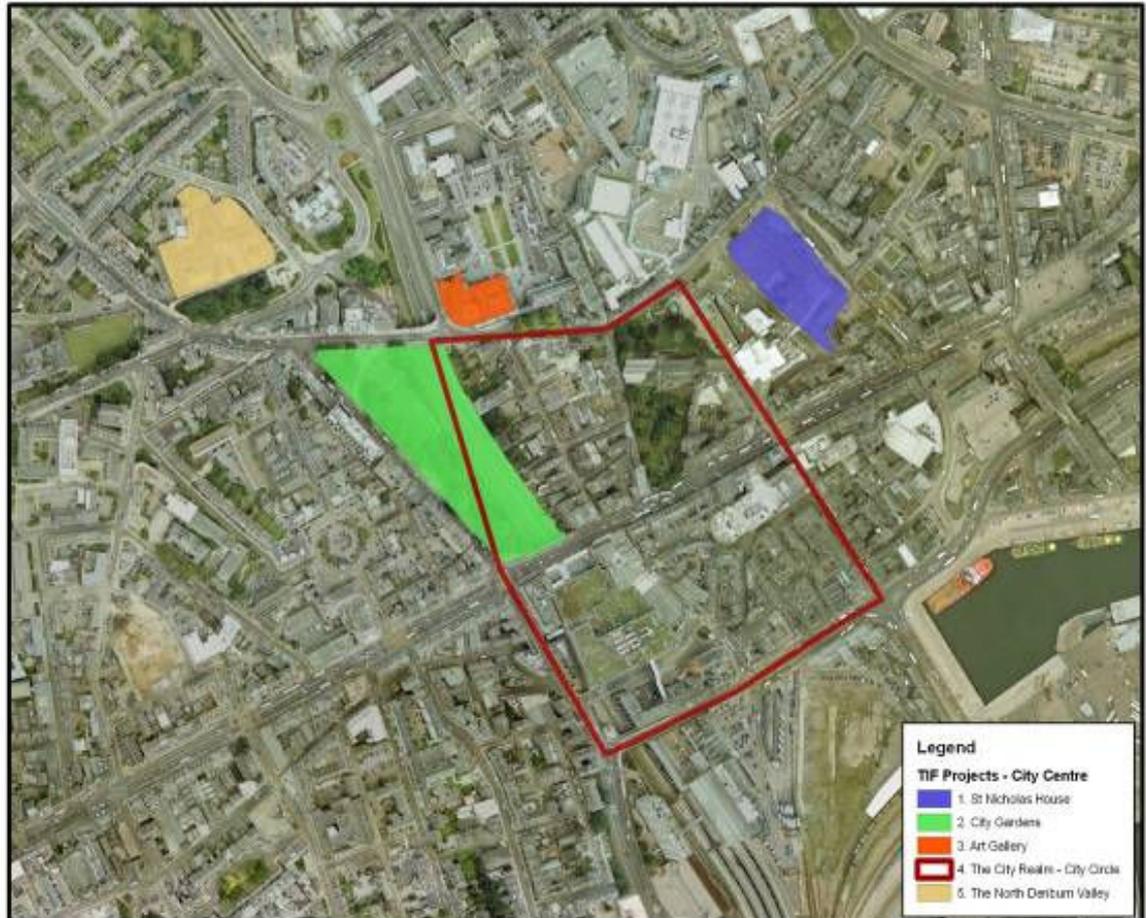
It is noteworthy that ACC currently operates a car park within this asset and the demolition of this will mean that ACC will forego a significant amount of annual receipts (in the region of £300K of operational revenue). The revenue sacrifice that needs to be made to pursue this development, which is seen as a key element of the City Centre redevelopment scheme, is a major financial contribution that has not been taken account of in the overall financial assessment. This should nevertheless be highlighted as a clear sign of ACC's commitment to the project.

The aim is to work in partnership with the NHS to secure and influence the required development. ACC will ensure that State Aid is adhered to and, since the enabling

infrastructure will make the site more invest-able, ACC will ensure that its' share of any future receipts is used to repay the TIF debt.

2.5.4. The relative location of the above five TIF Scheme infrastructure projects are shown in Figure 2 below.

Figure 2: Location of TIF Scheme Infrastructure Projects



2.5.5. Table 2 below shows the required inputs to be made by the five major stakeholders, in order to implement the TIF Scheme. It is important to note that the secured outputs for the TIF Scheme are of significance to all stakeholders including the Aberdeen Business Community, Scottish Government, Scottish Economy, and especially ACC.

Table 2: Stakeholder Inputs and Outputs

Stakeholders	Required Input	Secured Outputs
Scottish Government	<p>Approval of this business case</p> <p>Allow ACC to directly retain a proportion of incremental revenues resulting from new development through the TIF Capture Mechanism</p>	<p>During the period of the TIF Scheme the Scottish Government will retain Business rates from the baseline year and a proportion of the additional and incremental business rates.</p> <p>The potential for displacement is factored in the business case and will be accounted for through the NNDR returns.</p> <p>Additional business rates to be applied across Scotland.</p> <p>Gain additional businesses, wealth and jobs created for the country (many of the companies in Aberdeen have manufacturing facilities or buy components parts and services from companies, elsewhere in Scotland).</p>
Aberdeen City Council	<p>Deliver the TIF Scheme</p> <p>Underwrite borrowings</p> <p>Contribute resources to undertake some of the enabling works</p> <p>Manage the risk of the TIF Scheme</p> <p>Ensure robust governance and management of the TIF Scheme</p>	<p>Retain additional business rates to pay for the TIF Scheme, though this will cease once the loan debt is paid. Once the debt is paid ACC can retain 50% of the NNDR till the end of the 25 year repayment period.</p> <p>Opportunities for new jobs and new business for local benefit. This will assist to fulfil the aspirations of housing and development of ACC's LDP 2012.</p> <p>Benefit from Civic infrastructure investment paid for by retaining local additional business rates that would otherwise be spent elsewhere in Scotland.</p> <p>Attraction of talented and skilled workers as part of an increasing population that contributes more towards statutory, social and educational services.</p> <p>Benefit from the economic growth and</p>

		regeneration of the City Centre.
Aberdeen City Gardens Trust	<p>Invest money (in the form of philanthropic donation), effort and expertise into the entire City Centre Regeneration</p> <p>Drive the processes for a robust International Design competition and procurement process</p> <p>Core expertise to assist in a robust TIF business case in order to support ACC's efforts</p>	<p>Delivery of a major City Centre garden, civic, leisure, cultural and innovation amenity for the benefit of the City population and beyond. The City Garden Project underpins the TIF Scheme. It will benefit Aberdeen's wider population and business community and attract visitors to the city.</p>
Aberdeen Business Community	<p>Support the process</p> <p>Through ACSEF and other Business bodies, provide support through work in-kind, resources and funding</p> <p>Provide forums (which will include input from the local community) to discuss the future of the City Centre and where necessary challenge the status quo</p> <p>Provide critical friend advice</p>	<p>Benefits from civic infrastructure by retaining the rates spent for local services otherwise spent elsewhere in Scotland.</p> <p>Increased business opportunities</p> <p>Increased footfall in the City Centre will benefit retail businesses, by creating greater demand, which in turn may lead in the longer term increased property attractiveness, value and trading conditions.</p>
Scottish Economy	<p>Through individual donation, contribute to the TIF Scheme</p>	<p>Receive the tax benefit of the TIF Scheme.</p> <p>Gain an additional attractor to the Scottish Economy.</p> <p>Benefit from the additional jobs, businesses which in turn can deliver benefits for neighbouring and complementary economies across Scotland.</p> <p>The Scottish Economy benefits from the support Aberdeen provides to "anchor" the oil and gas industry in Scotland.</p>

2.6. Why is TIF needed?

- 2.6.1. The TIF Scheme will increase economic activity in the City Centre and act as a catalyst for retaining existing investors and attracting new investors to the City, especially in the Dyce Drive and AECC/A90 development areas. New investors will invest in business infrastructure (business parks and new commercial properties) that are essential elements of Aberdeen's attempts to diversify its economy into non-oil and gas sectors and, in particular, to become a key centre of excellence for renewable technologies in Scotland. Diversification of the economy will create a wider range of opportunities for lower skilled workers and lead to increased incomes for citizens in general. Investment in the City Centre will improve community confidence, and planned investment in a new City Garden Project will enhance access to the natural environment and produce positive environmental impacts for the City Centre.
- 2.6.2. As a result of pressure on its revenue budget, ACC's capital spending programme will be steadily reduced until the total budget in 2015/16 stands at £17m. This will mean that ACC is unable to invest in the future infrastructure that will be required to increase future business rates without utilising TIF. ACC's limited capital investment funds will inevitably need to be targeted at infrastructure that cannot be funded through TIF, such as schools, assets for social care, etc. The TIF Scheme is unique as a £55m private sector donation (with an expectation to raise a further £15m) has been pledged towards the City Garden Project. Due to the interdependence of the five projects, the other four projects in the TIF Scheme cannot be delivered without this donation. This private sector funding is conditional upon matched public sector funding and this is not available from ACC's annual capital budget. TIF is not only an appropriate mechanism to secure the necessary public sector investment, it is also the only mechanism currently available to allow ACC to make this investment, and repay the borrowings through the creation of the additional NNDR revenues. The TIF mechanism creates the ability to deliver the five TIF Assets within the TIF Scheme.
- 2.6.3. Approval of the TIF Scheme will enable ACC to invest in City Centre infrastructure, demonstrate confidence in Aberdeen's economic future, attract inward investment and send a clear message regarding its commitment to national economic growth.

2.7. Conclusion

- Anchoring the oil and gas industry in Aberdeen and the surrounding region is critical to the local, regional and national economy and the future ability of this key industry to retain and create new additional revenues, including NNDR.
- Aberdeen's ability to attract and retain skilled people and mobile investment in the medium to long-term, which is not wholly dependent upon the oil and gas industry, will become increasingly be dependent upon the City's ability to demonstrate "a new level of ambition" that involves the creation of a vibrant City Centre that makes Aberdeen an attractive place to invest, live and visit.
- The TIF Scheme represents a critical first step to realising the City's ambition and provides a platform for pursuing other economic development goals, but the new revenues required, such as NNDR, can only be delivered through the use of the TIF mechanism.
- The TIF scheme contains complimenting projects which, as a whole, will create a greater coordinated impact than they would as individual stand alone projects.

- The TIF Scheme is vital to the success of the City's LDP and is not only consistent with other national, regional and local policies but with the TIF mechanism.
- The Aberdeen economy has the opportunity to leverage further growth in production GVA, by using its skills in complimentary industries like subsea and renewable technology to attract greater mobile investment.
- The Aberdeen economy has lagged the economic performance of Edinburgh and Glasgow and is under-represented in the faster growing services sector. It needs the infrastructure investment in the TIF Scheme to ensure it can attract the services required to support further growth in production.
- Even during a time of economic 'boom' many planned City developments in Aberdeen have failed to materialise (e.g. Triple Kirks, the former Esselmont and Mackintosh store etc). Therefore, in a time of economic downturn, public investment in enabling infrastructure is even more essential so as to create additional revenues including NNDR.
- The TIF mechanism provides ACC with the means to invest in enabling infrastructure, create the conditions for economic growth and generate additional revenues, including NNDR for the benefit of both Aberdeen and the rest of Scotland.
- The five complementary development projects (The TIF Assets) in the proposed TIF Scheme will, together, act as a catalyst for City Centre regeneration; the retention of existing businesses; and the attraction of future investment

3. STRATEGIC FIT

3.1. Vision and Objectives

- 3.1.1. Aberdeen's goal is to be a world-class City with continuing and sustained prosperity for all. As a City, it is of international significance and is widely regarded, after Houston Texas, as the world's second Energy City. Aberdeen is the North East of Scotland's economic hub, a vital economic engine for Scotland and a major contributor of both tax and export revenues to the United Kingdom (UK) as a whole. 'Aberdeen has a once in a life time opportunity to change the civic infrastructure. At a minimum, this should be of an international class and as a norm, world class'¹⁰.
- 3.1.2. The City's recent economic power is mainly derived from producing North Sea oil and gas, and this industry's global nature has made the City a strong exporter. A recent survey¹¹ indicates that, over the last 2 years, 55% of the region's Energy exporters increased their export volumes. In 2010 a rising oil price allowed the City's economy to grow by 4.8%. Due to the energy sector, the City has built a robust engineering supply chain, an enviable skills base and a dynamic and entrepreneurial business environment - with a high level of foreign investment, exports and business start-ups. The City hosts many major companies' global or regional headquarters and six of the ten largest Scottish companies have their headquarters in Aberdeen. At this time of global recession the City has the opportunity to lead Scotland into a period of growth in a variety of traditional and innovative sectors.
- 3.1.3. The City's future aims and ambitions, both civic and economic, align with those of TIF and the Scottish Government's goals to enable economic prosperity through job creation and the creation of additional business rates.

3.2. Local Policy Objectives

- 3.2.1. The ACSEF Economic Manifesto¹² anticipates the City building on its oil and gas expertise to become a Global Energy City, specialising in alternative energy research, development logistics, services and jobs. ACSEF's vision is being realised by delivering an ambitious action plan which focuses on the priorities of improving transport, maximising intellectual capital, developing, retaining and attracting skilled people, anchoring a global oil and gas industry, stream-lining the planning process, redeveloping the City Centre and attracting more corporate head-quarters.
- 3.2.2. ACSEF has three cross cutting flag ship projects which is the means of achieving its vision. It is developing the Energetica Corridor which is a global technology Corridor from Aberdeen Airport across to Bridge of Don and North to Peterhead. This route includes the two satellite areas in the TIF RLA. This project aims to bring forward critical infrastructure, leisure and wellbeing, sustainable developments to the North East of Scotland, building on its strong engineering and knowledge economy. Both Aberdeen City and Aberdeenshire Councils have approved Energetica's ambitious Master Plan and Policy Guidance for this development corridor. Energetica provides an opportunity to utilise the emerging expertise in renewables, especially related to

¹⁰ Charles Landry-2011

¹¹ Aberdeen City Council's Bi-annual Export Survey (2011)

¹² Building on Energy

offshore wind power and green hydrogen technology, which is being developed as part of Aberdeen's Strategic Hydrogen Project. The aim is to create a Centre of Excellence in Green Technology. ACSEF's second flagship project is The Aberdeen Western Peripheral Route, which supports ACSEF's transport strategy, involving the development of an integrated transport network that enables and supports new and existing business growth. The third flagship project is the City Garden Project which is part of its' priority to redevelop and regenerate the City Centre, by acting as an attractor for development in the City Region and making Aberdeen a location of choice for individuals and businesses. Realising these ACSEF projects are particularly critical to Aberdeen's future economic performance, due to the fact that Aberdeen's current corporate skills base is an asset with a high dependence on mobile talent, drawn from elsewhere in Scotland, the UK and overseas.

- 3.2.3. These flagship projects, however, aim to retain the existing population of multi-national companies that drive the economy, by applying their skills and services to new markets. They will also help to secure the new investment, new talent, new opportunities and new companies that are needed to provide Aberdeen with a platform for long term economic diversification and sustainable growth. Due to the global nature of the North East of Scotland's economy and its world reputation as a Centre of Excellence in subsea engineering, Aberdeen aims to attract investment which would otherwise invest elsewhere in the world rather than Scotland, or for that matter other locations in the UK.
- 3.2.4. Research shows that talented people choose place rather than job when making location decisions¹³. As an Energy City, Aberdeen competes for skilled people and investment with locations closer to the major production growth areas like Abu Dhabi, Kuala Lumpur, Houston and Perth (Australia). However employment levels of 80% and unemployed levels of around 2.5% mean that the City has to compete fiercely for new talent to fill vacancies and generate economic growth. To retain and attract talent the City must offer an excellent quality of life and a diverse range of economic opportunities. An attractive City Centre is seen as a cornerstone for achieving this, by providing confidence and an image boost to the City and its people and by helping to launch and promote its economic future beyond North Sea oil and gas production. A focus on attracting investment in the renewable industry sector will further strengthen Aberdeen's position as a global destination of choice.
- 3.2.5. Aberdeen's community plan has similar ingredients. Many of the social, environmental and educational elements will fail to materialise in the absence of a strong economy. From a safety, health and wellbeing aspect the TIF Scheme aims to secure a more socially active City which uses its centre as a place for cultural, educational and environmental activity. This will make the City Centre a destination in which people will prefer to linger rather than a place where people go to reach ACC's offices or take transport to go home.
- 3.2.6. ACC's LDP 2012 has recently been adopted by ACC and is an ambitious plan which will unlock significant land for industrial, commercial and housing developments. In a time of global recession this will be difficult to realise without significant civic investment. To ensure the City does not cause undue displacement of investment from other areas in Scotland, the strategy aims to attract investment from outwith Scotland, and enable existing business to expand whilst, simultaneously, encouraging new business growth from our own region. This TIF Scheme is designed to help attract the upwardly mobile skilled talent required for the region's current and future

¹³ Charles Landry 2010 http://www.strategy-business.com/media/file/sb60_10306.pdf

high skilled industries. The aim is to create an environment that will attract new mobile investment and retain existing jobs and industry over the long-term (i.e. the next 25 years, not just the next 5 -10 years).

3.2.7. The TIF Scheme will enable Aberdeen's recently agreed City Centre Development Framework and has a strong link to the realisation of ACC's Open Space Strategy 2011. ACC's Open Space Audit 2010 identified the lack of accessible quality open space in the City Centre and proposed a strategy that would 'create a network of attractive, appealing, well connected community places' that creates 'places for everyone to enjoy for health, learning, recreation and nature.' Both the City Centre Development Framework and the City's Open Space Strategy 2011 have been through rigorous consultation and scrutiny and the TIF Scheme will contribute to the delivery of both strategies.

3.3. **Regional Strategic Fit**

3.3.1. The TIF Scheme aligns with both the ACSEF Manifesto and the current Structure Plan which recognises the need to redevelop the City Centre. It will also enable and be consistent with the Regional Transport Plan undertaken by NESTRANS (The North East of Scotland Transport Partnership).

3.3.2. Aberdeen demonstrates commitment to creating a sustainable future for the City and its citizens. Diversification of the economy is vital and Aberdeen is well placed to participate in the renewable energy revolution that is currently underway by actively promoting itself alongside its partners in the Aberdeen Renewable Energy Group (AREG) and ACSEF. Aberdeen has the capacity to take a lead in renewable energy development by translating established expertise in the oil and gas sector to renewable energy.

3.3.3. Looking ahead, the ACSEF Manifesto recommends that the greatest economic and employment growth opportunities for the City will derive from initiatives such as the TIF Scheme.

3.4. **Scottish Government Strategic Objectives**

3.4.1. The TIF Scheme will directly address a number of the Scottish Government's strategic aims and:

- is consistent with initiatives to move away from the ring-fencing of funding offered to local authorities and towards greater local autonomy from the centre under the concordat between the Scottish Government, the Convention of Scottish Local Authorities (COSLA) and local authorities,
- will encourage greater discipline in appraising and prioritising infrastructure requirements to ensure funding is being used in an efficient and effective way and one which maximises the benefits and returns for the authority,
- will provide a platform for strong and sustainable economic growth and is perfectly aligned with the Scottish Government's five key strategic objectives which aim to make Scotland a wealthier, fairer, smarter, healthier, safer, stronger and greener country,
- aims to provide the conditions to ensure economic growth, an improved environment and provide jobs for its citizens,

- will enable the Scottish Government's Cities Strategy being produced by Scottish Government and is consistent with the European, UK and Scottish approach to Smart Cities [Creative Scotland],
- epitomises the requirements laid out in the Scottish Government's Building a Sustainable Scotland discussion document (2011), where it is looking at a more comprehensive and private sector partnered approach to a sustainable Scotland.
- leverages private sector donations to create a sustainable civic and CBD heart for the North East of Scotland that stimulates the attraction of long-term and sustainable investment to Scotland, rather than displacing investment from one area of Scotland to another,
- is consistent with the refreshed Government Economic Strategy published earlier this year which focuses on exploiting the strongest assets of cities to recognise and enable their contribution to sustainable economic growth,
- enables the Scottish Cities Strategy which is being developed by Scottish Government and recognises that cities are vital to the success of the Scottish economy,
- is consistent with the attributes required for Regional development and long term Strategic Added Value (SAV) as required for European Regional Development Funds, and
- will create the long-term benefits to assist with improved air quality, improved accessibility, and job creation and enable the City's positive contribution to reducing Scotland's carbon emissions.

3.5. **Fit with TIF**

- 3.5.1. The aim of this TIF Scheme is to generate economic growth, create jobs and, in turn, create new additional business rates. The TIF Scheme is designed as a catalyst to accelerate the growth of development within the RLA (i.e. in the City Centre, AECC/A90 and Dyce Drive areas).
- 3.5.2. The TIF mechanism creates the conditions whereby ACC will be able to invest in civic infrastructure that is designed to act as a catalyst for future economic development. In addition to this the TIF mechanism provides, through the creation of new business rates, the means of repaying the TIF borrowings over a period of 25 years.

3.6. **Sustainable Development**

- 3.6.1. ACC has demonstrated its commitment to sustainable development through an ambitious carbon management plan aligned to its assets. Implementing a sustainable development ethos has at its heart, alongside social inclusion of citizens, a better quality of life for all who live, work or visit Aberdeen, now and in the future. This means empowering people and communities to play their part in making sure that Aberdeen and its citizens thrive in the future. Sustainable development is also about improving and enhancing the environment, not just for its own sake but because a damaged environment will eventually hold back economic development and compromise everyone's quality of life.
- 3.6.2. ACC has guidance and an organisational Policy to ensure sustainability principles are included in all City developments. The Sustainable Building Standards for ACC's Buildings is directed at developers, architects and planners to:
- ensure best practice and show sustainable performance,

- provide a framework for assessing sustainability in development proposals, and
- provide guidance on standards and indicators

3.6.3. Any development on ACC's property must meet the requirements of ACC's Sustainable Building Code 2008; Decentralised Energy Programme 2008, Waste Strategy 2009, Alternative Energy Strategy 2011, Open Space Strategy 2011, Securing the benefits of the next energy revolution Policy Statement; Carbon Management Plan 2011-2015 and subsequent policy.

3.7.

Conclusion

The TIF Scheme

- acts as an attractor to realise the Aberdeen City and Shire's economic vision for Aberdeen City and Shire,
- aligns with the Local, Regional, Scottish, UK and European Economic, Environmental and Social Policy,
- will align with ACC's stringent sustainable development policies for its own properties and will significantly contribute to the City's carbon reduction and air quality targets,
- aligns to the requirements of TIF,
- will have enduring benefits for the community, economy and the long-term sustainability of Aberdeen City and its region, and
- is designed to create the conditions that will see both economic and business rates growth which is consistent with TIF.

4. INFRASTRUCTURE INVESTMENT PLAN

4.1. Introduction

- 4.1.1. ACC's Plans identify that the City Centre must attract the investment required to stimulate on-going economic growth - and Aberdeen's City Centre Development Framework provides the means to achieve this. These Plans predict a growing economy, so the impact of declining investment from the public and private sectors will make these Plans extremely difficult to deliver. On 19 May 2010, ACC agreed to pursue the TIF Scheme and identified TIF as a potential funding mechanism. Five priority projects were identified to deliver City Centre regeneration, building on ACC's horticultural excellence and the Marischal College Redevelopment.
- 4.1.2. The five elements require £182 million of investment in enabling infrastructure, however £90 million is being provided by private sector contributions, grants and other non-council funding sources, leaving a gap of £92 million to be funded by ACC. This enabling infrastructure will link current and future developments in the City Centre and create the conditions to attract the private sector investment needed to stimulate the required economic growth. The type of mobile investment Aberdeen will attract will be global in nature and should not create significant displacement within Scotland.
- 4.1.3. The proposal is necessarily bold in order to help Aberdeen transform its 'oil and gas only' image into an "All-Energy" image, re-launch the City as a broader destination for business and leisure, and enable the City to compete for investment and skilled labour in a global market- over the medium to long-term. The City is considering using the developments as a spring board from which to launch a bid for both the UK and European 2017 Capital of Culture designation and to firmly establish the City as a location in which to invest, live and visit. The proposed RLA is comprised of the City Centre plus two large development areas, where the potential for attracting investment will be significantly enhanced by this project. The Dyce Drive developments support Aberdeen Airport, whose fortunes are strongly linked to the success of the City Region. As Aberdeen's economic success is intrinsically linked to the oil and gas industry, the regeneration of the City Centre will help to attract the increased mobile investment that will be required to enable these proposed developments to accelerate. Similarly with the proposed developments in the AECC/A90 area. Although the AECC/A90 area already hosts the City's conference centre and Science and Innovation parks, the additional planned developments in this area and the proposed Hotel development would also enjoy the same acceleration due to the TIF Scheme.
- 4.1.4. There are potential developments destined for other parts of the City, in particular to the South of the City. These developments have been excluded from the RLA because of the potential for these areas to compete with areas outwith Aberdeen to the South of the City and therefore add to the displacement potential of the TIF Scheme. The satellite areas chosen are also more capable of supporting existing attractors such as the Airport, the Conference Centre and anticipated growth in the renewables sector.

4.2.

Prioritised Assets

1 St Nicholas House Redevelopment		
Funding requirement / sources	£m	Comments
Total Project Costs	6	This element requires enabling infrastructure for the vacated St Nicholas House site to create a prime City Centre development site and new civic quarter. ACC owns this property. Total costs to demolish, remediate and ensure enabling infrastructure is in the region of £6 million. At ACC's full Council meeting on 6 October 2011 it was agreed to demolish this building. For ACC this is the highest priority but given the current pressures on Council budgets, securing funding for this within the TIF Scheme would make it much more likely that the demolition and site preparation can proceed within a reasonable period of time. ACC must also ensure that any development and associated preparatory works meet best value under the Local Government (Scotland) Act 2003. There is also a potential to consider various joint venture vehicles to leverage value from this site. ACC wishes to avoid having such a high profile property, whether in public or private ownership, standing as a long term derelict building awaiting favourable conditions to redevelop.
Funding identified from existing sources	0	
Public sector investment to be provided using the TIF mechanism	6	
2 The City Garden Project		
Funding requirement / sources	£m	Comments
Total Project Costs	140	The City Gardens Project (CGP) is a 56,000 square metre redevelopment providing outdoor performance space, at least 11,000 square metres of gardens, at least 6,000 square metres dedicated to Contemporary Arts and Culture as well as connections to bus and rail links. Early discussions have already been undertaken with immediate property owners who will be impacted by the CGP. The majority of work in consultation and development has been undertaken for the CGP. Minutes and Agendas for the Project Management Board and Project Monitoring Board as well as other information have been made publicly available on
Expected philanthropic funding from private sector donors	70	
Public sector investment to be provided using the TIF mechanism	70	

		<p>www.aberdeenCity.gov.uk. Significant to this has been the expertise of Creative Scotland and other major stakeholders. A public display of designs submitted as part of the International Design Competition was undertaken in October 2011 in Aberdeen and the design submitted by the prestigious New York architects Diller, Scofidio + Renfro was subsequently selected as the preferred design. A public referendum, involving 52% of eligible Aberdeen voters, supported the progression of the CGP based on this design.</p> <p>Aberdeen City and Shire Economic Futures, Aberdeen Community Planning Partnership, Aberdeen Business Improvement District, Aberdeen Grampian Chamber of Commerce and Aberdeen City Garden's Trust (AGCT) have all hosted numerous events to consider the redevelopment of the City Centre. This has involved numerous stakeholders.</p> <p>As part of agreeing the content for the CGP, ACGT has commissioned Colliers to undertake work. Through this, a group of stakeholders have been working to develop the cultural content and offerings for the proposed facility. These discussions and plans continue.</p>
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3 The Aberdeen Art Gallery redevelopment		
Funding requirement / sources	£m	Comments
Total Project Costs	24	This project aims to extend and improve the Aberdeen Art Gallery with improved public access to the cultural realm and the CGP. ACC owns this property and has widely consulted on its plans to redevelop its Art Gallery. Significant work has been undertaken with national, regional and local groups. Whilst ACC has no capital funding identified for this project ACC has committed £560,000 to take the design to RIBA stage D. Should the TIF funds be made available it can leverage European, UK and Scottish funding for the arts. Having this project as part of the comprehensive TIF Scheme enables the possibility to leverage TIF funding with the significant donations that anchor the TIF Scheme. Therefore this redevelopment becomes more achievable as part of the TIF Scheme, thus boosting the
Funding expected from Grant funders and via other funding mechanisms	20	
Public sector investment to be provided using the TIF mechanism	4	

		<p>chances of an Aberdeen UK City of Culture bid being successful - since one of the key measurements is the amount of investment into culture.</p> <p>The TIF Scheme creates the opportunity to invest in the Aberdeen Art Gallery and even if the City of Culture bid is unsuccessful, after this investment, the City will still have a state of the art asset for future generations to enjoy as a result of the TIF mechanism and paid for by additional NNDR revenue.</p>
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4 The City Realm – The City Circle

Funding requirement / sources	£m	Comments
Total Project Costs	6	<p>A public realm project for a 'City Circle' route will start at the railway station and link the major shopping developments to the Cultural and Civic Quarters, through the redeveloped City Gardens, linking back to the rail station. This route will improve public access to the City Centre and is an integral component of the TIF Scheme. This project has indicative costs based on projects of a similar type. Delivery of this project will require support from the Aberdeen Business Improvement District (BID), Aberdeen City Centre Business Group and major stakeholders and this is why the City realm will be the final piece of work to be undertaken within the TIF Scheme. This project provides the opportunity for people to easily access the City Centres various offerings, in order to rejuvenate the areas which are in decline. This is the project which aims to link the other four TIF projects to the train station and other public transport links on Union Street. The risk of not including this project is that the access to the new developments in the City Centre will not accelerate in the desired manner, slowing down the rate of acceleration for new additional revenues and in particular NNDR.</p>
Funding identified from existing sources	0	
Public sector investment to be provided using the TIF mechanism	6	

5 The North Denburn Valley – redevelopment

Funding requirement / sources	£m	Comments
Total Project Costs	6	The project aims to provide enabling

Funding identified from existing sources	0	infrastructure for the North Denburn redevelopment by providing improved City Centre office opportunities. There have been ongoing discussions at an officer level with the NHS partners in this. There is no firm agreement at the present moment and there is potential for the site to be developed by its public sector owners or otherwise. The enabling infrastructure will make the property more marketable and accelerate redevelopment of the area. There is no capital funding available to implement the infrastructure required. The consequences being that a potential commercial business development opportunity in a prime development location will be lost or delayed, with another high profile derelict building situated on it.
Public sector investment to be provided using the TIF mechanism	6	

4.3. Timetable

- 4.3.1. Table 3 below shows the forecast timetable for delivering the five projects and assumes that Month 0 is the date when the TIF Scheme is approved by Scottish Government.

Table 3: The TIF Scheme Timetable

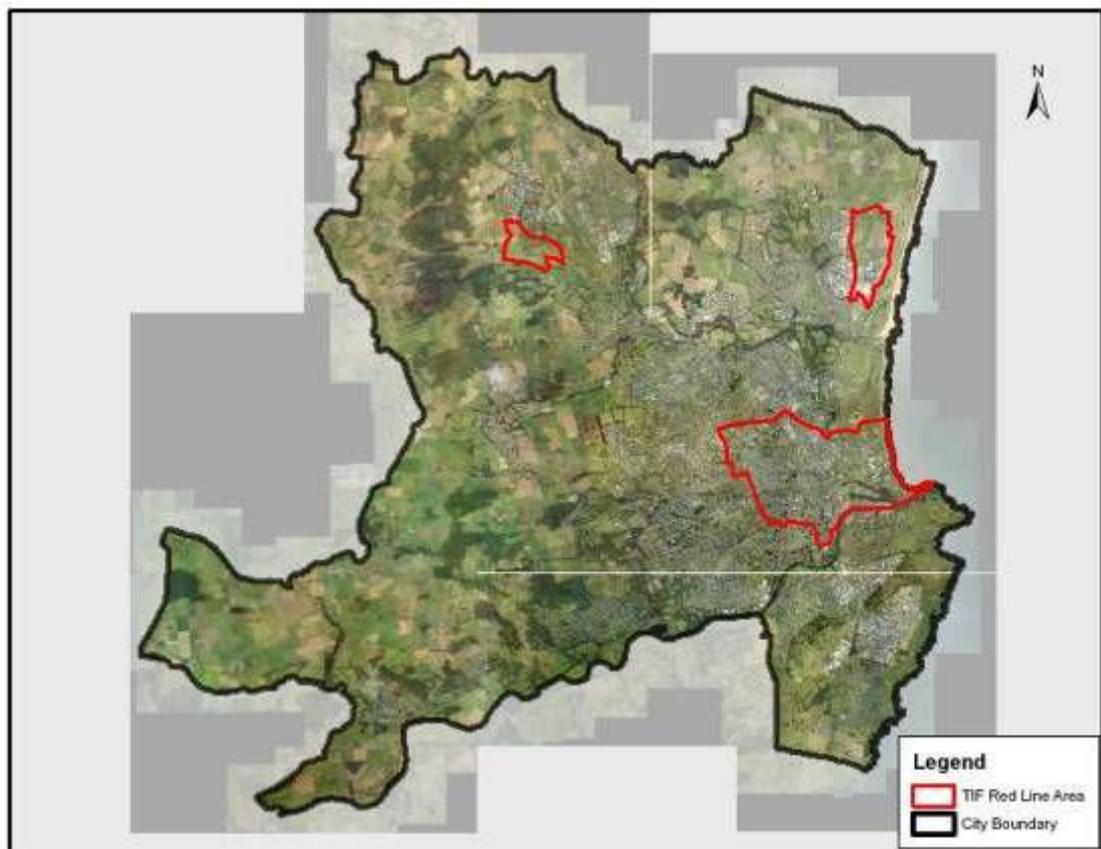
Task	Start	Finish
TIF Specific		
Stakeholders endorse Business Plan	22/08/2012	Month -3
Government approval of Business Plan		Month 0
St Nicholas House		
	Month 0	Month 24
Art Gallery		
	Month 40	Month 68
City Garden		
Planning application and approval	Month 0	Month 18
Pre-construction activities	Month 3	Month 20
Construction	Month 22	Month 56
North Denburn Valley		
Develop Master Plan	TBC	TBC
Competitive dialogue for investors	TBC	TBC
Private Sector development	TBC	TBC
City Realm		
Design phase	Month 24	Month 36
Planning application and approval	Month 36	Month 40
Construction	Month 40	Month 60

4.3.2. Please note that the above timescales are indicative as they are yet to be confirmed and are subject to agreement of the TIF Scheme Programme Management Board further described in Section 10. The majority of these projects are subject to a variety of processes, consents and agreements, of which can accelerate or delay the timeframes. See Appendix 4 for further details.

4.4. **TIF Red Line Area (RLA)**

4.4.1. The TIF RLA takes in the City Centre where the impact of enabling infrastructure is greatest. However by creating an enhanced City Centre environment the enabling infrastructure will make Aberdeen more attractive to mobile investment. Therefore the TIF RLA also includes two satellite development areas on the outer edges of the City, the success of which will be heavily dependent on securing this mobile investment (see Figure 3). These development areas are; Dyce Drive to the North West of the City and the area including and North of the AECC (AECC/A90), which is part of the Energetica Corridor. These two areas North of the City offer 5-6 development sites totalling approximately 300 hectares of development land. The TIF Scheme will accelerate these developments and positively impact upon the mix of development on these sites.

Figure 3: Aberdeen TIF Scheme Red Line Area



4.4.2. The LDP 2012 will release significant hectares of development land. However, it is believed that the City Centre redevelopment will accelerate the development of the two selected satellite areas, in particular, due to the fact that:

- Their success will be heavily dependent upon attracting international mobile investment, where the quality of the City Centre environment will be a significant factor in their decision making process. A high quality, culturally dynamic, cosmopolitan City Centre will make it easier for them to attract skilled international labour and will therefore improve Aberdeen's chances of securing mobile investment when competing against other international locations.
- The size of the the areas involved (approximately 300 hectares in total) will require them to attract a significant number of mobile investors.
- They have yet to secure pre-lets or advanced land purchase deals and therefore investors have still to be convinced that these are excellent business locations. Within this context, the quality of the City Centre environment will be a very important factor in persuading investors to choose Aberdeen as an investment location. In order to accelerate this proposed development, the TIF Scheme aims to act as an attractor and catalyst to realise developments in the RLA's, to the North of the City and the City Centre, and create additional revenues including NNDR.
- Their location to the North of the City means that they are particularly attractive to businesses trading on an international basis, whereas companies wishing to service local Scottish markets will probably prefer to be located within business locations to the south of the City. Businesses trading on an international basis are more acutely aware of the need for a vibrant and dynamic City Centre, so that their clients from abroad can obtain a positive image of the City when they visit Aberdeen.
- Their attraction to international trading businesses, rather than businesses focussed on the local market means that companies locating in these two zones are less likely to be relocating from other locations in Scotland. This will reduce any potential displacement factor.
- Although other satellite areas exist in and around Aberdeen, they are generally in a more advanced state of development - therefore require less need for intervention. Some are also more attractive to local businesses relocating from older premises or from other parts of Scotland and therefore have a lower dependence on attracting foreign mobile investment and a lower dependence on the quality of Aberdeen's City Centre environment.
- The developments in the AECC/ A90 and Dyce Drive satellite areas will benefit from the AWPR as this creates the transport connections for these developments but the TIF Scheme will make the City Region an attractive option for both people from outwith and within City Region to live and work. Therefore the TIF Scheme will support development occupiers to attract the skilled workforce that is required for their investments. The Developers who participated in the Economic Impact Assessment survey (see Section 6) and in structured interviews confirmed that these two areas will not develop to the same extent or speed if Aberdeen lacks a vibrant City Centre.

4.5.

Conclusion

- The TIF Assets require £182 million of investment in enabling infrastructure. £90 million of this will be provided by private sector contributions and grants, leaving a gap of £92 million to be funded by ACC,
- A TIF RLA, comprising the City Centre and two satellite industrial zones, (Dyce Drive and AECC/A90) that depend upon attracting international mobile investment, has been identified by ACC as being an area where the ability to realise planned developments will be significantly enhanced by enabling infrastructure investments in the TIF Scheme,
- Without the public contribution to enabling infrastructure made possible by TIF, much of the major development projects within the TIF RLA are extremely unlikely to go ahead, as planned. If it were possible to progress these projects, they would be entirely dependent upon private sector investment. Given the general lack of funding for property development projects, over the foreseeable future, this would mean that they would inevitably proceed at a much slower pace, and
- A survey of local developers and property agents has confirmed that a vibrant City Centre is essential to the realisation of planned developments within the TIF RLA.

5. ECONOMIC IMPACT ASSESSMENT

5.1. Introduction and Purpose

5.1.1. In this section consideration is given to the net economic impacts of the current TIF proposals and how such impacts may be used as a 'proxy' measure for assessing the potential uplift in non-domestic rates.

5.1.2. In particular, it is proposed that TIF in Aberdeen will be used to secure the public sector investment needed to deliver a step change in the quality and perception of the City Centre. This comprises the delivery of five major infrastructure projects, selected by ACC, and is intended to act as a catalyst for development throughout the City. This includes the Dyce Drive and AECC/A90 development areas that have the potential to actively support Aberdeen's economic ambition as a global Energy Capital, capable of securing the best talent and resource. A full description of the projects delivered by TIF is included in Sections 2 and 4 (see paragraphs 2.5.4 and 4.2 for description).

5.1.3. In the absence of economic impact analysis, however, it is not possible to assess whether any new public sector policy, project or programme is likely to be beneficial:

“without an assessment of additionality we do not know if the intervention is delivering real results, over and above what would have happened anyway, addressing market failures, nor can we tell if the intervention offers good value for money”. (Additionality and Economic Impact Assessment Guidance Note, Scottish Enterprise, 2008).

5.1.4. Therefore, in assessing and providing values for net impacts, this section – in line with guidance from Scottish Futures Trust' (SFT)¹⁴ – sets out the:

- Context for considering the economic effects of the proposals funded through the TIF mechanism;
- Market failures that proposed interventions funded through the TIF mechanism will address;
- Approach adopted in assessing the 'but for' test or 'counterfactual scenario' (i.e. what might happen in the absence of TIF);
- Method used to measure the range of impacts that might be derived from the adoption of TIF;
- Net additionality of the proposals (i.e. by comparing “with TIF” to “without TIF” outcomes); and,
- Conclusions that might be drawn in relation to the efficacy of the current proposals and the potential uplift in business rates that might result.

5.1.5. It is also a requirement of SFT's Economic Impact Assessment for TIF guidance¹⁵ that such an assessment be undertaken in order to demonstrate the ability of the enabling

¹⁴ Tax Incremental Financing in Scotland, SFT (June 2011).

¹⁵ Tax Incremental Financing in Scotland, SFT (June 2011)

infrastructure to unlock regeneration and sustainable economic growth. For the purposes of TIF, regeneration and economic growth is classed as being about the:

“holistic process of reversing the economic, social and physical decline of places where market forces alone will not suffice”¹⁶.

5.1.6. Previous Scottish Government policy statements¹⁷ put forward that such transformation should deliver additional economic, physical, social and environmental aspects, which could be evidenced through a series of outcomes such as, but not limited to:

- Improved business confidence;
- Increased economic activity and employment / lower unemployment;
- Higher income and less reliance on benefits;
- More effective public services;
- Improved educational outcomes and higher skills base;
- Higher land and housing values;
- Improved community confidence;
- An improved and better designed built environment; and,
- An enhanced natural environment, including access to quality green space.

5.1.7. Also, TIF is predicated on the expectation that future net additional business rates will result from new businesses establishing in new premises within the TIF project area, referred to as the TIF Red Line Area (RLA), and that such income will be sufficient to allow repayment of the initial borrowing necessary for the public sector’s enabling investment to take place. In this way it is anticipated that at a local level the effect of a TIF funded project will be “exchequer positive”¹⁸.

5.1.8. Beyond a given local area such an (exchequer) impact is less clear cut. In particular there may be negative business rate impacts as displacement and non-additionality effects come about outwith the TIF RLA (at either a local authority, regional or national level).

5.1.9. Consequently, the context and purpose of undertaking an economic impact assessment of the current TIF proposals is to address two main inter-related issues, namely:

¹⁶ Achieving a Sustainable Future: Regeneration Strategy, Scottish Government (December 2011)

¹⁷ People and Place Regeneration Policy Statement 2006, Scottish Government (2006)

¹⁸ It is important to stress that this definition – of an exchequer effect – is limited to business rates. In practice there will be other positive and negative effects on future public sector expenditure and income patterns as a result of, for example, increases in employment, associated reductions in benefit payments, increases in tax and so forth. Concentration – in this case – is, however, confined to the potential impacts on rateable income given the proposed use of such income, by ACC, to fund the current project proposals

- Whether the proposed intervention (i.e. use of TIF to deliver the five TIF Assets) is justified from an overall public sector perspective in terms of market failure, net impact and value for money; and,
- What the likely public exchequer business rate impacts will be at a local and wider level in order to test and assess, from ACC's perspective, the financial implication of taking forward the intervention.

5.2. Economic Context

- 5.2.1. As discussed in detail at Section 3 the City is currently focusing not only on building on its strengths in the oil and gas sector, by attracting and retaining a highly skilled and specialised workforce and high quality firms in this area, but also on facilitating and encouraging the transition to a Renewable Energy economy which builds on the City's strength as an energy hub. In order to capitalise on the region's buoyant economy, and ensure a strong foundation for growth, the City (and the North East) needs to retain business confidence as a place to invest. While the energy industry is likely to be the key driver for growth for the foreseeable future, an opportunity exists to boost the economy across all sectors, particularly as Aberdeen seeks to diversify its economic base over the medium to long-term.
- 5.2.2. The ability to succeed is in turn closely connected to the quality of life the City Region can offer to individuals and firms looking to relocate to, or continue to stay in, Aberdeen. In order to compete with other global cities (in both energy and non-energy sectors) Aberdeen will need to invest in various elements of its 'offer' by enhancing its cultural heritage, promoting strong, safe communities, and investing in high quality education, leisure, housing and medical facilities. If investment in these types of infrastructure projects is not sustained Aberdeen is at risk of losing its competitive advantage as a hub for the oil and gas sector and the diversification of its economic base (with a strong focus on the renewables and services sector) will be at risk. Without taking these steps there is a significant future risk that businesses and workers will leave the region and that economic growth will stagnate or even decline.
- 5.2.3. These views are in line with the findings and recommendations in PwC's 2011 report "Northern Lights - A strategic vision of Aberdeen as a world class energy capital"¹⁹ which highlights the need for fresh funding and investment, fiscal certainty and targeted incentives if the energy sector and wider regional economy is to continue to grow and prosper. The study also stated the need for greater public and private-sector collaboration, as well as a more co-ordinated approach by industry and education to turn the City into a "global talent magnet".
- 5.2.4. In line with the ACC's objectives of a "wealthier, greener, smarter, safer and inclusive"²⁰ Aberdeen, the proposed TIF Scheme is one of the first steps towards meeting those objectives by ensuring the future attractiveness, vitality, viability and connectivity of the City Centre.

¹⁹ Northern Lights - A strategic vision of Aberdeen as a world class energy capital, PwC November, 2011. The full report can be found at: <http://www.PwC.co.uk/scotland/publications/northern-lights-strategic-vision-aberdeen-energy-capital.html>

²⁰ As well as the Single Outcome Agreement Community Plan, 2008

5.3. Market Failure

- 5.3.1. Any intervention by ACC that involves the use of public funds, such as that proposed under the current TIF proposals, needs to be based on a clear rationale as to why the public sector can (and should) undertake an investment (in this case in relation to the five development schemes) that could not be provided (in the same timescale, type, quality or scale) by the private sector.
- 5.3.2. Where such investments are justified they are addressing 'market failure' and/or equity objectives. In regard to the former factor, as referenced in the HM Treasury Green Book and the Office of the Deputy Prime Ministers 3Rs Guidance;
- "market failures are imperfections in markets that prevent them from producing efficient outcomes"*²¹.
- 5.3.3. The latter, equity factor, assumes that even if market outcomes are efficient they may be unfair²². The rationale for intervention is, therefore, to remedy or remove such failures and/or address unfair or uneven outcomes.
- 5.3.4. Analysis by the Department of Communities and Local Government (CLG)²³ suggests that consideration should be focused on the "Three Es"; efficiency, equity and environment. Interventions can be justified under each and all of these factors if an intervention-
- Addresses various inefficient market outcomes;
 - Leads to a fairer or more equitable allocation of resources; and/or,
 - Protects or promotes the environment in a sustainable manner²⁴.
- 5.3.5. Moreover, in a subsequent CLG study²⁵, the importance of place (or how people, firms, institutions and local physical assets differ across locations) is stressed as an essential aspect of public policy. With the support of the public sector, therefore, a policy of;

²¹ "Assessing the impacts of spatial interventions: regeneration, renewal and regional development – 'The 3Rs Guidance'"; Office of the Deputy Prime Minister, May 2004.

²² While variously defined and interpreted the Equalities Review 2009 proposed that equity describes: "an equal society that recognises people's different needs, situation and goals and removes the barriers that limit what people can do and can be".

²³ "Communities and Local Government Economies Paper 1: A Framework for Intervention", CLG, September 2007.

²⁴ Any negative environmental impact resulting from the operation of markets is a 'negative externality' and, therefore, a market failure. As the CLG study emphasises, however: "the environmental objective is a special case of equity and efficiency objectives of intervention – the environment is so central to ensuring sustainable standards of living that it merits particular attention".

²⁵ "Why Place matters and the implications for the Role of Central, Regional and Local Government", Economics Paper 2, 2008.

“developing distinctive local strengths and specialisations both enhances the potential gains to areas, and promotes a more efficient spatial distribution of economic activity”²⁶.

- 5.3.6. Over the last forty years Aberdeen has exhibited such strengths based largely on the oil and gas industry. As reflected above (and highlighted in the “Northern Lights” strategy) the current strong economic performance of the local economy is at risk in the short and medium term without diversification and consequently significant investment in new infrastructure.
- 5.3.7. Accordingly there are several ‘market failures’ (and related equity issues) that in the absence of TIF will increase such risk, namely:
- **Externalities (Local and Regional);** to successfully take forward the five projects that make up the TIF Scheme will require major remediation and redevelopment prior to any substantive investment in housing, office units, tourism facilities and retail outlets within the wider City Centre. The costs associated with such remediation and redevelopment are unlikely to be borne by private sector developers given the (long term) gap between the costs (associated with such investment) and the market values and returns that might be derived (which by definition will be relatively minimal given the limited opportunities “to charge for use” in relation to the majority of the infrastructures improvements envisaged.);
 - **Externalities (National);** in the absence of the project and the potential it has to attract further development there is a risk that Aberdeen will begin to lose its competitive position in the global market place. If this is the case, and existing firms relocate from the City, or inward investors decide to locate elsewhere than Aberdeen, there will be significant negative effects to the wider Scottish economy as a whole (given it is unlikely that such investments or relocations will take place elsewhere in Scotland);
 - **Equity issues;** in relation to the renewal of the wider City Centre area and the consequent ‘place based’ benefits to the local area. Without unlocking such land now and attracting future related investment there is the potential for decline in the local economy and consequent inequalities to remain or become exacerbated; and,
 - **Environmental implications;** without intervention key sites within the City Centre might remain un-remediated with poor accessibility and limit the opportunities for ACC to reduce carbon emissions and influence development standards.
- 5.3.8. In summary, therefore, the rationale for the intervention may be justified primarily on efficiency (market failure) and equity grounds. The former in relation to addressing externalities linked to the reduction of risk and the provision of appropriate infrastructure for future development, as well as in relation to wider national economic benefits associated with place based renewal. Finally by adopting a tailored, targeted and integrated approach to site development, ACC will ensure that any future development is taken forward in an environmentally sustainable manner.

²⁶ CLG, Economics, Paper 2.

5.4. Impact Assessment Methodology

- 5.4.1. SFT Guidance states the importance of undertaking the assessment of potential economic impacts by: “utilising interviews with and submissions from key stakeholders, local organisations / bodies affected by the TIF and other relevant parties”.
- 5.4.2. Consequently, given the high public profile and unique nature of the proposed development projects funded through this TIF, ACC, with support from ACGT Enterprises and their advisers (PwC and CBRE), decided to survey as many key stakeholders, local organisations and bodies affected by the TIF as possible. The aim was to ascertain their views of the proposed TIF Scheme. This focused on two groups namely:
- Cohort One** - Four hundred local private, public and third-sector organisations, representing a wide range of views²⁷, who were asked to consider, if the five TIF funded projects were taken forward, the likely demand patterns for the City Centre and potential displacement effects at a City Region level; and
- Cohort Two** - A more specialist group representing companies directly involved in property development within Aberdeen (comprising thirty-five key developers, landowners and agents in the City Centre area) who in addition to more general views were asked to further consider the effects of the five TIF funded projects upon future development investment profiles.
- 5.4.3. Separating the stakeholder population into two cohorts in this way was designed to segment “expert” views on the likely impact of the project on future patterns of development in the City (represented by Cohort Two) from the larger, more general body of stakeholder views (represented by Cohort One). Given the importance of appropriately assessing the uplift in business rates within the TIF RLA to a given TIF proposal, it was felt that the expert view should be given a higher weighting. Meanwhile the results from Cohort One provide a more diverse range of viewpoints from which to understand the likely positive and negative impacts of the proposals.
- 5.4.4. A standard E-Survey²⁸ (see appendix 3a) was issued, via email, to members of both cohorts. The survey asked stakeholders to consider the likely effects of the five projects including demand patterns for the City Centre and the potential displacement effects at a City Region level. To help inform their responses, all stakeholders were sent a cover letter which included a description of the TIF Scheme and its five component projects (see appendix 3b). In addition to the standard E-Survey and project descriptions, Cohort Two were issued with a further paper containing extra questions relating to the effects of the five TIF funded projects upon future development and investment profiles in the TIF RLA (see appendix 3c).

²⁷ Including public sector representatives with relevant expertise and regional/national knowledge of relevant transport, housing or tourism markets; representatives of the Aberdeen-wide business community; and other private sector representatives capable of reflecting the views of a broader group of stakeholders.

²⁸ The E-survey referred to the five projects by different names and in a non-prioritised order in the consultation to respondents. For the purposes of the EIA the names used will be maintained in this section for consistency

5.5. Consultation Results- E-Survey Response Rates

5.5.1. As illustrated, in Table 4 below, completed responses were received from ninety seven of the four hundred consultees from Cohort One, representing a 24% response rate. The initial E-survey request to the 35 consultees in Cohort Two resulted in only a small response. However, due to the importance of the views of this cohort to the robustness of the Economic Impact Analysis, the E-survey was followed up with requests for telephone consultations with all consultees in this cohort. This resulted in 7 responses overall, a response rate of 20%. Given the importance of ensuring robustness and stakeholder buy-in, ACC and ACGT Enterprises also provided this cohort with a briefing note highlighting key assumptions in relation to potential levels of displacement and the counterfactual likely to occur as a result of the proposed TIF Scheme. Developers and others were invited to comment on whether these assumptions were appropriate (and in particular whether alternative assumptions should be considered)

Table 4 E-Survey Response Rates

Cohort	No. of Consultees	No. of Responses	Response Rate
Cohort 1	400	97	24%
Cohort 2	35	7	20%
Total	435	104	24%

5.6. Cohort One Responses

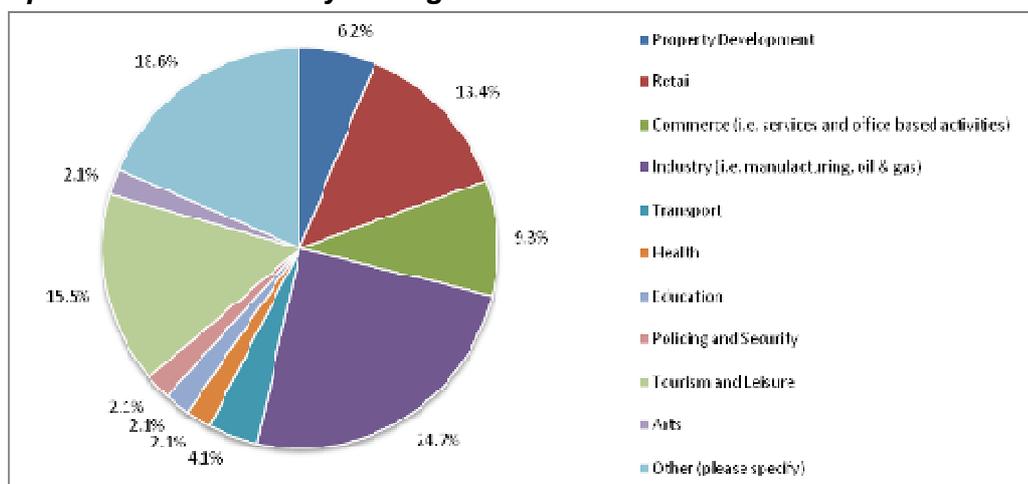
5.6.1. The following section summarises the responses to the general E-Survey questions completed by Cohort One.

Nature of Respondents

5.6.2. Respondents were asked to identify which sectors best represented them in order to understand what perspectives had been captured by the survey. The results indicate a diverse selection of views has been captured. Around 72% of respondents were from the private sector, with 21% from the public sector and 7% 'other' (including charities and trade organisations e.g. chambers of commerce). A broad range of sectors was represented, as indicated at Figure 4 overleaf with the majority identifying 'industry' as their main activity (25%) followed by 'other' (17%) and 'tourism and leisure' (15.5%). Respondents also represented a range of organisations which cover local, national and regional perspectives²⁹.

²⁹ For reasons of data protection it is not possible to list the organisations that provided responses.

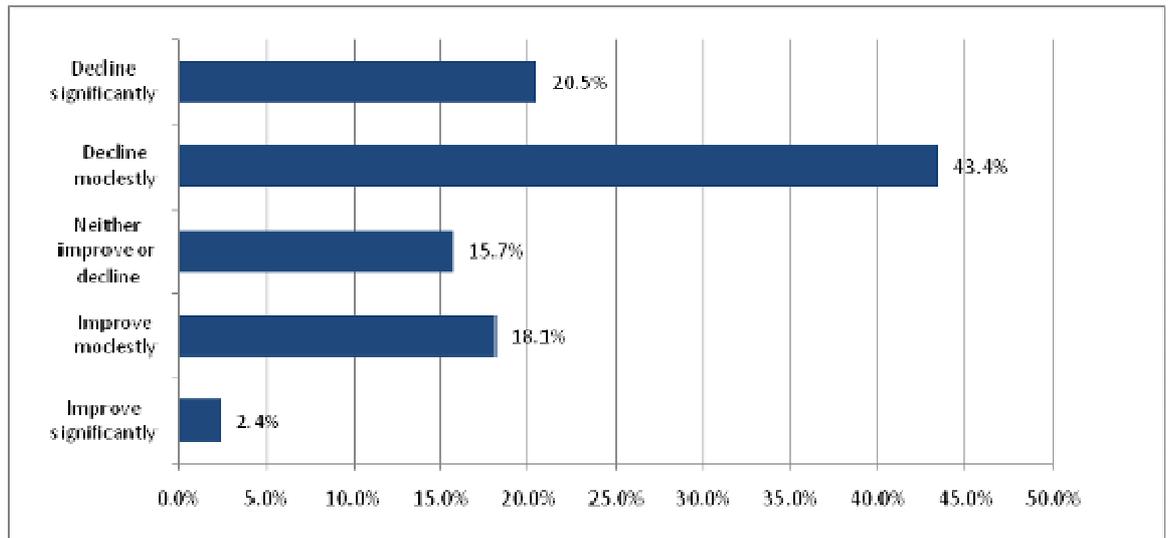
Figure 4: Which option most accurately describes the sector in which you specialise or in which your organisation's activities are focused?



Current and Predicted Performance

- 5.6.3. In order to better understand the counterfactual scenario (i.e. what might happen in the absence of any intervention), respondents were asked to comment upon the existing contribution made by the City Centre environment to their organisation's objectives and for their view on the likely future performance of the City Centre without the major investment proposed by the TIF.
- 5.6.4. Over half (51%) of all respondents stated that Aberdeen City Centre currently makes: 'neither a positive nor negative contribution' to their organisation's objectives. 27% identified the City Centre as making a 'fairly positive' contribution while only 8.5% identified the City Centre as making a 'strongly positive' contribution. Around 13% of respondents felt the City Centre makes either a 'strongly negative' or 'fairly negative' contribution. Those responding with either 'strongly positive' or 'strongly negative' views were invited to comment on their choice. Negative comments largely focussed on the poor quality of the City Centre as a barrier to the quality of life in the region and in attracting labour to the City; positive comments focussed upon the high quality of architectural heritage.
- 5.6.5. As illustrated at Figure 5, overleaf when asked about the likely future performance of the City Centre in the absence of TIF, the majority of respondents (64%) identified that the future of Aberdeen City Centre is likely to 'decline modestly' or 'decline significantly' over the next ten years under the 'do nothing' scenario. (in contrast only 20% stated the City Centre is likely to 'improve significantly' or 'improve slightly' under this option).

Figure 5: In the absence of major City Centre redevelopment (i.e. 'do nothing' scenario), which of the following best describes your view on the future performance of Aberdeen City Centre over the next 10 years?



Likely Benefits of the TIF Proposals

5.6.6. Figure 6, overleaf illustrates the views of respondents when they were asked to list the key benefits likely to be delivered as a result of the proposed development schemes within Aberdeen City Centre.

Figure 6: Respondents views on the increased likelihood of benefits arising for each project-within Aberdeen City Centre

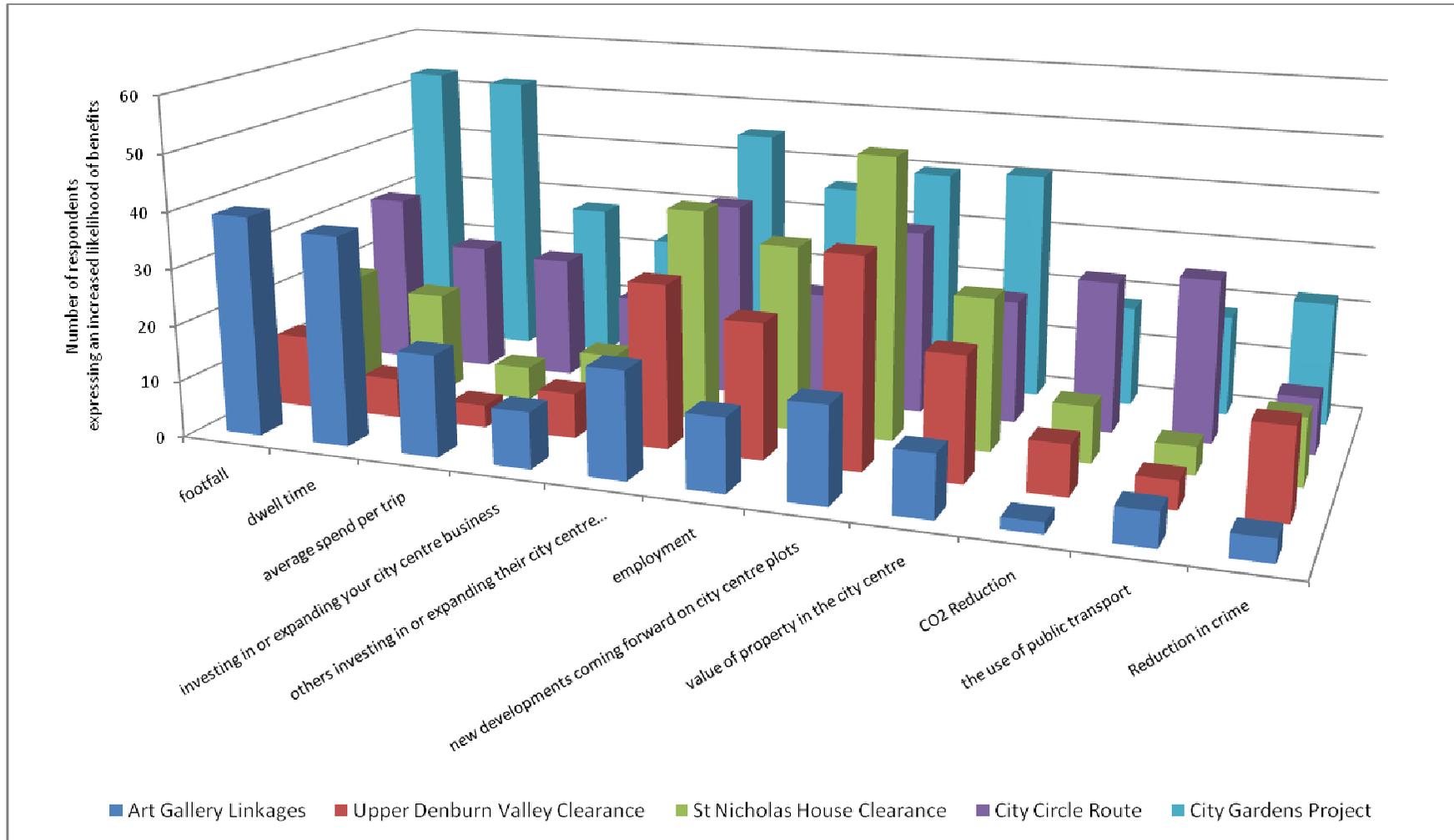
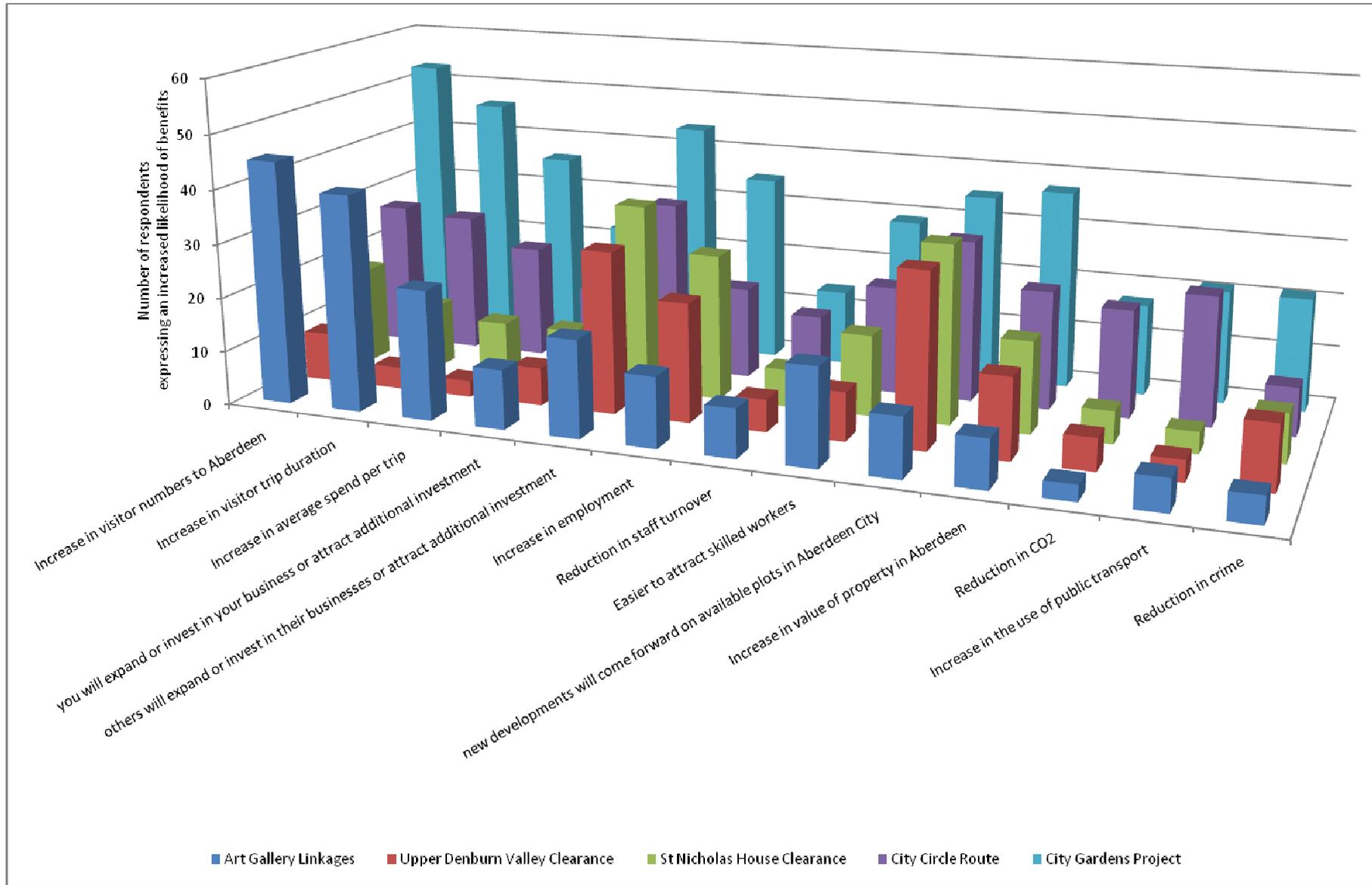


Figure 7: Respondents views on the increased likelihood of benefits arising for each project- wider Aberdeen City economy



- 5.6.7. As illustrated in Figure 6, increases in footfall and dwell time were highlighted as the key benefits arising from the City Gardens and Art Gallery projects, whilst an increase in likelihood that others would invest in the City Centre was identified as a key benefit for the City Circle Route. For St Nicholas House and Upper Denburn Valley, the majority of consultees identified an increase in the likelihood that new developments will come forward, which is unsurprising given these projects will directly unlock new development sites
- 5.6.8. Respondents were similarly asked to list any benefits from the development schemes to the wider Aberdeen City economy. Figure 7 illustrates the responses to this question and suggests that respondents believed the development schemes would generate a similar range of benefits for the City Gardens, City Circle and the Art Gallery schemes. The likelihood of expansion or investment in existing businesses and the potential to attract additional ('inward') investment were selected as key benefits for St Nicholas House and an increase in the likelihood that new developments will come forward in the City was highlighted as a benefit for the Upper Denburn Valley project.

Cohort One Final Conclusions

- 5.6.9. In concluding the survey respondents were asked to provide comments, ranked in order of preference, in relation to the following
- Their views on the three key benefits they believe will be derived from the development schemes;
 - Their views of the three potential negative impacts that might result from the development schemes being taken forward;
 - Other investments in the City Centre at risk of not going ahead if the TIF funded projects were not taken forward; and,
 - The three future actions that need to be taken to ensure the benefits are realised and sustained.
- 5.6.10. A summary of the key themes from responses to these questions is provided in Table 5 below. For simplicity of presentation the comments have been attributed to commonly occurring themes, with the most common themes highlighted alongside an estimate of the number of matching responses.

Table 5: Common themes from respondent's concluding comments

Question	Common Responses by Theme	Ranked 1st	Ranked 2nd	Ranked 3rd
Key Benefits	• Enhanced image, boost to confidence & pride in the City	30	14	12
	• Boost inward investment & development	0	15	22
	• Tourism	9	5	0
	• Focal point for future economic prosperity	5	0	0
	• Bringing footfall and activity into City Centre	0	9	0
	• Improved transport and accessibility in the City Centre	0	0	5
Negative Impacts	• No negative impact	11	4	0
	• Impact on Council finances and diversion of attention/resource from other services/projects/initiatives	7	7	4
	• Disruption during development	6	0	0

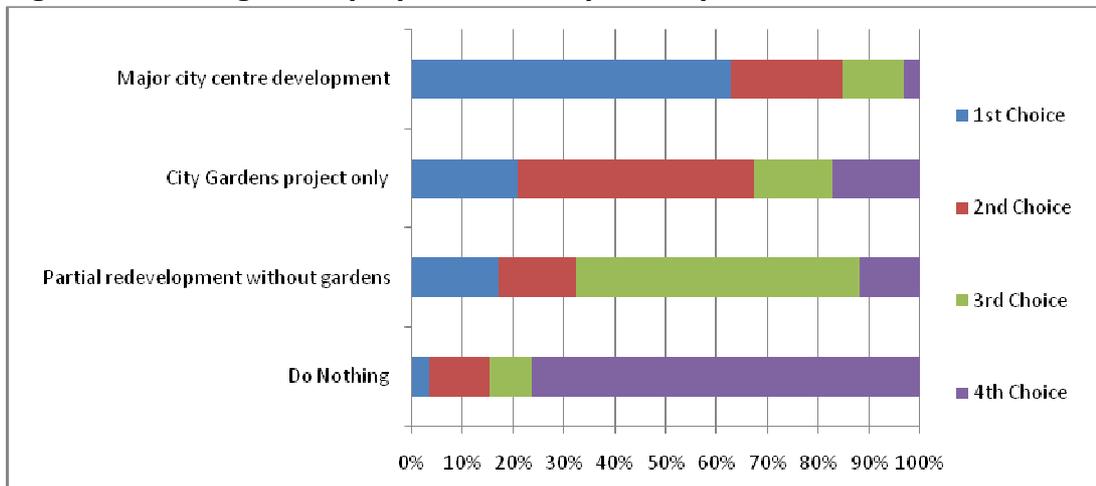
Question	Common Responses by Theme	Ranked 1st	Ranked 2nd	Ranked 3rd
	<ul style="list-style-type: none"> Potential displacement of investment and activity Proposals generate negative publicity for City & loss of identity & heritage 	5	3	4
	<ul style="list-style-type: none"> General reduction in investor interest and business confidence in taking forward new developments across all sectors of the local/regional economy Loss/decline of existing businesses and investment plans Further City regeneration and cultural renewal undermined, e.g. Union Street pedestrianisation Poor image and loss of confidence in the City, leading to decline in prosperity 	13	13	13
Risk to Other Developments of TIF not being taken forward	<ul style="list-style-type: none"> General reduction in investor interest and business confidence in taking forward new developments across all sectors of the local/regional economy Loss/decline of existing businesses and investment plans Further City regeneration and cultural renewal undermined, e.g. Union Street pedestrianisation Poor image and loss of confidence in the City, leading to decline in prosperity 	7	0	0
	<ul style="list-style-type: none"> Further City regeneration and cultural renewal undermined, e.g. Union Street pedestrianisation Poor image and loss of confidence in the City, leading to decline in prosperity 	5	4	0
	<ul style="list-style-type: none"> Poor image and loss of confidence in the City, leading to decline in prosperity 	0	4	4
Key Future Actions	<ul style="list-style-type: none"> Develop clear strategic direction & secure stakeholder buy-in Secure funding to deliver the project (public and private) Effective marketing and communication (to secure stakeholder buy in) Good planning and design Consideration of transport plan and car parking provisions Project management arrangements in place to deliver efficiently 	19	0	0
	<ul style="list-style-type: none"> Secure funding to deliver the project (public and private) Effective marketing and communication (to secure stakeholder buy in) 	18	18	9
	<ul style="list-style-type: none"> Effective marketing and communication (to secure stakeholder buy in) Good planning and design 	7	16	21
	<ul style="list-style-type: none"> Good planning and design Consideration of transport plan and car parking provisions 	0	7	0
	<ul style="list-style-type: none"> Consideration of transport plan and car parking provisions Project management arrangements in place to deliver efficiently 	0	3	0
	<ul style="list-style-type: none"> Project management arrangements in place to deliver efficiently 	0	0	11

- 5.6.11. In relation to key benefits by far the most common response was in relation to the project creating a feel good factor for the City, boosting its image and self confidence. Alongside this statement many respondents felt that such an improved attitude would help to boost investment (being the second most common factor mentioned) and attract new activity, workers and visitors both to the City Centre and to the City Region as a whole. Other key themes included improving the attractiveness of the City tourists and improving accessibility to and within the City Centre.
- 5.6.12. The most common response when asked about negative impacts was that 'no negative effects' were anticipated as a result of TIF. Other negative views were, however, expressed and these largely focussed on the potential impact of the TIF on ACC's finances and ability to commit attention and resource to other areas. Given the nature of TIF and the way in which the Council expects to manage and mitigate risk, and then this impact should be largely negated. A smaller number of respondents expressed other concerns including: potential disruption during the construction period; negative publicity which has surrounded the City Gardens (with the controversy being seen as damaging the City's image) and, potential for some displacement of activity from elsewhere to occur, which is considered in greater detail in the business case later.
- 5.6.13. When asked about the impact on investment under the 'no TIF' option, the overall view from respondents was that the general climate for business investment in Aberdeen (across all sectors) would be adversely affected and it would be harder for the City to attract investment compared with its competitor cities. Further responses indicated concerns that the existing business community would decline putting current prosperity at risk. Other themes focussed on the risk that investment in the future cultural and physical regeneration of the City would be less likely and that a negative mindset could persist, resulting in a poor external image and a loss of confidence and pride in the City.
- 5.6.14. Respondents were asked to identify the key next steps that should be put in place to secure the benefits identified and minimise negative impacts. In this regard, the key

future actions identified include the need for stakeholder buy-in, securing funding for the project (public and private) and clear marketing and communication in relation to project progress and impacts. Effective planning and project management was another common theme.

5.6.15. In concluding the survey, and with respondents having considered the development options in responding to the questionnaire, the final question asked respondents to rank the four development options in order of importance from 1 (being most important) to 4 (being least important). As illustrated at Figure 8 below, over 60% of respondents ranked the 'Major City Centre development' option as their first choice followed by the 'City Gardens Project Only' option (over 20%). The 'Do Nothing' option was ranked fourth (least important) by over 70% of respondents implying overall support for the proposed TIF development schemes. Taking first and second choice responses together, 85% ranked Major City Centre development as their preferred option and taking third and fourth choices together 85% ranked 'Do Nothing' as the least desirable option.

Figure 8: Ranking of the proposed development options



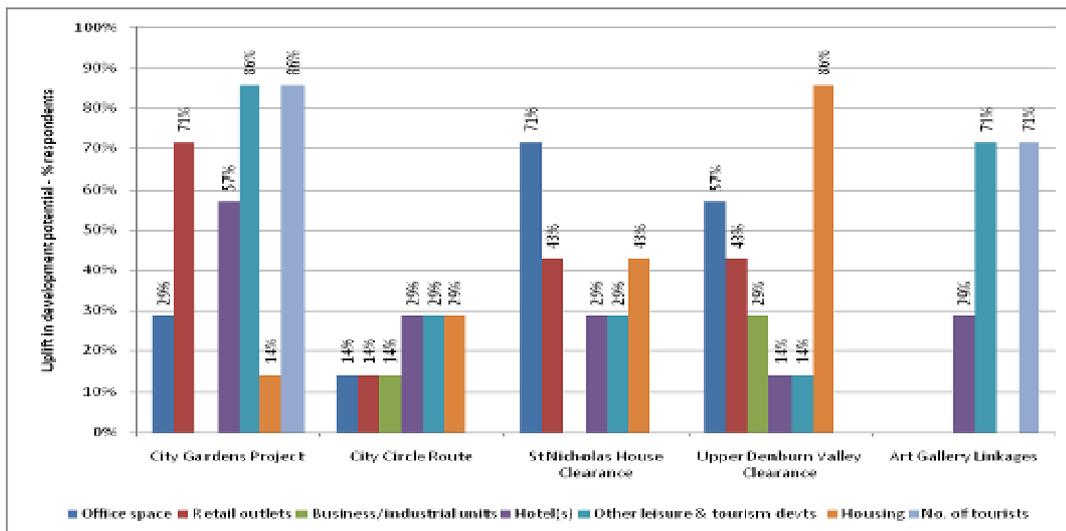
5.7. Cohort Two Responses

5.7.1. As discussed above, and in order to obtain more evidence to assess the potential for development uplift, a second specialist cohort of thirty-five 'developers and agents' were asked to respond to a more targeted set of questions. These focused on their views about development profiles within the City Centre and the impacts on their own investment plans (i.e. where relevant, to capture the knock-on effects of TIF beyond the City Centre, including the Dyce Drive and AECC/A90 satellite areas). In total, and following a series of follow up telephone interviews, seven responses were received. The following summarises the results of this consultation.

Potential Development Uplifts

5.7.2. Respondents were initially asked to identify the extent to which the delivery of each of the five development schemes would result in uplift in development potential against a range of options including: housing, retail outlets, office space, business units, hotels, tourism and leisure. The results from this question are illustrated in Figure 9 overleaf and demonstrate a range of responses.

Figure 9: Likelihood of uplift across development type (% respondents)



5.7.3. As indicated, by the above, developers had varying views as to the in terms of the likely stimulus to development that each project might generate, in particular:-

- City Gardens Project:** the majority of respondents jointly identified the potential for an increase in the number of tourists and scope for uplift in leisure and tourism linked development as the key benefit from this development scheme (86%) followed by retail outlets (71%) and hotel space (57%). A degree of uplift in office space (29%) and housing (14%) was also expected. No respondents identified the project as having any impacts on the development potential for business/industrial units in the City Centre. This may be interpreted as respondents focusing on the City Centre (where this type of development is unlikely to occur as opposed to development that may happen citywide). The business case is built upon the premise that the sense of place-making will enhance Aberdeen, retaining and attracting investment in traditional and new sectors for the City In terms of the overall potential for development uplift the City Gardens scored highest overall across all categories;
- City Circle Route:** this development project was identified as having the potential to result in uplift in the development potential for hotel, leisure and tourism and housing (29%) followed by office, retail and business/industrial (14%). Interestingly respondents did not identify the scheme as having the potential to increase the number of tourists to the City Centre perhaps reflecting the local nature of the proposed scheme in terms of improving accessibility for local residents within the City;
- St Nicholas House:** this development project was identified as having the greatest likelihood to increase uplift in the development potential for office space within the City Centre (by 71% of respondents), followed by the potential to increase housing and retail development potential (43% in each case). Potential for uplift in hotel and leisure type developments was also identified (29%);
- Upper Denburn Valley:** the majority of respondents (86%) identified this project as having the greatest likelihood to increase the development potential for housing in the City Centre, followed by 57% of respondents who considered office space more likely to come forward. An uplift in business/industrial units was also identified as a potential benefit (29%). No impact on the number of tourists was anticipated but a

small number of respondents felt uplift in hotel/leisure development could be likely (14%); and,

- **Art Gallery Linkages:** perhaps not unsurprisingly, this development project was identified as likely to impact upon the potential for an uplift in the number of tourists (71%) and other leisure and tourism developments (71%) and finally the number of hotels (29%). No other (commercial or housing) options were identified

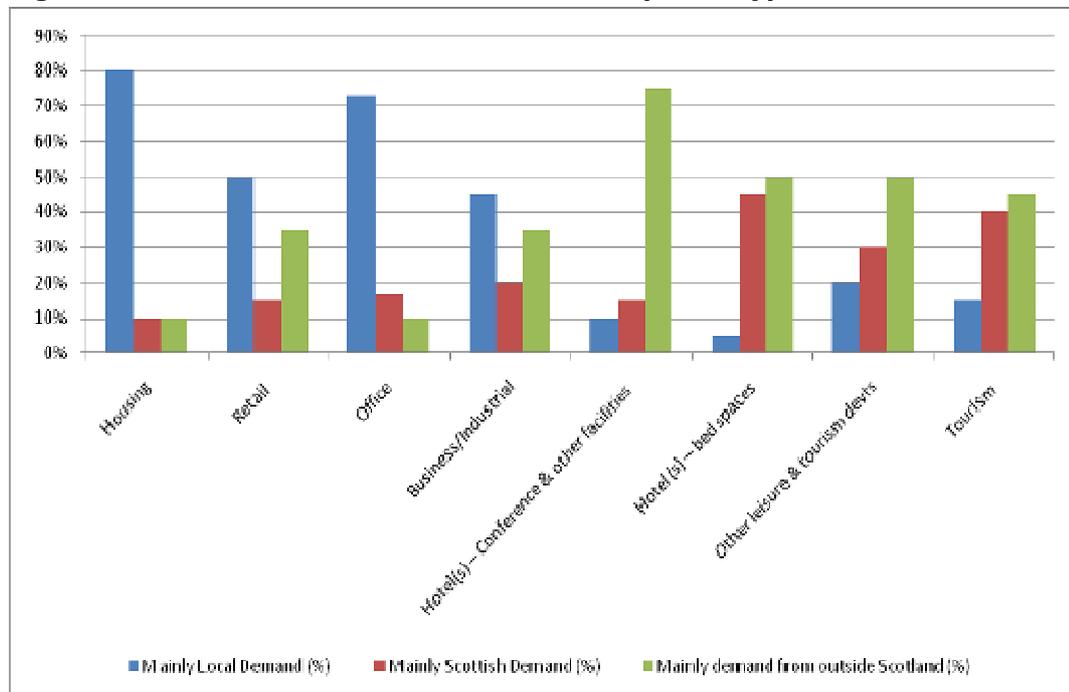
5.7.4. A subsequent set of questions requested developers to provide an indication (in quantitative terms such as the number of units, square footage, etc) of the impact of the above on wider development benefits (above). Unfortunately this question did not garner any responses as consultees felt it was too soon and/or complex to attribute impacts in these terms. As a result there was no information available concerning views on wider developments outwith the City Centre.

5.7.5. Consequently, following a detailed review of all responses, developers were asked to confirm a range of assumptions in terms of likely uplifts and future timing of developments with and without TIF in the City Centre. These assumptions – which are detailed in the gross and net impact section below – were regarded by respondents as a reasonable basis from which to project future City Centre outcomes.

Sources of Demand for New Development & Impact on Competitors (Displacement)

5.7.6. In order to understand the likely sources of demand for each development type, respondents were asked to indicate the percentage of demand likely to result from local, Scottish and outside Scotland for each type of development uplift. Figure 10 below summarises the responses received.

Figure 10 Sources of demand for each development type



5.7.7. Responses to the question on potential sources of demand suggest that:

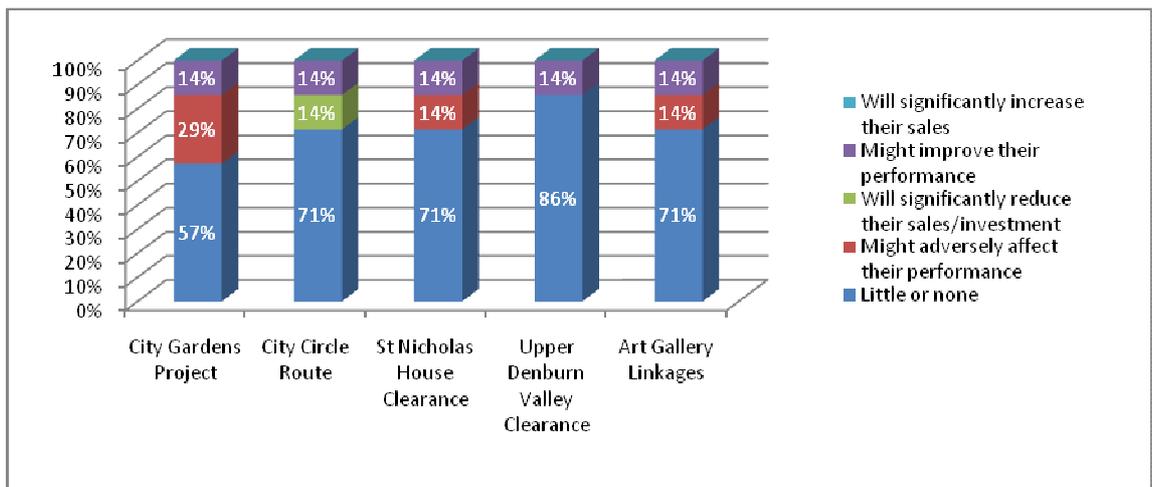
- Housing demand is anticipated to be primarily local in nature, namely that around 80% of take-up will be drawn from residents within the City Region. Although the benefits are not part of the TIF, the TIF will accelerate housing development in the City aiding the housing sector during a tough economic period.
- Retail expenditure is likely to be split primarily between local (50%) and resident's outwith Scotland (35%);
- Office space take-up is largely expected to be derived from organisations within the City Region (73%). Such a high level of local take up does not necessarily constitute displacement. Aberdeen is a mature and specialised economic centre in the energy industry and is already very well represented locally by many national and international players. While the identity of the investor may be considered local they may have a range of national and international locations to choose from and as such their investments would not constitute displacement. In addition the response may also be reflective of demand coming from the expansion and even diversification of organisations based locally rather than their relocation;
- Business/industrial space is split between local (45%) and international demand (35%) – again see comment above in relation to office space ; and,
- Hotel and tourism demand (not unsurprisingly) is likely to be predominately sourced from visitors from outside of Scotland in terms of the demand for conference and other cultural facilities (75%), hotel beds (50%), and tourism activities (45%).

5.7.8. In addition it is important, in understanding the wider effects on the regional economy, whether the current proposals might have any negative or 'displacing' effects on existing businesses outwith the City. As illustrated, in Figure 11 below, the majority of respondents believe that the five projects will have 'little or no' effect on performance of 'competitor operations' outside the City (with between 57% to 86% of such responses across all five projects).

5.7.9. Other respondents either identified a positive impact (14% suggesting a positive influence in terms of uplift in sales across all projects) or alternatively a potential adverse effect (in relation to the City Garden, St Nicholas and Art Gallery projects) ranging from between 14% to 29%. The only project where a minority of respondents (14%) identified a significantly negative impact related to the City Circle route (presumably on the basis of increased connectivity to the City Centre).

5.7.10. Based on respondent's views, therefore, the overall level of displacement (outwith the City Centre) is likely to be relatively minimal. Again this is linked to the nature of the likely business and economic growth that will be engendered by the TIF: international mobile investment and new industries and service providers new to the City and Scotland, building upon the strength of the current Aberdeen.

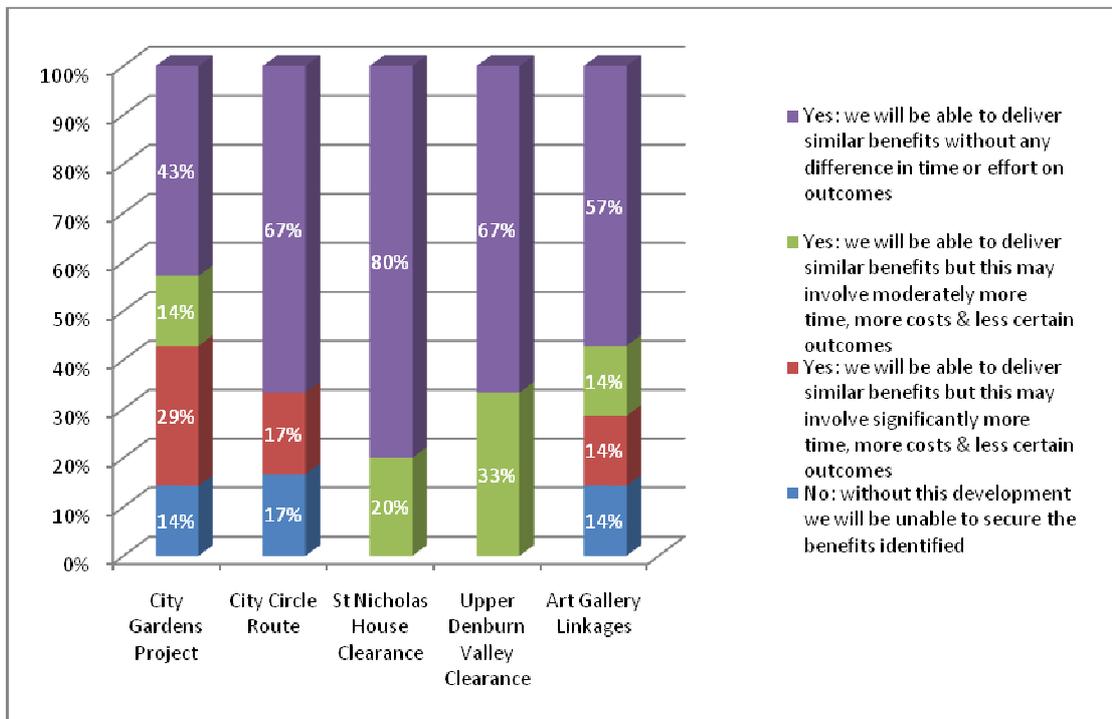
Figure 11 Impact on Competitors Operations Outwith Aberdeen City



Counterfactual 'but for'

5.7.11. The respondents were also requested to indicate the likely impacts on their investment plans and/or objectives for the regeneration of the City Centre in the absence of each of the development schemes not being taken forward. The purpose of this question was to inform the 'but for' test, i.e. the impact of the counterfactual or 'without TIF' scenario on likely future development outcomes. Figure 12 below illustrates the responses from this question by each development scheme.

Figure 12 In the absence of each of the development schemes being taken forward, what are the likely effects on your investment plans and/or objectives for the regeneration of Aberdeen City Centre?



5.7.12. The following themes emerged for each project:

- **City Gardens Project:** 43% of respondents identified that their investment plans could be delivered to similar scale and timescale without the project. By contrast 14% said they would not be able to deliver their investment plans or objectives in the absence of the project. Other respondents said they would be able to deliver their objectives or investments but that this would involve significantly (29%) or moderately (14%) more cost, time and uncertainty;
- **City Circle Route:** the majority of respondents (67%) felt that they would still be able to deliver their own investments/objectives in the absence of the project however this was countered by some respondents (17%) who felt they would not be able to deliver their objectives. Remaining respondents (17%) said they would be able to deliver the benefits identified but that this would involve 'significantly more time, cost and uncertainty';
- **St Nicholas House:** of those respondents who answered this question the following two options were selected: 80% identified that without this scheme it is likely that 'yes: we will be able to deliver similar benefits without any difference in time or effort on outcomes' followed closely by 20% who stated 'yes: we will be able to deliver similar benefits but this may involve moderately more time, costs and less certain outcomes';
- **Upper Denburn Valley:** views were similar to those for St Nicholas House with the majority of respondents (67%) identifying that without this scheme it is likely that 'yes: we will be able to deliver similar benefits without any difference in time or effort on outcomes' followed by 33% who stated 'yes: we will be able to deliver similar benefits but this may involve moderately more time, costs and less certain outcomes'; and,
- **Art Gallery Linkages:** respondents had a more mixed view on their ability to meet their objectives in the absence of this project. The majority (57%) suggested that 'yes: we will be able to deliver similar benefits without any difference in time or effort on outcomes' but this contrasted with 14% of respondents who responded 'no: without this development we will not be able to secure the benefits identified'. The remainder said they would be able to meet their objectives but that this would involve significantly (14%) or moderately (14%) more cost, time and uncertainty.

5.7.13. These responses reflect both the continued potential of the local economy to grow and the further stimulus, in terms of the level and timing of development that the TIF is likely to deliver.

Cohort Two Final Conclusions

5.7.14. As for Cohort One, in concluding the survey, respondents in Cohort Two were asked to provide comments, ranked in order of preference, in relation to the three: key benefits, negative impacts, next steps and risks to development they anticipated. Only some of the consultees provided responses with many indicating they had provided views through the E-survey. The comments that were provided, or were recorded in telephone interviews, may be summarised as follows:

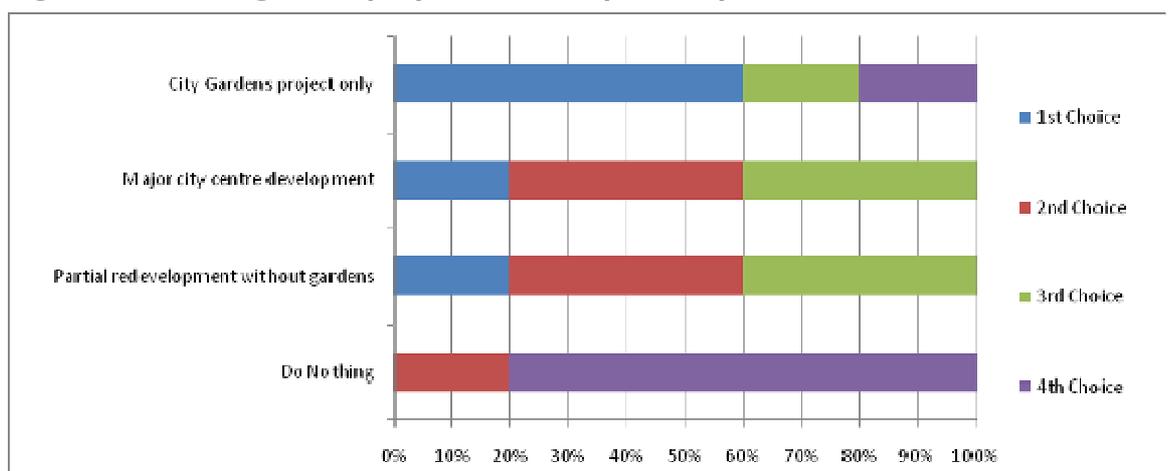
- **Key Benefits:** In general respondents felt that currently the City Centre contributed very little, or even negatively, to their operations and that it "will continue its decline if it stands still". In that regard respondents viewed the TIF

Scheme positively and identified tourism and increased investment as key benefits. Improving the image of the City Centre, its attractiveness and “sense of place” was also highlighted in helping to “draw people back into the City as a place to live and work”. The City Gardens was viewed as being the scheme most likely to improve the City Centre,

- Key Negative Impacts:** There was a degree of concern from respondents with regards to the public sector contributing to the costs of the scheme and the impact this might have on Council finances. In particular some developers felt it was unnecessary for any public contribution to development of St Nicholas House and Denburn Valley being required. Negative publicity and mixed public perception of the scheme was also felt to be damaging to the City by some respondents. Some views were expressed that the project did little to address the poor accessibility and lack of car parking in the City Centre;
- Key Actions:** A number of respondents suggested more focus should be placed on securing more private sector funding for the proposals to reduce the need for public borrowing. Further consideration of how the proposals might improve the accessibility of the City Centre (particularly car parking) was highlighted as an area for consideration. Finally respondents identified the need for stronger and “more creative” marketing of the project to secure stakeholder buy in as an important action; and
- Risks to Development:** No further views were provided outside of responses to the development focussed questions.

5.7.15. Finally, in concluding the survey, consultees were asked to rank the four development options in order of importance from 1 (being most important) to 4 (being least important). As illustrated at Figure 13 below, over 60% of respondents ranked the ‘City Gardens only’ option as their first choice. The ‘Do Nothing’ option was ranked fourth (least important) by over 80% of respondents. When first and second choices are taken together respondents ranked the ‘major City Centre development’ (60%) and ‘partial redevelopment’ (60%) the joint second favourite option.

Figure 13: Ranking of the proposed development options



5.8. Gross and Net Impacts-Gross Future Development Profile

5.8.1. It is apparent from the survey responses that, while development will take place without TIF, the pace and range of private sector investment may not be the same. Left to the market, there may be slower, reduced and less certain patterns of development. By implication, therefore, the TIF by enhancing the City Centre is likely to accelerate and increase the scale of planned development.

5.8.2. The baseline gross level of development anticipated to arise under the 'with TIF' scenario (as represented by the profile of development sites identified within the RLAs, per Section 6), comprises 20 sites across a range of potential development types as indicated in Table 6 below.

Table 6: Summary of identified development sites within the TIF RLA

Type of Development	No. of Sites	Amount Expected ('000 sq ft)
Leisure / Retail	2	86
Office	10	951
Cultural	1	67
Industrial	5	2,364
Hotel	2	250 beds
Total	20	3,468 (250 beds)

5.8.3. In assessing the potential net impacts of the TIF proposals, the questions that ACC and their advisors have focused upon, relative to this baseline and drawing upon the views of stakeholder consultations, are:

- What is the likely extent, profile and timing of development **without** TIF and, in contrast
- What differences, in extent, timing and profile, is likely **with** TIF

5.9. Counterfactual – 'but for' test & Deadweight

5.9.1. The counterfactual (But for Case) considers, in the absence of any intervention by the public sector, 'what might happen anyway'. It represents the baseline from which any additional benefits may be measured and is typically termed the 'deadweight outcome' that should be subtracted from the benefits anticipated to arise if an intervention is taken forward. In relation to the identified development sites this deadweight outcome is the level of development that may proceed without any of the proposed development projects being delivered.

5.9.2. Responses from both Cohort One & Two indicated that, in the absence of TIF, the future of the City Centre is expected to decline and it will become increasingly difficult for Aberdeen to attract and retain investment (63.9% of Cohort One respondents indicated 'decline significantly or 'decline modestly' in relation to the future of the City Centre without TIF).

5.9.3. From the responses received from developers (as detailed at Cohort Two) it was apparent that some of the sites identified as likely to be influenced by the TIF funded projects are also likely to be taken forward without these projects being delivered. It was also apparent, however, that individual developers and other respondents

identified potential uplifts in activity as a result of TIF and they further recognised that the timing of investments would be brought forward as a result of TIF.

5.9.4. Following initial consideration of the responses received from both Cohorts, a briefing note was prepared by ACC, ACGT Enterprises, PwC and CBRE for further consideration by Cohort Two. This briefing note highlighted, and was intended to test, the key assumptions emerging from the initial analysis in relation to potential levels of displacement and the counterfactual likely to occur as a result of the proposed TIF Scheme. Consultees were invited to comment on whether these assumptions were appropriate (and in particular whether alternative assumptions should be considered). No recipients provided any further views, implicitly suggesting acceptance of the projections in relation to “with TIF” and “without TIF” outcomes.

5.9.5. These assumptions are that, in the City Centre:

- The redevelopment of two developments will go ahead regardless of the TIF Scheme,
- On average, and given current market conditions, only 40% of the other potential developments identified are likely to go ahead with any degree of certainty without the TIF Scheme. This is subject to timing.
- On average, the TIF project will serve to accelerate and bring forward delivery of the other developments identified by up to three years (including in the latter case of the two developments); and,

5.9.6. Based on the above assumptions and having regard to the potential uplifts arising from TIF that might occur outwith the City Centre (including the Dyce Drive and AECC/A90 satellite areas) – notwithstanding the need to provide a “single” displacement value³⁰ – the average level of deadweight may be in the region of 25% over the 25 years of the TIF (i.e. accounting for both the differences in the profile and timing of development likely to arise with and without the TIF).

5.10. Displacement

5.10.1. Initial survey analysis and expectations relating to future growth prospects implies minimal displacement. This view was developed based upon the evidence that:-

- around 95% of the proposed uplift in development is likely to be office and /or industrial units, and
- the uptake of these units – given growth prospects – is likely to be either from inward investors or indigenous organisational relocations and expansions (that might otherwise have invested out with Scotland and the UK);

Given the above, the project team and its adviser’s view was that displacement is anticipated to be minimal, and as such an initial level of 10% was included projections, reflecting the nature of the likely business activity enabled by the TIF: inward investment and the growth of new technology and manufacturing sectors.

³⁰ Following submission of earlier versions of the business case, SFT have confirmed that deadweight should not be factored into the financial model and only displacement should be accounted..

- 5.10.2. To provide further comfort, however, in relation to such an assumption for key external stakeholders, i.e. SFT and Scottish Government, a further benchmarking exercise was undertaken in relation to the above outturn displacement figure vs. evidence from Scotland and the rest of the UK.
- 5.10.3. Accordingly the Business Case has reviewed various Scottish Enterprise evaluation studies that identify displacement impacts relating to:
- Inward investment projects (including the SDI policy evaluation 2010); and
 - Research and Development //High Tech activity (including the evaluation of Smart: Scotland)³¹.
- 5.10.4. As indicated, in Table 7 below, these suggest displacement levels in relation to the above for the different classes of activity:
- Inward investment of an average of between 11% to 22 %; and,
 - Research and development/High technology of 7% to 13%

Table 7 Displacement by Project Type

Project Type	Displacement	Source
Inward Investment	22% (turnover) 17% (employment)	Evaluation of the Global Companies Development Programme, Report to Scottish Enterprise, SQW consulting, John Nolan, February 2009
	11% (internationalisation) 20% (inward investment)	SDI Policy Evaluation, SQW Consulting, Bruce Macdonald, May 2010
R&D/ High tech	12%	Project Review: Alba and Hillington Innovation Centres, Final Report for Scottish Enterprise, Frontline Consultants, October 2009
	Employment: 8% to 20% (13% on average) GVA: 9% to 20% (12% on average)	Evaluation of Smart: Scotland, Scottish Government Social Research, PACEC, Nic Boyns, Rod Spires, Mark Cox, 2009
	11% (average)	<£100,000 R&D Grant and Innovation Support Grant Evaluation, Final Report for Scottish Enterprise, Frontline Consultants, 2010
	7% (average)	R&D Grant Evaluation, Final Report for Scottish Enterprise, Frontline Consultants, 2009

- 5.10.5. While the latter Research and Development levels are in line with our original expectations based on a prudent view of the future, adopting the higher range of 22% inward investment displacement to the office and industrial components of the projected uplifts would represent an even more prudent approach. This also recognises that a worse case scenario may lead to high levels (given 22% is an average), but, for the purposes of TIF and providing a 'single figure', adopting this average is likely to be appropriate given the nature of the activity enabled by TIF,

³¹ This is consistent with ACSEF Energetica Development Zone two areas of which are the two satellite areas within is part of the TIF RLA

which builds upon the inward investment nature of Aberdeen and attracting new sectors and activities in Scotland, not already present to any great extent in Scotland.

- 5.10.6. In relation to the Leisure and Culture aspects of the current proposal we have reviewed the evidence available from the evaluation of the English Regional Development Agencies, which covered over 60% of their total economic development expenditure.³²
- 5.10.7. This analysis suggests that, at a regional level, media displacement effects related to leisure and cultural projects are likely to be around 28.5% (across a range of between 3% and 95%).
- 5.10.8. Adopting this prudent approach to establish the potential displacement values for the current profiles of likely development (on the same rationale as above) suggests – as detailed in Table 8 – an overall single displacement value of around 22.3%. Table * details the basis of arriving at such a weighted figure, as required by SFT TIF guidance.

Table 8 Displacement by Development Type

Type of Development	Total Square Feet	Displacement %	Displacement Square Feet
Leisure and Cultural	152,995	28.5 %	43,604
Office	951,315	22 %	209,289
Industrial	2,363,754	22 %	520,025
Total	3,468,024	22.3 %	772,919

5.11. Displacement, Leakage, Substitution, Multiplier Effects

- 5.11.1. Displacement aims to take into account the activities and benefits that may be diverted or in other ways negatively affected as a result of any given intervention. This impact is of particular importance for TIF as it allows ACC to consider what activity, and therefore rate receipts, may be displaced from elsewhere in Aberdeen and, for national policy makers, to consider such potential impacts on the rest of Scotland. Moreover, by considering now what types of displacement may potentially arise in the future it is possible to review and implement mitigation approaches to reduce and minimise such negative impacts.
- 5.11.2. As reflected by the TIF Scheme’s rationale and objectives in Section 2, the purpose of taking forward these proposals is to ensure that (mobile) investors and businesses already in the City do not leave to other global energy cities and, equally, (inward) investors will decide to relocate to the City, enhancing its current offering and developing new industries and sectors building upon Aberdeen’s existing expertise and capability. Further, in drawing the TIF RLA, ACC selected the Dyce Drive and AECC/A90 satellite areas on the basis that these areas are most likely to be attractive to the sort of globally mobile investment the City is trying to attract (being close to the airport and existing Science and Innovation parks) and less likely to compete with existing sites and regional locations, thus minimising displacement.

³² BERR (2009) – ‘Impact of RDA Spending’

- 5.11.3. It is apparent, therefore, that a significant element of any future investment resulting from the TIF Scheme will be related to activities and investments that would not otherwise take place in the City, or across Scotland as a whole. This is due to the global nature of Aberdeen's economy. The mobile investment it seeks to attract is from outwith Scotland, thus the displacement percentage from other areas in Scotland (and within the City) is seen to be minimal. This aligns well with ACC's current LDP 2012 and aligns to the City Regions current Structure Plan. In short, on this basis, it is believed there is likely to be little or no 'displacement' of other activities in the City and from other parts of Scotland as a result of TIF related activity. Accordingly it is expected, by ACGT, ACC and CBRE, that displacement levels will be closer to the 10% level outlined above, but for prudence has the single displacement rate of 22.3% has been used.
- 5.11.4. This assumption was primarily based on the responses identified at Figure 11 which indicated that, in the majority of cases, little or no displacement is likely as a result of the planned projects; and the subsequent follow up with Cohort Two (as per the last assumption above under the deadweight section above) that such a percentage was likely to be prudent.
- 5.11.5. However, different development segments will most likely have a different impact in terms of displacing economic activity. Although industrial developments in Aberdeen will have low displacement impact due to the fact that these developments are servicing a global market, mainly related to the oil and gas and emerging renewable energy sectors, this is not necessarily the case for the retail, office, hotel and cultural developments. These segments generally service a more local market and therefore have the potential to create higher levels of displacement than the forecast industrial developments. Accordingly, following discussions with SFT, the benchmarking exercise and taking account displacement levels used in previously approved Scottish TIF schemes; the Business Case has considered appropriate displacement levels of 22.3% which is discussed further in this section.

5.12. **Net Impact**

- 5.12.1. In considering the economic impact of the TIF it is necessary to apply both the counterfactual and displacement effects identified to the gross profile of development anticipated. Per 5.9.6 deadweight³³ effects are estimated to fall in the region of 25% over the TIF period and a similarly average displacement has been estimated at an average of 22.3%, per 5.10.8 and 5.11.5. Additionally, assumptions need to be made with regard to leakage and multiplier impacts i.e. subsequent rounds of expenditure that either occur outside ("leakage") or inside ("multiplier") the local TIF area.
- 5.12.2. To assess the proposed economic benefits likely to be supported by the forecast development, in employment terms, standard job density ratios³⁴ have been applied to each of the development types that are expected to be delivered as part of the forecast development planned for each of the 20 development sites within the TIF RLA (excluding housing), as previously identified in Table 6.

³³Deadweight refers to development that will happen irrespective of any TIF scheme.

³⁴ As detailed in the English Partnerships: "Employment Densities: A Full Guide". Since there are no equivalent Scottish data sources, this guide is therefore typically adopted – in the absence of any specific job estimates – in Scottish Enterprise assessments. Subsequent review of the latest Off PAT employment densities research study (2010) also suggests that, given the mix of uses illustrated at Table 7, the employment ratios used are consistent with current best practice.

5.12.3. The job density ratios, applied to each type of development activity, are outlined in Table 9 below.

Table 9 - FTE Job Density Ratios square feet

Sector	FTE Job Density ratio
Leisure/Retail ³⁵	194 sq ft per employee
Office ³⁶	205 sq ft per employee
Cultural	390 sq ft per employee
Industrial ³⁷	453 sq ft per employee
Hotels ³⁸	0.8 employees per room

5.12.4. Finally an estimate is provided for “leakage” (i.e. representing the loss of income (and related employment and GVA) to the local economy if the assets are developed). This issue was not raised with survey respondents because it is premature to do so (i.e. it is not practical currently to identify, for example, how much of the employment and related services that might support future developments would be sourced from outwith Aberdeen)³⁹.

5.12.5. On this basis Table 10 below details the net additional FTE outcomes after applying deadweight, displacement, leakage and multiplier effects to the gross development profile previously identified in Table 6. This represents the anticipated outcome by the end of the TIF period (year 25, 2039), once all the identified development has been completed and occupied.

Table 10 - Gross to Net Analysis Additionality (at year 25)

Type of development	Leisure / Retail	Office	Cultural	Industrial	Hotel	Total
Gross Floor space ('000 sq ft/beds)	86	951	67	2,364	250	3,468
Deadweight	25%	25%	25%	25%	25%	N/A
Displacement	28.5%	22%	28.5%	22%	28.5%	N/A
Net of Deadweight & Displacement ('000 sq ft/beds)	40	504	31	1,253	116	1,828
FTE's Net of Deadweight and Displacement	206	2,459	80	2,769	93	5,607
Leakage	10%	10%	10%	10%	10%	10%
Multiplier Effects ⁴⁰	1.3	1.3	1.3	1.3	1.3	1.3
Net FTEs	241	2,878	93	3,239	109	6,560

³⁵ Based on the English Partnership guide the retail metric applied is a weighted average of 205 sqft. per employee for a “food superstore” (45%), 215 sqft. per employee for “town/City Centre retail” (40%) and 108 sqft. per employee for “small retail” (15%).

³⁶ This is based on the English Partnership metric for “general office”.

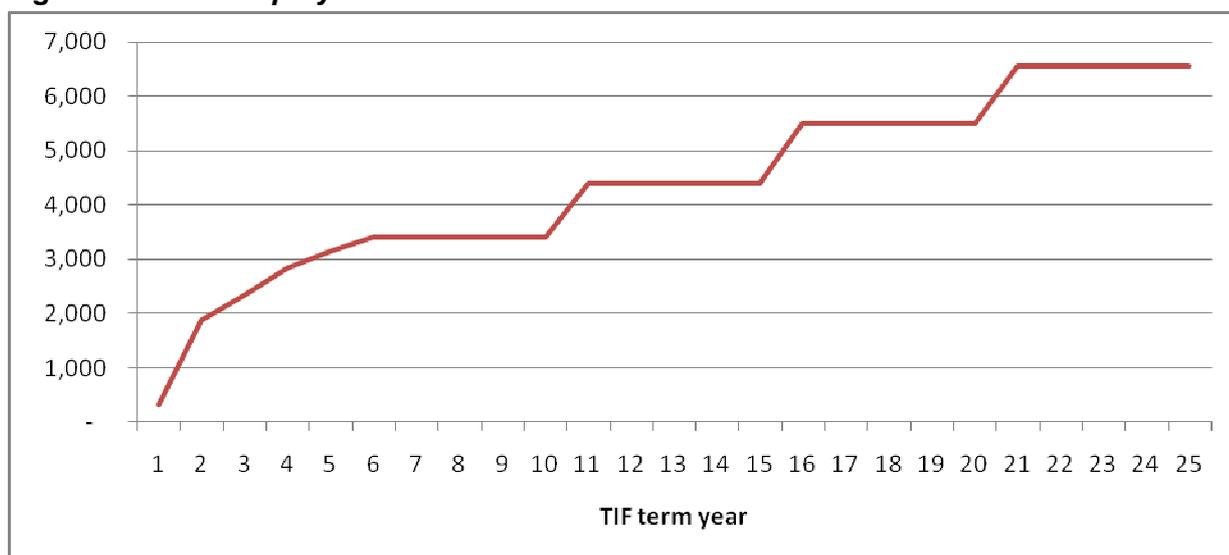
³⁷ Based on the English Partnerships guide a 50:50 weighting has been applied to the general industrial and general warehousing categories.

³⁸ Based on the English Partnerships Guide, 4/5* hotel.

³⁹ It is likely in practice that some leakage may occur and, therefore, a low level for this effect of 10% has been adopted.

5.12.6. Once the levels of additionality have been applied to the average net floor space developed, employment is estimated to be in the region of 6, FTE employees by year 25 (averaging 262 jobs per annum over 25 years). The anticipated benefits of the scheme accrue over time as new development comes forward. This is illustrated at Figure 14 below which indicates that, 5 years into the TIF, around 3,400 net jobs will be supported rising to around 4,400 after 10 years. It is important to note that different job densities have been applied to different types of development, as set out in Table 7, and different types of development come on stream at different times over the 25 year period. More dense development types i.e. offices and retail are anticipated to stream quicker (in the City Centre TIF RLA) whilst less dense industrial operations will come on stream later (in the outlying satellite TIF RLA).

Figure 14 – Net Employment Trend



5.12.7. To translate jobs into net economic impact, in Gross Added Value (or “GVA”) terms, the GVA per employee for each sector has been identified and this is summarised at Table 11 below⁴¹:

Table 11 - FTE GVA per sector

Sector	GVA per employee (£)
Leisure/Retail	23,267
Office	43,519
Cultural	17,237
Industrial	51,739
Hotels	15,712

5.12.8. These values have been applied to the identified net employment profile at Table 10. Expressed in today’s terms (net present value at the HM Treasury real discount rate of 3.5%), it is anticipated that there will be an additional contribution to GVA, on average,

⁴¹ Based on latest available information at time of writing, Scottish Executive Data on GVA per employee for 2008 (updated 2010) for each of the identified types of development activity.

of around £115.1 million per annum. The breakdown of this by sector is detailed at Table 12 below:

Table 12- Total GVA uplift per annum

Sector	Average Annual GVA Contribution (£m, Expressed in today's terms assuming a real discount rate of 3.5%)
Leisure/Retail	3.1
Office	74.5
Cultural	0.9
Industrial	35.7
Hotels	1.0
Total	115.1

5.13. Wider Benefits & Private Sector Leverage

5.13.1. Finally, consideration has been given to the level of private sector investment in office and industrial and hotel developments, which the investment by the public sector is likely to unlock. As summarised at Table 13 below, based upon industry standard construction cost multipliers for each of these uses, the net “with TIF Scheme” development profile is expected to represent investment by the private sector of £143 million in office, industrial and hotel developments. Combined with the £70 million of private sector contributions to deliver the TIF Scheme, the £92 million invested by the public sector is anticipated to unlock total private sector investment in office, industrial and hotel developments of approximately £213 million, representing a public to private leverage ratio of 1:2.3

Table 13 - Public: Private Property Investment Ratio

Sector	Construction Rates (£ per sq ft/bed, excluding, roads, utilities and ground works)	Net Sqft./Beds	Total Private Sector Investment (£m)
Office	125	504,197	63
Industrial	50	1,252,823	63
Hotel (beds)	150,000	116	17
Total Private Sector Property Investment	-	1,757,010 116 beds	143
Other Private Investment (donations)	-	-	70
Total Private Sector Investment (A)	-	-	213
Total Public Sector Investment (TIF) (B)	-	-	92
Total Public and Private Sector Investment	-	-	305
Public: Private Leverage Ratio (B:A)	-	-	1 : 2.3

5.13.2. The above private sector investment does not include the investment,

- Associated with main access roads and utilities to construction site boundaries;

- In cultural, leisure and retail developments, where standard costing calculations cannot be applied (due to the specialist nature and, consequent wide variation in costs related to these type of developments);
- In refurbishing and extending existing properties in the City Centre, stimulated by the TIF Scheme; and
- Made by businesses moving into property constructed as a result of the enabling infrastructure investment. This will comprise a significant investment in fixtures, fittings, plant, machinery and on-going working capital.

5.13.3. The project is also expected to have a longer term impact on the future economic performance of the City as a whole and unlock a range of future investment by the private sector in Aberdeen that is not captured in this analysis. As such the Public: Private Leverage Ratio is likely to be substantially greater than that outlined above.

5.14. **Impact of TIF on Level of Business Rates**

5.14.1. It should be noted that developers with development sites inside a TIF RLA will not be subjected to higher business rates than comparable companies located outside of the RLA, since the TIF Scheme will have no direct impact upon the level of business rates levied on companies operating within a designated TIF RLA.

5.14.2. In Scotland, the system for determining rates payable can be summarised as follows:

- Premises that are subject to business rates are given a rateable value by the Scottish Assessors Association (SAA) and local authorities then use the SAA's assessment of a property's rateable value to calculate business rates bills. The rateable value is based on the likely annual open market rent for the premises at a particular date. Rateable values are reviewed every five years (a rates revaluation) and properties that have been changed since the last revaluation (e.g. extended) can be reassessed. Current rateable values in Scotland took effect on 1 April 2010, based on rental levels at 1 April 2008 and details of the rateable value, and how it has been calculated, are shown on a property's Valuation Notice.
- To assess the rateable value, factors such as the size of the premises and how they are used are taken into account. Different parts of the premises may be valued at different levels. For example, the front part of a shop, nearest the entrance, is more valuable than space further back or storage space in the basement. The SAA provides practice notes that explain the basic principles of valuation.
- The business rates charged are calculated using the rateable value and the poundage rate set by the government. In Scotland, the standard poundage rate (paid by businesses with a rateable value of £35,000 or below) is 45.0 pence in 2012-13. For example, a property with a rateable value of £10,000 is normally charged £4,500, excluding any discounts or reductions, such as Small Business Bonus, that may be applicable. This rate will apply to bills issued from 1 April 2012.
- In 2012-13, larger businesses in Scotland (rateable value in excess of £35,000) will pay a poundage supplement of 0.8 pence, which contributes towards part of the cost of the Small Business Bonus Scheme. However, there are reductions in the rates payable for many small businesses, and if the premises are empty. (see SAA website (<http://www.saa.gov.uk/>)).

- 5.14.3. As can be seen from the above whether or not a business is located within a TIF RLA area has no direct bearing on how business rates are calculated.
- 5.14.4. If the enabling infrastructure investment, made as part of any TIF Scheme, improves the general business environment or the quality of the surrounding physical environment, it is entirely possible that this improved business and physical environment may have an impact upon the likely annual open market rent for the premises at a particular date. However, this enhanced business and physical environment could equally be offset by other factors such as a less favourable general economic climate, for example. It cannot therefore be said that a TIF Scheme will directly increase business rates.
- 5.14.5. What a TIF Scheme will do, however, is encourage new property to be constructed within the RLA and it is the business rates, generated by these new properties, that is captured under a TIF Scheme and used to fund the cost of borrowed funds invested in enabling infrastructure.
- 5.14.6. The business rates relating to new properties within a TIF RLA are therefore calculated in the same way that business rates are calculated for all business properties in Scotland, regardless of whether the property is located within a TIF RLA , as described above.
- 5.14.7. Therefore although developers and businesses moving into a TIF RLA generate a significant amount of additional economic impact, being located within a TIF RLA will have no immediate or direct bearing on the level of business rates applicable to their property.

5.15. **Conclusion**

- The economic impact of the TIF Scheme's proposed infrastructure investment is expected to stimulate, over 25 years, the creation of approximately 2 million square feet of commercial space and accelerate the development of up to a further 1.4 million square feet of commercial space.
- The TIF Scheme's Economic Impact Assessment shows that there will be an additional 6,560 FTE jobs created by 2039 (an average of 262 per year) as a result of the investment in leisure, office, cultural, industrial and hotel industries within the TIF RLA.
- Gross Value Add (GVA) averages £115.1 million per annum, at a NPV over the 25 years to 2039, with a total private investment leverage ratio of 1:2.3.
- As far as businesses and property owners/developers are concerned, being located within a TIF RLA will have no immediate or direct bearing on the level of business rates applicable to their property

6. ASSESSMENT OF NEW DEVELOPMENT AND BUSINESS RATES UPLIFT

6.1. Introduction

- 6.1.1. The TIF mechanism is predicated on capturing an uplift in incremental NNDR (and other potential incremental revenues) arising from new development within a defined boundary or TIF RLA expected to benefit from the TIF interventions.
- 6.1.2. In this section we identify the potential for such development uplift (and associated NNDR uplift) to occur within the TIF RLA identified by ACC at Section 4.4. This analysis, in conjunction with the results of the Economic Impact Assessment in Section 5 forms the basis of the revenue assumptions used in the financial assessment outlined in Section 7.
- 6.1.3. In undertaking this assessment of development uplift ACC has received specialist research support from property advisors CB Richard Ellis as well as input from ACGT and PwC.

6.2. Total Development Potential and Associated Business Rates Uplift

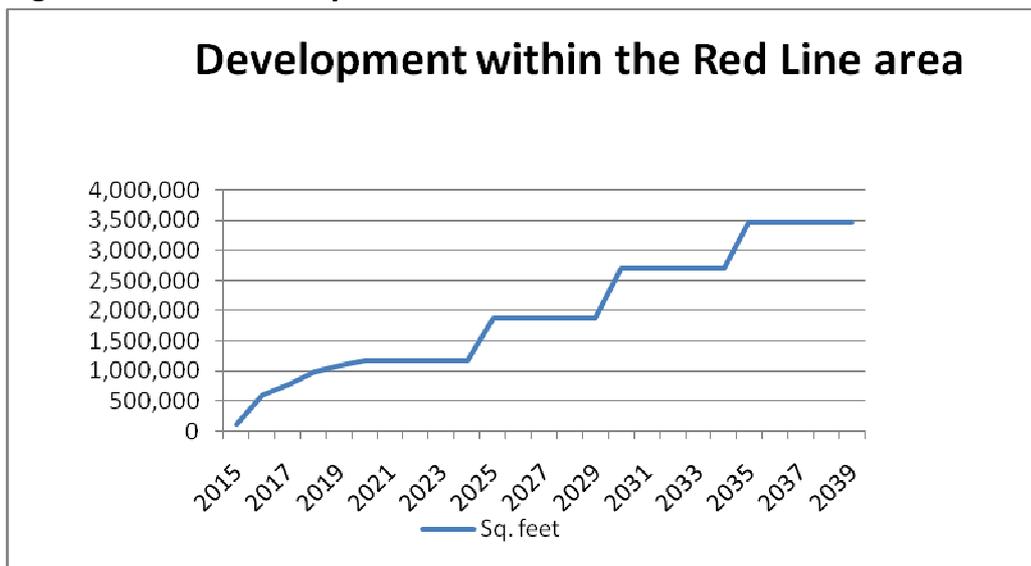
- 6.2.1. Intervention through TIF is expected to result in economic growth. One of the ways in which the public sector is able to capture this as an “exchequer benefit” is through consequent growth in the amount of NNDR paid by businesses (i.e. economic growth leads to an increase in the size of the tax pool even if the tax rate remains unchanged). SFT guidance for TIF requires that only NNDR generated by new development created within the TIF RLA may be captured under the TIF mechanism. No capture of uplift in business rates from existing properties is permitted although such uplifts could potentially arise over time as a result of the TIF investment.
- 6.2.2. SFT guidance also requires that the “NNDR baseline” remains at the level of NNDR income collected in the September before the TIF’s implementation start date.
- 6.2.3. As outlined at Section 4.4 and illustrated at Fig 3, a TIF RLA has been identified by ACC within which uplift in new development is expected to occur and be influenced by the TIF Scheme. This TIF RLA comprises:
- The main Aberdeen City Core area,
 - The Dyce Drive satellite area, and
 - The AECC/A90 satellite area.
- 6.2.4. Based upon the TIF RLA, and the responses to the Economic Impact Assessment in conjunction with ACC, CB Richard Ellis (CBRE) have undertaken an assessment of potential development sites within the RLA and consideration has been given to the scale of development these sites are expected to support and the business rate income that they could generate. By nature, such development may be realised in stages over time and the analysis has also considered these timing factors and the impact of TIF on this.

6.2.5. The following stages undertaken in identifying development potential should be noted::

- The assessment of potential development sites is reflective of ACC’s planning policy, primarily the Aberdeen Local Plan 2008 and the Aberdeen LDP 2012;
- As such, the majority of the development sites identified are within the public domain as they either have planning consent or are currently undertaking their pre-planning application consultation;
- Aberdeen City Planning & Sustainable Development Service has been consulted on the potential scale and deliverability of proposed developments as appropriate;
- The local assessor was consulted on the potential rates revenue assumptions which would be appropriate to apply to in town and out of town developments;
- ACC have confirmed the current rating position in situations where occupiers with charitable status currently occupy buildings, so this can be factored in accordingly;
- and
- CBRE have used their knowledge of the property market, the funding market and discussions with local developers to obtain an informed understanding of current and likely development conditions.

6.2.6. On the basis of the above a mix of sites, within the TIF RLA, with development potential of up to 3.468 million square feet has been identified. The anticipated profile of development of these sites in a “with TIF” scenario is as outlined at Figure 15 below:.

Figure 15: Estimated Square Feet for with TIF Scheme Scenario



6.2.7. This development profile represents about 415.6 ha, which equates to roughly 27% of the overall hectares identified in the Aberdeen City Local Plan (2008).

6.2.8. By way of comparison, the development in Westhill East (in Aberdeenshire) involved a release of 23 ha of employment land within the 2006 Aberdeenshire Local Plan and, over the past six years, this area has been fully developed. Aberdeenshire’s next Local Development Plan will release a further 23 hectares for development.

6.2.9. If the development profile in Figure 15 were to be delivered in full, it is estimated that the uplift in business rates by 2034 - with a steady state of annual revenues - could be £19.2m a year (before accounting for displacement or voids).

6.3. Incremental Rates

- 6.3.1. It is important to note that TIF only allows retention of that proportion of new rates uplift which is considered to be “genuinely additional”. This recognises that some degree of development is likely to occur even in the absence of TIF i.e. deadweight and that any new development is likely to have a spatial impact on activity elsewhere i.e. displacement. The net economic impacts of the current TIF proposals have therefore been assessed by means of an Economic Impact Assessment in the previous section of the business case (see Section 5). In addition, the consultation process for the economic impact assessment provided a means to test and further inform the assumptions made with regards to anticipated development (see the assessment undertaken in Section 5).
- 6.3.2. Section 5 also considered how such impacts may be used as a ‘proxy’ measure for estimating the net additional level of incremental business rates that can be retained through TIF.
- 6.3.3. As part of the Financial Analysis in the following section (Section 7), and in accordance with SFT guidance, adjustments will therefore be made to the gross revenue profile identified above for displacement effects. Additional allowances will also be applied for voids & bad debts. This will produce a final estimate of the net incremental revenues available to ACC to repay debt. These revenues will then be used in the financial modelling to assess the overall financial viability of the project, as well as ACC’s ability to repay prudential borrowing.

6.4. Conclusion

- The TIF Scheme is expected to have a positive impact on the amount of new development delivered in Aberdeen.
- A TIF RLA has been identified by ACC within which such uplifts in development are considered most likely.
- Within the TIF RLA a mix of 20 sites with development potential of up to 3.468 million square feet have been identified.
- The TIF Scheme is expected to lead to this development potential being realised in full by 2035.
- If the forecast development profile is delivered in full, it is estimated that the outturn of business rates (NNDR) by 2034 - with a steady state of annual revenues - could be £19.2m a year.
- The forecast uplift in NNDR, in accordance with SFT guidelines, needs to be adjusted to take account of displacement effects as well as voids and bad debt, to arrive at the forecast net additional NNDR generated by the TIF Scheme (see following section)

7. FINANCIAL ANALYSIS OF TIF BORROWING

7.1. Introduction

7.1.1. This section draws together the outputs and conclusions of the previous sections of the report to assess the overall financial viability of the project, including the:

1. Assessment of the TIF capital costs and associated timetable in Section 4;
2. Estimated level of gross incremental business rates identified in Section 6; and,
3. Adjustments required to the level of gross incremental business rates to obtain net incremental revenues, reflecting the conclusions of the Economic Impact Assessment in Section 5 with regards to displacement.

7.1.2. Financial impacts have primarily been evaluated with reference to a Financial Model developed by PwC, which forecasts 'base case' 25 year cash flows for the project upon which supporting sensitivities are also undertaken (as required by the SFT TIF guidance). In addition to the information collated from the other work streams above, the key inputs and assumptions which drive the financial model are summarised in this section, along with the Financial Model base case and sensitivity results.

7.1.3. A significant proportion of the enabling infrastructure will be funded through private sector contributions and grants. ACC will, however, be borrowing significant sums through the prudential borrowing framework in order to fund the enabling infrastructure. ACC intends to repay these borrowings through the incremental NNDR receipts. To enable repayment of these borrowings the Scottish Government, through the TIF capture mechanism, will allow ACC to retain the incremental NNDR which is likely to have arisen as a result of the project.

7.1.4. It is therefore essential for ACC to understand the ability of the estimated NNDR flows arising out of TIF to service and repay the upfront borrowings over time, and within the proposed 25 year term. Part of the TIF arrangements will be a binding commitment from the Scottish Government to ring fence the incremental NNDR collected from within the agreed TIF RLA for retention by ACC, in order to cover the cost of borrowing over a proposed term of 25 years.

7.2. Base Case Assumptions

Capital Expenditure

7.2.1. Section 4 outlines the costs associated with delivering the project. In total, an estimated £182m is required to deliver the City Centre Regeneration scheme. The public sector investment required to realise the TIF Scheme is much lower at approximately £92m (with £20m of the remainder being received from grants and other non-council funding sources and £70m from private sector philanthropic contributions).

7.2.2. The investment profile of the publicly funded £92 million element of the TIF ⁴² is as follows:

£m	2014/2015	2015/2016	2016/2017	Total
CAPEX to be funded by TIF	8.0	56.7	27.3	92

7.2.3. For the purposes of financial modelling we have made a prudent assumption of monthly payments and drawdowns spread over the construction period. We believe this to be prudent because we anticipate that the projected spend will be greater in the later periods.

Annual Borrowing Costs

7.2.4. Annual Borrowing costs on £92 million require to be serviced within the 25 year period of the TIF, starting April 2014 when it is assumed the first tranche of debt is drawn down to fund construction of the TIF enabling infrastructure. The Public Works Loan Board (PWLB) interest rate is estimated to be 4.65% as at October 2011, when much of the initial work has been done. For prudence this rate has been retained. In addition, a further buffer of +0.55% has been included in the base case to guard against future rate fluctuation. This results in an applied interest rate of 5.20%.

7.2.5. ACC is aware that SFT have issued a discussion paper on PWLB interest rates as applied to TIF, and ACC (and other local authorities) are currently in dialogue with SFT about the implications of this. Having considered the paper, however ACC are of the view that the proposed assumptions relating to interest rates are prudent and compatible with the assumptions made as part of this business case.

7.2.6. ACC's pooled PWLB borrowing rate has been used because it is assumed that any borrowings undertaken in relation to TIF will be actively managed as part of ACC's overall portfolio of debt. This approach is also prudent as, in practice, ACC is likely to borrow to support the TIF Scheme based on a 20-25 year spot rate which at the present time is lower than the pooled rate.

7.2.7. ACC Finance officials have undertaken sensitivity analysis on PWLB rates and based on this, we estimate that the breakeven PWLB rate (where debt can still be fully repaid) is 7.4% (3.2% above the rate as at October 2011 and 2.2% above the base case assumption of 5.20%). ACC have confirmed that they would propose to mitigate against the possible risk of rising interest rates, as follows:

- By continuing to monitor PWLB rates and only starting to draw down debt when PWLB rates are acceptable;
- Staging ACC's financial contribution to the projects in the most economically advantageous manner; and

⁴² The funding of the total £182m infrastructure investment is dealt with in Section 4. This section focuses purely on TIF/ACC borrowing requirements.

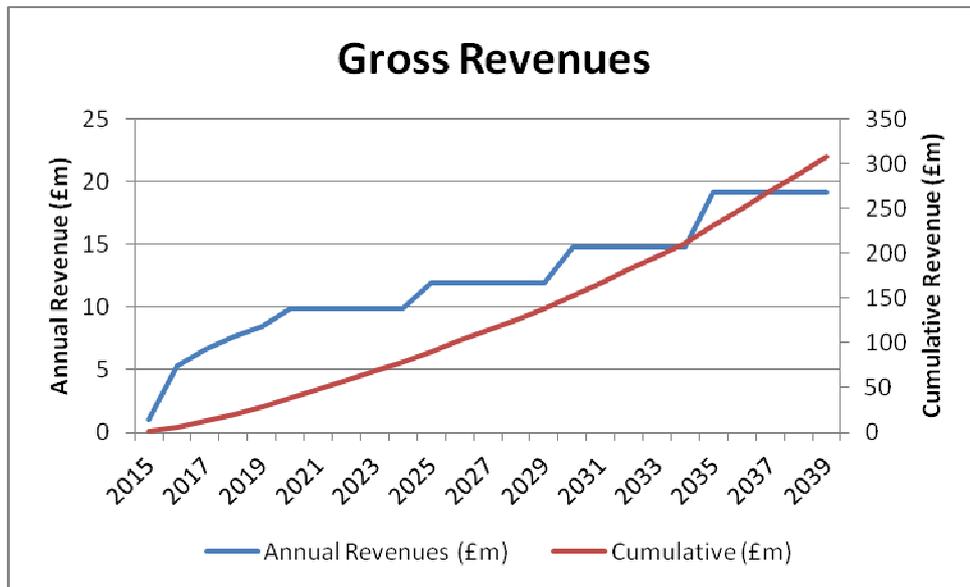
- Where rates are high in relation to other forms of funding, alternative financing options will be considered (e.g. bank debt, bonds, use of reserves etc).

Incremental Revenues

7.2.8. Gross NNDR

- The Gross NNDR revenues that are expected to arise within the TIF RLA as a result of the project are derived from the 3,468 million square feet of sites identified in the Incremental Revenues section. *These Gross NNDR revenues total £308 million over the 25 year period* and are illustrated annually in Figure 16.

Figure 16: Estimated Gross NNDR Revenues for with TIF Scheme Scenario



7.2.9. Displacement

- The amount of incremental NNDR which a local authority can retain under TIF requires recognition of any potential loss of NNDR due to the displacement impact of the proposals on the local economy. The Economic Impact Assessment in Section 5 estimates a displacement adjustment of 22.33% be applied in this respect. For the purposes of determining the amount of revenue retained by ACC, the SFT capture mechanism excludes any deadweight impacts. Therefore to comply with SFT guidance no adjustment for deadweight is included in the financial model.

7.2.10. Occupancy Rates (Voids) & Bad Debt

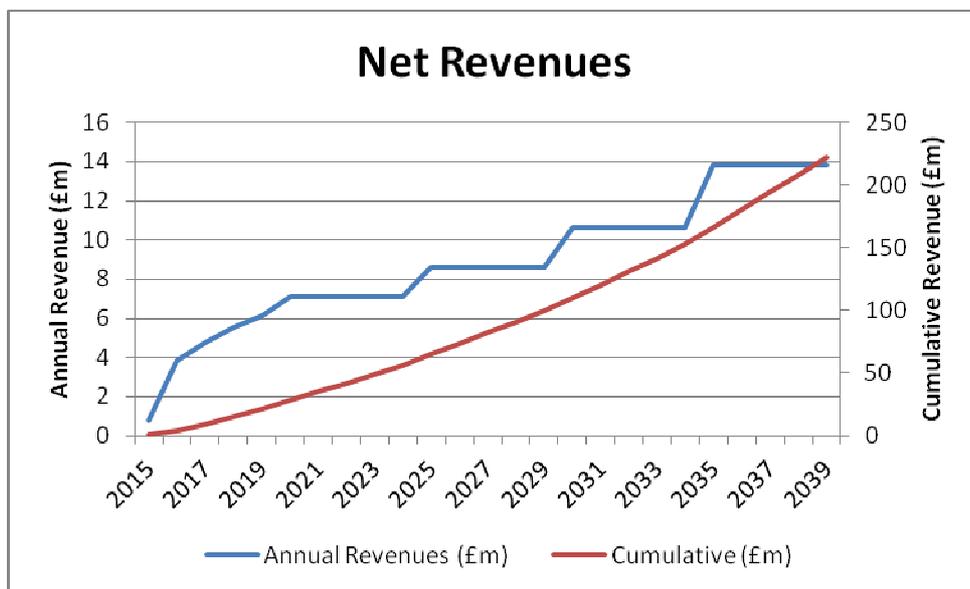
- ACC recognises that there will not be 100% occupancy of the proposed developments underpinning the incremental revenue profile. Where a property remains unoccupied then rates relief applies at 100% for the first 3 months and 50% thereafter. Based upon available Notified Return and Mid Year Return data

for financial years 09/10 – 11/12, voids and bad debt rates in Aberdeen have been in the region of 5.4 - 6.7% over the past 3 years. To take a prudent approach we have assumed a void and bad debt rate in the Financial Model (after displacement) of 7.2% for the duration of the TIF which represents the worst case over the past 3 years of 6.7% plus a 0.5% buffer reflective of ongoing economic uncertainty. This approach is consistent with ACC’s prudent approach to financial planning in the current climate..

7.2.11. Net Incremental NNDR

- Deductions are made to the Gross NNDR figure of £308 million for the 22.3% displacement assumption and for assumed voids and bad debts of 7.2% of revenue after displacement. This net NNDR revenue totals £221.8 million over the 25 year period, assuming there is no NNDR increment over the same 25 year period. These Net Incremental Revenues (after deductions for displacement and voids) are illustrated in Figure 17.

Figure 17: Estimated Net Incremental Revenues for the “with TIF Scheme” Scenario



7.2.12. Other Revenue Implications

7.2.13. SFT guidance on TIF bids specifically requires the financial model to examine the capital investment for enabling infrastructure. It does not allow for ongoing annual revenue implications to be included.

7.2.14. However for completeness it should be noted that ACC’s Finance Service has examined the impact of the ongoing revenue implications if the TIF bid is successful and the following points should be noted.

- Aberdeen City’s LDP 2012 has policy and guidance regarding Developers Contributions for infrastructure. Policy I1 – Infrastructure Delivery and Developer Contributions covers the infrastructure, services and facilities such as schools, roads and essential services required to support new or expanded communities and the scale and type of developments proposed in the Masterplan Zones two

satellite areas are included in these Zones but excludes development in the City Centre Area. The policy therefore excludes contributions covering the enabling infrastructure in the City Centre as it is outwith the scope of the Policy.

- The TIF Scheme could also potentially increase the level of residential development that takes place within the City Centre TIF RLA. However, for the purpose of this business case any potential new council tax due to ACC from such residential development has been excluded. This is on the basis that such income would be required to deliver council services to the new residents.
- In line with SFT guidance there is no income from uplift in incremental business rates from existing businesses modelled in the financial analysis.
- Additional General Revenue Grant (GRG) would be made to meet the increased Grant Aided Expenditure indicators (which would provide additional revenue funding to meet whole life cycle costs etc).
- Ongoing operational implications will be incurred for additional running costs and lost income.
- Capital receipts may be realised during the TIF relating to specific developments and these would be used to offset either additional; running costs/ lost income or to reduce the overall debt servicing costs.
- It is envisaged that additional rental income from the cultural, leisure or other uses provided for in the City Gardens Project will be achieved.
- The overall revenue impact, given the above, is therefore assumed to be cost neutral.

7.2.15. Timings

- The TIF capture mechanism allows incremental revenues flowing from the enabled uplifts within the TIF RLA to be captured for 25 years from the date at which the first tranche of debt is drawn to fund the capital costs associated with the enabling infrastructure. It is noteworthy that expenditure incurred prior to this date which is funded by private sector donations/ other sources will relate to design, planning etc and not capital expenditure.. The financial model assumes that the first drawdown takes place during the semi-annual period April - Sept 2014. As such the incremental revenues are assumed to be captured for 25 years from 01 April 2014 up to 31 March 2039.
- In addition it is necessary for a baseline date to be agreed at which point revenue arising prior to the TIF (and to be subtracted from the NNDR collected within the TIF RLA post TIF) will be estimated. SFT's guidance on the setting of the baseline acknowledges that it should be set in advance of the hypothecation commencement date of the TIF Scheme, in order to capture uplifts in developer sentiment and economic activity following approval of any TIF business case, but prior to the first drawdowns and revenue capture commencing. The guidance currently proposes a baseline date of the 1st September prior to the financial year in which the TIF is to commence which, for the proposed Aberdeen TIF Scheme, would be September 2013.

7.3. Summary of Key Base Case Inputs

7.3.1. The key inputs to the financial model are as summarised in Table 14 below.

Table 14 - Summary of Base Case Assumptions

Assumption	Value
Total Capital Expenditure	£182m
Private Sector Contributions	(£70m)
Grants and/or other non-ACC funding	(£20m)
Prudential Borrowing Requirement	£92m
Drawdown Start Date	01 April 2014
Drawdown End Date	31 March 2017
PWLB 25 year Interest Rate (August 2011)	4.65%
Council Interest Rate Buffer	0.55%
Total Interest Rate assumed	5.20%
Displacement	22.3%
Void Rate/Bad Debt	7.2%
Date at which TIF Baseline Frozen	September 2013
TIF Rate Capture Period	25 years
End of TIF Term	31 March 2039

7.3.2. ACC officials have confirmed that they agree that the PWLB 25 year interest rate, Council buffer and Total interest rate are prudent, given current rates whilst the displacement rate has come from the Economic Impact Assessment prepared by PwC, with input from CBRE. PwC confirmed that ACC Interest Rate Buffer is reasonable; being comparable to the assumption used on other TIF projects.

7.4. Base Case Results

Revenues

- 7.4.1. Taking into account the base case assumptions outlined above, the estimated annual incremental NNDR take arising from the project in 2034 to 2035 (when maximum revenues occur) is illustrated as in Table 15 below.

Table 15 - Estimated Maximum Income (2034 to 2035), (at 2014 prices)

	£m
Incremental NNDR	19.2
Rental Income	0.0
Less 22.3 % non-additionality (displacement)	(4.3)
Income less non additionality	14.9
Less 7.2% Voids/Bad Debt	(1.1)
Net NNDR Income for TIF	13.8

Note: that this level of income is not achieved until 2034.

- 7.4.2. The debt profile (drawdown and repayment) over the 25 year period is shown below in Table 16.

Table 16 - Debt profile over the 25 year period (values in £m rounded to nearest £100k)

Financial Year Ending	NNDR Income (cashflow available to service and repay debt)	Drawings for Capital Expenditure and Rolled Up Interest	Debt Service - Interest Payments	Debt Service - Principal Repayments	Total Debt Service	Cashflow Surpluses	Outstanding Debt Balance
31-Mar-15	0.8	8.0	0.3	0.5	0.8	0.0	7.5
31-Mar-16	3.8	56.7	1.8	2.0	3.8	0.0	62.2
31-Mar-17	4.8	27.3	3.9	0.8	4.8	0.0	88.7
31-Mar-18	5.5	0.0	4.6	0.9	5.5	0.0	87.7
31-Mar-19	6.1	0.0	4.5	1.6	6.1	0.0	86.2
31-Mar-20	7.1	0.0	4.4	2.6	7.1	0.0	83.5
31-Mar-21	7.1	0.0	4.3	2.8	7.1	0.0	80.7
31-Mar-22	7.1	0.0	4.2	2.9	7.1	0.0	77.8
31-Mar-23	7.1	0.0	4.0	3.1	7.1	0.0	74.7
31-Mar-24	7.1	0.0	3.8	3.2	7.1	0.0	71.5
31-Mar-25	8.6	0.0	3.7	4.9	8.6	0.0	66.5
31-Mar-26	8.6	0.0	3.4	5.2	8.6	0.0	61.3

31-Mar-27	8.6	0.0	3.1	5.5	8.6	0.0	55.8
31-Mar-28	8.6	0.0	2.8	5.8	8.6	0.0	50.1
31-Mar-29	8.6	0.0	2.5	6.1	8.6	0.0	44.0
31-Mar-30	10.6	0.0	2.2	8.5	10.6	0.0	35.5
31-Mar-31	10.6	0.0	1.7	8.9	10.6	0.0	26.6
31-Mar-32	10.6	0.0	1.3	9.4	10.6	0.0	17.3
31-Mar-33	10.6	0.0	0.8	9.9	10.6	0.0	7.4
31-Mar-34	10.6	0.0	0.3	7.4	10.6	3.0	0.0
31-Mar-35	13.8	0.0	0.0	0.0	0.0	13.8	0.0
31-Mar-36	13.8	0.0	0.0	0.0	0.0	13.8	0.0
31-Mar-37	13.8	0.0	0.0	0.0	0.0	13.8	0.0
31-Mar-38	13.8	0.0	0.0	0.0	0.0	13.8	0.0
31-Mar-39	13.8	0.0	0.0	0.0	0.0	13.8	0.0
Totals	221.8	92.0	57.7	92.0	149.7	72.0	-

7.4.3. When considering the above table it should be noted that PwC have made a number of assumptions in relation to payment of interest and funding the interest gap, as outlined in 7.3.1 and 7.3.2. These assumptions have been discussed and agreed with ACC throughout the development of the TIF business case. They are also generally consistent with the approach taken by other Scottish TIF business cases. ACC analysis suggests that by efficiently managing the drawdown and repayment of the debt a more favourable pay-back period may be realised. This provides ACC with additional comfort that the modelling has been undertaken on a prudent basis.

7.4.4. The outstanding debt profile, revenues and expenditure have been displayed graphically in Figure 18 over leaf.

Repayment Period

7.4.5. The base case financial model prepared by PwC indicates that, where all revenues are allocated to debt service, the loan could be paid off during the period 1 to 20 years of the 25 year TIF period with a potential surplus of revenue totalling £72m between years 20-25. This provides a significant “debt tail” for ACC to mitigate any shortfall in repayments in earlier years or slower than anticipated take up of new development (and thus incremental NNDR arising). Under the terms of the TIF agreement with Scottish Government any such surpluses would be split on a 50:50 basis with ACC’s share therefore being £36m in the base case. It is stipulated in the TIF Agreement that any such ACC surplus must be spent on further infrastructure improvements (displacement continues to apply to this calculation).

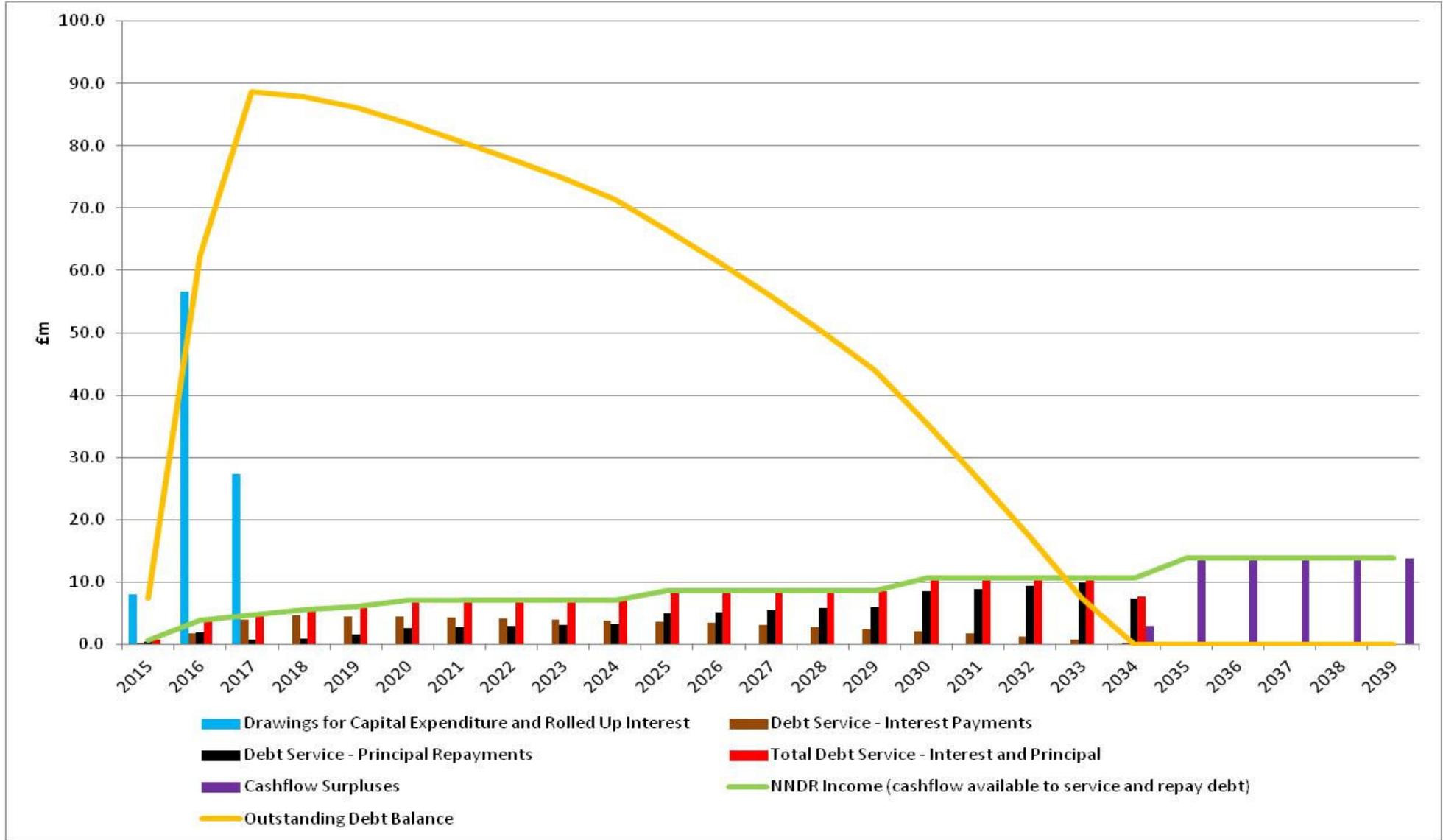
Early Years Interest Gap

7.4.6. In the early years of the TIF Scheme there will be a delay between the investment being made and the incremental revenues arising. During such a period debt service (namely interest) costs will arise on the borrowings made to fund the investment which cannot be covered by the revenues available. In these early years it is common in project finance to assume that additional borrowing is drawn down to pay the interest

due with this being “rolled up” (added) into the debt balance and repaid over the remaining term of the loan.

- 7.4.7. In the base case cash-flow produced by PwC there is no such early year’s interest gap but some of the subsequent sensitivities modelled do indicate this as an issue to consider. Where this issue arises the financial model assumes the amount is rolled up into the loan as an additional drawdown and repaid over the TIF Loan’s term in the manner outlined above. On this basis it is still possible to assess whether there is sufficient revenue in the project over time to repay all debt service costs within the 25 year TIF term.
- 7.4.8. It is, however, a feature of PWLB borrowings that interest cannot be rolled up in this way. However, whilst ACC finance officials understand the potential for such an interest gap to arise, they consider the quantum of this to be an acceptable and manageable risk in the context of the overall proposal.
- 7.4.9. Furthermore the PwC model is based upon existing assumptions around the timing of the capital expenditure and it is the expectation that an element of any interest gap could be avoided by ACC through managing the timing of its capital expenditure and agreements with the contractor. The expenditure profile is attached in Appendix 4.

Figure 18 – Summary of TIF Revenues, Expenditure and Debt Service



Sensitivity Analysis

7.4.10. In order to assess the robustness of the base case PwC have run a number of sensitivities in relation to:

- Project Costs
- Interest Rates
- Void Rates
- Delay in revenues
- Poundage Rate⁴³

7.4.11. For most TIF projects the most significant risk would be in relation to the NNDR identified not materialising or being delayed. This would result in ACC having insufficient revenues available through the TIF mechanism to service and repay their borrowings. ACC understands this risk and, with the support of its advisers, has applied prudent assumptions in relation to the incremental NNDR income forecasts.

Project Costs

7.4.12. An allowance for contingency is already included within the capital costs modelled. For additional comfort two sensitivities have been run with regards to an increase in capital cost:

- How is the project affected if there is a 10% increase in the £92m ACC contribution to capital costs funded by prudential borrowing?
- What is the maximum 'breakeven' contribution by ACC to capital expenditure coverable within the 25 year period under the base case?

7.4.13. A 10% increase in ACC's contribution to capital expenditure under the base case would result in repayment of the debt by the end of year 22 of the 25 year TIF term. As per the base case there is no early year's interest gap. The potential surplus falls to £47m of which ACC's share would be 50% on the basis outlined at 7.4.6. It is PwC's understanding that additional private sector funds are available to underwrite a substantial, unexpected increase in capital expenditure associated with the City Garden Project. This would substantially reduce the likelihood of any increase in capital expenditure related to this project in the TIF Scheme resulting in an increased public borrowing requirement.

7.4.14. Under the second scenario the model indicates that up to £23.2 million (equivalent to a 25% increase) in ACC's contribution to capital expenditure could potentially be funded by additional borrowing within the 25 year TIF term under the Base Case assumptions (i.e. a total of £115.2 million). Under this scenario the potential early year's interest gap is estimated at £0.7 million from 2016 to 2018.

⁴³ The rates charged for a property are worked out by multiplying the rateable value by the rate in the pound (also called the multiplier or the poundage).

7.4.15. In examining the risk of a cost overrun, specifically in relation to the City Gardens Project within the TIF, there is a private sector guarantee against a cost overrun for £35 million.

PWLB Rates

7.4.16. Three sensitivities have been undertaken in relation to the interest rate:

- A reduction in the PWLB rate at the point of drawdown to 4.2% including buffer (from 5.2%) for the duration of the project;
- An increase in the PWLB rate at the point of drawdown to 6.2% including buffer (from 5.2%) for the duration of the project; and
- The breakeven interest rate which results in the TIF borrowings being repaid in year 25.

7.4.17. Under the first scenario repayment is possible in a total of 18.5 years with a potential interest gap of zero and surpluses of up to £89 million.

7.4.18. Under the second scenario repayment is possible in a total of 22 years. An interest gap of £213k over the period from 2016 to 2018 is shown to arise. (see Section 7.4.7 above where PWLB risk mitigation is considered).

7.4.19. Under the third scenario an interest rate of 7.41% results in the project breaking even with the debt repaid in year 25, zero surpluses and an interest gap of £2.93 million over an elapsed period of 3 years from 01 April 2016 to 31 March 2019.

Void Rates

7.4.20. Two sensitivities have been undertaken in relation to the void rate:

- A reduction of 3% in the void rate to 4.2% for the duration of the project;
- An increase of 3% in the void rate to 10.2% for the duration of the project; and
- The level of void rate which would result in a breakeven scenario.

7.4.21. Under the first scenario repayment is possible in a total of 19.5 years with no potential interest gap and increased potential surpluses to £82 million.

7.4.22. Under the second scenario repayment is possible in a total of 20.5 years. With interest and potential surpluses of £62 million.

7.4.23. Under the third scenario a void rate of 26.8% would result in a breakeven scenario with the debt being repaid in year 25, zero surpluses and an early years interest gap of £642,000.

Delays in Revenue

7.4.24. Under this scenario we assumed a one year, two year and three year delay in the assumed revenue profile.

- 7.4.25. In a one year delay scenario repayment is possible in a total of 22 years, with a potential interest gap of £1.8 million over the 4 year period 1 April 2014- March 2018. The potential surpluses will fall to £45 million.
- 7.4.26. In a two year delay scenario repayment is possible in a total of 24 years with a potential interest gap of £7.3 million over an elapsed period of 5 years from 01 April 2014 to 31 March 2019. The potential surpluses will fall to £18 million.
- 7.4.27. In a three year delay scenario there is insufficient revenue to repay the debt in the 25 year TIF term and there would be an outstanding debt balance of £11.5 million at year 25. There would be an interest gap of £13 million over an elapsed period of 6 years from 01 April 2014 to 31 March 2020

Change in Poundage Rates

- 7.4.28. A scenario has been modelled where 1% indexation of revenues is assumed to simulate an increase in the poundage rate over time.
- 7.4.29. Under this scenario the debt is capable of being repaid in 18 years and potential surpluses increase to £115 million. There is no interest gap to be met.

7.5. Conclusions

- 7.5.1. The base case financial analysis illustrates that the incremental revenues identified at Section 6 are more than sufficient to repay the required public sector investment of £92 million identified at Section 4 and this includes consideration of the displacement effects identified in Section 5 in line with the base case assumptions.
- 7.5.2. A sensitivity analysis has been undertaken to assess the impact of a movement in the base case assumptions and the results are summarised in Table 17 over leaf. These indicate that under both upside and downside scenarios the prudential borrowing can be repaid within the 25 year TIF period and under some scenarios early repayment can be achieved. ACC has made prudent assumptions in the Base Case which it believes mitigates against any downside risks arising. For example, in the case of prudential borrowing rates a buffer of 55 bps⁴⁴ has been included in the Base Case. Section 8 highlights the mitigations put in place in relation to increases in capital cost (Risk 6, Procurement and Construction Risk).

⁴⁴ Bps stands for a basis point. This is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields.

Table 17 - Summary Table of Sensitivity results

Scenario	Prudential Borrowing (£m)	Repayment Period (years)	Potential Interest Gap (£'000)	Surpluses (£m)
Base Case	92	20	0	72
10% Increase in Capital Costs	101.2	22.5	0	47
Base Case: maximum capital expenditure serviceable within a 25 year term	115.2	25	673	0
Reduction in interest rates to 4.2%	92	18.5	0	89
Increase in interest rates to 6.2%	92	22	213	48
Breakeven interest rate of 7.41%	92	25	2,930	0
Reduction in void rates to 4.2%	92	19.5	0	82
Increase in void rates to 10.2%	92	20.5	0	62
Breakeven void rate of 26.8%	92	25	642	0
Delay in revenues of one year	92	22	1,876	45
Delay in revenues of two years	92	24	7,300	18
Delay in revenues of three years	92	Not repaid	13,000	0
1% Indexation applied to revenues	92	18	0	115

7.6. Role of Scottish Government

- 7.6.1. Before entering into any TIF arrangement, ACC will endeavour to structure an arrangement with its private sector contributors that minimises ACC's risk exposure. ACC will also require sufficient surety from the Scottish Government to ensure that NNDR will be successfully directed to the repayments of the prudential loans for the full duration of the proposed TIF terms of 25 years.
- 7.6.2. ACC anticipates the Scottish Government will enter into an unconditional agreement with ACC. This agreement will secure for ACC the right to retain a proportion of the incremental revenues within the TIF RLA for a 25 year period, sufficient in the reasonable opinion of ACC to service and repay the loan.
- 7.6.3. As a further risk mitigation factor for both the Scottish Government and ACC, it is suggested that any TIF agreement would be strengthened by containing an 'Exceptional Circumstance' clause. This will allow both parties to review the TIF position and renegotiate the Agreement terms should an extreme situation occurs.

7.7.

Conclusion

- The estimated total cost of the assets and enabling infrastructure for the TIF Scheme is £182 million.
- Pledged donations towards the City Garden Project of £70 million and potential grants for the Aberdeen Art Gallery of £20 million creates a public sector investment requirement of £92 million, or marginally over 50% of the total cost, which will be borrowed by ACC as part of the proposed TIF Scheme.
- The £92 million infrastructure investment costs (plus interest) will be repaid solely through the modelled NNDR within a 20 year period from first draw-down in 2014. This is based on a pooled interest rate of 5.2%. This also takes prudent account of displacement and void/bad debt effects.
- The repayment period of 20 years is on the assumption that void/baddebt levels are 7.2% and displacement is built into the model at 22.3%.
- Included within the Business Case is a sensitivity analysis which details the level of risk associated with each of the base assumptions.

8. RISK

8.1. Areas of Risk

8.1.1. ACC has considered the risks as described and analysed them accordingly (green= low; amber = medium and red = high) in the Table 18 below and the Financial risks, mitigations and implications to ACC are further detailed in Section 8.7 and Table 19.

Table 18 - Areas of Risk and Mitigations

Description	A Likelihood 1-4	B Impact 1-5	Overall Risk (AxB)	Mitigation
Risk 1 Losing the private pledges and donations through being unable to attract the required match funding. The pledges are contingent on the City Garden Project	3	5	15	<ul style="list-style-type: none"> • Work collaboratively to create a robust business case to attract other funding • The aim is to ensure that the pledged funds can be utilised as front end funding prior to the drawdown of TIF finances • There is £55 million of pledged philanthropic donations with a further £15 million required. The sourcing of these funds, if not provided before hand may form part of the development agreement with ACGT.
Risk 2 Third Party Challenges	3	5	15	<ul style="list-style-type: none"> • Ensure development agreements in place for each redevelopment project • Adherence to mitigate State Aid risks • Establish the TIF Executive provide oversight and a governance structure which will ensure the delivery of the TIF Scheme so to provide risk management of all five projects. (see section 9.3)
Risk 3 Funding - Fail to gain approval from Scottish Government for Tax Incremental Funding	2	5	10	<ul style="list-style-type: none"> • Create a robust business case to attract other funding • Ensure ability to attract additional private sector funding for an attractive TIF Scheme which will enable and attract the needed scale of

Description	A Likelihood 1-4	B Impact 1-5	Overall Risk (AxB)	Mitigation
				development in the TIF RLA to create additional NNDR and revenues
Risk 4 Certainty of the amount and timing of the Non-domestic rates take	3	3	9	<ul style="list-style-type: none"> • Work with experienced advisers to develop a robust business case with robust sensitivity analysis and market testing • The case must be able to withstand financial, political, business and public scrutiny • Apply prudent displacement assumptions • Undertake a comprehensive survey to ensure a robust Economic Impact Assessment • Maximise private sector contribution beyond that already committed as donations and grants such as the £55k pledge from the Wood Family Trust and other private sector donors. Minimise public sector investment • Phased investment to minimise risk to ACC, by ensuring that decisions can be made at each stage on whether and how to proceed • Pursue other potential funders such as European Commission etc • Risk sharing with private sector partners / developers e.g. application or pre-let levels prior to funding. • Understand and influence the demand for development in the TIF RLAs as ultimately these new additional end users will be these paying the new business rates that will repay the TIF borrowings. Work with organisations such as SE,

Description	A Likelihood 1-4	B Impact 1-5	Overall Risk (AxB)	Mitigation
				<p>SDI to attract end users – inward investment. Publicise Aberdeen and work being.</p> <ul style="list-style-type: none"> • Work closely with existing business community to market TIF areas and ensure fit with their future plans
<p>Risk 5 Availability and ownership of land</p>	<p>3</p>	<p>3</p>	<p>9</p>	<ul style="list-style-type: none"> • Majority of land identified for the project is mainly owned by ACC and so this reduces the risk • Discussions are currently underway with identified non-ACC owners of neighbouring land to secure maximum connectivity between the City Gardens Project and the surrounding streets. Network Rail are working positively to facilitate necessary arrangements relating to construction over the railway, • Ensure consideration of the treatment of common good land.
<p>Risk 6 Procurement and Construction risk</p>	<p>3</p>	<p>3</p>	<p>9</p>	<p>The Steps taken to mitigate this risk are as follows:-</p> <ul style="list-style-type: none"> • Strict adherence to the Official Journal of the European Union (OJEU) Procurement rules • Utilising experience from the ACC's previous successful projects such as Marischal College • Robust and structured project management on a timeous basis • Explore options for private sector development agreements, and fixed price contracts; • Explore opportunities to reduce the borrowings required to the minimum needed to enable development

Description	A Likelihood 1-4	B Impact 1-5	Overall Risk (AxB)	Mitigation
				<ul style="list-style-type: none"> Utilise project SPV for delivery of the City Gardens Project to ensure appropriate experience and management of risks within SPV Optimise the timing of the debt draw-downs (e.g. phasing to allow flexibility in investment plans)
Risk 7 Political / Economic Influences/ Restrictions imposed on LA borrowing limits	1	4	4	<ul style="list-style-type: none"> ACC to implement its ongoing 5 year business plan process to accommodate costs ACGT will provide capital funding, act as developer and also make the £35 million offered by the Wood Family Trust available to cover project over-runs refer to section 1.5.2 ACC has the right to prudentially borrow and could consider exercising this right.
Risk 8 Economy goes into further recession	3	3	9	<ul style="list-style-type: none"> Part of business case sensitivity analysis
Risk 9 Reputation Risks	1	3	3	<ul style="list-style-type: none"> Need to ensure future governance and management structures are robust in order to address these issues

8.2. Asset Creation

8.2.1. ACC has the ability to invest in infrastructure and fund new assets by increasing its borrowings.

8.2.2. Creating a new asset from the North Denburn Valley Redevelopment also means that the ACC will lose valuable annual operating income from a car park which is currently operated from the current asset. Whilst this demonstrates the ACC's commitment to the project, ACC will need to ensure that it can find operational savings or other options for income creation to offset this loss.

8.3. Third Party Challenges to TIF

8.3.1. We do not envisage Third Party Developer challenges to the TIF Scheme. Challenges on other Scottish TIF Projects have come from competing private sector developers.

However, since the enabling infrastructure relates to new development sites and projects, there are no existing Section 75 agreements in place for any of the proposed development sites that are benefiting directly from the enabling infrastructure.

- 8.3.2. Challenges by developers of other sites in the City, on the basis that the TIF enabling infrastructure projects could constitute unfair State Aid to the St Nicholas House development site and the Upper Denburn development site could occur. This will be mitigated by ensuring that the full cost of this work is reflected in any value placed on this work for the purpose of valuing shares in any Joint Venture company established to realise the development or, alternatively, in the sale value of these sites, should they be sold to a developer as a precursor to their subsequent development.
- 8.3.3. A requirement of the City Garden Project, which is core to the affordability of the TIF Scheme, is that public support can be demonstrated. On March 2, 2012, the citizens of Aberdeen voted to progress the City Garden Project in accordance with the proposed "Granite Web" design by Diller, Scofidio + Renfro. 52% of the Aberdeen electorate participated in a public referendum, with 52% of those who voted supporting the project and 48% voting to retain the existing Union Terrace Gardens. There is, however, a strong possibility that opponents of the City Garden Project will seek to challenge the City Garden Project on a number of fronts as it moves forward through the detailed design and planning phases, towards the construction phase. By supporting the TIF Scheme, ACC is taking the view that these challenges will be overcome and will not prevent the TIF Scheme from going ahead.

8.4. **Procurement**

- 8.4.1. ACC will ensure that it meets and follows the strict OJEU Procurement rules. It has demonstrated with the redevelopment of Marischal College that it can deliver a major construction project on time and under budget. This is a rare accomplishment in such large projects. Similarly there have been a number of other recent construction projects undertaken by ACC which have also been successfully completed by utilising robust procurement methods.

8.5. **State Aid**

- 8.5.1. ACC has analysed the TIF Scheme and the individual projects.
- The City Gardens Project land and structures, Art Gallery Redevelopment and City Realm - City Circle will stay in Council ownership. The OJEU public procurement rules will be adhered to in the selection of development partners and contractors. Where economic operators such as food stall holders etc that use any part of these assets for their business, ACC will ensure that a commercial rate of rent is charged
 - With respect of the enabling infrastructure required for the St Nicholas House Redevelopment and the Upper Denburn Valley Redevelopment, the intention is that the both sites would be sold on at market value. So, the cost and additional value created by the enabling infrastructure will be passed across as part of the sale price, ensuring that there is no disadvantage to the existing and potential development market in Aberdeen. The aim of this enabling infrastructure for these two Redevelopment sites is to accelerate development whilst ensuring best value

is achieved for ACC. The OJEU public procurement rules will be adhered to ensure an open bidding procedure to select a developer / buyer for the assets. ACC also confirms that the sale of the St Nicholas House and its share of the Upper Denburn Valley sites will be done in accordance with the Commission Communication 97/C 209/03 on sales of land and buildings by public authorities.

- The Scottish Government State Aid Team are comfortable with ACC's approach to State Aid. ACC will continue to work with the State Aid Team to address and manage any state aid issues that may arise.

8.6. **NNDR and Revenue Generation**

8.6.1 Development over the past 15 years in the City Region shows a significant growth in development. Westhill as described in sections 2.3.3 and 6.2.8 demonstrates the rate of growth in 6-10 years. When considering whether the projected 3,468,069 square foot of new property will be delivered and occupied it is perhaps worthwhile noting that, within the City Region. The amount of new property delivered and occupied over the 15 year period from 1997 to 2011, inclusive, is 3,133,890 square foot (748,890 industrial and 2,385,000 offices). This is an annual average of 208,926 square foot. The City Region includes some property within Aberdeenshire. Nevertheless it is entirely realistic to regard the amount of new development forecast for the RLA as being a realistic figure, since the forecast 3,468,069 square foot for the TIF RLA represents an annual average of only 138,723 square foot over the 25 year period of the TIF Scheme (66.4% of the City Region's annual average over the 15 year period 1997-2011).

8.6.2 In other words, it is reasonable to assume the TIF RLA can deliver approximately the same amount of occupied new property, over the next 25 year period, as the City Region has managed to deliver over the past 15 year period (especially given the amount of new growth allowed for in the City's new LDP 2012).

8.7. **Financial Implications and risks to ACC**

8.7.1. The financial mechanics of a TIF funding mechanism are relatively straightforward in that a TIF scheme allows for public and private investment to generate additional NNDR, which the local authority is allowed to retain to repay the underlying investment. In its simplest form the additional rates can be used to "pay" for the up front investment that the local authority must make to facilitate the development. However this becomes increasingly complex when looked at over a 25 year cycle and the TIF is completed in tranches, such that the local authority will incur up front costs before generating an NNDR income stream. The Local Authority can retain the NNDR income stream up to the position where it repays its up front investment. Any further income streams after this is jointly shared with the Scottish Government. The Financial Risks to ACC are further detailed Table 19.

8.7.2. The business case shows an ambitious plan for the regeneration of the City Centre and the wider north facing business hubs, which draw on the wider business world rather than moving the business around ACC's existing boundary (or indeed Scotland), and are referred to as the two satellite industrial zones that are heavily dependent upon attracting international mobile investment.

8.7.3. Underpinning the TIF business case is the requirement for £182 million of investment in enabling infrastructure. At present the business case shows that there is a

commitment for £90 million of investment from the private sector and the need for £92 million of public sector investment.

- 8.7.4. This level of investment will generate £190 million (net of displacement and voids) of NNDR over the 25 year period as defined within the business case. Table 14 of the TIF business case illustrates the anticipated level of NNDR annually assuming a 22.3% displacement/deadweight level and 7.2% voids.
- 8.7.5. ACC's Finance Service has reviewed the underlying base line assumptions to determine the point at where the TIF will break even for each of these assumptions. In doing so it provides a commentary on the level of risk associated with each of the assumptions. It does not, however, provide assurance on the robustness of the underlying assumptions, as these have been determined by third parties with experience in these areas.
- 8.7.6. In conclusion, the business case demonstrates that, over the 25 year TIF agreement period, the TIF will be self financing in year 20 given the base assumptions outlined in Table 14 on page 93.

Sensitivity Analysis

- 8.7.7. The business case lays out a number of areas of risk and also applies a sensitivity analysis to the above base assumptions and is covered in Section 7. ACC's Finance Service can confirm that the break even point for the TIF, that is the point at which the TIF breaks even in year 25 (such that anything above this would mean the TIF is not self financing assuming all other base assumptions are static), is as follows:

Public Works Loans Boards Rates

- 8.7.8. The business case assumes that the public sector investment will be financed by way of PWLB loans at a rate of 5.2%. The current prevailing rate (at May 2012) is currently approximately 4.0%. If rates were to rise to 7.41% the TIF business case, assuming all other assumptions were static, would break even at the end of year 25. That is, if rates exceed 10.7% the TIF will not be self financing within the 25 year period.
- 8.7.9. Given current market conditions and based on the projected rates by ACC's Treasury advisors it is highly unlikely that ACC would be exposed to this level of capital financing rate as the timing of the TIF is such that ACC would aim to borrow at a significantly lower interest rate.
- 8.7.10. Further ACC would aim to utilise its cash balances and look at alternative funding mechanisms (such as bonds etc.) to continue to de-risk the level of exposure to the capital financing requirement.

Public Sector Contributions

- 8.7.11. The base assumption on the level of public sector investment, the amount the Council will have to finance, is currently estimated to be £92 million. Again, applying the break even test, this level of financing would have to rise to £115.2 million for the TIF to break even. This represents an increase in the cost to the Council of 25%.

8.7.12. Clearly the risk to the Council around this base assumption is cost over runs. There are a number of ways the Council should try to mitigate these risks and would include the following:

- Clear Governance of the individual projects contained within the TIF;
- Strong contract management of the various projects;
- Seek external bonds/guarantees to meet any cost over runs (indeed it is understood that a private sector guarantee has been made for £35 million for the Union Terrace Garden element);
- Close financial stewardship of the various projects;
- Strong Project management;
- Risk management.

Displacement

8.7.13. Displacement is the deduction from total NNDR collectable within the TIF area that relates to businesses from within the City moving from one area to another. Deadweight refers to the NNDR that would occur if the TIF did not happen – that is the natural development and growth of businesses within the City over time irrespective of whether the TIF goes ahead, which is specifically excluded from the TIF financial analysis in line with SFT guidance. The business case shows that displacement is estimated to be 22.3% of the total collectable NNDR within the TIF area.

8.7.14. The risk to ACC is that this figure is too high. For example there may be no displacement given the current economic climate for a number of years. However, the displacement level is in line with other TIF models.

8.7.15. Also, it should be noted that once the displacement rate is agreed by SFT, and fixed within the TIF agreement, there is effectively no on-going risk associated with displacement, since the applied rate cannot be retrospectively varied.

Voids

8.7.16. Whilst this was discussed in Section 7, as an identified financial risk it is worthy of further analysis. Voids relates to the level of vacant properties and bad debts that ACC may experience in the collection of NNDR. A business can also obtain empty property relief under certain circumstances and this is captured here. The base assumption is that void levels are assumed to be running at 7.2%. ACC in recent years has experienced void levels of up to 6.7%.

8.7.17. The risk to ACC is that this figure is too low. The investment laid out in the TIF can be undertaken but there is no guarantee that a business will locate itself within the TIF areas and, as such, no NNDR would be collectable. Similarly there may be a high take up of businesses that are registered charities who would receive discounts on the level of rates that would be payable. An additional buffer of 0.5% has been added to the void rate to continue to de-risk this assumption.

8.7.18. Clearly there is little ACC can do to entice the take up of new properties. However, by timing the draw down of investment and construction it would be possible to restrict the level of exposure that ACC has to the level of debt repayment. That is, the

investment would be staged to ensure that the level of take up by businesses can be more accurately known (for example through ensuring that leases/acquisitions are undertaken prior or during construction).

- 8.7.19. For the TIF business case to break even by year 25 the void level would have to be equal to or less than 26.8%.

NNDR Profile Adjustment

- 8.7.20. The assumption is that the projected level of NNDR collectable will materialise. The non take up of occupancy is covered through the voids position above. This assumption examines the possibility that the profile of NNDR will be different.
- 8.7.21. At present it is assumed that a total of £19.2 million in year 25 is collectable before applying the displacement adjustment and void levels (which takes the figure down to £13.8 million receivable by year 25).
- 8.7.22. The break even point for the NNDR profile adjustment is that the collectable amount of NNDR can be reduced by 26.8% for the TIF to still break even in year 25.
- 8.7.23. Of the total amount receivable of £13.8 million in year 25, this compares with the total Aberdeen City Council received for the financial year 2010/11 of £184 million or an increase of 7.5% in business growth over the next 25 years (an annual growth rate of 0.3% per annum).
- 8.7.24. The TIF business case has to be constructed to meet SFT guidance and this means that the NNDR poundage rate remains static over the 25 year period.

Change in NNDR Poundage Rate

- 8.7.25. In reality the NNDR rate will vary over the period and this could be upwards as well as potentially downwards. Where the poundage rate moves upwards the additional revenue that would be generated would be retained by ACC and would decrease the period it would take for the investment ACC makes to be repaid. To put this in context a 1% increase in the poundage rate annually would result in ACC repaying the proposed investment by year 18.
- 8.7.26. Conversely the poundage rate could be reduced. It is highly unlikely that the rate would be reduced annually by say 1% for the next 25 years. However, if the rate was reduced by 5% in year 3 (such that this is out with the current funding settlement period) the impact on the TIF business case would be that, assuming the reduction is a one-off reduction and remains static thereafter the repayment period would continue to be in year 21 (i.e. no change).
- 8.7.27. To manage this risk ACC upon entering agreement with the Scottish Government would need to ensure that such an eventuality, should it occur, be borne by the Scottish Government as it would materially change the TIF business case.

Financial Risk

- 8.7.28. The ultimate risk of the TIF business case is that, for whatever reason, should the cash flow from NNDR fail to materialise ACC will have already have undertaken the investment of £92 million. If we assume that this occurs ACC would be left having to finance this investment. The worst case scenario would be that simply no rates are achieved at all within the TIF. Further mitigations are explored within Table 19.
- 8.7.29. A financial risk assessment associated with the various risk scenarios above is outlined in Table 19 below-

Table 19 - Areas of Risk and Mitigations

TIF Risks - Financial				
Description	Likelihood 1-4	Impact 1-5	Overall Risk	Mitigation
Risk 1 PWLB Rate is higher than that included within the TIF model	1	3	3	<ul style="list-style-type: none"> - Current rates are approximately 4% with no expected increase imminent; - Utilise cash balances/short term borrowing until rates are more favourable. - A 0.55% buffer has been included within the model
Risk 2 Public Sector contribution is higher than anticipated	2	3	6	<ul style="list-style-type: none"> - Seek external bonds / security / guarantees on cost over runs; - Strong contract management; - Strong project management; - Close financial stewardship of projects; - Clear governance around the individual projects. - There is a £35 million guarantee against any cost overrun to the City Garden Project.
Risk 3 NNDR poundage rate decreases over time	1	2	2	<ul style="list-style-type: none"> - Current settlement period shows NNDR increasing for next 2 financial years; - Ensure any decrease is modelled and the impact notified to the Scottish Government as an exceptional item.
Risk 4 The void level is higher	2	3	6	<ul style="list-style-type: none"> - Close monitoring of developments (through "ring fencing") to identify

TIF Risks - Financial				
Description	Likelihood 1-4	Impact 1-5	Overall Risk	Mitigation
than the 7.2% modelled				NNDR contribution rates per project; <ul style="list-style-type: none"> - Ensure head leases are in place where possible; - Restrict development to reflect likely take up rates. - Included within the 7.2% is a 0.5% buffer.
Risk 5 The level of NNDR cash flow is lower than anticipated due to a reduced level of development	2	4	8	<ul style="list-style-type: none"> - Ensure voids operate within overall tolerance levels; - Ensure projects are viable individually; - Tight financial modelling to ensure financial viability continues to exist.
Risk 6 There is no additional NDR generated	1	5	5	<ul style="list-style-type: none"> - Restrict developments where possible; - Ensure pre-work leases etc are in place wherever possible; - Enter discussions with the Scottish Government as an exceptional item.
Risk 7 The level of private contributions is reduced	2	3	6	<ul style="list-style-type: none"> - Ensure legal agreements are in place prior to entering contracts; - Seek up front funding wherever possible.
Risk 8 The level of grant funding is reduced or unsuccessful	3	3	9	<ul style="list-style-type: none"> - Ensure grant funding is secured prior to entering contracts; - Examine internal cost reduction to offset loss of grant.

Conclusion

- ACC has determined the risks regarding this project but there are also risks in adopting the “do nothing” option. Though ACC has the ability to borrow, ACC has no money to fund these projects and wishes to leverage the funds made available through philanthropic donations to seek funding to redevelop the City Centre as a whole. Failure to achieve this will mean that the city and region are unable to lever future development from some of the key industries which currently operate in the city and surrounding region.
- TIF funding must create economic growth in the TIF RLA and the TIF Scheme demonstrates its ability to repay the TIF debt from additional business rates that this will create. Currently ACC is a net giver of business rates and the TIF mechanism provides an opportunity to retain new additional business rates to invest in civic infrastructure that will enable economic growth and job creation. The risk of this not happening is that development will happen at too slow a rate to be able to deliver the economic stimulus required, or that investment in Aberdeen City becomes less attractive. Failure to undertake this investment may jeopardise the economic, social and environmental sustainability of the City Region’s future.
- In a 15 year period from 1997 to 2011 the City Region, delivered and occupied, new property of 3,133,890 square foot (748,890 industrial and 2,385,000 offices). This is an annual average of 208,926 square foot. On that basis it is reasonable to assume that the TIF RLA can deliver approximately the same amount of occupied new property, over the next 25 years period, as the City Region has managed to deliver over the past 15 year period.
- The TIF business case allows for adverse movements within the model and for the TIF still to be deliverable within the base assumptions that have been set. It should be understood in conjunction with the possible scenario of all the base assumptions moving as the TIF Scheme progresses. A smaller adverse movement in a number of the base assumptions would have a similar detrimental impact on the project as a large single variance. The TIF business case therefore can be seen as robust in so far as the base assumptions that have been estimated are prudent and reasonable.
- There are a number of risks contained within these base assumptions and ACC will ensure that it mitigates these risks wherever possible.
- Ultimately the TIF business case shows that there is a robust financial model with inherent risks that would have to be managed or mitigated where possible that repays the £92 million investment within a 20 year period.

9. DELIVERY AND GOVERNANCE

9.1. Background

9.1.1. ACC has completed its move to the newly redeveloped Marischal College and has finalised extensive plans and options for the Art Gallery redevelopment. ACC officials have also worked closely with the ACGT to procure a reputable management team to run an International Design Competition for the City Garden project and the “Granite Web”, designed by Diller Scofidio + Renfro and Keppie Design, was selected as the winning design.

9.1.2. With regards to the City Garden Project – the main element of the TIF Scheme - a Project Management Board (PMB), chaired by ACC’s previous Depute Leader, was established in early 2011 to drive the project forward. This Board includes representatives from the City Council, Aberdeen City Centre Association, ACSEF, Wood Family Trust, Aberdeen City Alliance and Scottish Enterprise. It was supported by a Project Implementation Team which included experts from the same organisations plus NESTRANS, Creative Scotland and Network Rail.

9.1.3. Following the recent change of administration, the PMB has yet to be reconvened.

9.2. City Garden Project Management

9.2.1. Following the positive referendum result on 2 March 2012, the main responsibility for undertaking all key tasks relating to the City Garden Project, apart from securing the proposed TIF funding agreement, will fall to ACGT.

9.2.2. This has implications for the on-going governance of the project since ACGT will be operating as a registered charity and this means that their activities cannot be seen to be controlled, or unduly influenced, by an outside body such as the CGP PMB.

9.2.3. Consequently, during the course of March 2012, the City Garden PMB were asked to consider future governance arrangements for the City Garden Project with a view to changing the governance of the project to achieve the following:

- Retention of the PMB, in its current form, up to the point where a detailed design has been produced (December 2012), followed by the conversion of the PMB into an advisory stakeholder group. This would enable ACGT to keep the various key stakeholders informed of progress and involved in the project, as it moves forward, whilst avoiding any possible perception that they are being “controlled” or “unduly influenced” by any outside body.
- Absorption of the activities of the Project Implementation Team into ACGT, on the understanding that ACGT will establish appropriate mechanisms for involving key individuals, from the various stakeholders, at an individual task level.

9.2.4. Having agreed to the above changes in the project’s governance structure, the PMB asked ACC officials to determine whether ACC would still find it appropriate to have an internal Project Monitoring Group (PMG) for overseeing project activities and disseminating information on the project to all Councillors, via political group meetings. In addition ACC have agreed that there will be a development agreement between ACC and ACGT in accordance with the following extract of ACC Council meeting Minute 25 January 2012.

Extract from ACC Council Meeting 25 January 2012 Minute:

That ACC -

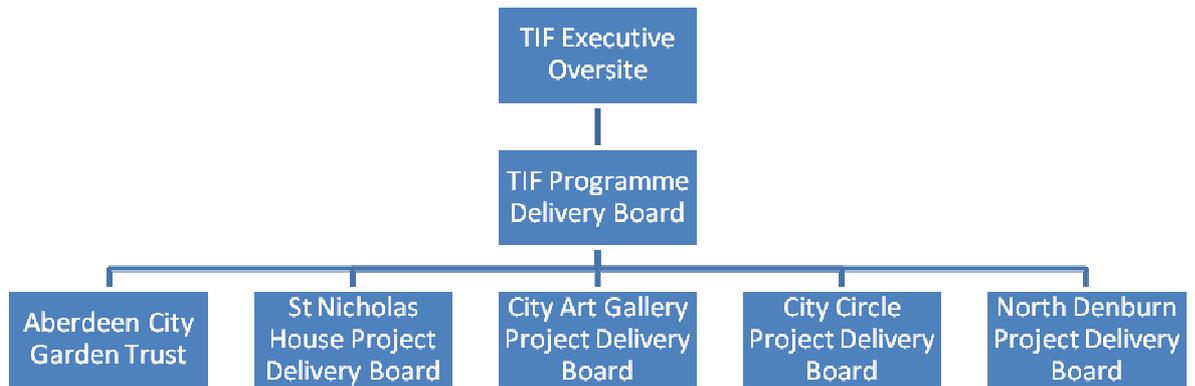
- (a) engage in future activities required to progress the CGP, subject to obtaining public endorsement of the proposed CGP design (see Appendix 1 to the report) in the proposed public referendum on 1st March 2012; and ensuring that Council engagement in such activities cannot, in any respect, be construed as prejudicial to any future planning process;
- (b) instruct officers to enter into negotiations with a view to putting in place a development agreement with Aberdeen City Gardens Trust (ACGT) and/or their representatives, which sets out the terms upon which Aberdeen City Council (ACC) would be prepared to make necessary Council owned land available, to realise the proposed development described in Appendix 1 of the report, after 1st March 2012, subject to:-
 - a. Council owned land, made available for the project, remaining in Council ownership, in perpetuity;
 - b. Any assets built upon the land in question becoming the property of ACC;
 - c. ACGT producing a viable business plan for the construction and future operation of the CGP (“the CGP Business Plan”) which will be used to underpin the development agreement, and in addition to the normal information contained within a commercial business plan, will also need to confirm:-
 - That sufficient provision has been made to enable future management and maintenance of the development, to a high standard, without the need for any direct revenue support from ACC and/or the Common Good Fund;
 - That the minimum amount of space possible, i.e. only as much as is needed to secure the development’s long-term financial sustainability, will be used for wholly commercial or semi-commercial purposes, and that the remaining space will be used for civic, cultural, communal and non-commercial leisure purposes; and
 - The expected use of the internal and external space by including a full description of the proposed civic, cultural and acceptable commercial and semi commercial uses;
- (c) require that the Finance and Resources Committee will scrutinise and approve the final terms of the development agreement before it is signed by all relevant parties as soon as practical.;

9.2.5. Rather than continue with the Project Monitoring Group as the project moves into its development phase, ACC officials will ask ACC to consider an alternative form of oversight, whereby ACGT is asked to make regular, quarterly presentations on the project’s progress, followed by a question and answer session, to which all Councillors will be invited. This presentation and minutes of the question and answer session could then be posted on the project website so the public can also be kept fully informed of progress.

9.3. **TIF Agreement Management and Control**

9.3.1. A TIF Executive will be established as per the TIF agreement, with members from ACC, SFT and Scottish Government. The TIF Executive will have high level oversight and ensure the terms of the TIF agreement are being met.

Figure 19 Governance Structure



9.3.2. To ensure the TIF Scheme is delivered effectively and efficiently, ACC will establish a TIF Programme Delivery Board with representation from each of the five projects within the TIF Scheme. The purpose of the TIF Project Delivery Board will be focused on managing and overseeing the separate Project Delivery Groups for each project. This will ensure the effective delivery of the TIF Scheme and the appropriate NNDR baseline definition and subsequent NNDR capture mechanism.

10. NEXT STEPS AND APPROVALS

10.1. Approval Process

- 10.1.1. Scottish Government approval will be sought for establishing the proposed TIF agreement and the associated hypothecation of non-domestic tax revenues from within the proposed TIF RLA. The next steps involved in obtaining this approval are outlined in Table 20 below.

Table 20 - Next Steps

Date	Action
August/September 2012	TIF agreement to be submitted to ACC Finance and Resources Committee and Full Council, for approval.
October 2012	Scottish Government and ACC to sign the TIF agreement
First TIF Investment	To be undertaken in 2014

Other steps to be taken include:

- Establish the TIF Executive
- Agreement on the roles and responsibilities of key executive management positions required for delivery of the TIF Scheme and management.
- Agreement between Scottish Government and ACC on the level of NNDR revenue from within the TIF RLA for the purpose of establishing the 2013 base from which the future uplift in rates revenue will be calculated.
- ACC to conclude Project Agreements with partners in all five projects

10.2. Conclusion

- Effective delivery and governance systems will be put in place to manage and monitor the delivery of the TIF Scheme and the five infrastructure projects within it.

OVERALL CONCLUSIONS

Overall this TIF Business Case demonstrates:

- A clear case for the regeneration of Aberdeen City Centre, using five inter-related TIF Scheme projects as a catalyst for future global investment in the city.
- Projects such as the City Gardens, Aberdeen Art Gallery, & City Circle are enabling as they are able to act both as visitor attractions, creating better access into the City Centre, as an attraction to existing and investors to the City and building on the economic base of the City. Making development projects like the St Nicholas House and North Denburn Valley also these are attractive propositions for both inward investment and end-users, enhancing the quality of space within the City.
- The ability of the TIF Scheme to stimulate development that will create new additional revenues including National Non-Domestic Rates (NNDR) to retain existing business within Scotland whilst attracting new companies, stimulate new Small and Medium-sized Enterprises (SMEs) and grow existing businesses.
- Though Aberdeen's economy is currently buoyant and is seen to be so in the next 5-10 years, this business case is designed for a 25 year term and supports how the City, building upon its oil and gas industry experience and strengths and skills can be used as the basis for encouraging new investment and economic diversification
- That 'but for TIF' ACC would be unable to fund the projects within the TIF Scheme, leading to Aberdeen seeing lower levels of economic activity over the next 25 years. Likewise it would be unrealistic for the private sector to fund projects in entirety if they have no access to funding.
- It is Important to accelerating development and influencing private sector behaviours as regards investing in the City.
- That 'but for TIF' the benefits to be obtained from investing £92 million of public loan funding, potentially £20 million of grant funding and £70 million of philanthropic private funds in necessary enabling infrastructure for the five complementary development projects, if undertaken in isolation are unable to act as a catalyst for regeneration and economic growth.
- That 'but for TIF' the City misses the opportunity to unlock the potential economic growth from the significant private sector investment and generate up to 6,560 full time equivalents (FTE) jobs and an average of £115.1 million per annum of economic growth (GVA) over 25 years.
- In a 15 year period from 1997 to 2011 the City Region, delivered and occupied, new property of 3,133,890 square foot (748,890 industrial and 2,385,000 offices). This is an annual average of 208,926 square foot. On that basis it is reasonable to assume that the TIF RLA is able to deliver approximately the same amount of occupied new property, over the next 25 years period, as the City Region has managed to deliver over the past 15 year period.
- That the proposed TIF Scheme can be financed and delivered using incremental NNDR revenues generated by net new development within the TIF Red Line Area

(RLA) around the City Centre and two satellite development areas. Indeed, the £92 million infrastructure investment costs (plus interest) will be repaid solely through the modelled NNDR within a 20 year period from first draw-down in 2014. This is based on a pooled interest rate of 5.2% and takes account of an average displacement of 22.3% and the impact of a 7.2% void/bad debt impact.

- The TIF Scheme has the capacity to deliver significant levels of additional economic activity within the City and beyond contributing significantly to Scotland's economic performance. In this regard, and given the nature of the businesses likely to be attracted / enabled by the TIF Examples include mobile global investment, renewables, with businesses not only relocating within the city, elsewhere outwith Scotland and the UK.
- The potential financial risks for this TIF Scheme have been considered, which includes increased interest rates, increased capital costs, slower ramp up of NNDR and the financial model examines the sensitivities of these base assumptions to identify the level of risk associated with the TIF scheme and these will be managed and mitigated where possible. The base case is therefore suitably robust. Additionally £35 million is available in the form of further philanthropic donations to cover cost over runs for the City Gardens Project. This reduces the risk exposure to ACC.
- Ultimately the TIF business case shows that there is a robust financial model with inherent risks that would have to be managed or mitigated where possible that repays the £92 million investment within a 20 year period.
- That suitable development agreements and effective management structures will be put in place as part of the next steps following Scottish Government approval of the business case.

12. GLOSSARY

ACC	Aberdeen City Council- Local Authority
ACGT	Aberdeen City Gardens Trust- Charitable entity established to take forward the development of the City Garden Project.
ACSEF	Aberdeen City and Shire Economic Futures- Public Private organisation that drives economic development in the North East of Scotland
Additional Rates/ (Additionality)	In the context of this business case refers to new business rates and activity enabled primarily due to the TIF scheme. This builds upon the existing business portfolio and rates take in Aberdeen and beyond.
bps	bps stands for a basis point. This is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields
CBD	A Central Business District is a commercial, office, retail & cultural centre of the city & usually is the centre point for transportation networks.
The City Region	The Aberdeen City Region covers both the Aberdeen City and Aberdeenshire Council Local Authority areas.
Deadweight	is development that will happen irrespective of any TIF scheme.
Displacement	in this business case refers to development / activity which is shifted from one area (outwith the TIF redline) to within the TIF redline area.
Enabling Infrastructure	in this business case refers to the primary public sector infrastructure funded by the TIF that will enable further development by the public and private sectors.
The North East of Scotland	This region for this business case includes the Shetlands and Orkney Islands, Moray, City Region, Angus, Dundee to Perth, Fife, Midlothian and Edinburgh,
NNDR	National Non-Domestic Rates is commonly known as 'business rates', It is a tax on properties not in domestic use, e.g. hotels, offices, manufacturing space, and shops. The amount paid is calculated by multiplying the Rateable Value of a property by the National Rate Poundage set by Scottish Ministers.

RLA	A Red Line Area is the area that will benefit from accelerated development as a result of the investment associated with the TIF scheme.
SFT	The Scottish Futures Trust - economic advisor to Scottish Government
SMEs	Small and Medium-sized Enterprises
State Aid	is where a company which obtains an advantage over its competitors as a result of receiving government support. The EC Treaty generally prohibits State Aid unless it is justified by reasons of general economic development. To ensure that this prohibition is respected and exemptions are applied equally across the European Union, the European Commission monitors the compliance of State Aid in accordance with EU rules.
TIF	Tax Incremental Financing, is a method of financing enabling infrastructure that will create additional tax income to repay the related upfront borrowing's cost..

NUTS 3 GVA by 6 industries at current basic prices (£ per head of population)

Source- Office of National Statistics

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Edinburgh City									
Agriculture forestry and fishing	18	17	19	20	19	19	18	23	22
Production	1188	1146	1120	1026	977	1096	1138	1248	1137
Construction	335	305	345	401	450	478	539	581	644
Distribution, transport and communication	1944	1843	2011	2118	2152	2183	2232	2358	2423
Business services and finance	3698	4196	5141	5522	5770	5957	6697	7439	8164
Other service activities	2473	2645	2779	2989	3227	3425	3554	3836	4131
Total GVA	9656	10153	11414	12075	12595	13158	14178	15486	16522
Glasgow City									
Agriculture forestry and fishing	5	5	4	12	12	8	8	25	27
Production	1362	1458	1390	1533	1552	1650	1749	1949	1819
Construction	552	597	621	699	729	747	878	919	928
Distribution, transport and communication	2334	2406	2576	2607	2731	2801	2884	3016	3193
Business services and finance	3200	3376	3721	3878	4327	4650	5017	5718	6412
Other service activities	3265	3559	3720	4031	4146	4175	4268	4446	4933
Total GVA	10717	11401	12033	12760	13497	14031	14788	16023	17258
Aberdeen City and Shire									
Agriculture forestry and fishing	241	236	265	286	280	226	227	260	236
Production	2257	2205	2093	1995	2131	2486	2787	2749	2985
Construction	516	567	605	626	637	638	684	769	795
Distribution, transport and communication	1734	1807	1881	1960	2016	2007	2064	2162	2256
Business services and finance	2386	2535	2678	2830	2921	3007	3271	3666	3907
Other service activities	1544	1638	1746	1882	1962	2024	2063	2110	2195
Total GVA	8679	8988	9268	9579	9947	10389	11096	11716	12376

Graphs and Tables

	Title	Page Number
Graph 1	Total contribution to GVA	pp. 22
Graph 2	Total contribution to GVA	pp. 22
Table 1	GVA employment and productivity growth	pp. 23
Graph 3	Business Services and Finance Contribution to GVA	pp. 24
Graph 4	Production Contribution to GVA	pp. 24
Figure 1	TIF Scheme Funding Flows and Economic Benefits	pp. 29
Figure 2	Location of the TIF Scheme Infrastructure Projects	pp. 37
Table 2	Stakeholder Inputs and Outputs	pp. 38
Table 3	TIF Scheme Timetable	pp. 51
Figure 3	Aberdeen TIF Scheme TIF RLA	pp. 52
Table 4	E-Survey Response	pp. 61
Figure 4	Which option most accurately describes....	pp. 62
Figure 5	In the absence of major City Centre redevelopment.	pp. 63
Figure 6	Respondents views on...	pp. 64
Figure 7	Respondents views on..	pp. 65
Table 5	Common themes from respondents....	pp. 66
Figure 8	Ranking of proposed development opportunities..	pp. 68
Figure 9	Likelihood of uplift across development....	pp. 69
Figure 10	Sources of demand for each development...	pp. 70
Figure 11	Impact on competitors operations outwith	pp. 72
Figure 12	In the absence of each develop.....	pp. 72
Figure 13	Ranking the proposed development sites	pp. 74
Table 6	Summary of identified development sites	pp. 75

Table 7	Displacement by Project Types	pp 77
Table 8	Average Displacement levels by Development Type	pp 78
Table 9	FTE Job density ratios square feet	pp. 80
Table 10	Gross Net Analysis Additionality	pp. 80
Figure 14	Net Employment Trend	pp. 81
Table 11	FTE Job Density Ratios GVA	pp. 81
Table 12	Total GVA uplift per annum	pp. 82
Table 13	Public Private Property Investment ratio	pp. 82
Figure 15	Estimated Square Feet for TIF Scheme	pp. 86
Figure 16	Estimated Gross NNDR Revenues	pp. 90
Figure 17	Estimated Net Incremental Revenues	pp. 91
Table 14	Summary of Base Inputs	pp. 93
Table 15	Estimated Maximum Income (2034 to 2035), (at 2014 prices)	pp. 94
Table 16	Debt profile over the 25 year period	pp. 94
Figure 18	Summary of TIF Revenues, Expenditure and Debt Service	pp. 97
Table 17	Summary Table of Sensitivity results	pp. 101
Table 18	Areas of Risk and Mitigations	pp. 103
Table 19	TIF Risks - Financial	pp 112
Figure 19	Governance Structure	pp. 117
Table 20	Next Steps	pp. 118

Cohort One and Two E-survey**Background Information**

PricewaterhouseCoopers LLP (PwC) have been commissioned by The Aberdeen City Gardens Trust Enterprises Limited to undertake an economic impact assessment of proposals to redevelop Aberdeen City Centre through the use of the Tax Incremental Finance (TIF) model.

TIF is an innovative funding model which aims to drive regeneration and unlock economic growth through targeted investment in 'enabling infrastructure' such as roads, public realm and civic amenities. The model seeks to fund investment in the enabling infrastructure up front by borrowing today and pledging repayment from a proportion of the future business rate income expected to arise as a result of the investment made. In short, 'paying for growth with growth'. TIF does not require an increase in the tax rate but instead seeks to facilitate and capture growth in the tax pool.

As part of PwC's assessment, they are seeking to gather the views of key stakeholders that are likely to benefit, or otherwise, from the developments proposed. This survey aims to canvass your views on the likely impacts these developments may have on you, your organisation and the wider community. Your views will feed into the development of a business case for TIF in Aberdeen City Centre.

This questionnaire should take no longer than 20 minutes to complete. All data collected will remain confidential and will not link back to you, or your organisation, in PwC's final report. Please note that this survey will close on the 14 October 2011.

Background Information

1. How would you describe your organisation?

- Private Sector
- Public Sector
- Other (please specify)

* 2. Please tick below the option which most accurately describes the sector in which you specialise or in which your organisation's activities are focused.

- Property Development
- Retail
- Commerce (i.e. services and office based activities)
- Industry (i.e. manufacturing, oil & gas)
- Transport
- Environment
- Health
- Education
- Policing and Security
- Tourism and Leisure
- Arts
- Other (please specify)

Impact on Current Activities

3. What contribution does Aberdeen City Centre currently make to your business or organisation's objectives? (e.g. in terms of attracting and retaining customers, staff and investment both from within and outside of Aberdeen City)

- Strongly positive contribution
- Fairly positive contribution
- Neither positive or negative contribution
- Fairly negative contribution
- Strongly negative contribution

4. If you have answered 'Strongly positive' or 'Strongly negative' to the previous question, please describe your reasons for this.

5. In the absence of major city centre redevelopment (i.e. 'do nothing' scenario as described in section 2), which of the following best describes your view on the future performance of Aberdeen City Centre over the next 10 years? (e.g. in terms of attracting and retaining customers, staff and investment both from within and outside of Aberdeen City)

- Will improve significantly
- Will improve modestly
- Will neither improve or decline
- Will decline modestly
- Will decline significantly

6. If you answered 'will improve significantly' or 'will decline significantly', please provide your reasons for this.

Impact on Current Activities

7. Considering each of the development schemes (described in section 1), which of the following benefits do you envisage they might deliver to the Aberdeen City Centre economy? (please only tick these that apply)

	City Gardens Project	City Circle Route	St Nicholas House Clearance	Upper Denburn Valley Clearance	Art Gallery Linkages
Increase in footfall	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in dwell time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in average spend per trip	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the likelihood that you will expand or invest in your city centre business or attract additional investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the likelihood that others will expand or invest in their city centre business or attract additional investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in employment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the likelihood that new developments will come forward on available plots in the city centre	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in value of property in the city centre	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction in CO2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the use of public transport	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction in crime	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (please specify)	<div style="border: 1px solid black; height: 40px; width: 100%;"></div>				

Impact on Current Activities

8. Considering each of the development schemes, which of the following benefits do you envisage they might deliver to the wider Aberdeen City economy?

	City Gardens Project	City Circle Route	St Nicholas House Clearance	Upper Denburn Valley Clearance	Art Gallery Linkages
Increase in visitor numbers to Aberdeen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in visitor trip duration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in average spend per trip	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the likelihood that you will expand or invest in your business or attract additional investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the likelihood that others will expand or invest in their businesses or attract additional investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in employment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction in staff turnover	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Easier to attract skilled workers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the likelihood that new developments will come forward on available plots in Aberdeen City	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in value of property in Aberdeen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction in CO2	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Increase in the use of public transport	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reduction in crime	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other (please specify)

Conclusions

9. What are the three key benefits you believe will be derived from the five development schemes and the complimentary operations that will be delivered? (e.g. enhancing the image of the city, business demand or investment)

First	<input type="text"/>
Second	<input type="text"/>
Third	<input type="text"/>

10. What are the three future actions that you believe now need to be taken to ensure that the benefits of the five development schemes as a whole are realised and sustained? (e.g. securing funding, ensuring buy-in from stakeholders or effective marketing)

First	<input type="text"/>
Second	<input type="text"/>
Third	<input type="text"/>

11. If none of the development schemes were to be taken forward, what other elements of new investments within Aberdeen City Centre would be at greatest risk of not being taken forward? (e.g. in terms of timing or funding of planned investments)

First	<input type="text"/>
Second	<input type="text"/>
Third	<input type="text"/>

12. Assuming all of the development schemes were to be taken forward, what are the three key potentially negative impacts that might affect the rest of the local and regional economies? (e.g. in terms of displacing investment, employment or tourism in the local or wider region)

First	<input type="text"/>
Second	<input type="text"/>
Third	<input type="text"/>

Conclusions

13. Please rank the development options outlined in Section 2, in order of importance to the future performance of your organisation (where 1 = most important, and 4 = least important).

Do nothing	<input type="text"/>
Major city centre development	<input type="text"/>
City Gardens project only	<input type="text"/>
Partial redevelopment without gardens	<input type="text"/>

14. If you wish to comment on your ratings within the previous question, please do so here.

Conclusions

*** 15. Please provide the name of your organisation.**

*** 16. Please provide the postcode for your organisation.**

Letter to Cohort One

Our Ref. Jf/gb270711
 Your Ref.
 Contact Jan Falconer
 Email jfalconer@aberdeencity.gov.uk
 Direct Dial 01224 522662
 Direct Fax 01224 523315



Enterprise Planning &
 Infrastructure
 2nd Floor Marischal College
 South Wing Hub 11
 Broad Street
 Aberdeen
 AB10 1AB

Dear Participant

I am writing to you in order to invite you to participate in this electronic questionnaire which aims to inform an Economic Impact Assessment that PWC have been commissioned to undertake by the Aberdeen City Garden's Trust.

This assessment will be used to help determine the economic impact of five major redevelopment projects aimed at Regenerating Aberdeen City Centre. These projects will form the basis of an infrastructure funding application, currently being prepared by Aberdeen City Council, for submission to the Scottish Government.

This questionnaire should take no longer than 20 minutes to complete. All data collected will remain confidential and will not link back to you, or your organisation, in our final report.

In order to inform your understanding of the investments proposed a short description of each project is attached. I would be grateful if you would take a few minutes to familiarise yourself with this before proceeding to the questionnaire.

Should you have any queries while completing this questionnaire please contact Jan Falconer 01224 522662 jfalconer@aberdeencity.gov.uk or Alia Qamar 0131 2604079 alia.qamar@uk.pwc.com.

Yours sincerely

Gerry Brough

Project Director Economic & Business Development

G MCINTOSH
 DIRECTOR

Letter to Cohort Two

Our Ref. Jf/gb270711
Your Ref.
Contact Jan Falconer
Email jfalconer@aberdeencity.gov.uk
Direct Dial 01224 522662
Direct Fax 01224 523315



Enterprise Planning & Infrastructure
2nd Floor Marischal College
South Wing Hub 11
Broad Street
Aberdeen
AB10 1AB

Dear Participant

I am writing to you in order to invite you to participate in this electronic questionnaire which is aimed to inform an Economic Impact Assessment that PWC have been commissioned to undertake by the Aberdeen City Garden's Trust.

This assessment will be used to help determine the economic impact of the five major redevelopment projects aimed at Regenerating Aberdeen City Centre. These projects will form the basis of an infrastructure funding application, currently being prepared by Aberdeen City Council, for submission to the Scottish Government.

This questionnaire should take no longer than 20 minutes to complete. All data collected will remain confidential and will not be linked to you, or your organisation, in our final report.

In order to inform your understanding of the investments proposed a short description of each project is attached. I would be grateful if you would take a few minutes to familiarise yourself with this before proceeding to the questionnaire. We have another word document questionnaire which is specifically designed for property developers/ advisors. We would appreciate it if you could send this response back

Should you have any queries while completing this questionnaire please contact Jan Falconer 01224 522662 jfalconer@aberdeencity.gov.uk or Alia Qamar 0131 2604079 alia.qamar@uk.pwc.com.

Yours sincerely

Gerry Brough

Project Director Economic & Business Development

**G MCINTOSH
DIRECTOR**

Aberdeen City Centre Redevelopment

Economic Impact Assessment Information
August 2011



Table of Contents

1. Context & Project Description.....	2
2. Development Options.....	5
Do Nothing.....	5
Major City Centre Redevelopment.....	5
3.City Gardens Project Only.....	5
4.Partial Redevelopment without Gardens.....	5

1 Context & Project Descriptions

Constrained Finances

Public finances are currently under severe pressure and in particular capital budgets (the proportion of total spending dedicated to investment in long term assets) has been hard hit. Aberdeen City Council has recently agreed a new 5 year plan and accompanying budget. In the face of many competing demands upon its scarce resources the council has been able to allocate a minimal capital budget for investment in City Centre redevelopment and improvement over the next 5 year budgetary cycle.

In addition, a slump in commercial property markets has made it more difficult for local authorities to impose substantial Section 75⁴⁵ contributions on new developments in order to fund and deliver public works to improve and maintain the City Centre. As a result, without the use of alternative funding models such as TIF the scope for delivering significant investment in the City Centre is severely compromised.

The proposed TIF project for Aberdeen City Centre incorporates five development schemes focusing on the City Gardens and wider public realm improvements in relation to enhancing both the image and accessibility of the centre. The proposed developments are described in further detail below.

1City Gardens Project

In the context of City Centre redevelopment local businessman Sir Ian Wood has pledged to invest £50m in the City Garden Project, a proposal to redevelop Union Terrace Gardens. An additional£5m has been pledged by a further anonymous donor and both donations are allocated specifically to the City Garden Project and are not available for allocation elsewhere. The Council have voted to investigate TIF as a means of funding essential infrastructure costs associated with the City Garden Project and a number of other complimentary investments in the City Centre.

An international design competition is currently underway and six of the world's leading architectural practices have recently been selected, from over 50 such practices, to produce an initial design for the City Garden Project. The design brief issued to these short-listed companies gives an idea of the content of the project and outlines minimum requirements for the City Garden as follows:

- Raising the inaccessible, under-used Union Terrace Gardens and covering-over the unattractive Denburn dual carriageway and nearby railway line creating a total of 56,000 sq m of space, of which approximately 29,000 sq m will be directly accessible at street level with the remaining area being used to accommodate other uses on a number of lower levels (including general public use, outdoor performance space, contemporary arts and culture space and accessibility to the Cultural Quarter) ;
- Street level access to green gardens designed and landscaped with trees, grass and plants for all seasons, animated with water and light features (minimum 11,000 sq m 'contemporary garden' and 'other outdoor space' of up to 18,000 sq m);
- Use of the natural topography to follow the level changes from Union Terrace to Belmont Street with stepped and sweeping landscaping;
- A natural amphitheatre to provide a civic space for major outdoor events, gatherings, festivals and concerts (to accommodate events of varying sizes from small readings to events up to 5,000 people. In addition design should be adaptable and have the critical infrastructure in place to host events and concerts for up to 10,000);

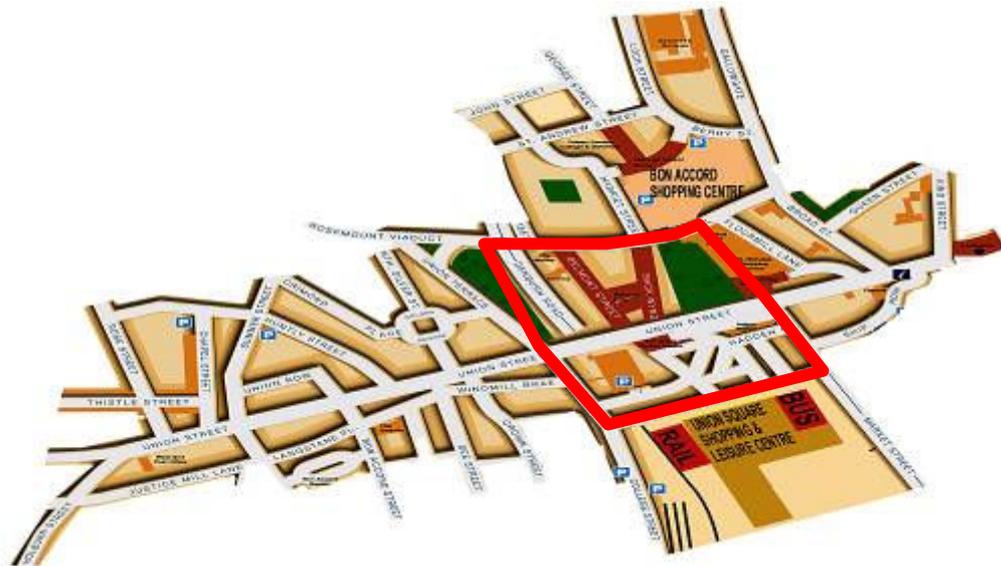
⁴⁵ The purpose of Section 75 agreements is to permanently restrict or regulate the use of the land affected by the planning permission. Any such agreement may contain such incidental and consequential provisions (including financial ones) as appear to the planning authority to be necessary or expedient for the purposes of the agreement.

- An inspirational building to house arts and cultural exhibitions, events and activities with the possibility of attracting a major local, national or international arts partner (approx 6000 sq m and expected to include 1 large and 3 small galleries for a range of permanent and temporary exhibitions, social space incorporating café/restaurant/shop, teaching spaces and an entrance canopy capable of providing a semi-sheltered performance space);
- AA cosmopolitan City Centre café quarter; and,
- AA covered all-weather concourse level providing access through the bus and railway stations, the Green and Union Square (connections should provide access to bus and railway stations, Union Square, Trinity Mall, and the Green).

2 City Circle Project

There is a perception that Aberdeen City Centre is difficult to navigate and that access to the rest of the City Centre from the train station and Union Square is currently poor. Improvements to the public realm are therefore proposed to create a 'City Circle' route from the rail station travelling the circuit from Guild Street, along Market Street through the St Nicholas Centre, down School Hill through the City Garden down Bridge Street and rejoining Guild Street to complete the circuit (with the possibility of including Union Street (between Market Street and Bridge Street) to create two smaller, linked circles, as demonstrated in Figure 1 below. This is expected to better link the major shopping developments to the Cultural Quarter and City Gardens and improve orientation for visitors, particularly those arriving at the train station. A better quality and more spacious public realm is anticipated to increase footfall in the City Centre through provision of a more spacious, attractive, and safe pedestrian environment.

Figure 1: Conceptual Map of proposed City Centre Project



3 St Nicholas House Redevelopment

ACC has recently invested in a new corporate headquarters at Marischal College which will result in the former Council headquarters at St Nicholas house being vacant by September 2011. The 8,900 sq m site is largely regarded an eyesore and the council intends to pursue substantive redevelopment through sale of the site to property developers. In the current property market, however, the Council is concerned that developers will be unwilling to take the risk of demolishing redundant parts of the site, delaying any sale and redevelopment and resulting in a vacant City Centre eyesore for a number of years. The council therefore



wishes to pre-clear the site, to prepare it for sale, and bring forward development. The aspiration is that the tower, if not demolished, would be stripped back to its' skeleton ready for redevelopment, and recladding and put to new uses either as a hotel, apartments or offices, and a new public square would be created to improve the setting of Marischal College and establish a focal point for a new 'civic quarter'. A masterplan for a 'Bon Accord Quarter' was published in 2006 and outlined the potential for significant development in this area.

4 Denburn Valley Health Centre Development

The Denburn Car Park and Health Centre occupy a site of approximately 12,790 sq m at a prominent location on approach to the City Centre. The existing development comprises a 326 space split level car park built in the 1970's of reinforced concrete with a Health Centre on the roof. Located close to the site are His Majesty's Theatre, Aberdeen Central Library and St Marks Church, all impressive listed buildings in Granite.



The health centre on the roof is reaching the end of its design life and NHS Grampian is looking to vacate the building. Planning guidance issued by Aberdeen City Council has called for "imaginative" development of the site using the "highest standard of design and materials to complement the surrounding urban form, listed buildings and conservation area". Redevelopment must continue to provide for substantial public car parking on the site and is expected to comprise largely commercial space for small and medium businesses and some residential development.

5 Aberdeen Art Gallery

Infrastructure and development required to link the Art Gallery and Cultural Quarter to the City Gardens including partial redevelopment of the gallery and creation of additional gallery space.

2. Development Options

In considering your response to this questionnaire we would like you to consider the following scenarios which outline the main options available to ACC in pursuing City Centre redevelopment through potential use of the TIF model. These options include delivery of some, none or all of the projects described in the previous section.

1 Do Nothing

Under this option ACC does not proceed with a TIF business case. As a result of constrained local authority finances the current budget allocated to City Centre investment over the next 5 years is extremely limited. No significant City Centre improvements would therefore be delivered and investment is limited to routine maintenance of existing assets. The £55m donations pledged to the City Square Project are lost, as is the potential grant funding that could be secured to help realise the Art Gallery redevelopment, and no major public investments are made in Aberdeen City Centre over the next 5 years.

2 Major City Centre Redevelopment

This option involves major investment in Aberdeen City Centre to deliver the 5 key schemes outlined at section 1 above namely:

The City Gardens Project;

The 'City Circle' route of public realm enhancements;

Site preparation of the former council offices at St Nicholas House;

Site preparation and enabling infrastructure for the North Denburn Valley development; and,

Infrastructure and development required to link the Art Gallery and Cultural Quarter to the City Gardens including partial redevelopment of the gallery.

3 City Gardens Project Only

This option considers the outcome where only the City gardens project is delivered. In comparison to the full option outlined above there would be no complimentary investment in public realm forming the 'City Circle', the site preparation required to bring forward development at St Nicholas House and Denburn valley would have to await funding coming available or a developer willing to take on the sites unprepared, and improved connections and redevelopment of the Art Gallery would be reduced in scope and contingent on funds being secured from elsewhere.

4 Partial Redevelopment without Gardens

This option considers the outcome where the City Garden Project is not realisable, but the other projects are. In this scenario, economic benefit and new business rates would be generated primarily by the North Denburn Valley and St Nicholas House developments. Although likely to be less than would be the case if the City Gardens were to be realised, these two projects would nevertheless likely provide the basis for a smaller TIF. In such a scenario, however, the lower potential incremental business rates may no longer make it possible to include the costs associated with City Circle route and/or the Art Gallery Redevelopment.

Property Developer Questions sent to Cohort 2

Additional Questions for Property developers and advisors

Economic Impact Assessment Questionnaire
August 2011



Property Questionnaire

Part A: Background Information

- Please confirm the following details (note all responses will be anonymous in the final report)

Details	Please complete
Your Name	
Your Position	
Name of your Organisation	

- How would you describe your organisation?

Your Organisation	Please tick relevant box
Private Sector	
Public Sector	

Part B: Impact on new development (To be completed by property developers and advisors only)

A key aspect of TIF is to unlock new sources of business rate revenues through stimulating the delivery of new commercial developments. We would welcome the view of developers and advisors in terms of the likelihood that delivery of the five development schemes would lead to such an uplift.

1. As a result of the benefits you have identified in the previous question to what extent do you consider the delivery of the development schemes would lead to the following outcomes in Aberdeen City in terms of uplift in development?

Please tick all that apply and leave blank any that do not apply.	City Gardens Project	City Circle Route	St Nicholas House Clearance	Upper Denburn Valley Clearance	Art Gallery Linkages
Uplift in development potential for housing					
Uplift in development potential for retail outlets					
Uplift in development potential for office space					
Uplift in development potential for business/industrial units					
Uplift in development potential for hotel(s)					
Uplift in potential for other leisure & tourism developments					
Increase in the number of tourists					
Uplift in development potential for other uses (please specify) i) ii) iii)					

2 In considering all these benefits, please indicate how these will impact upon your organisation's investment plans and/or objectives:

If possible please try to quantify the impact of the benefits you have identified at part a) in relation to each prioritised asset	City Gardens Project	City Circle Route	St Nicholas House Clearance	Upper Denburn Valley Clearance	Art Gallery Linkages
Increased Housing	_____ to _____ units	_____ to _____ units	_____ to _____ units	_____ to _____ units	_____ to _____ units
Increased Retail Space	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft
Increased Office Space	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft
Increased Business/ Industrial Space	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft
Hotel(s) – Conference and other facilities (restaurant/bars etc)	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft
Hotel (s) – bed spaces	_____ to _____ beds	_____ to _____ beds	_____ to _____ beds	_____ to _____ beds	_____ to _____ beds
Other leisure & tourism space	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft	_____ to _____ sq ft
Tourism (visitors)	_____ to _____ visitors	_____ to _____ visitors	_____ to _____ visitors	_____ to _____ visitors	_____ to _____ visitors
Other uses (Please specify) i) ii) iii)	i) ii) iii)	i) ii) iii)	i) ii) iii)	i) ii) iii)	i) ii) iii)

Please add any comments relevant to your response to part b?

3. In considering the benefits of each development, can you indicate the percentage of demand likely from these three sources:

Type of Benefit	<i>Please put a percentage in each box (each row should total 100%)</i>		
	Mainly Local Demand (%)	Mainly Scottish Demand (%)	Mainly demand from outside Scotland (%)
Housing			
Retail			
Office			
Business/Industrial			
Hotel(s) – Conference and other facilities (restaurant/bars etc)			
Hotel (s) – bed spaces			
Other leisure & tourism developments			
Tourism (visitors' place of origin)			
Other uses (please specify)			
i			
ii			
iii			

Part C: Impact of TIF Scheme Infrastructure Investment Projects

1. In the absence of each of the development schemes being taken forward what are the likely effects on your investment plans and/or objectives for the regeneration of Aberdeen City Centre:

Likely impacts in the absence of a development being taken forward	<i>Please tick only one box in each column</i>				
	City Gardens Project	City Circle Route	St Nicholas House Clearance	Upper Denburn Valley Clearance	Art Gallery Linkages
No: without this development we will be unable to secure the benefits identified					
Yes: we will be able to deliver similar benefits but this may involve significantly more time, more costs and less certain outcomes					
Yes: we will be able to deliver similar benefits but this may involve moderately more time, more costs and less certain outcomes					
Yes: we will be able to deliver similar benefits without any difference in time or effort on outcomes					

2. What impacts on average do you expect the development of each of these schemes will have upon regional (outwith Aberdeen City) competitors' operations:

Impact on Local/Regional Competitors	<i>Please tick only one box in each column</i>				
	City Gardens Project	City Circle Route	St Nicholas House Clearance	Upper Denburn Valley Clearance	Art Gallery Linkages
Little or none					
Might adversely affect their performance					
Will significantly reduce their sales/investment					
Might improve their performance					
Will significantly increase their sales					

Part D: Conclusions

- What are the three key benefits you believe will be derived from the five development schemes and the complimentary operations that will be delivered:

Benefit (please describe)	Ranking
	<i>First</i>
	<i>Second</i>
	<i>Third</i>

- What are the three future actions that you believe now need to be taken to ensure that the benefits of the five development schemes as a whole are realised and sustained?

Actions (please describe)	Ranking
	<i>First</i>
	<i>Second</i>
	<i>Third</i>

- If none of the development schemes were to be taken forward what other elements of new investments within Aberdeen City Centre would be at greatest risk of not being taken forward?

Other Developments (please describe)	Ranking (at greatest risk)
	<i>First</i>
	<i>Second</i>
	<i>Third</i>

- Assuming all of the development schemes were to be taken forward what are the three key potentially negative impacts that might affect the rest of the local and regional economies?

Negative Impacts (<i>please describe</i>)	Ranking (in terms of greatest negative effect)
	<i>First</i>
	<i>Second</i>
	<i>Third</i>

- Finally please rank the development options outlined at Section 2 in order of importance to the future performance of your organisation where 1 is most important and 4 least important.

Development Options	<i>Please tick relevant box</i>
Do Nothing	
Major City Centre Development	
City Gardens Project Only	
Partial Redevelopment without Gardens	

- If you wish to comment on your selection above please use the space provided below

Thank you for your time.

Please return the completed questionnaire to:

CITY CENTRE REGENERATION SCHEME EXPENDITURE PROFILE

All Figures in £000s

	Line Item Total	2012/2013		2013/2014		2014/2015		2015/2016		2016/2017	
		01/04/2012	01/10/2012	01/04/2013	01/10/2013	01/04/2014	01/10/2014	01/04/2015	01/10/2015	01/04/2016	01/10/2016
		to 30/09/12	to 31/03/13	to 30/09/13	to 31/03/14	to 30/09/14	to 31/03/15	to 30/09/15	to 31/03/16	to 30/09/16	to 31/03/17
St Nicholas House	6,000	0		0		6000	0	0	0	0	0
Upper Denburn	6,000	0	0	0	0	1,500	1,500	1,500	1,500	0	0
Pedestrian Circuit	6,000	0	0	0	0	0	0	3,000	3,000	0	0
Art Gallery	24,000	0	0	0	0	0	0	12,000	12,000	0	0
City Gardens	140,000	0	1,000	4,000	5,000	5,000	5,000	45,000	35,000	20,000	20,000
Gross Total	182,000	0	1,000	4,000	5,000	12,500	6,500	61,500	51,500	20,000	20,000
Less Grants/Receipts*	(20,000)	0	0	0	0	(824)	(165)	(5,659)	(5,660)	(3,846)	(3,846)
Sub-Total	162,000	0		4,000	5,000	11,676	6,335	55,841	45,840	16,154	16,154
Donations	(70,000)	0	(1,000)	(4,000)	(5,000)	(5,000)	(5,000)	(27,500)	(17,500)	(2,500)	(2,500)
TIF Drawdown	92,000	0	0	0	0	6,676	1,335	28,341	28,340	13,654	13,654

* In respect of receipts from the proceeds any sale of this asset will be used to reduce the level of debt incurred for its part of the TIF borrowings.

20 Planned property development projects within the TIF Red Line Area

USE	SITE AREA (ACRES)	SIZE (SQFT)	EXISTING RV	ESTIMATED RV	NET INCREASE	TIMING AFTER UTG Drawdown (YRS)	Rates Start (YRS)
Commercial uses	N/A	86,219	£0	£795,000	£795,000	0	0
Non Commercial Uses	N/A	66,736	£0	£85,980	£85,980	0	0
Offices	0.35	72,000	£0	£1,668,420	£1,668,420	0	0
Offices, / Retail	1.7	120,000	£0	£2,325,961	£2,325,961	0	1
Retail	0.82	0	£1,400,000	£1,680,000	£280,000	0	2
Proposed	0	40,000	£0	£770,460	£770,460	0	0
Offices	0	53,848	£0	£1,060,370	£1,060,370	0	2
Office	0	113,000	£68,000	£2,478,420	£2,410,420	0	1
Retail & Hotel Development	0	0	£0	£522,500	£522,500	0	1
Business and Industrial	4.3	75,000	£0	£512,927	£512,927	1	3
Office	0	173,000	£311,350	£3,474,750	£3,163,400	1	1
Office	0	100,000	£250,000	£1,984,650	£1,734,650	2	2
Office and Hotel	5.58	0	£367,000	£1,428,120	£1,061,120	2	3
Offices	0	92,000	£400,000	£1,766,118	£1,366,118	2	1
Offices	2.5	100,000	£0	£1,837,404	£1,837,404	4	4
City Centre Totals		1,091,803	£2,796,350	£22,391,080	£19,594,730		
Office and Warehouse t	80	769,242	£0	£10,150,276	£10,150,276	20	20
Warehouse	54	705,000	£0	£4,825,281	£4,825,281	10	10
Airport		1,474,242	£0	£14,975,557	£14,975,557		
Office and Warehouse	8.2	87,467	£0	£1,040,345	£1,040,345	5	5
Office and Warehouse	34	422,504	£0	£3,869,367	£3,869,367	15	15
Warehouse	30	392,053	£0	£2,680,750	£2,680,750	15	15
Bridge of Don		902,024	£0	£7,590,462	£7,590,462		
Total Development		3,468,069	£2,796,350	£44,957,099	£42,160,749		

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ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	17 August 2012
DIRECTOR	Gordon McIntosh
TITLE OF REPORT	Possible proposal for temporary Café at Union Terrace Gardens
REPORT NUMBER:	EPI/12/154

1. PURPOSE OF REPORT

This report advises the Committee of an unsolicited approach for a temporary lease or licence to operate a café business from a proposed temporary structure to be housed in one of the existing arches in Union Terrace Gardens, under Union Terrace, Aberdeen. The report also advises on the principle of the offer received and the range of factors for the Committee to consider.

2. RECOMMENDATION

It is recommended that the Committee instructs officers to advertise the availability of a lease for a temporary café at Union Terrace Gardens which will satisfy all regulatory requirements.

3. FINANCIAL IMPLICATIONS

Any income would be credited to the Common Good account and it would be for them to determine how this income would be used.

In such a situation officers believe that it is difficult to arrive at an estimate of what the site would be worth for such a short term lease/license and therefore some means of testing the market would provide evidence to quantify this. Were negotiations to take place direct with a single applicant, rather than through an open marketing exercise, it would not be possible to be sure that Best Value had been achieved.;whereas, best value would be demonstrated by competitive tender.

The issue is considered de-minimus by way of State Aid issues. However, in this particular approach, the Council would require to scrutinise the accounts to determine whether there is any possibility that profits will be generated, to ensure that were such a situation to

occur, these profits could be secured as income to the Common Good account.

There is no budget identified for appropriate officers to carry out work associated with this proposed lease.

4. OTHER IMPLICATIONS

Officers across a range of services will have an input to the development of any Lease or Licence transactions by ensuring that any operation satisfies all legal obligations and can operate safely.

5. BACKGROUND/MAIN ISSUES

5.1 This Report advises the Committee of an unsolicited approach to the Council received from Mr Steve Bothwell, Café 52, The Green, Aberdeen, requesting a lease to introduce and operate a temporary café at Union Terrace Gardens.

5.2 This request follows the granting of Conditional Planning Consent for a temporary café by the Development Management Sub-Committee on 14 June 2012. The consent was granted for a period of one year expiring on 14 June 2013 when the structure must be fully removed and the site made good. There may be provision to extend this consent by a new application to that Committee.

5.3 BUILDING WARRANT

In the current proposed layout, the infilling of the arch with timber screening and summerhouse frontage attracts the need for building warrant approval. However, discussions with the applicant will see a change from timber screening to an ironwork infill resulting in the summerhouse being classed as a detached building. This change will dispense with the need for building warrant approval. However further clarification of the current planning permission will be required as a result of such a material change.

5.4 In summary the proposal includes the erection of a timber summerhouse cabin under the central arch at Union Terrace Gardens below the Robert Burns Statue on Union Terrace. The temporary structure would provide indoor seating for 15 persons and with the adjacent hardstanding/footpath area, additional external seating for 20 persons. Food would not be prepared in the cabin as it is to be prepared off-site and transported in, along with a selection of hot and cold drinks. Service is to be provided by volunteer groups.

The applicant proposes that profits from the sale of goods be ring fenced towards the costs of the upkeep and improvement of the plants in Union Terrace Gardens. At this time no business plans have been provided by, nor requested from, the applicant as it is not yet clear to

whom the lease would be granted. Mr Bothwell has made the initial approach but there is also mention of voluntary parties.

- 5.5 To date, based on the planning application no provision is identified for staff or patron welfare/hygiene facilities, neither potable water supplies nor drainage connections. However, power for lighting would be provided by a temporary generator at the rear of the Arch.

A local, simple CCTV system is to be installed to deter vandalism but it is unclear how this system is to be powered out-with operating hours and where images etc are to be recorded to.

- 5.6 The approach is described as unsolicited, as the Council has not previously identified such a use/service to be provided in Union Terrace Gardens. Therefore no forward operational planning has been carried out to determine the requirement, type or location of a café facility.

- 5.7 In situations where the Council considers such a service is of value and is affordable within its budget, the Council generally seeks bids from operators/providers to ensure it can demonstrate that it is meeting its obligations in terms of Best Value. Examples of comparable operations in other city parks where operations have been exposed to some form of 'competition' are Duthie and Hazlehead Parks.

- 5.8 In developing a comprehensive operating lease/license the terms and conditions would require a successful applicant to fully comply with all statutory consents and regulations for the provision and operation of a temporary café. This may include the need to obtain a Building Warrant and Environmental Health approval. The current approach and proposals have not fully addressed these issues. There are obvious concerns about hygiene facilities for staff and customers and how any emissions from temporary energy sources will be controlled and dispersed.

- 5.9 This particular approach suggests that profits from sales be ring fenced towards contributing to funds for enhanced planting in Union Terrace Gardens. Whilst this is agreeable to the Environment Service, who maintains the Gardens, it is usual practice in a lease arrangement to agree a market rent to be credited to the Council's finances, in this case the Common Good Account.

- 5.10 The Committee may take the view that this is an innovative proposal and that the temporary provision of a café in the Gardens is of benefit to the public. The nature of the planning consent is such that the facility will have to be moved in a relatively short period of time with costs borne by the tenant/occupier. Given the 'short' term nature of the proposal it could be construed as a benefit to the City until alternative plans are firmed up and developed.

5.11 Given the constraints within the planning consent, the significant challenges in meeting suitable standards of construction and safe operation, officers would consider that any lease or license has to be structured in such a way to enable the Council to be satisfied that the project has been fully thought through from start to finish, can be operated safely and that the presence of the temporary structure can be managed in such a way as to not generate problems of anti-social behavior in this part of the city centre. In order to achieve all of these conditions satisfactorily officers believe that a short period of time should be provided for potential bidders to submit detailed proposals for consideration which would allow for a report back to Committee in December with a recommended way forward with a preferred bidder. This would ensure that our best value obligations are addressed and we would have sufficient time to work with the preferred bidder to have all matters addressed in time for the facility to be open for spring 2013.

6. IMPACT

Corporate – Within the Single Outcome Agreement there is a requirement on the Council to effectively use and maximise its assets.

Public – It is extremely likely that this current offer, if accepted, will invoke considerable debate from the public on the current status of the park and the disused public toilets.

7. BACKGROUND PAPERS

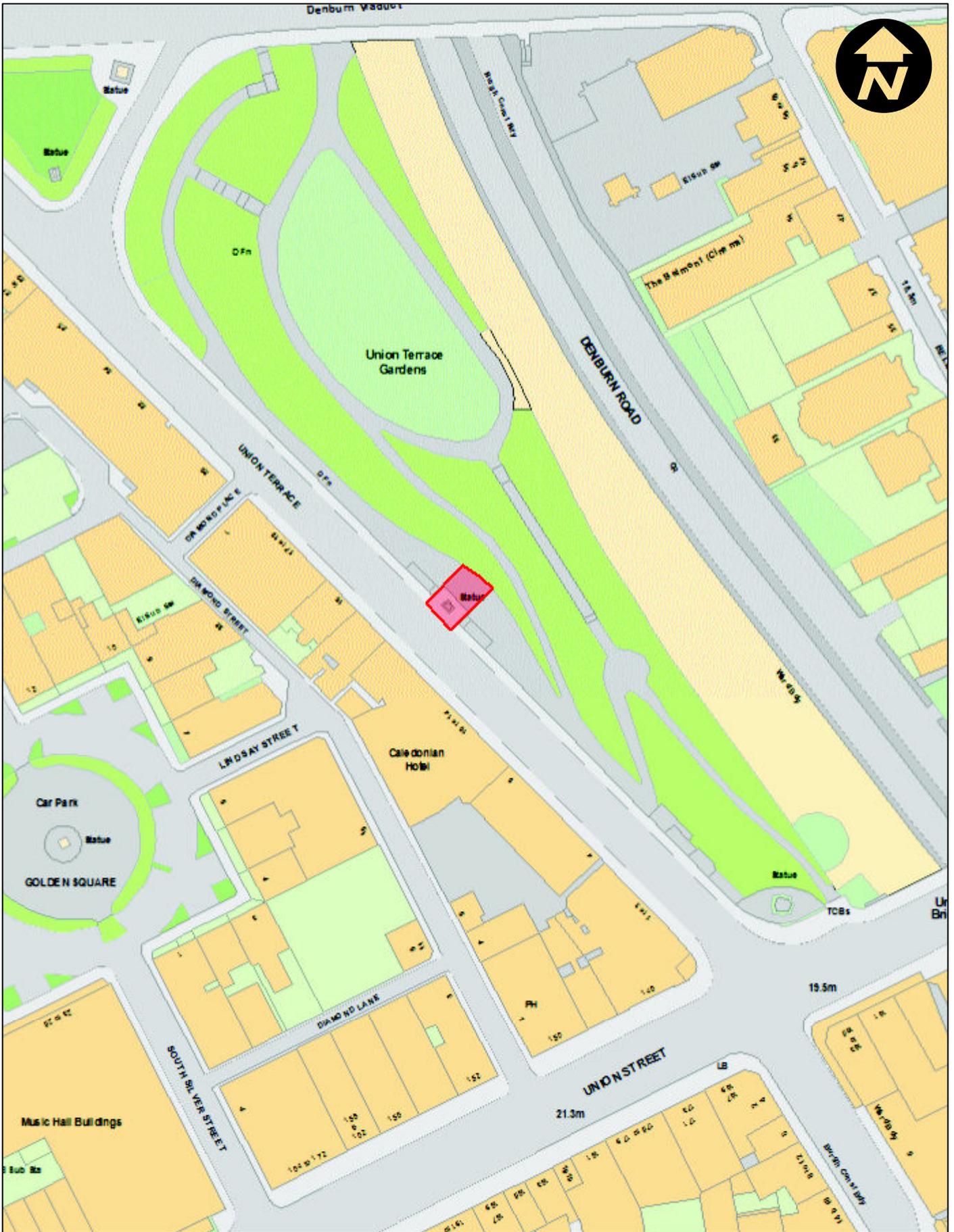
Site Plan

8. REPORT AUTHOR DETAILS

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Proposed Cafe Location



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ABERDEEN CITY COUNCIL

COMMITTEE	Finance and Resources
DATE	17 August 2012
CHIEF EXECUTIVE	Valerie Watts
TITLE OF REPORT	Chief Officer Voluntary Pay Restraint
REPORT NUMBER:	OCE/12/017

1. PURPOSE OF REPORT

This report indicates the saving which was achieved by the authority's Chief Officers voluntarily declining to accept the nationally agreed pay award of 2.5% in respect of the financial year 2010/11.

It goes on to indicate that, as the agreed period of non-payment was for 12 months, the pay for all Chief Officers (other than the Chief Executive) should have reverted to the nationally agreed pay-spine as of 1 April 2011.

Furthermore, the report confirms that as Chief Officer pay has been 'normalised', the recently advertised post of Director of Education, Culture and Sport will be appointed to on the rate for the job.

2. RECOMMENDATION(S)

It is recommended that Members note that:

1. Approximately £67,000 worth of savings were generated by virtue of the Council's Chief Officers voluntarily agreeing not to accept a national pay award during the financial year 2010/11.
2. Chief Officer pay should have been normalised with effect from 1/4/2011 and steps are being taken to rectify this position.
3. The salary for the post of Director of Education, Culture and Sport will be £109,827, i.e. the rate for the job.
4. The impact of normalising the pay grades will be met within existing budgets with minor virements as appropriate.

3. FINANCIAL IMPLICATIONS

The annual cost of normalising Chief Officer pay is £67,000 per annum. These costs will be met from existing budget provision and where appropriate the necessary budget virements will be made on a service by service basis.

The salary savings relating to the voluntary non-acceptance of the 2010/11 pay award £67,000 have already been accounted for in the Council's 2012/13 budget.

4. OTHER IMPLICATIONS

No other implications arise

5. BACKGROUND/MAIN ISSUES

As part of the budget setting process for the financial year 2010/11, the Councils' Chief Officers agreed not to accept a nationally agreed pay award of 2.5%. This was to assist in generating savings for the financial year in question but it was intended that the contractual rate for the job would be re-established with effect from 1 April 2011.

This voluntary decision led to a saving of approximately £67,000 and these savings have been incorporated into the Council's 2012/13 budget.

The Chief Officers concerned wished their pay to revert to the nationally agreed pay spine with effect from 1 April 2011. The position, however, was not adjusted at the time and steps are only now being taken to finally reconcile matters.

The cost of applying the nationally agreed pay spine to all of the 24 affected employees will result in additional salary costs of approximately £67,000 until the end of the current financial year. In addition a similar level of backdated costs will be incurred in normalising the respective pay position with effect from 1 April 2011.

It should be noted that at national level, local authority Chief Executives also declined the 20/10/11 pay award but it is understood this declination was agreed on a longer term basis.

Finally, the post of Director of Education, Culture and Sport was recently advertised at a salary scale of £107,148 (the voluntary pay point agreed by the previous incumbent) to £109,827 (the rate for the job).

The Appointment Panel, at its meeting on 15 June 2012, delegated authority to the Chief Executive in consultation with the Leader of the Council and Convener of the Finance on Resources Committee to determine the specific rate of pay for the post prior to the interviewing process. With the position in relation to the other Director posts having been clarified, the new appointee to the Director of Education, Culture and Sport will be paid £109,827 (i.e. the rate for the job).

6. IMPACT

The report ensures that Chief Officer Posts below Chief Executive level are paid in accordance with the appropriate nationally prescribed spinal column points.

7. BACKGROUND PAPERS

No background papers were necessary in the compilation of this report.

8. REPORT AUTHOR DETAILS

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