Appendix 2

TIF Business Case (initial draft submission to SFT)

INTRODUCTION

This Appendix includes the draft business case that was forwarded to Scottish Future Trust (SFT) in December 2011 for review and comment. .Further to the submission of this document, Aberdeen City Council officials met with SFT on 17th January 2012 to discuss the document and receive the SFT's initial feedback.

SFT confirmed that it would work closely with the Council in the production and shaping of the Business Case. They also provided feedback on the key areas of the draft business case to date and where further revisions and /or the provision of further information and / or where additions needed to be made to the document. . They also confirmed that they would assist the Council consider any key issues, risks and fit of the project with TIF, with the ultimate aim of producing a business case capable of recommendation.

From the initial review, ACC officers recognise that further work / clarity will be required within the business case as part of its development. SFT also highlighted that whilst there are no immediate 'show-stoppers' as far as the business case currently stands, consideration will have to be given to key issues, both already identified and new, and these may have a bearing on the overall viability / shape of the project.

ACC officials therefore expect to participate in an on-going process over the next 2 months that will eventually enable SFT to formally endorse our business case and make a positive recommendation of support to Scottish Ministers – should the imminent referendum confirm popular support for the City Garden Project.

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

(Version: 19/01/2012**)**

ABERDEEN CITY COUNCIL

CITY CENTRE REDEVELOPMENT

TIF Business Case

Contents

1. Executive Summary

1.1. Introduction

Aberdeen is one of the world's key energy capitals. Looking into the future Aberdeen knows that to keep its best people and to attract others from elsewhere it needs a new level of ambition for the city. It is determined to build on what it has achieved. It wants to remain a player that is visible on the global radar screen. Aberdeen needs to be seen as a place of quality, verve and style with a city centre that provides a rich multi layered experience.

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 time to the complex demands of extracting oil and gas from hostile conditions. However, oil and gas reserves will run out over time, perhaps 30 years, and Aberdeen is looking ahead. It knows it needs to adapt its industrial base and re-examine how it creates wealth and prosperity. Aberdeen is confident it can do so.

The city is at the edge geographically, but has through time been at the cutting edge in the way it has used its collective imagination. This has confounded expectations because Aberdeen views challenges as an opportunity. Aberdeen has a long tradition of enterprise, ingenuity and inventiveness. It has been blessed with natural resources, has developed industries around these rewards and, in recent years, has a rich tradition in medical research and life sciences,

Aberdeen's vitality comes from its skills and talents. Aberdeen, is a world leader in many fields and an innovative engineering thread runs through it all, such as subsea marine technology, offshore operations, integrity management and safety, expertise in renewables and 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.

However, 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's city centre represents a major opportunity for Aberdeen and for the broader North East Region to demonstrate its commitment to this goal.

Through the City Centre Regeneration Scheme (CCRS) Aberdeen City Council (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 global businesses, for individuals looking for a high quality of life and for visitors of all types.

The CCRS consists of five complementary projects and will act as a catalyst for development across the whole city area. This will also provide the base for establishing a defined City Business District (CBD) which Aberdeen currently lacks..

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, 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 CCRS. The ambition is to create a world class city that is recognised as a destination of choice on a global basis

1.2. **Background**

The North Sea and West of Shetland oil provinces will continue to contribute to the economic wellbeing of Aberdeen, the North East Region and Scotland for many years to come, but the industry is changing and will ultimately decline. The challenge for ACC is to ensure that the oil and gas industry has firmly anchored roots in Aberdeen, as businesses internationalise their operations. At the same time, Aberdeen needs to attract new industries by building on the city's skills base and reputation.

The obvious sectors to be targeted are de-commissioning (off-shore installations) and renewables. 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 and talent and 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 long term growth.

The actions to regenerate the city centre are part of a long term investment strategy 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. 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. **Intervention**

Attracting new investment to Aberdeen is critical to the city's sustainable growth and lies at the heart of ACC's economic development strategy. However, the squeeze on public sector finances means that ACC will not be able to either facilitate or contribute to such investment in the foreseeable future.

The need for this investment is also recognised by the private sector and donations totalling £55 million have been offered towards the CCRS provided that matching public sector finance is forthcoming.

Tax Incremental Funding (TIF) will provide 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 to provide the public sector funding necessary for delivery of the enabling infrastructure that will underpin the regeneration of Aberdeen's city centre.

This TIF business case for the CCRS captures locally generated, incremental national non-domestic rates (NNDR) that will only be generated by accelerating new development across the city as a result of the CCRS's enabling infrastructure. These incremental revenues (net of displacement) are modelled to meet the debt repayments on the investment raised by ACC to finance the enabling infrastructure. A "Red Line" area is drawn around the city centre and around two satellite development areas where the CCRS will help to secure mobile investment and accelerate development. The NNDR Revenues within this 'Red Line' area will be captured over the proposed appraisal term of 25 years.

1.4. **Enabling Infrastructure**

ACC has identified five linked and complementary infrastructure projects that will unlock regeneration of the city centre and create a strong pull-through effect in the other development areas included within the Red Line.

These are:

- **St Nicholas House Redevelopment -** The former ACC building is now vacant and the site is in need of redevelopment. Demolition and site preparation will pave the way for early redevelopment of the site which has a prime city centre location.

- **The City Gardens Project -**This will provide the city with a new social and cultural heart with space for outdoor performances, cultural events and social relaxation.

- **The City Art Gallery Redevelopment** - This will expand and enhance the cultural offerings

- **The City Realm– The City Circle**- This will provide new public realm linking the rail and bus stations to the major shopping developments, the City Gardens, the Theatre, the Art Gallery and what will be the CBD (including the St Nicholas House site and North Denburn Valley.

- **The North Denburn Valley Redevelopment-** This will provide city centre office opportunities adjacent to the City Gardens, Theatre and Art Gallery.

The above assets would be delivered as individual projects, under the direction of a TIF Executive drawn from the key stakeholders. Timing risks, including the potential delay between infrastructure development and the incremental rates flow for debt repayment, would be managed by this Executive with delivery incentives clearly allocated to the relevant parties.

The TIF proposal has been developed on a prudent basis with only incremental NNDR revenues from new developments being hypothecated. A prudent assumption has been made in respect of new developments that could go ahead within the Red Line area without the CCRS and the NNDR revenues from those developments have been excluded from 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 5% reduction for voids and bad debts for the duration of the TIF.

The potential displacement of business from other areas of Aberdeen and Scotland, to the CCRS area, will be a key consideration for the Scottish Government. If a percentage of the rates increment within the Red Line area were to occur at the expense of a decrease outside the Red Line area due to business relocations (a displacement effect) then the Scottish Government's NNDR income may be adversely impacted resulting in a structural shortfall. Aberdeen's primary targets for inward investment are, however, global industries that are complimentary to its existing global energy industry and it is 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 10% to cover any potential displacement effect.

1.5. **Financial**

The estimated total cost of the assets and enabling infrastructure is £182 million. The amount of £55 million has already been pledged to the City Garden project by private donors and ACC is confident that this can be increased 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 City Art Gallery Redevelopment. The remaining £92 million funding gap, or marginally over 50% of the total cost, will be borrowed by ACC through TIF. The work would be phased over the period 2012 – 2017 with the first draw-down of TIF borrowing in 2014.

The £92 million infrastructure investment costs (plus interest) will be repaid solely through the modelled NNDR within a 24 year period from first draw-down in 2014, This takes account of displacement and void/bad debt effects.

1.6. **Economic Impact**

Based on the economic impact assessment of the CCRS, 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. The CCRS's economic impact assessment shows that there will be an additional 6,500 full-time equivalent (FTE) jobs created by 2039 as a result of this investment.

Gross Value Add (GVA) averages £122.6 million per annum, at net present value (NPV), over the 25 years to 2039. 92.5% of this GVA is attributable to industrial and office development with the balance fairly evenly split across retail, cultural and hotels.

1.7. **Delivery and Governance**

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 Executive which will comprise representatives from all the major projects and co-opted external experts from other organisations including SFT. The TIF Executive will act as the Steering Group for the CCRS.

In accordance with Office of Government Commerce guidance, Gateway Reviews will be undertaken at defined stages of the design, procurement and construction processes to ensure best value and to ensure 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.

1.8. **Conclusions**

Overall this TIF Business Case demonstrates:

- A clear case for the regeneration of Aberdeen city centre as a catalyst for future global investment in the city.
- The ability of TIF to stimulate development that will encourage existing oil and gas businesses to remain firmly anchored in the city and attract the talent they require for their future international growth.
- The potential for reducing dependence on the oil and gas business and for using the City's strengths and skills as the basis for encouraging new investment and economic diversification
- That 'but for TIF' Aberdeen could see much lower levels of economic activity over the next 25 years.
- The benefits to be obtained from investing £92 million of public loan funding, potentially £20 million of grant funding and £70 million of private funds in necessary enabling infrastructure for five complementary development projects which, taken together, will act as a catalyst for regeneration and economic growth.

- The potential to unlock significant private sector investment and generate up to 6,500 FTE jobs and an average of £122.6 million per annum of economic growth (GVA) over 25 years.

- That the proposed CCRS, can be financed and delivered using incremental NNDR revenues generated by net new development within a Red Line area around the city centre and two satellite development areas.

1.9. **Next Steps**

The approval of the Scottish Government is sought for the public sector borrowing requirement needed to deliver the CCRS, using the TIF mechanism outlined in this business case.

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

- ACC will confirm acceptance of Scottish Government's Terms and Conditions for the CCRS.

- The TIF Executive will be established.

- The roles and responsibilities of key executive management positions required for delivery of the CCRS will be agreed.

- ACC will agree the level of NNDR revenue within the Red Line area 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 CCSR projects

2. Introduction Context and Background

2.1. The Business Case

2.1.1 The business case summarises the process undertaken by ACGT, ACC and its advisers in assessing the potential for using TIF to close the funding gap associated with delivering the CCRS. In the remainder of this section it explains the context and background to the business case, before then going to explain;

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

2.1.2 Section 7 draws together the various assumptions used to develop the business case and summarises the results of the financial analysis of the Business Case. This primarily comprises 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 CCRS funding gap.

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

2.2. The Aberdeen Economy and TIF

2.2.1. Aberdeen is one of the world's key energy capitals. Energy cities make our world go round. They are crucial global hubs. Without them our machines would not work, planes could not fly, cars would be stationary and our houses too cold or too hot. The basis of our existence depends on them, stripped of their fuels – oil and gas – we would not be able to pursue the lives we lead. These cities play a crucial role in the development of our global community.

2.2.2. Looking into the future Aberdeen knows that to keep its best people and to attract others from elsewhere it needs a new level of ambition for the city. It is determined to build on what it has achieved. It wants to remain a player that is visible on the global radar screen. Aberdeen needs to be seen as a place of quality, verve and style with a city centre that provides a rich multi layered experience.

2.2.3. 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 time to the complex demands of extracting oil and gas from hostile conditions. Imagine the difficulties of discovering and extracting resources deep down on the sea bed of the North Sea and managing oil platforms: it requires high precision machinery able to withstand tremendous forces and advanced monitoring devices and software programmes to guide a perplexing logistical process.

2.2.4. Oil and gas reserves will run out over time, perhaps 30 years, and Aberdeen is looking ahead. It knows it needs to adapt its industrial base and re-examine how it creates wealth and prosperity. Aberdeen is confident it can do so.

2.2.5. The city is at the edge geographically, but has through time been at the cutting edge in the way it has used its collective imagination. This has confounded expectations and kept Aberdeen at the centre of affairs. So Aberdeen views these challenges as an opportunity. Aberdeen has a long tradition of enterprise, ingenuity and inventiveness and it has been blessed with natural resources and developed industries around them - textiles, granite, food and agriculture, fishing, paper making and oil and gas. It has a rich tradition in medical research and life sciences, such as the innovations in the development of the MRI scanner and pre-war research into safe pregnancies and control of labour pain.

2.2.6. Aberdeen's vitality comes from its skills and talents. Aberdeen, is a world leader in many fields and an innovative engineering thread runs through it all, such as subsea marine technology, offshore operations, integrity management and safety, expertise in renewables and deepwater offshore windfarms. This expertise will remain desirable the world over and the capabilities that go with it can be applied and migrate into other fields.

2.2.7. This CCRS is critical to the retention and attraction of these skills and talents, which is vital for both the long-term development and the sustainability of the Aberdeen economy. It is about generating growth and economic benefit through city centre regeneration and encouraging growth through increasing non-oil related investment. As can be seen in the Table in Appendix 1, Aberdeen's GVA per capita has seen very little overall growth compared to Edinburgh and Glasgow over the past 10 years.

2.2.8. The Regeneration of Aberdeen's city centre is an integral element of the Aberdeen City Centre Development Framework 2011. It is also an integral part of the current and future Local Plan, which is part of the Aberdeen City and Aberdeenshire Structure Plan (the Structure Plan). City centre regeneration therefore enables and delivers a significant amount of the region's Structure Plan which fits in with the Scottish National Planning Framework and the Scottish Government's recently revised economic strategy.

2.2.9. This close relationship between City centre regeneration and wider planning and economic development considerations is not a unique occurrence. City centre development and regeneration is a critical element of most city development strategies, for several well documented and justified reasons.

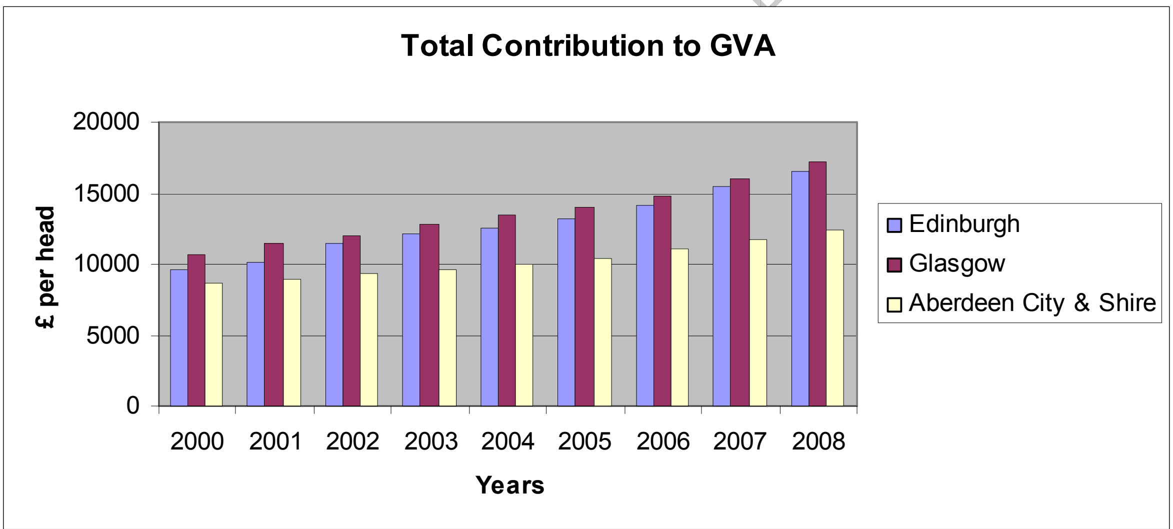
2.2.10. A recent publication on Sustainable Cities by Grant Thornton states that 'To become a successful City of the Future, it helps to be well positioned already, in today's terms. If you are a 'go to' city now, you have access to physical, intellectual and financial resources that will support the 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.' [1]

[1] Grant Thornton's Sustainable Cities A vision of our future landscape

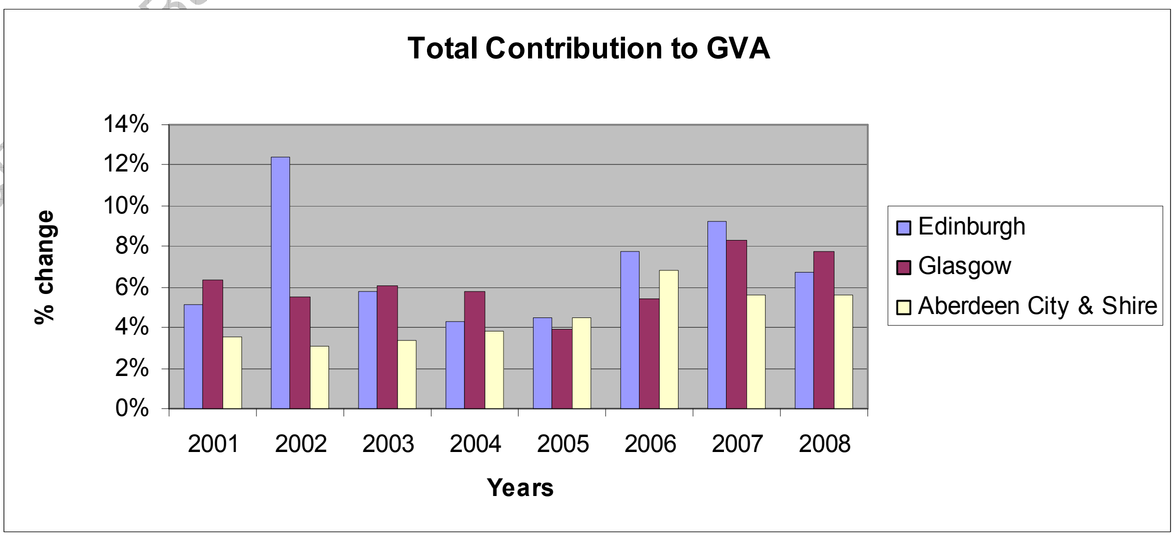
2.2.11. The Scottish Government's current Cities Strategy 'Scotland's cities delivering for Scotland' recognises the importance of these factors and the need to take account of them within Scotland's Cities Agenda. The CCRS will therefore play an important part in delivering the Scottish Government's current and future development strategy.

2.2.12. This CCRS 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 this CCRS aims to be the core attractor to stimulate future city investment.

2.2.13. 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 2.1a), Scotland's two other major cities have shown a greater year-on-year increase (see Graph 2.1b).



Graph 2.1a



Graph 2.1b

2.2.14. When total GVA is broken down between the City and the Shire it is particularly noticeable that, whilst overall GVA annual percentage change was positive for the Shire it was negative for the City (see Table 2.1c 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%.

Table 2.1: GVA employment and productivity growth[2]

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				

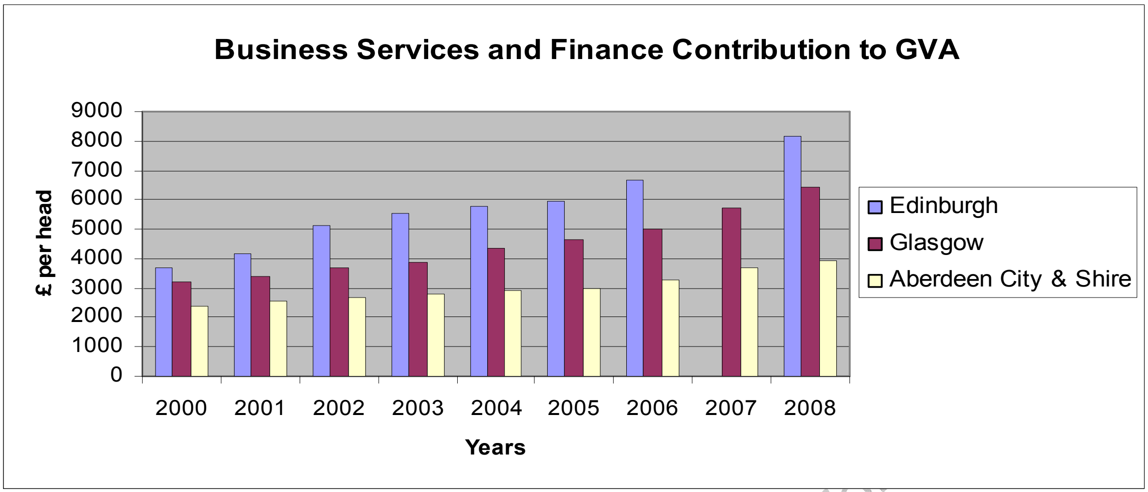
2.2.15. Latest figures show that while Aberdeen City and Shire[3] is a high contributor to GVA, It under-performs in areas such as Business Services (Graph 2.2) where it has lagged behind Edinburgh and Glasgow. The City and Shires' area of GVA strength is in Production.

2.2.16. Further detailed analysis of Table 2.1 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 2011[4], Aberdeen requires fiscal certainty from Central Government to avoid investment jolts when confidence is lost through tax increases (as was experienced in the 2011 UK Government Budget).

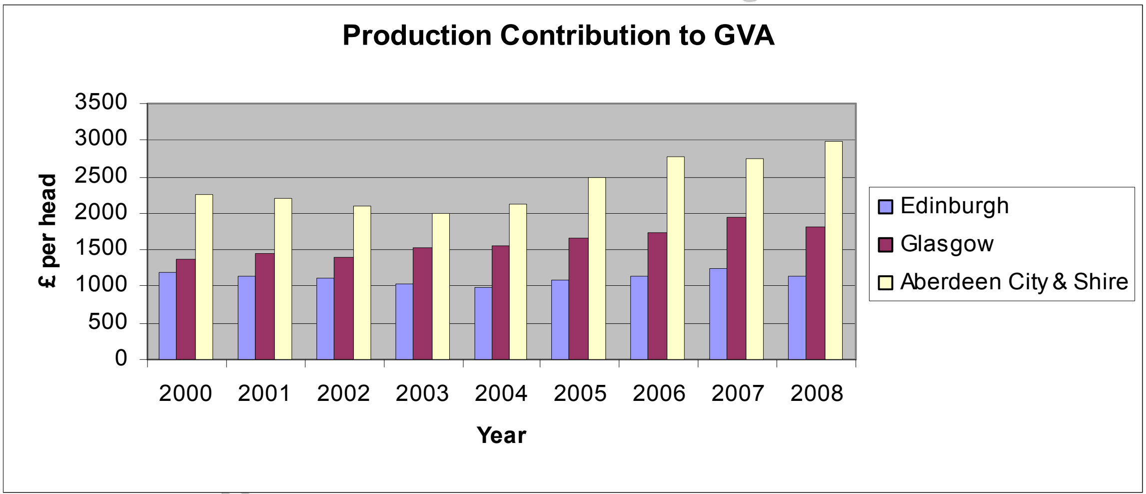
[2] Please note that these forecasts are based on official statistics which often have a timelag. This means that data for 2010 are estimates.

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

[4] http://www.pwc.co.uk/scotland/publications/northern-lights-strategic-vision-aberdeen-energy-capital.html



Graph 2.2



Graph.2.3

2.2.17. Graph 2.3 shows the production contribution of Edinburgh, Glasgow and Aberdeen. It is in this area that Aberdeen makes a significant contribution to GVA. Aberdeen's contribution to GVA in production is significantly high. For the benefit of Scotland, therefore, it is necessary for Aberdeen to maintain and build its productive industries while building up its business services contribution to balance its economic base and provide a wider range of employment opportunities for its citizens.

2.2.18. The CCRS, together with the proposed significant private sector funding contribution, will enable the Council 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. There is no doubt that 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. Aberdeen City Council (ACC) has been clear in its policy to anchor the oil and gas industry in the city and region, as businesses internationalise their operations. If the city and region are to succeed, industry needs to keep and attract talent in the area. This will only occur if the city is a place where people want to live, work and visit.

2.3.2. The North Sea and West of Shetland provinces are both expensive and challenging locations from which to extract oil and gas. However the market remains buoyant and the industry in the North East remains relatively positive about its ability to compete in an internationally competitive market place. As a key growth sector for the Scottish economy and the region, ACC need to ensure that oil and gas related businesses maintain and grow their operations in the North East of Scotland. This will boost exports, create employment and bring tax revenues at a time when the UK faces the prospect of stagnation.

2.3.3. 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). The challenge for Aberdeen is to capture the growth opportunity this creates 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 therefore offer, and be able to demonstrate, a high quality of life.

2.3.4. Another 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 marine technologies. 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 this operating environment and its ability to source the necessary 'risk capital' (from its existing oil and gas revenue base) to develop the renewable energy industry

2.3.5. 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. Through this regeneration project ACC aims to create the conditions to retain and attract new companies into a mature industry such as the North Sea oil and gas industry. This needs to be done in parallel with encouraging further investment, revenue generation and exports relating to off-shore de-commissioning and diversification into renewable energy and other sectors.

2.3.6. 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 CCRS 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 it's citizens.

2.3.7. The City's two universities work extensively with the energy sector to create real commercialisation and research and development 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. 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

2.3.8. It must be said that, over the course of more than 30 years of oil and gas exploration in the North East of Scotland, insufficient attention has been paid to improving the quality of life, and other elements, that are needed to ensure Aberdeen will remain a competitive city in a post-oil era that can compete with other international locations for mobile investment and mobile talent. As the opportunities become more challenging on the UKCS, the city will need to compete more and more on attractiveness of place to attract talent rather than on the proximity of oil and gas resources.

2.3.9. Aberdeen's fairly recent success story is not guaranteed to be sustainable unless the public and private sectors collaborate to maximise future potential through effective strategic planning and investment in City centre infrastructure. Should the City and surrounding region fail to retain oil and gas businesses and make further investments to diversify into other areas such as renewables, the region, Scotland and the UK risk losing valuable tax revenues that are collected from these businesses and from the people who work for them.

2.3.10. The private sector donors who have pledged funding towards the CCRS 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.

2.3.11. Aberdeen City and Shire Economic Future (ACSEF) and the Scottish Government's Six Cities approach to Scotland's sustainable 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 ever increasing 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 - not just an oil & gas city but also sectors such as renewable energy and offshore de-commissioning.

2.3.12. Aberdeen City has a public sector funding challenge and currently this is compounded by the need to make spending cuts due to reduced funding from central government. Nevertheless, the Council has an ambitious Local Development plan which aims to release a significant amounts of Industrial, Business and Housing land for development, linked to the development of a future Aberdeen Western Peripheral Route. This is consistent with the Structure Plan, Scottish Government's Planning Framework and the refreshed Economic Strategy. The CCRS will both generate and accelerate the investment potential that the Local Development Plan aims to achieve. This growth will not only repay the up-front public sector investment but will also contribute to Scotland's recovery and create wealth for the people of Scotland.

2.4. **Project Overview- Delivering Regeneration**

2.4.1. Table 2.1 below shows the required inputs to be made by the five major stakeholders in order to implement the CCRS. It is important to note that the secured outputs for the CCRS are of significance to all stakeholders including the Aberdeen Business Community, Scottish Government, Scottish Economy, and especially ACC.

Table 2.1: Stakeholder Inputs and Outputs

Stakeholders	Required Input	Secured Outputs
Scottish Government	Approval of business case Sacrifice a proportion of incremental revenues resulting from new development through the TIF Capture Mechanism.	During the period of the CCRS the government will retain Business rates from the baseline year and a proportion of the additional and incremental business rates. Additional business rates to be applied across Scotland. 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).
Aberdeen City Council	Underwrite borrowings, Contribute resources to undertake some of the enabling works, Manage the risk of the CCRS, Ensure robust governance and management of the CCRS	Retain additional business rates to pay for the CCRS, though this will cease once the loan debt is paid. Opportunities for new jobs and new business for local benefit. This will assist to fulfil the aspirations of housing and development of ACC's Local Development Plan. Benefit from Civic infrastructure investment paid for by retaining local additional business rates that would otherwise be spent elsewhere in Scotland. Attraction of talented and skilled workers as part of an increasing population that contributes more towards statutory, social and educational services
Aberdeen City Gardens Trust	Invest money (in the form of philanthropic donation), effort and expertise into the entire City Centre Regeneration. Drive the processes for a robust International Design competition	Delivery of a major city centre garden, civic, leisure, cultural and innovation amenity for the benefit of the city population and beyond. While there is no direct benefit the fact that the City Gardens Project becomes a reality and underpins the CCRS will benefit Aberdeen's wider

Stakeholders	Required Input	Secured Outputs
	and procurement process. Core expertise to assist in a robust TIF business case in order to support the Council's efforts.	population and business community.
Aberdeen Business Community	Support the process, Through ACSEF and other Business bodies, provid support through work in-kind, resources and funding Provid forums to discuss the future of the city centre and where necessary challenge the status quo. Provide critical friend advice	Benefits from Civic infrastructure by retaining the rates spent for local services otherwise spent elsewhere in Scotland. Increased business opportunities, 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.
Scottish Economy	Through individual donation, contribute to the CCRS,	Receive the tax benefit of the CCRS Gain an additional attractor to the Scottish Economy Benefit from the additional jobs, businesses which in turn can deliver benefits for neighbouring and complementary economies across Scotland The Scottish Economy benefits from the support Aberdeen provides to "anchor" the oil and gas industry in Scotland.

2.4.2. The CCRS TIF Business Case sets out the case for investing in enabling infrastructure that is designed to make 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 CCRS 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

2.4.4. ACC has already invested heavily in improving its Civic Quarter 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, the Council has been unable to make any provision in its capital budget for further major investment projects.

2.4.5. Aberdeen is one of the few cities in the world where its city centre is not its Central Business District (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 true 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 CCRS will act as a catalyst for the development of a future CBD which will ensure critical mass of employment, ideas, prosperity and sustainability. The CCRS will encourage development in the city centre sooner, and on a bigger scale, than might otherwise be the case without public investment in enabling infrastructure.

2.4.6. Should the Council do nothing there is no guarantee, based on past experience, that development will happen - despite developers' 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 included in the CCRS may well be bought for development, there is a very real chance that it could take many years to realise any development on these sites without some public sector investment in enabling infrastructure that demonstrates ACC's leadership and confidence.

2.4.7. The proposed CCRS therefore meets the objectives of ACC's Local Development Plan (LDP) 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 from the Airport and AECC, in the North of the City, to Peterhead in Aberdeenshire.

2.4.8. The CCRS encompasses the following five key strategic regeneration projects to be implemented, on a phased basis, across the city centre (see photo 2.2).

1. **The St Nicholas House Redevelopment**

   This project will ensure that the site of ACC's former headquarters will be 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. ACC wishes to invest in this project to influence the direction of the development in 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 Local Development Plan, which is an ambitious plan designed to unlock the economic potential of the city and region. ACC believes that this investment will provide a positive market signal that will encourage and accelerate future investment.

2. **The City Garden Project**

   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 our city. The winner of the design competition, which attracted international interest and world class talent and the local population in their thousands to attend the public exhibition, has demonstrated how it will combine an imaginative and inspiring green landscape design with improved accessibility and connections to key parts of the city, whilst providing a truly stunning new and additional home for the arts, culture, innovation and creativity.

The City Garden Project will truly enliven, energise and create a new space for all to enjoy. Additionally City Garden will play its intended role as a catalyst for city centre regeneration and deliver 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.

The City Garden project will have a major economic impact on the City. It will anchor investment in the CCRS and has generated significant private sector leverage (50% of the capital cost is expected to be met from private sector donations). This investment will enable investment in new civic and cultural assets that will act as the catalyst for future city centre development, thereby creating real, additional economic growth. An International design competition has just been completed and the winning design team will be announced prior to submission of the final version of this business case. ACC wishes to invest in this project because the City Garden Project will act as a major catalyst for realising significant environmental, economic and social benefits associated with the city centre's future regeneration.

3. The City Art Gallery Redevelopment

The City's Art Gallery holds an enviable inventory of artworks and collections. ACC has plans to redevelop the City Art Gallery to make it an even more successful attraction for visitors from the City and beyond (including international visitors). It is currently regarded as one of the UK's best regional Art Galleries, but needs significant redevelopment if it is to sustain this position and become even better. Due to a lack of capital ACC is unable to make the necessary investment without using the funding available via TIF. Within the CCRS the City Art Gallery will be linked to the City Gardens and the new city realm access and, along with the City Garden project, will act as a physical focal point for all five projects, strengthening Aberdeen's cultural quarter. TIF funding for the infrastructure elements of the Art Gallery Redevelopment Project will unlock other funding streams (such as Lottery Funding) which will finance the remainder of this development. Without the CCRS this civic project will be unable to secure match funding and will therefore most likely never happen – even with some improvement in the current financial environment.

4. The City Realm- The City Circle

The City Circle is the City Realm element of this City Centre regeneration CCRS. It aims to improve the accessibility of Aberdeen's city centre from the train station to the Civic heart. The improved shopping and amenities around the train and bus station makes that area a destination rather than the beginning of a City Centre route to Union Street and the other offerings within the City Centre.

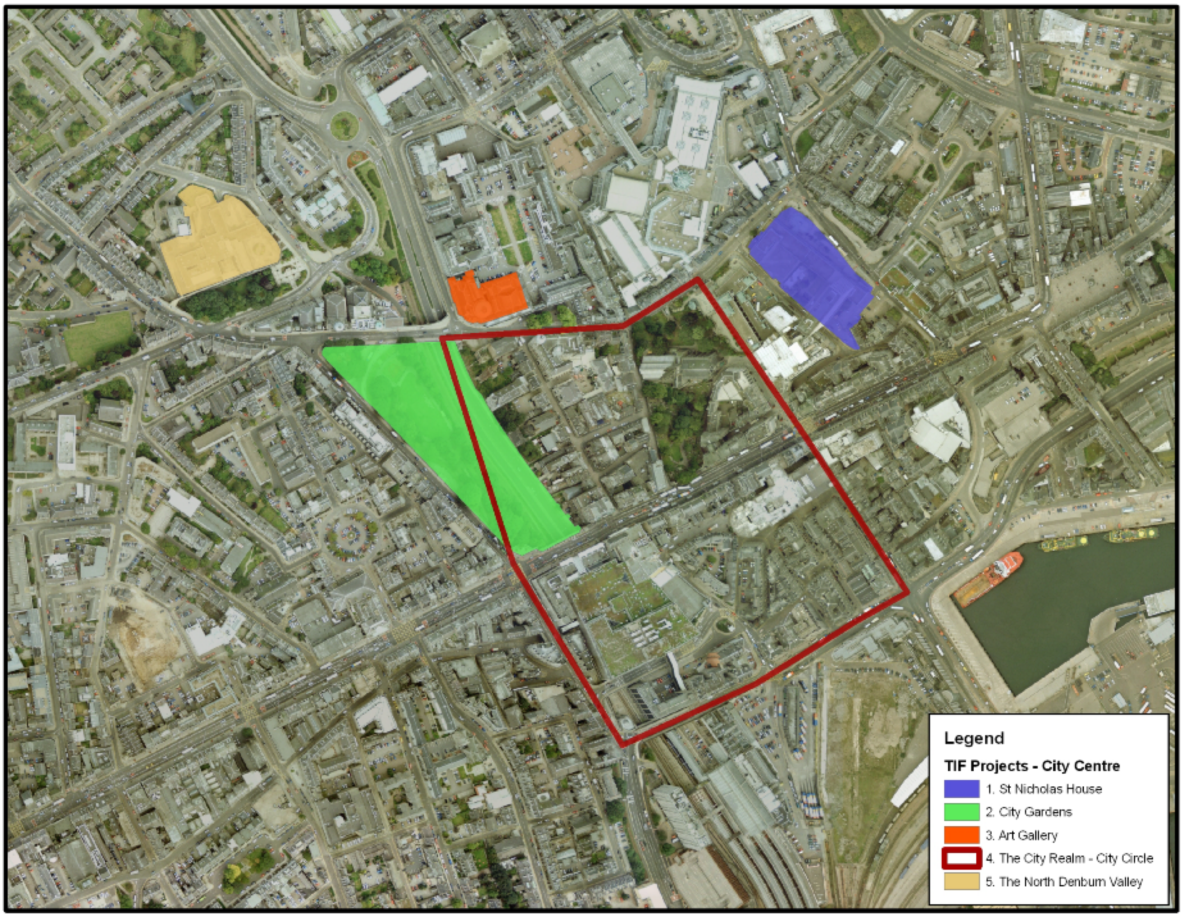
This footway aims to encourage people to traverse around the city. The key objectives are to increase footfall and commercial activity and help make the pedestrian king, and the car a guest, in the city centre. This footway will provide an interesting and sustainable access which will be reflective of the city's distinctiveness whilst complementing many of the existing and potential new pedestrian areas in the city centre. ACC wishes to invest in this element of the CCRS to combat the growing numbers of empty shops and business units in the city centre and in particular in and around Union Street. This city centre project, in partnership with the other four projects within this City Centre regeneration CCRS, is designed to reverse this trend.

5. The North Denburn Valley Redevelopment

Both ACC and Grampian NHS own outdated and under-utilised assets in the North Denburn Valley. ACC will be unable to redevelop these assets or exercise any influence on future development due to limitations on its Capital Budget. . The enabling infrastructure required for the CCRS will prepare the site for development to make the area accessible to the new city gardens and to link it to the City realm and the City Art gallery. ACC understands that there is a lack of high quality office space potential in the City Centre and the North Denburn Valley provides an opportunity to address this requirement. However, the current recession will mean that this 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 the CCRS will accelerate development and be the catalyst for the creation of a broader Central Business District within the city. This development and the adjacent City Garden's development will also complement the proposed Triple Kirk's development. The TIF funding mechanism therefore provides Aberdeen City with a mechanism for encouraging development and growth in the city centre.

Photo 2.2



2.5. **Why is TIF needed?**

2.5.1. As a result of pressure on their 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 CCRS 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 CCRS cannot be delivered without this donation. This private sector funding is also conditional upon matched public sector funding. However this is not available from ACC's annual capital budget. TIF is not only an appropriate mechanism to bridge the funding gap, it is also the only mechanism currently available to allow ACC to make this investment and therefore deliver the five projects within the CCRS.

2.5.2. Approval of the CCRS 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 their commitment to national growth.

2.6. **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 performance of this key industry is vitally dependent upon attracting and retaining skilled people to the city.

- Aberdeen's ability to attract and retain skilled people will become increasingly dependent upon the city's ability to demonstrate "a new level of ambition" that involves the creation of a vibrant city centre that provides an attractive place to live and work.

- The CCRS represents a critical first step to realising the city's ambition and provides a platform for pursuing other economic development goals, but the CCRS can only be delivered through the use of TIF.

- The CCRS is vital to the success of the city's current and future Local Plan and is consistent with other national, regional and local policies.

- The Aberdeen economy has lagged the economic performance of Edinburgh and Glasgow and is under-represented in the faster growing services sector

- Even during a time of economic 'boom' many planned city centre 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.

- The CCRS provides ACC with the only available means to invest in enabling infrastructure, create the conditions for economic growth and generate more income from business rate taxation – for the benefit of both Aberdeen and the rest of Scotland.

- The five complementary development projects in the proposed CCRS will, together, act as a catalyst for city centre regeneration, the retention of existing businesses and the attraction of future investment

- The CCRS is critical to the realisation of Aberdeen's ambition to be a cultural and creative destination capable of becoming a UK City of Culture.

- The City Garden project is the catalyst for the other four projects and also provides the private sector donations that are required to match the public sector funding and make the whole CCRS feasible.

- ACC selected these five projects due to their requirement for enabling infrastructure investment, their important catalytic impact on future city centre development and their ability to generate economic growth and subsequent incremental business rates

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 being 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'5

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 survey[6] 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.

3.1.3. 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.

3.2. Local Policy Objectives

3.2.1. The City & Shire's Economic Manifesto 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. The aim is to retain the existing population of multi-national companies that drive the economy by applying their skills and services to new markets, whilst attracting new investment, new talent, new opportunities and companies that will provide a platform for long term economic diversification and sustainable growth. This will be achieved by redeveloping and regenerating the city centre and making Aberdeen a location of choice for individuals and businesses. 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.

3.2.2. Research shows that talented people choose place rather than job when making location decisions[7]. 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 in achieving this by

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[5] Charles Landry-2011

[6] Aberdeen City Council's Bi-annual Export Survey (2011)

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

providing confidence and an image boost to the city and its people and helping to launch and promote its economic future beyond North Sea oil and gas production.

3.2.3. With a focus on attracting further renewables investment, this will strengthen Aberdeen's position as a global destination of choice. 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 CCRS 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.

3.2.4. ACC's LDP has recently been approved by Scottish Ministers. It 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. In order to ensure that the City does not cause undue displacement of investment from other areas in Scotland, the strategy aims to attract investment from outwith Scotland along with new business growth from our own region. The CCRS is designed to attract the upwardly mobile skilled talent required for the region's current and future high skilled industries. The aim is to create an environment that will attract and retain jobs.

3.2.5. The CCRS will enable Aberdeen's City Centre Framework which was recently agreed. Fundamental to the CCRS is its strong link to making ACC's Open Space Strategy 2011 come to fruition. ACC's Open Space Audit 2010 identifies the lack of accessible quality open space in the city centre. Central to this strategy is 'to create a network of attractive, appealing, well connected community places. Creating places for everyone to enjoy for health, learning, recreation and nature.' The CCRS contributes to the delivery of the city's Open Space Strategy which has been through rigorous consultation and scrutiny and will be taken account of in the delivery of the CCRS.

3.3. **Regional Strategic Fit**

3.3.1. The CCRS 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. Aberdeen is one of the world's major energy cities. Its strategic direction looks towards the next 30 - 40 years and seeks to ensure that it remains a global energy city.

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 Aberdeen City and Shire Economic Future (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 CCRS.

3.4. Scottish Government Strategic Objectives

3.4.1. The CCRS 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 Six 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. This project takes leverage from private sector donations to create a sustainable civic and CBD heart for the North East of Scotland in order to attract 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 as well as enabling the Cities Strategy which is being developed by Scottish Government which 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.
- 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. Sustainable Development

3.5.1. 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.

3.5.2. 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
- provide guidance on standards and indicators

3.5.3. 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.

3.6. **Conclusion**

The CCRS:

- 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.

- will have enduring benefits for the community, economy and the long-term sustainability of Aberdeen City and its region.

4. Infrastructure Investment Plan and Funding Gap

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 the 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 difficult to deliver. On 19 May 2010, ACC agreed to pursue the CCRS 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 re-developments.

4.1.2. These five elements require £182 million of investment in enabling infrastructure, however £90 million is being provided by private sector contributions and grants, 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 private sector investment to meet the required economic growth. The type of developments Aberdeen will attract will be global in nature and should not create displacement within Scotland.

4.1.3. The proposal is necessarily bold in order to help Aberdeen shake its 'oil and gas only' 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 context. The city is considering using the developments as a spring board from which to launch both a UK and European Capital of Culture 2017 bid to firmly establish the city as a location in which to live and invest. The proposed Red Line Area comprises of the city centre plus two large development areas where the potential for attracting investment will be significantly enhanced by this project.

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 ACC agreed to demolish this building. For ACC this is the highest priority but it lacks sufficient budget to fund the £2.5 million estimated for the demolition. Though there is desire for this demolition to occur, without the funds it is unlikely for this demolition to occur. ACC must also ensure that any development and works meet best value under the Local Government (Scotland) Act 2003. There is a potential to consider various joint venture vehicles
Funding identified from existing sources	0	
Funding Gap to be provided by TIF mechanism	6	

		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.
2 The City Garden Project		
Funding requirement / sources	**£m**	**Comments**
Total Project Costs	140	The City Gardens Project (CGP) is a 56,000 square metres 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. Discussions have already been underway with immediate property owners who will be impacted by the CCRS. The majority of work in consultation and development has been undertaken for the City Garden's project. Minutes and Agendas for the Project Management Board and Project Monitoring Board as well as other information have been made publicly available on www.aberdeencity.gov.uk. Significant to this has been the expertise of Creative Scotland and other major stakeholders. A public display from the International Design Competition was undertaken in October 2011 in Aberdeen. 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. As part of agreeing the content for the City Gardens, 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.
Funding identified from existing sources	70	
Funding Gap to be provided by TIF mechanism	70	
3 The City Art Gallery redevelopment		
Funding requirement / sources	**£m**	**Comments**
Total Project Costs	24	This project aims to extend and improve the City Art Gallery with improved public access to the cultural realm and the City Gardens. ACC owns this property and has widely consulted on its plans
Funding identified from existing	20	

sources		to redevelop its Art Gallery. Significant work has been undertaken with national, regional and local groups. There is no ACC funding identified for this project. However should the TIF funds be made available it can leverage European, UK and Scottish funding for the arts. Without this project as part of the comprehensive CCRS it would lack the funding leverage from the significant donations that anchor the CCRS. Therefore this redevelopment is virtually impossible to achieve without the CCRS and in its absence any City of Culture bid is unlikely to be successful.
Funding Gap to be provided by TIF mechanism	4	
4 The City Realm – The City Circle		
Funding requirement / sources	**£m**	**Comments**
Total Project Costs	6	A public realm for the 'City Circle' route from the railway station, linking the major shopping developments to the Cultural and Civic Quarters, through the redeveloped City Gardens, linking back to the rail station and improving public access to the city centre is an integral component of the CCRS. Whilst still notional, 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 CCRS.
Funding identified from existing sources	0	
Funding Gap to be provided by TIF mechanism	6	
5 The North Denburn Valley – redevelopment		
Funding requirement / sources	**£m**	**Comments**
Total Project Costs	6	The project aims to provide enabling 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
Funding identified from existing sources	0	
Funding Gap to be provided by TIF mechanism	6	

		another high profile derelict building situated on it. The project aims to provide enabling 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.

4.3. Timetable

4.3.1. This time table assumes Month 0 to be the date when the CCRS is approved by Scottish Government.

Table 4.1 The CCRS Timetable

Task	*Start*	*Finish*
TIF Specific		
Stakeholder approval of Business Plan	01/11/2011	Month -6
Government approval of Business Plan		Month 0
St Nicholas House	01/04/2012	30/09/2012
Art Gallery	Month 24	Month 48
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

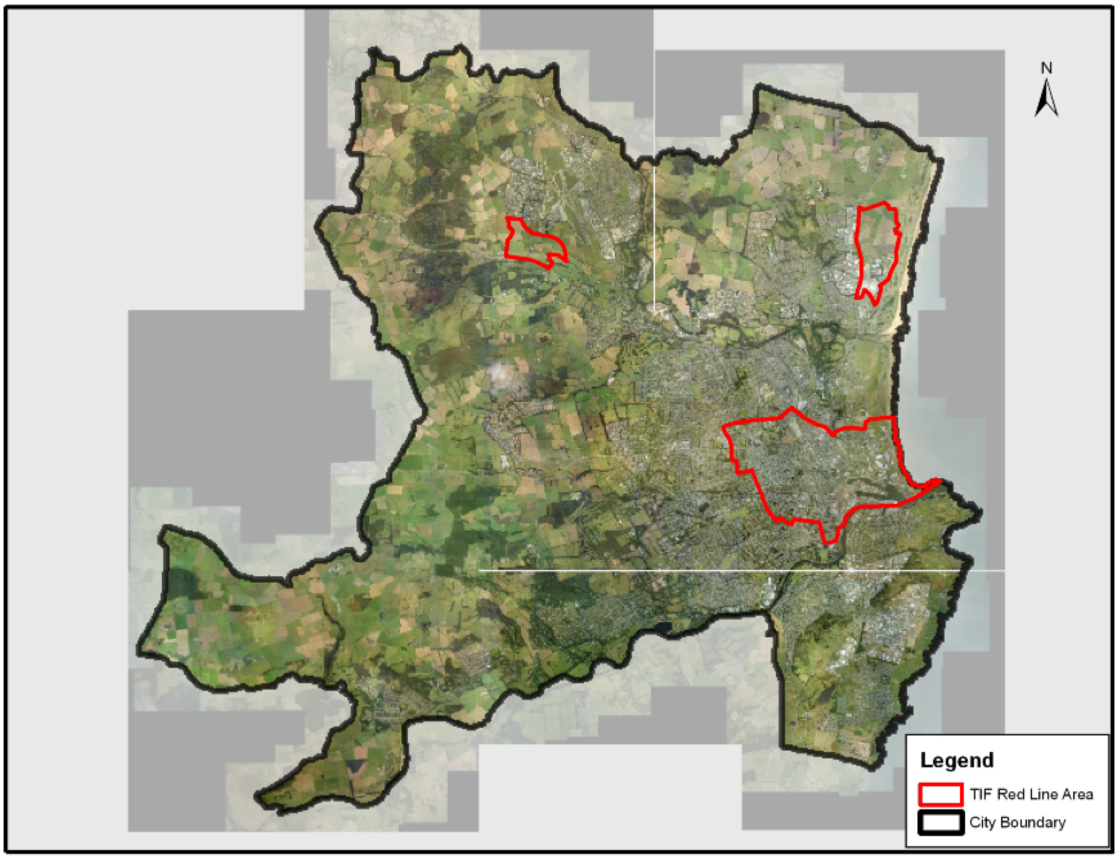
4.3.2. Please note that the above timescales are yet to be confirmed and are subject to agreement of the CCRS

4.4. **TIF Red-line Area**

4.4.1. The red line 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 “red-line” area 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 Map 4.1). These development areas are ; Dyce Drive to the North West of the City and the area surrounding the AECC to the North of city and 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 CCRS will accelerate these developments and positively impact upon the mix of development on these sites. .

4.4.2. The current local plan and future local development plan will release significant hectares of development land. It is believed that the city centre redevelopment will accelerate the development of these areas. Developers have participated in a survey as part of the Economic Impact Assessment (see Section 6) and participated in structured interviews to test this hypothesis. This research confirms that these areas will not develop to the same extent or speed if Aberdeen lacks a vibrant city centre.

Map 4.1 - TIF Red Line Area Aberdeen



5. Incremental Revenues

5.1. Introduction

5.1.1. In this section we identify the incremental National Non Domestic Rates (NNDR) profile, which drives the revenue assumptions used in the financial model (see section 7 for the financial analysis). TIF is predicated on capturing an uplift in incremental NNDR and other potential incremental revenues within a defined boundary or 'red line' area. Such uplifts are expected to occur as a result of the investments made, through TIF, in the enabling infrastructure that delivers the CCRS. This section of the business case sets out the estimated incremental revenue stream and the key underlying working assumptions. In developing this section ACC has received specialist research support from property advisors CB Richard Ellis as well as input from ACGT and PwC.

5.2. Incremental Business Rates

5.2.1. SFT guidance for TIF requires that only NNDR generated by new development created within the red line area 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.

5.2.2. As outlined at Section 4.4 a red line area has been identified by ACC within which uplift in new development is expected to occur and be influenced by the CCRS comprising:

- the main Aberdeen City Core,
- Dyce Drive and
- Ellon Road.

5.2.3. Based upon this red line area, and in conjunction with ACC, CBRE have undertaken an assessment of potential development sites and consideration has been given to the scale of development these sites are expected to support and the business rate income that could be generated. By nature, such development will be realised in stages over time and the analysis has also considered these timing factors and the impact of the CCRS on this.

5.2.4. 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. These sites are also identified in the Aberdeen City Local Plan (2008). Aberdeen City Planning & Sustainable Development Service has been consulted on the potential scale and deliverability of proposed developments as appropriate. The local assessor was also 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, as required. CBRE have also used their knowledge of the property market, the funding market and discussions with local developers to obtain an informed understanding of the situation.

5.2.5. To assess the amount of incremental revenue that could occur to support the CCRS, the Project Team has considered the extent to which the delivery of the identified developments could be impacted, either in quantum or timing, by CCRS with reference to:

- ➢ A "with CCRS" scenario: where the TIF business case is approved, the funding gap to deliver the proposed enabling infrastructure is met, and CCRS is delivered; and

- ➢ A "without CCRS" scenario: where there is no TIF, the funding gap for the CCRS is not met and no significant investment is made in enabling infrastructure in the city centre (as outlined at Section 6.4 in relation to the 'but for' case).

5.2.6. Based upon feedback received through the economic impact consultation (see Appendix 3) and on the basis of the collective experience of the Project Team three key assumptions have been made in relation to the quantum and timing of development under the without CCRS scenario namely:

- ➢ None of the cultural, leisure or retail elements of the CCRS projects will be taken forward;

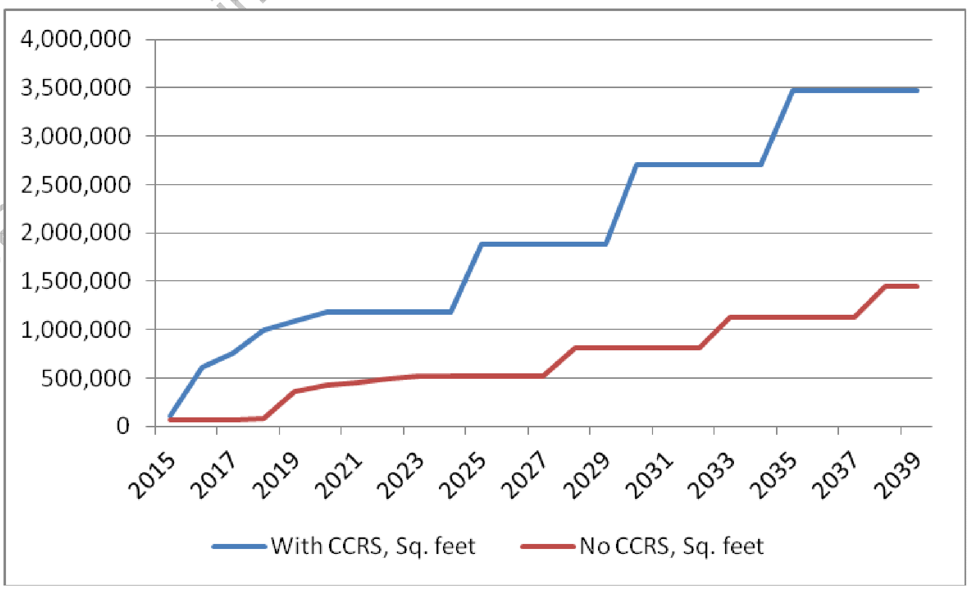
- ➢ At least one of the major development sites identified, totalling 0.072 million square feet, will be taken forward in the anticipated timescales projected by developers;

- ➢ On the remaining sites identified, 1.369 million square feet of development will go forward without CCRS over the 25 year TIF period, but this development will lag, on average, three years behind the "with CCRS".profile; and,

- ➢ On the remaining sites identified, 2,029 million square feet of development (out of total development potential of 3.468 million square feet) will not go forward without the CCRS, over the proposed 25 year TIF period.

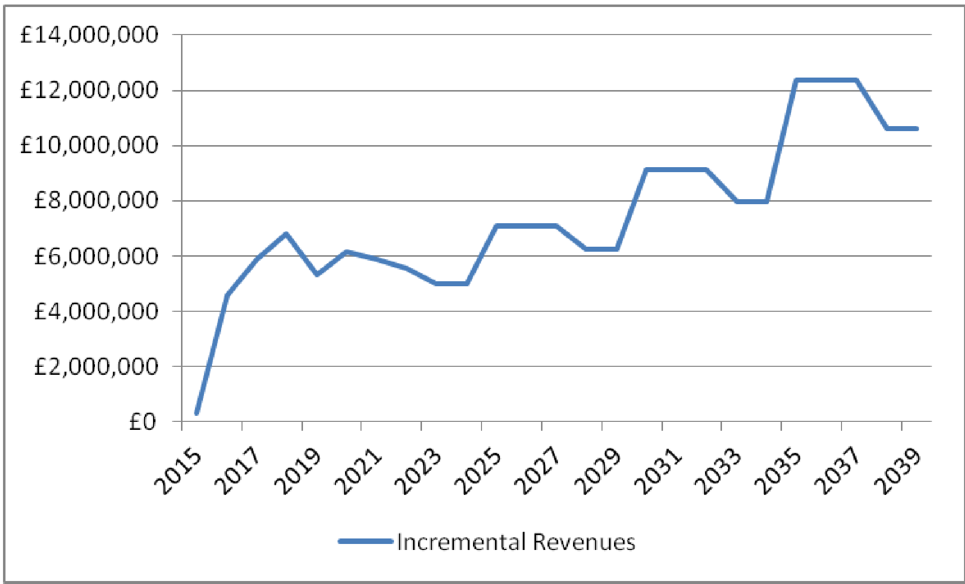
5.2.7. Reflecting the assumptions above Fig. 5.1 below illustrates both the profile of NNDR anticipated with CCRS" and that anticipated "without CCRS" . This reflects the phasing of development over time and shows the total level of business rate income anticipated under each scenario.

Fig 5.1 Estimated NNDR for with CCRS and without CCRS Scenarios



5.2.8. The increment which will be captured through the TIF mechanism is the difference between the ‘with CCRS’ and ‘without CCRS’ lines in Fig 5.1 (i.e. difference between the blue line and the red line). Fig 5.2 illustrates this increment over time and this represents the sole source of revenue in the base case financial model (see Section 7).

Fig 5.2 Annual incremental revenue captured through TIF (difference between the with CCRS and without CCRS revenue profiles



5.2.9. This approach recognises that an element of development will happen anyway in Aberdeen and this should therefore be excluded from capture through the TIF mechanism. It recognises also that the scale and timing of development is influenced by market conditions and that the CCRS is likely to improve such conditions and bring forward development both in terms of timing and scale.

5.2.10. ACC believe that this analysis is the most appropriate and prudent way to assess incremental NNDR for this project at this stage of its development. However, ACC is also aware that such an approach is different to that assumed in the SFT TIF capture mechanism paper. In conjunction with SFT, ACC will seek to refine the capture mechanism to both retain its inherent principals and reflect the specific nature of this project and the analysis undertaken.

5.3. Other Revenue Streams

5.3.1. Potential rates revenue from some of the space provided within the City Garden Project has been included.

5.3.2. There are no incremental business rates from existing businesses included in the incremental rates assumptions modelled in the financial analysis.

5.3.3. The CCRS could also potentially increase the level of residential development that takes place within the city centre red line area. However, for the purpose of this business case any potential new council tax due to ACC from such residential development has been excluded.

5.3.4. No rental income from the cultural, leisure or other uses provided for in the City Gardens Project has been included

5.4. Conclusion

- The CCRS is expected to have a positive impact on the amount of new development delivered in Aberdeen.
- A red line area has been identified by ACC within which such uplifts in development are considered most likely.
- Within the red line a mix of sites with development potential of up to 3.468 million square feet have been identified.
- CCRS is expected to lead to this development potential being realised in full by 2035.
- Without CCRS 1.369 million square feet of development will go forward over the 25 year TIF period, but this development will lag, on average, three years behind the profile assumed with CCRS.
- Without the CCRS, 2,029 million square feet of development (out of total development potential of 3.468 million square feet) will not be realised, over the proposed 25 year TIF period.

6. Economic Impact Assessment

6.1. Introduction

6.1.1. As detailed, in Appendix 3, PwC LLP with specialist input from CBRE have undertaken an economic impact assessment of the current TIF proposals. The purpose of this assessment was to allow the Council to examine the potential net benefits associated with delivery of the CCRS and consequent uplifts in NNDR that may result.

6.1.2. This section of the business case summarises the key outputs of the economic impact assessment by considering, in line with SFT Guidance, the:

- Context for considering the economic effects of the CCRS as funded through TIF;
- Market failures the proposed TIF interventions funded through TIF will address;
- Approach adopted to assessing the 'counterfactual' (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.

6.2. Context

6.2.1. TIF provides the mechanism to fill the funding gap required to deliver the CCRS The CCRS will deliver substantial investment in public realm and other infrastructure in the City Centre. The objective of these proposals is to: "link current and future developments in the City Centre and create the conditions to attract private sector investment (in order to) 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 context" (Aberdeen City Council, SFT TIF Preliminary Proposal, August 2011).

6.2.2. It is important, given the scale of the CCRS and wider objectives that could be delivered, to assess whether the Council's proposed investment via TIF is likely to be beneficial. The importance of addressing this issue – through an economic impact assessment – is primarily to judge whether or not the effects of the developments will have positive net effects across the City and wider Council area.

6.2.3. For example if these developments were to cause 'displacement' (e.g. if the proposed retail units were to reduce demand at other retail facilities in or outside the City) or is 'non additional' (i.e. similar profiles of development will occur anyway in the absence of TIF) the assumed uplift in business rates from the current proposals may be offset by such effects.

6.2.4. Consequently the purpose of undertaking the economic impact assessment is to address two inter-related questions, namely are the:

- Proposals justified – from a public sector perspective – in terms of market failure, net economic impacts and value for money; and,

- Business rate impacts (taking account of any displacement and non-additionality effects) at a Council wide level likely to generate sufficient future net revenue streams to support the funding required for the enabling investments proposed?

6.3. Market Failure

6.3.1. Market failures are: "imperfections in markets that prevent them from producing efficient outcomes"[8]. The purpose of any form of public sector intervention is where such failures exist, to remediate or remove such imperfections. Consequently it is important to establish the rationale for undertaking the investment funded through the TIF mechanism by demonstrating why the private sector cannot or will not take forward the proposed developments in the same timescales, or types of development, or quality and scale as projected under the Council's proposals.

6.3.2. As detailed in Section 2 Aberdeen, in order to compete with other global cities, will need to invest in various elements of its 'offer' by enhancing the City's cultural heritage, promoting strong, safe communities, and investing in high quality education, leisure, housing and medical facilities. If investment in these types of infrastructure is not sustained Aberdeen is at risk of losing its competitive position as a global hub for the oil and gas sector. In addition the ability to diversify Aberdeen's economic base, to support emerging sectors such as renewables, risks being compromised.

6.3.3. The proposed CCRS is one of the first steps to reducing such risks by ensuring the future attractiveness, vitality and connectivity of the City Centre. In doing so the five projects in the CCRS will address a range of market failures, not least:

- **Externalities (Local and Regional)**; to successfully take forward key components of the CCRS will require major remediation and redevelopment (in the form of the five key development projects) prior to attracting 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 to other global energy cities - there will be significant negative effects to the wider Scottish economy as a whole, since it is unlikely that such investments or relocations will take place elsewhere in Scotland;

[8] The 3Rs guidance, Office of the Deputy Prime Minister (ODPM), May 2004

- **Equity issues**; in relation to renewal of the wider City centre area and the consequent 'place based' benefits to the local area of attracting new investment and types of employment. Without unlocking development now and attracting future related investment there is the potential for decline in the local economy and consequent inequalities to remain or become exacerbated over time (e.g. unemployment, de-skilling and poverty); and,
- **Environmental implications**; i.e. without intervention key sites within the City might remain un-remediated, with poor accessibility and limit the opportunities for the Council to reduce carbon emissions and influence development standards.

6.3.4. 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 (by reducing risks and providing appropriate infrastructure for future development as well as wider national economic benefits), and the latter in relation to (place based) renewal. Finally by adopting a tailored, targeted and integrated approach to site development within the Red-line area, the Council will ensure that any future development is taken forward in an environmentally sustainable manner.

6.3.5. While the rationale for intervention may be justified under market failure grounds it is important before taking forward the project proposals to test – as indicated by SFT guidance – what might happen without the proposed investment and the wider (positive and negative) impacts that could result beyond the City Centre.

6.4. The Counterfactual ('But for Case')

6.4.1. As outlined in section 2.22, without TIF, ACC does not have the means to deliver the CCRS,

6.4.2. In assessing likely outcomes were the CCRS does not to proceed various pieces of evidence have been drawn upon, namely:

- A survey, by the Council, of over 400 representatives across a range of locally based sectors to assess their views of business prospects with and without the CCRS;

- A parallel survey of 35 developers of sites likely to be impacted by the proposals – again to understand their views on the likely effects of the 'with and without' CCRS outcomes; and,

- An assessment, in the context of both the above, of the implications for the 'but for case'.

6.4.3. From the responses received from developers – as detailed at Appendix 3 – it is apparent that some of the sites identified as likely to be influenced by the CCRS proposals are also likely to be taken forward without CCRS.

6.4.4. Additionally it was apparent that individual developers and other respondents identified potential uplifts in activity and recognised that the timing of investments would be brought forward as a result of TIF. However, many of these developers still had expectations that, irrespective of future economic conditions or CCRS, development of, their specific sites would be taken forward.

6.4.5. In balancing these different responses (i.e. The CCRS will act as a stimulus to market uplift in general versus developers claiming each individual site is likely to be taken forward anyway) a profile of development under the no CCRS scenario was constructed whereby:

- None of the cultural, leisure or other elements of the CCRS would be taken forward;

- At least one major site totalling 0.720 million square feet within the red line TIF area would be taken forward in the anticipated timescales projected by developers regardless of the CCRS; and,

- On the remaining sites identified, 1.369 million square feet will go forward without TIF over the 25 year period considered, but such developments will lag, on average, three years behind the profile assumed with CCRS.

- On the remaining sites identified, 2,029 million square feet of development (out of total development potential of 3.468 million square feet) will not go forward without the CCRS, over the proposed 25 year TIF period.

6.4.6. In order to further test the validity of these assumptions they were provided to developers for comment and feedback. No challenges were subsequently made by this group indicating (implicit) acceptance of this 'but for' profile. Similarly other businesses contacted – as detailed in Appendix 3 – suggested a similar response to the "but for" profile. Only 2.4% of respondents could envisage a significant improvement in the City Centre economy without the CCRS being taken forward (with over 60% anticipating a modest or significant decline in the absence of the TIF proposals).

6.5. Displacement

6.5.1. Displacement aims to take account of 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 the current TIF project as it allows the Council 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.

6.5.2. It is important to recognise, in this context, that the projected profiles of development under the TIF scenario are predicated on the stimulus the CCRS may provide to ensure that, in the future:

- Mobile investors and businesses already in the City do not leave to other (global energy hub) locations and potentially invest further; and, equally,

- Inward investors decide to relocate to the City (with some failing to do so in the absence of TIF).

6.5.3. Consequently if the TIF is successful, a significant uplift in investment and demand will be related to activities that otherwise would not take place either in the City or across

Scotland as a whole. In short there is likely to be little or 'no displacement' of existing activities in the City as a result of TIF.

6.5.4. This view is broadly consistent with survey respondent views as outlined in section 1.5.2 of Appendix 3. For businesses the uplift in activity was, in most cases, only likely to have a potentially 'mildly adverse effect' in terms of direct competition (particularly in regard to retail activity). For developers the expectation that potential demand for the key components of office and commercial space would be drawn, in part, from local users reflects the anticipation of increased investment by existing businesses already in the City.

6.5.5. Given the above displacement levels have been assumed at a (minimal) level of 10% as discussed in section 1 of the full Economic Impact Assessment in Appendix 3.

6.6. Net Economic Impact

6.6.1. As illustrated above, in assessing the likely effects of the CCRS on the profile of development on new sites, the Council and its advisers have considered the survey results, from developers and other respondents, as well as current market conditions, and assumed that:

- Up to 2,029 million square feet of developments identified is more likely to occur with the CCRS (than without) given the wider effects that the CCRS may have on investor interest in the City, specifically in the energy sector; and,
- Most of developments will likely occur sooner with the CCRS and, on average, three years before that identified under the "but for" position.

6.6.2. In considering the net economic impacts of these assumptions consideration has been given to the likely profile of development with and without TIF over a 25 year period (i.e. the timescale over which initial funding by the Council will require to be 'paid back' through uplifts in business rates).

6.6.3. Table 6.1, below, indicates the range of net development that is expected to be enabled through delivery of the CCRS development projects within the redline area, over a 25 year period.

Table 6.1: Gross Development Profile with and without the TIF

Type of Development	Amount Expected with TIF at Year 25 (Sq ft)	Amount Expected without TIF at Year 25 (Sq ft)	Net Amount Expected at Year 25 (Sq ft)
Retail/Leisure	86,219	-	86,219
Office	951,315	495,726	455,589
Cultural	66,736	-	66,736
Industrial	2,363,799	945,520	1,418,279
Hotel (beds)	250	100	150
Total	**3,470,000 (250 beds)**	**1,441,000 (100 beds)**	**2,029,000 (150 beds)**

6.6.4. To assess the net economic benefits associated with the above, in employment terms, standard job density ratios (detailed in the English Partnerships: “Employment Densities: A Full Guide”[9]) have been applied to each of these net floor spaces and bed spaces (identified in the last column of Table 6.1 above)As illustrated at Table 6.2 below this analysis (as detailed in full at section 1.11 of Appendix 3) suggests that by 2039 net new employment will be around 6,500 full time equivalent (“fte”) employees. In addition, in considering the uplift in GVA from now until 2039, the average net increase in GVA will be around £122.60 million per annum in today’s terms.

Table 6.2 Net floor space, employees and average GVA with the CCRS

Type of Development	Net New Floor space at Year 25 (Sq ft)	Net New Employment (FTEs)	GVA (£m, Average over 25 years NPV terms)
Retail/Leisure	86,219	468	5.9
Office	455,589	2,340	69.5
Cultural	66,736	180	1.7
Industrial	1,418,279	3,300	44.0
Hotel (beds)	150	197	1.9
Total	**2,029,000 (150 beds)**	**6,485**	**122.6**

[9] The English partnerships guide is adopted as standard across the public sector throughout the UK and it is periodically revisited to ensure its conclusions remain accurate.

7. Financial Analysis

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. This is primarily evaluated with reference to a Financial Model developed by PwC, which forecasts 25 year cash flows for the project with supporting sensitivities also undertaken, as required by the SFT TIF guidance. This model is based upon assumptions which have been derived from the other work-streams undertaken as part of the business case. 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.

7.1.2. 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 bridge the remaining funding gap associated with delivering the enabling infrastructure. ACC intends to repay these borrowings through NNDR receipts. To enable repayment of these borrowings the Scottish Government, through the TIF capture mechanism, will allow the Council to retain the incremental NNDR (see section 5) which is likely to have arisen as a result of the project.

7.1.3. 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 this 25 year term. Part of the TIF arrangements will be a binding commitment from the Scottish Government that this incremental NNDR may be retained 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 in detail the costs associated with delivering the project. In total, an estimated £182m is required to deliver the City Centre Regeneration scheme. The funding gap to be covered by any CCRS is much lower at approximately £92m (with £20m being assumed to be received from grants and £70m from private sector contributions).

7.2.2. The profile of the £92m funded by the CCRS 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.

Annual Borrowing Costs

7.2.4. Annual Borrowing costs on £92m require to be serviced within the 25 year period of the TIF, starting April 2014 when the first tranche of debt is drawn down. The Public Works Loan Board (PWLB) Pooled interest rate is estimated to be 4.65% as at October 2011. In the current, economic climate a buffer of +0.55% has been included in the base case to guard against future rate fluctuation. This results in an interest rate of 5.20%.

7.2.5. The Council'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 CCRS based on a 20-25 year spot rate which is generally lower than the pooled rate.

7.2.6. ACC have undertaken sensitivity analysis on PWLB rates. We estimate that the breakeven PWLB rate (where debt can still be fully repaid) is 5.68% (2.03% above the rate as at October 2011). ACC propose to mitigate the risk of rate rise as follows:

- By continuing to monitor PWLB rates and only starting to draw down debt when PWLB rates are acceptable
- Staging the projects and only progressing with a project when PWLB rates are acceptable
- Where rates are high in relation to other forms of funding, alternative financing options will be considered (e.g. bank debt or bonds)

Incremental Revenues

7.2.7. Incremental NNDR

7.2.7.1. Section 5.2 outlines the incremental revenues that are expected to arise as a result of the project. The gross incremental revenue from the CCRS is estimated to be £186m at 2014 prices. NNDR is assumed to inflate at 1% p.a. and on this basis total incremental revenue equates to £217m in nominal terms.

7.2.7.2. As discussed in section 5.2 the incremental revenues are calculated as the difference between the estimated "with TIF" and "without TIF" revenue profiles. As these revenues increase at different growth rates throughout the 25 years the incremental revenue fluctuates. For a graphical representation see section 5, figure 5.2

7.2.8. Displacement

7.2.8.1. The amount of incremental NNDR which a local authority can retain under TIF requires to recognise any potential loss of NNDR due to the impact of the proposals on the local economy (including displacement, substitution, leakage and multiplier effects). The economic impact assessment in section 6 estimates a single displacement percentage of 10% be applied in this respect. In determining the value of NNDR which the Council can retain, an adjustment has therefore been made which reduces the gross incremental NNDR by the value of 10% of NNDR "lost" through displacement.

7.2.9. Occupancy Rates (Voids) & Bad Debt

7.2.9.1. The Council 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. We have assumed a 5% reduction in incremental revenues for the duration of the TIF as an allowance for such effects.

7.2.10. Timings

7.2.10.1. The TIF capture mechanism allows incremental revenues flowing from the enabled uplifts within the red line area to be captured for 25 years from the date at which the first tranche of debt is drawn. 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.

7.2.10.2. 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 red line 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 TIF, 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 City Centre Regeneration project, would be September 2013.

7.2.11. Summary of Key Base Case Inputs

7.2.12. The key inputs to the financial model are as summarised in Table 7.1 below and ACC consider these to result in a prudent base case position.

Table 7.1 Summary of Base Case Assumptions

Assumption	Value
Total Capital Expenditure	£182m
Private Sector Contributions	(£70m)
Grants	(£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	10%
Void Rate/Bad Debt	5%
Date at which TIF Baseline Frozen	September 2013
TIF Rate Capture Period	25 years
End of TIF Term	31 March 2039

7.3. Base Case Results

Revenues

7.3.1. As discussed at section 5 the incremental revenues are calculated as the difference between the estimated “with CCRS” and “without CCRS” revenue profiles. As these revenues increase at different growth rates throughout the 25 years the incremental revenue fluctuates. For a graphical representation see Fig. 5.2, Section 5.

7.3.2. 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 7.2 below.

Table 7.2: Estimated Maximum Income (2034 to 2035), (at 2014 prices)

	£m
Incremental NNDR	12.4
Rental Income	0.0
Less Voids/Bad Debt	(0.6)
Less Displacement	(1.2)
Net NNDR Income for TIF	**10.6**

7.3.3. Note this level of income is not achieved until 2034-35 and revenues then decrease in 2037-38 to a net value of £9.1m.

7.3.4. The debt profile (drawdown and repayment) over the 25 year period is shown below in nominal prices (including indexation):

Table 7.3: Debt profile over the 25 year period

Year	Net NNDR Income for TIF- £m	Drawdown- CAPEX + Fees rolled up- £m	Debt Service- Interest Paid £m	Cash Available for Debt Service/(Rolled up debt) £m	Debt Outstanding at end of period £m
April 2014-March 2015	0.3	(8.0)	(0.3)	(8.0)	8.0
April 2015-March 2016	4.0	(56.7)	(1.9)	(54.6)	62.6
April 2016-March 2017	5.2	(27.3)	(3.9)	(26.1)	88.7
April 2017-March 2018	6.1	0.0	(4.6)	1.5	87.2
April 2018-March 2019	4.8	0.0	(4.5)	0.2	86.9
April 2019-March 2020	5.6	0.0	(4.5)	1.1	85.9
April 2020-March 2021	5.4	0.0	(4.5)	0.9	85.0
April 2021-March 2022	5.1	0.0	(4.4)	0.7	84.2
April 2022-March 2023	4.7	0.0	(4.4)	0.3	83.9
April 2023-March 2024	4.7	0.0	(4.4)	0.4	83.6
April 2024-March 2025	6.8	0.0	(4.3)	2.4	81.1
April 2025-March 2026	6.8	0.0	(4.2)	2.6	78.5
April 2026-March 2027	6.9	0.0	(4.0)	2.9	75.6
April 2027-March 2028	6.1	0.0	(3.9)	2.2	73.4
April 2028-March 2029	6.2	0.0	(3.8)	2.4	71.0
April 2029-March 2030	9.1	0.0	(3.6)	5.5	65.5
April 2030-March 2031	9.2	0.0	(3.3)	5.9	59.6

Year	Net NNDR Income for TIF- £m	Drawdown- CAPEX + Fees rolled up- £m	Debt Service- Interest Paid £m	Cash Available for Debt Service/(Rolled up debt) £m	Debt Outstanding at end of period £m
April 2031- March 2032	9.3	0.0	(3.0)	6.3	53.3
April 2032- March 2033	8.2	0.0	(2.7)	5.5	47.8
April 2033- March 2034	8.3	0.0	(2.4)	5.9	41.9
April 2034- March 2035	13.0	0.0	(2.0)	11.0	31.0
April 2035- March 2036	13.1	0.0	(1.5)	11.7	19.3
April 2036- March 2037	13.3	0.0	(0.8)	12.4	6.9
April 2037- March 2038	11.5	0.0	(0.2)	11.3	0.0
April 2038- March 2039	11.6	0.0	0.0	11.6	0.0

Repayment Period

7.3.5. The 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 24 years of the 25 year TIF period with a small surplus left over in the 24th year of £4.4m When the 25th year revenues are included this equates to a surplus of £16m.

Early Years Interest Gap

7.3.6. In the early years of a the CCRS 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 debt 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.

7.3.7. In the cash-flow produced by PwC there is an indicative early year’s interest gap of up to £46k occurring in 2014-2015. The financial model therefore assumes that this amount is rolled up into the loan and repaid over the TIF mechanism’s term in the manner outlined above and on this basis that there is still sufficient revenue to repay all debt service costs within the 25 year TIF mechanism’s term and a surplus of £16m arises by the final year.

7.3.8. Furthermore this model is based upon existing assumptions around the timing of the capital expenditure (see below) and it is the expectation that an element of this interest gap could be avoided by ACC managing the timing of its capital expenditure and agreements with the contractor. The expenditure profile is attached as Appendix 4.

7.3.9. It is, however, a feature of Public Works Loan Board (PWLB) borrowings that interest cannot be rolled up in this way. Consequently, ACC understands the potential for such an interest gap to arise but considers the quantum of this to be an acceptable and manageable risk in the context of the overall proposal.

7.4. **Sensitivity Analysis**

7.4.1. 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

7.4.2. 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 forecast incremental NNDR income.

Project Costs

7.4.3. 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 capital costs funded by prudential borrowing?
- What is the maximum 'breakeven' of capital expenditure coverable within the 25 year period under the base case?

7.4.4. A 10% increase in capital expenditure under the base case would result in the revenues from the TIF mechanism being insufficient to repay borrowings within the 25 year TIF mechanism's term. An outstanding balance of approximately £13.9m would be left at the end of the TIF mechanism's term at 31 March 2039 and the potential early years interest gap increases to £1.1m over the period from 2014 to 2024.

7.4.5. Under the second scenario the model indicates that up to £4.9m of additional capital expenditure could be funded within the 25 year TIF term under the Base Case assumptions (i.e. a total of £96.9 million). Under this scenario the potential early year's interest gap is estimated at £157k from 2014 to 2023.

PWLB Rates

7.4.6. Two 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

7.4.7. Under the first scenario repayment is possible in a total of 22 years and the potential interest gap falls to £9k over the 6 month period (October 2014- March 2015).

7.4.8. Under the second scenario the revenues from TIF are insufficient to repay the debt in full and a balance of £20.7m would be outstanding at the end of the TIF term at March 2039. The interest gap increases to £3.5m over the period from 2014 to 2024. See section 8.1 above where PXLB risk mitigation is considered.

Void Rates

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

- A reduction in the void rate to 2% for the duration of the project

- An increase in the void rate to 8% for the duration of the project

7.4.10. Under the first scenario repayment is possible in a total of 23 years and the potential interest gap is £42K over the 6 month period October 2014- March 2015. Under the second scenario repayment is possible in a total of 24.5 years. The potential interest rate gap is £51K over the 6 month period October 2014- March 2015.

7.5. Summary and Conclusions

7.5.1 The base case financial analysis illustrates that the incremental revenues identified at Section 5 are more than sufficient to repay the funding gap of £92m identified at Section 4 and this includes consideration of the displacement effects identified in Section 6.

7.5.2 Sensitivity analysis has been undertaken to assess the robustness of the base case and the results are summarised as in Table 7.4 below. These indicate that that there are both upside and downside scenarios where the prudential borrowing could either be repaid earlier than the base case or is not repaid in the 25 year TIF period. ACC have made prudent assumptions in the Base Case which it believes mitigate against the downside risks arising. For example, in the case of prudential borrowing rates a buffer of 55bps has been included in the Base Case. Section 5 highlights the mitigations put in place in relation to increases in capital cost (Risk 5, Procurement and Construction Risk).

Table 7.4: Summary Table of Sensitivity results

Scenario	Prudential Borrowing (£m)	Repayment Period (years)	Potential Interest Gap (£'000)
Base Case	92	24	46
10% Increase in Capital Costs	101.2	Not repayable within 25 years. Outstanding balance of approximately £13.9m	1,100
Base Case: maximum capital expenditure serviceable within 25 year term	96.9	25	157
Reduction in interest rates to 4.2%	92	22	9
Increase in interest rates to 6.2%	92	Not repayable within 25 years. Outstanding balance of approximately £20.7m	3,500
Reduction in void rates to 2%	92	23	42
Increase in void rates to 8%	92	24.5	51

7.6. **Role of the 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. What ACC will then require is 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 a proportion of the incremental revenues within the red line area for a 25 year period, sufficient in the reasonable opinion of ACC to service and repay the loan.

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 below:-

Table 8.1 Areas of Risk and Mitigations

Description	A Degree 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	3	5	15	• Work collaboratively to create a robust business case to attract other funding
Risk 2 Funding - Inability to attract Tax Incremental Funding	3	5	15	• Create a robust business case to attract other funding • Ensure ability to attract additional private sector funding for an attractive CCRS
Risk 3 Certainty of the amount and timing of the Non-domestic rates take	3	3	9	The Steps taken to mitigate this risk are as follows:- • 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 the Council, 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; and • Risk sharing with private sector partners / developer.

Description	A Degree 1-4	B Impact 1-5	Overall Risk (AxB)	Mitigation
Risk 4 Availability and ownership of land	2	3	6	The Steps taken to mitigate this risk are as follows:- • Majority of land identified for the project is mainly owned by the Council and so this reduces the risk • Discussions are currently underway with identified non-Council 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
Risk 5 Procurement and Construction risk	3	3	9	The Steps taken to mitigate this risk are as follows:- • Strict adherence to the OJEU Procurement rules; • Utilising experience from the Council'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; • 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 6 Political / Economic Influences/ Restrictions imposed on LA borrowing limits	1	4	4	• ACC to continue to implement its ongoing 5 year business plan process to accommodate costs.
Risk 7 Economy goes into further recession	3	3	9	• Part of business case sensitivity analysis

Description	A Degree 1-4	B Impact 1-5	Overall Risk (AxB)	Mitigation
Risk 8 Reputation Risks	1	3	3	• Need to ensure future governance and management structures are robust in order to address these issues.

8.2. **Asset Creation**

8.2.1. The Council is able to borrow against its assets but has no funds to repay the debt without the CCRS being used to fund the repayments through additional business rates created.

8.3. **Third Party Challenges to TIF**

8.3.1. Challenges on other Scottish TIF Projects have come from competing private sector developers. We do not envisage Third Party Challenges of this nature to the CCRS. A requirement of the City Garden Project, which is core to the CCRS, is that public support can be demonstrated. There is a strong possibility that opponents of the City Garden project will seek to challenge this project on a number of fronts. By supporting the CCRS the Council is taking the view that these will not prevent the CCRS from going ahead.

8.4. **Procurement**

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

8.5. **State Aid**

8.5.1. ACC has analysed the CCRS and the individual projects. The City Gardens Project land and structures, Art Gallery re-development and City Realm- City Circle will stay in Council ownership, so it is believed that in this case, there are no known State Aid implications to the CCRS. With respect of the enabling infrastructure required for St Nicholas House re-development and the Upper Denburn Valley re-development, 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 re-development sites is to accelerate development whilst ensuring best value is achieved for ACC. A request for advice has been sent to the Scottish Government's State Aid Team.

8.6. **Conclusion**

8.6.1. The Council has determined the risks regarding this project but there are also risks in adopting the “do nothing” option. The Council 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 see that the city and region are unable to lever future development from the industries which are currently in the city and region.

8.6.2. TIF funding must create economic growth and the CCRS demonstrates that ability. Currently ACC is a net giver of business rates, for the City as a whole the CCRS provides the opportunity to retain additional business rates to invest in Civic infrastructure that will enable economic growth and jobs. The risk of this not happening is that development will happen too slowly to deliver the economic stimulus required or that investment in Aberdeen City becomes less attractive. There is a risk for ACC that the timing of the development will expose it to paying a debt without additional business rates, in this there will need to be a level of underwriting required. However, failure to undertake this investment will be failure to ensure the economic, social and environmental sustainability of the City and region.

9. Delivery and Governance

9.1 The Council has completed its move to the newly redeveloped Marischal College and has finalised extensive plans and options for the Art Gallery redevelopment. The City Gardens Team has identified its site, established ACGT to procure a reputable management team to run an International Design Competition, establish an expert panel, jury and process for assessing, short-listed design proposals, and provide the funds necessary to prepare the TIF Business Case.

9.2 A Project Management Board (PMB) chaired by Cllr John Stewart, Depute Leader of ACC, was established in early 2011 to drive the project forward and this Board includes representatives from the City Council, Aberdeen City Centre Association, ACSEF, Wood Family Trust, Aberdeen City Alliance and Scottish Enterprise. It is supported by a project advisory team which includes experts from the same organisations plus NESTRANS and Creative Scotland. It is anticipated that SFT will be offered a seat on the PMB if this project is approved.

9.3 ACC will create a TIF Executive to ensure the successful delivery of the CCRS, with the membership consisting of representatives from ACC, SFT, Scottish Government and ACGT.

10. Next Steps and Approvals

10.1 Approval by the Scottish Government is now sought for this TIF based project and hypothecation of the non-domestic tax revenues from within the proposed Red Line area

Table 10.1 Next Steps

Date	Action
16 December 2011	Send First Draft of business case, by Courier, to SFT for Review
4 -10 January 2012	Receive and action initial SFT Feedback
11 – 13 January 2012	Meet with SFT to discuss how their initial feedback can best be incorporated into a 2nd draft of the business case
20 January 2012	Present 2nd Draft of TIF Business Case to a Special Council meeting to obtain approval for officers to work with SFT to produce a final version of the Business Case for subsequent Council approval and submission to SFT for Scottish Government (SG) ministerial approval. The Special Council meeting will also be asked to endorse the preferred design for the City Garden's project and instruct officers to negotiate a development agreement for the City Gardens Project.
February 2012	ACC and SFT officers to refine the 2nd Draft of the Business Case into an agreed final version.
February/March 2012	Final version of business case to be approved by Aberdeen City Council and formally submitted to SFT for Scottish Government approval

10.2 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 CCRS
- Agreement with ACC on the level of NNDR revenue from within the Red Line area 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

11. Conclusions

Overall this TIF Business Case demonstrates:

- A clear case for the regeneration of Aberdeen city centre as a catalyst for future global investment in the city.
- The ability of TIF to stimulate development that will encourage existing oil and gas businesses to remain firmly anchored in the city and attract the talent they require for their future international growth.
- The potential for reducing dependence on the oil and gas business and for using the City's strengths and skills as the basis for encouraging new investment and economic diversification
- That 'but for TIF' Aberdeen could see much lower levels of economic activity over the next 25 years.
- The benefits to be obtained from investing £92 million of public loan funding, potentially £20 million of grant funding and £70 million of private funds in necessary enabling infrastructure for five complementary development projects which, taken together, will act as a catalyst for regeneration and economic growth.
- The potential to unlock significant private sector investment and generate up to 6,500 FTE jobs and an average of £122.6 million per annum of economic growth (GVA) over 25 years.
- That the proposed CCRS, can be financed and delivered using incremental NNDR revenues generated by net new development within a Red Line area around the city centre and two satellite development areas.

APPENDIX 1

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008
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

APPENDIX 2

Graphs and Tables

APPENDIX 3

Economic Impact Assessment

1.1. Introduction

In this section consideration is given to the net economic impacts of the current proposals and how such impacts have then been used as a 'proxy' measure for the potential uplift in non domestic rates. In assessing and providing values for net impacts this section – in line with guidance from SFT[10] – sets out the:

- Context for considering the economic effects of the proposals funded through TIF;
- Market failures the proposed interventions funded through TIF will address;
- Approach adopted to assessing the 'counterfactual' (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.

It is proposed that TIF be used to meet the funding gap associated with delivering the Aberdeen City Centre Regeneration Scheme ("CCRS") which incorporates five projects to enhance the image and accessibility of the City Centre. These projects are outlined below.

1. **The City Gardens Project** – A proposal to redevelop Union Terrace Gardens through £50m funding from local business man Sir Ian Wood. 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 proposal requires matching public sector funding.

2. **The 'City Circle' route of public realm enhancements** – Improvements to the public realm are proposed to create a 'City Circle' route within the City Centre in light of current perceptions 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 poor.

3. **Site preparation of the former council offices at St Nicholas House** – Aberdeen City Council has recently moved to a new corporate headquarters at Marischal College which has resulted in the former Council headquarters at St Nicholas house being vacant since September 2011. The 8,900 sq. m. site is largely regarded as 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 for a number of years. The council therefore wishes to pre-clear the site, to prepare it for sale, and bring forward development.

4. **Site preparation and enabling infrastructure for the North Denburn Valley 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

[10] Tax Incremental Financing in Scotland, SFT, June 2011.

development comprises a 326 space split level car park built in the 1970s of reinforced concrete with a Health Centre on the roof. The Health Centre is reaching the end of its design life and NHS Grampian is looking to vacate the building. Redevelopment, apart from retaining parking spaces, is expected to comprise largely of commercial space for small and medium businesses and some residential development. The Council intends to provide funding to help bring the site forward for development.

5. Aberdeen Art Gallery – involving the infrastructure and development required to link the Art Gallery and Cultural Quarter to the City Gardens and (partial) redevelopment of the gallery.

1.2. Context

In the absence of economic impact analysis 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).

It is also a requirement of SFT's economic impact assessment for TIF guidance[11] that such an assessment be undertaken in order to demonstrate the ability of the enabling infrastructure to unlock regeneration and sustainable economic growth. For the purposes of TIF, regeneration and economic growth is classed as being about the "sustainable transformation of places for the better"[12]. 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.

Moreover, in regard to the use of TIF generally, the expectation is that there will be sufficient future net additional business rate revenues resulting from new businesses in a given "project area" to allow the initial borrowing and payment back of the capital funding necessary to take

[11] Tax Incremental Financing in Scotland, SFT, June 2011.

[12] Scottish Government's 2006 Policy Statement ('People and Place Regeneration Policy Statement 2006')

forward the project. In this way it is anticipated that at a local level the effect of a TIF funded project will be "exchequer positive"[13].

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 arise beyond the local TIF area (at either a local authority, regional or national level). Consequently the context and purpose of undertaking an economic impact assessment of the current TIF proposals is to address two inter-related issues, namely:

- Is the proposed intervention (i.e. use of TIF to deliver the 5 CCRS projects) 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 the Councils perspective, the financial implication of taking forward this intervention.

1.3. Market Failure

The Council's main objective in taking forward the current proposals is to: "*link current and future developments in the City Centre and create the conditions to attract private sector investment* (in order to) *…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 context*"[14].

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 economy to build on the its strengths 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.

This in turn is closely connected to the quality of life the City and Region has to offer to individuals and firms looking to relocate to, or continue to live in, Aberdeen. In order to compete with other global cities 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 diversifying its economic base with a strong focus on the renewable sector for the future. Without taking these steps there is a significant risk in the future that businesses and workers will leave the region.

These views are in line with the findings and recommendations in the recently published report: "*Northern Lights - A strategic vision of Aberdeen as a world class energy capital*"[15] 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*".

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13 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 the Council, to fund the current project proposals.

14 Aberdeen City Council SFT TIF Response, August 2011.

15 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

In line with the Aberdeen City objectives[16] of a "*wealthier, greener, smarter, safer and inclusive*"[17] Aberdeen the proposed CCRS is one of the first steps to meeting their objectives by ensuring the future attractiveness, vitality, viability and connectivity of the City Centre.

Any intervention by the Council 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.

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*"[18]. The latter – equity factor – assumes that even if market outcomes are efficient they may be unfair[19]. The rationale for intervention is, therefore, to remedy or remove such failures and/or address unfair or uneven outcomes.

Analysis by the Department of Communities and Local Government (CLG)[20] 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 manner[21].

Moreover, in a subsequent CLG study[22], 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: "developing *distinctive local strengths and specialisations both enhances the potential gains to areas, and promotes a more efficient spatial distribution of economic activity*"[23].

In the context of the current TIF proposals, there are several market failures and related equity issues that, without funding through TIF to deliver CCRS, will prevent the private sector delivering the wider developments envisaged under the overall Aberdeen City and Shire structure and local plans and, therefore, put at risk a range of long term benefits, not least:

- **Externalities (Local and Regional)**; to successfully take forward key components of the overall master plan will require major remediation and redevelopment (in the form of the five key development schemes) 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

16 As well as the Single Outcome Agreement Community Plan, 2008.

17 'Vibrant, Dynamic and Forward Looking' Policy, Aberdeen City Council

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

19 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".

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

21 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*".

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

23 CLG, Economics, Paper 2.

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 on 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**; i.e. without intervention key sites within the City Centre might remain un-remediated with poor accessibility and limit the opportunities for the Council to reduce carbon emissions and influence development standards.

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 (in relation to reducing risk and providing appropriate infrastructure for future development as well as wider national economic benefits and the latter in relation to (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.

1.4. Aberdeen Economic Context

Like most local authorities, the Council faces constrained financial conditions and, without TIF, will be unable to undertake any significant infrastructure developments in the foreseeable future. The current approved budget has no allocated capital funding for City Centre redevelopment with other council priorities and services taking precedence. Without this investment, as outlined above, Aberdeen risks an uncertain economic future as North Sea oil and gas production declines.

Currently Aberdeen enjoys a position as one of the top three global oil and gas industry centres of excellence[24] and a significant number of major service companies have established their global or regional headquarters in and around Aberdeen. There is an experienced and highly skilled workforce in Aberdeen but it is a potentially transient workforce with high numbers of migrant workers having been drawn to the area from elsewhere in Scotland, the UK and overseas.

As a global industry, the oil and gas business invests and locates in the most advantageous locations across the globe and such investments tend not to be balanced on national, regional or local loyalties. There will be a number of developing locations which aspire to be recognised as a global centre of excellence in direct competition to Aberdeen. These locations are serious competitors for the City in attracting investment in the short- and mid-term. They include Dubai, Abu Dhabi, Kuala Lumpur, Perth (Australia) and others. It is also likely that centres in Russia, China and India will emerge with similar aspirations.

[24] From Aberdeen City Council TIF Briefing Note, 2011.

The challenge for Aberdeen is to establish and foster conditions for an economy that can successfully compete globally for investment and talent. Given the free movement of labour, particularly in energy sectors, it will be essential that Aberdeen continues to be a place where people want to live and work. Anchoring, diversifying and internationalising the energy industry in Aberdeen by attracting corporate and regional headquarters to the City will, to a large degree, be determined by the City's ability to attract talent in the face of stiff competition from other locations across the globe.

The status quo is, therefore, not an option when competing on a global basis and Aberdeen must proactively take the actions and make the investments that are required to secure its future growth and development. In tandem with strong support for the energy sector the Council recognises that the successful delivery of a positive transformation in the City's physical and social environment will also be a key economic driver over the next five to ten years.

1.5. Approach

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*".

Consequently, given the high public profile and unique nature of the proposed development projects funded through this TIF, the Council and ACGT Enterprises undertook E-Surveys of local and regional stakeholders and other bodies to ascertain their views of the proposed schemes, across two cohorts, namely:

- **Cohort One**: Four hundred local private, public and third-sector organisations[25] who were asked to consider, if the 5 TIF funded projects are taken forward, the likely demand patterns for the City Centre and potential displacement effects at a City Region level; and,
- **Cohort Two**: Thirty-five key developers, landowners and agents in the City Centre area who were asked to consider the effects of the 5 TIF funded projects upon future development investment profiles.

1.5.1. Response Rates

As illustrated, in Table One below, completed responses were received from ninety seven of the four hundred consultees (24%) from Cohort One.

The initial E-survey request to the 35 consultees in Cohort Two resulted in only one response. 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 consultees. This approach resulted in a further six responses, resulting in a final response rate of 20%[26].

25 Including public sector representatives with expertise and regional and national knowledge of relevant transport, housing or tourism markets, representatives of the Aberdeen-wide business community and other private sector representatives.

26 Finally, given the importance of ensuring robustness and stakeholder buy-in, the Council 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). The majority of recipients did not provide any further views (suggesting, implicitly, acceptance of the projections in relation to with and without TIF outcomes).

Table One: Number of Consultees and Response Rates

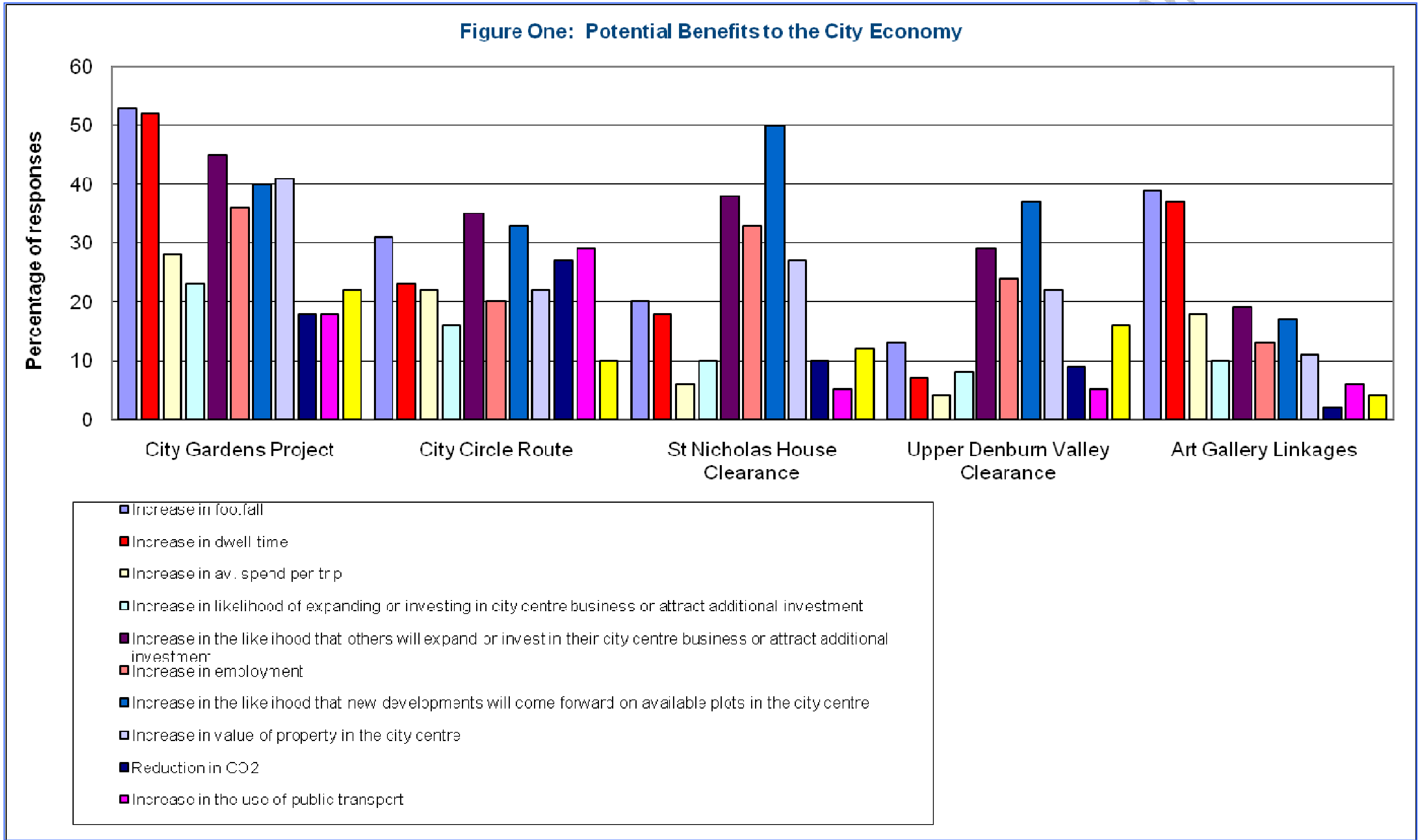
Cohort	No. of Consultees	No. of Responses	Response Rate
Cohort 1	400	97	24%
Cohort 2	35	7	20%
Total	435	104	24%

1.5.2. Key Findings

(a) Cohort One

The key findings from the wider consultee cohort (Cohort One) were that:

- Over 70% 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);
- The majority of respondents identified 'industry' as their main activity (25%) followed by 'other' (17%) and 'tourism and leisure' (15.5%);
- 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. Only 8.5% identified the City Centre as making a 'strongly positive' contribution with a further 5% stating the City Centre makes a 'strongly negative' contribution;
- The majority of respondents (43%) identified that the future of Aberdeen City Centre is likely to 'decline modestly' over the next ten years under the 'do nothing' scenario. 21% felt the City Centre will 'decline significantly' over the same period. Only 2.4% stated the City Centre is likely to 'improve significantly' under this option; and,
- As illustrated, in Figure One overleaf, respondents were asked to list the key benefits likely to be delivered as a result of the proposed development schemes within Aberdeen City Centre. Increases in footfall and dwell time were highlighted as the key benefits for 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.



As illustrated, at Figure Two overleaf, respondents were also asked to list any benefits from the development schemes to the wider Aberdeen City economy Responses to this question suggested a similar range of benefits (as above) 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.

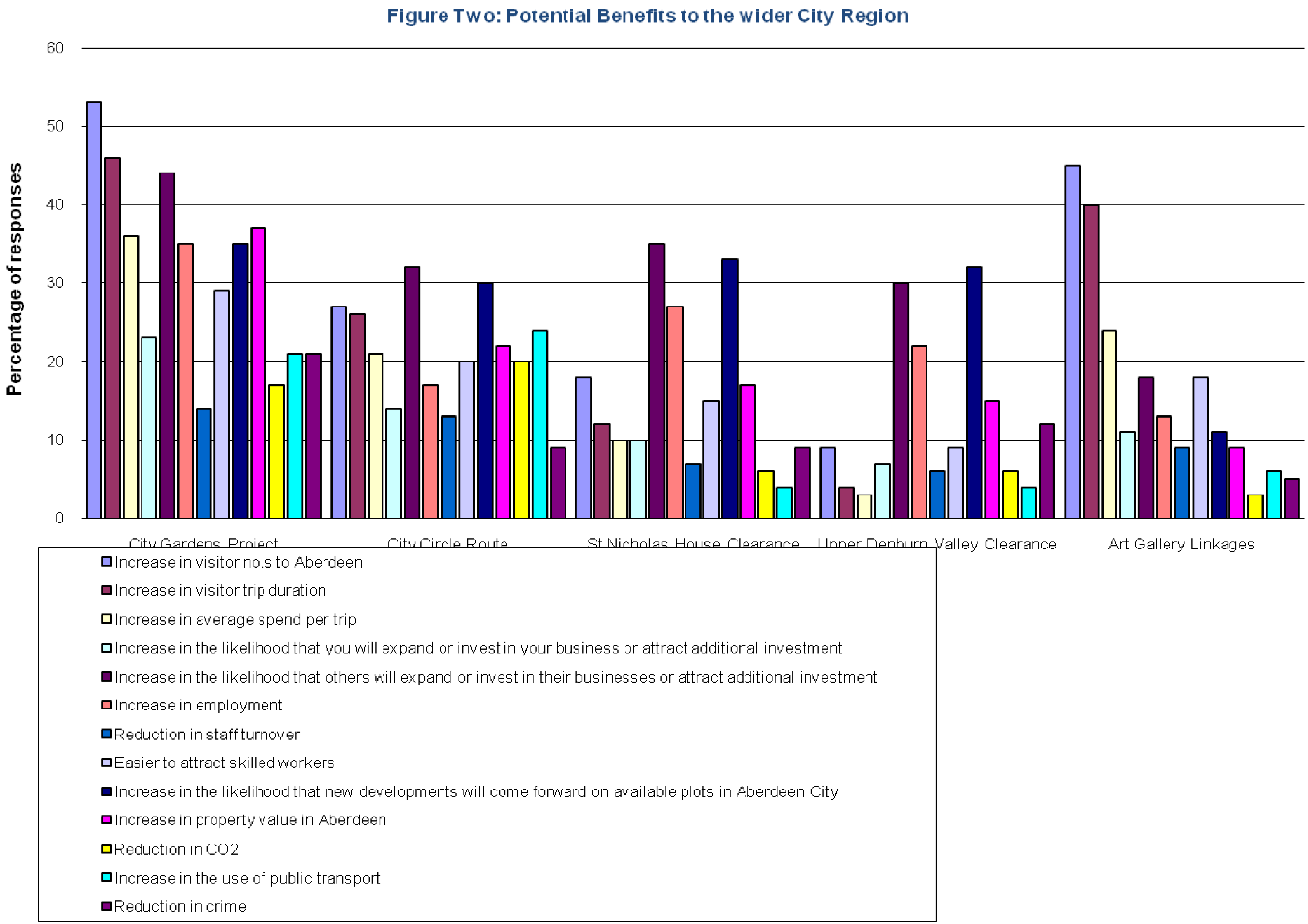


Figure Two: Potential Benefits to the wider City Region
Percentage of responses
60
50
40
30
20
10
0
City Gardens Project
City Circle Route
St Nicholas House Clearance
Upper Denburn Valley Clearance
Art Gallery Linkages
Increase in visitor no.s to Aberdeen
Increase in visitor trip duration
Increase in average spend per trip
Increase in the likelihood that you will expand or invest in your business or attract additional investment
Increase in the likelihood that others will expand or invest in their businesses or attract additional investment
Increase in employment
Reduction in staff turnover
Easier to attract skilled workers
Increase in the likelihood that new developments will come forward on available plots in Aberdeen City
Increase in property value in Aberdeen
Reduction in CO2
Increase in the use of public transport
Reduction in crime

- In conclusion respondents were asked to list:
    - Their views on the three key benefits they believe will be derived from the development schemes;
    - The three future actions that need to be taken to ensure the benefits are realised and sustained;
    - Other investments in the City Centre at risk of not going ahead if the TIF funded projects were not taken forward; and,
    - Their views of the three potential negative impacts that might result from the development schemes being taken forward.

A summary of the key results from these questions is provided in Table Two below. Responses demonstrate significant support for the potential of the projects to enhance the City's image followed by increased business and investment and hence economic benefits. Key future actions identified included the need for stakeholder buy-in, securing future funding and clear marketing and communication in relation to project progress and impacts. Under the 'no TIF' (no CCRS) option reductions in the levels of investment and regeneration were identified as a key risk. Finally the majority of consultees identified no negative impacts as a result of the TIF projects being undertaken.

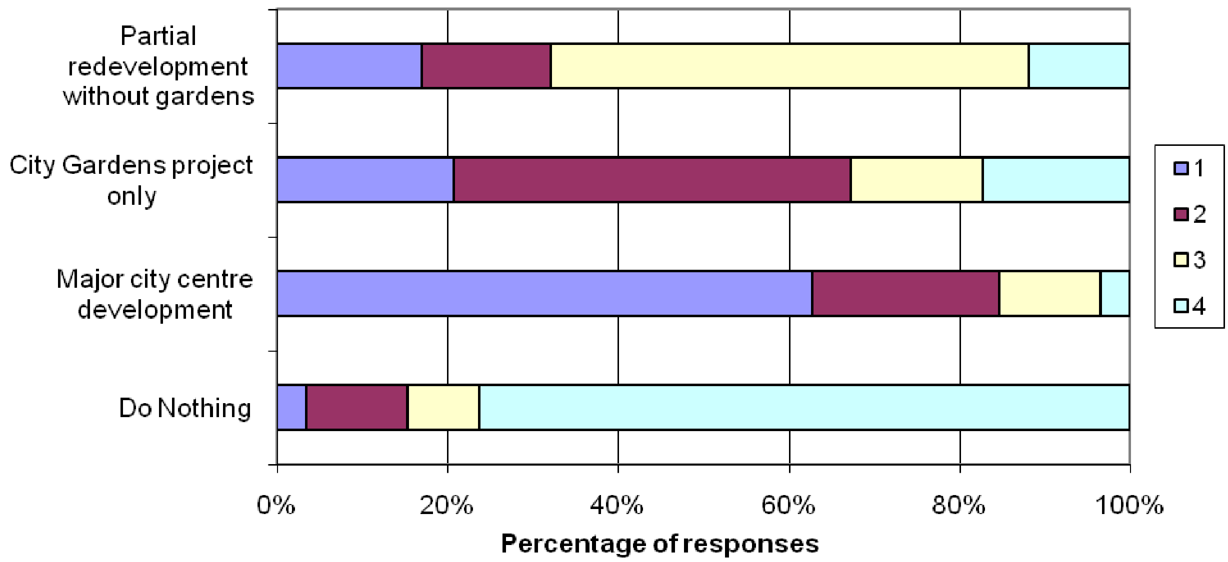
Table Two: Key Responses Ranked by Level of Preference

Question	Ranked First	Ranked Second	Ranked Third
Key Benefits	Enhanced Image	Business & Investment	Inward Investment & Improved Economy
Key Future Actions	Strategic Direction & Stakeholder Buy-in	Secure Funding	Marketing & Communication
Risk to Other Developments	Reduced Investment & Regeneration	Business/Investment	Business/Investment
Negative Impacts	No negative impact	Other[27]	Reduced funding/investment

The final question asked respondents to rank the four development options in order of importance from 1(most important) to 4 (least important). The results are provided in Figure Three below and show over 60% of respondents ranked the 'Major City Centre development' option as their first choice followed by the 'City Gardens project 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.

[27] This category included a number of different issues identified by respondents ranging from the potential for high levels of displacement, negative impact on the City's image and lack of local support for the project.

Figure Three: Development Options Ranked by Consultee Preference



In addition all respondents identified a range of different benefits are likely to occur under each of the development schemes at both the City Centre and regional levels particularly in relation to increases in footfall and dwell time as well as increased likelihood of expansion and investment from both existing and new businesses (thereby demonstrating consultees perception of the likelihood of positive contributions from the proposed development schemes). This view is further supported by the high proportion of respondents who identified 'no negative impacts' likely to result from the proposed schemes.

Finally over 60% of respondents ranked the 'Major City Centre development' option (i.e. the full CCRS incorporating all five development schemes) as the most important option to the future performance of their organisation's activities again demonstrating support for the proposed development schemes vs. the 'Do Nothing' option which was ranked first by only 3.5% of respondents.

(b) Cohort 2

As discussed above a second cohort of thirty-five 'developers and agents' was identified to gather additional information in relation to the potential economic impacts of the proposed development schemes on key development sites and investments within the City Centre. Initially only one member of this cohort responded.

As a result a follow up process was undertaken whereby all the consultees were contacted by phone and offered assistance with completing the questionnaire. This process resulted in a further six responses from developers and agents.

Key responses from all seven consultees in this cohort are provided in Figures Four to Six below. 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 for housing, retail outlets, office space, business units, hotels, tourism and leisure in the City Centre. The results from this question are provided in Figure Four overleaf and demonstrate a range of responses. The key themes by development scheme can be identified as:

- **City Gardens Project:** the majority of respondents identified the potential for an increase in the number of tourists as the key benefit from this development scheme (55%) followed by retail outlets (42%) and hotel space (36%). No respondents identified the project as having any impacts on the development potential for business/industrial units in the City Centre;

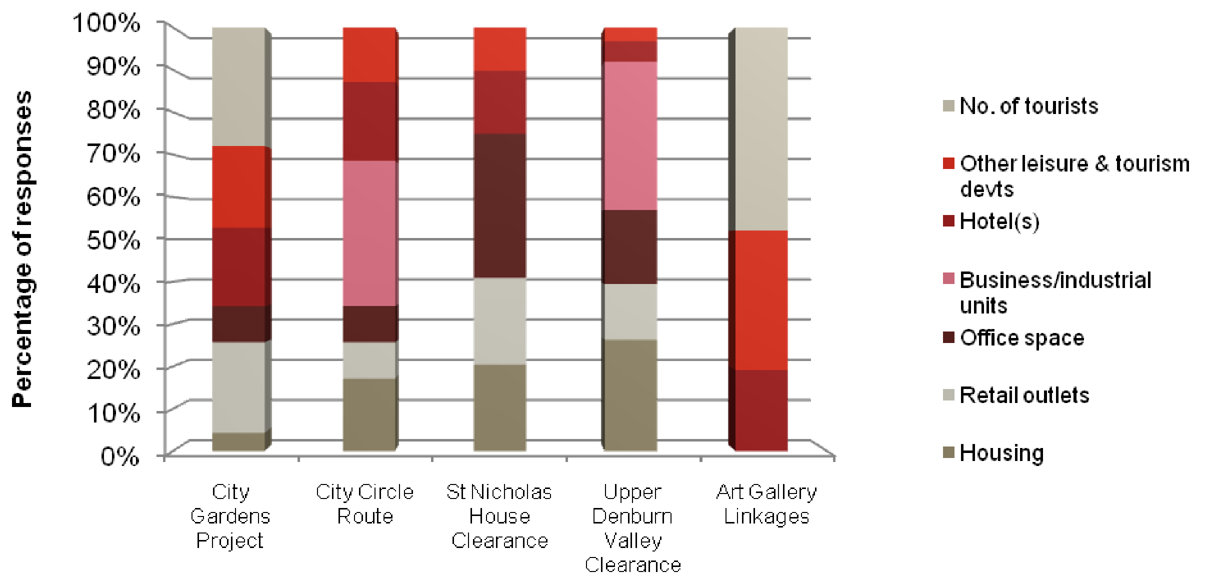
- **City Circle Route:** this development scheme was identified as having the potential to result in uplift in the development potential for business/industrial units (33%) followed by hotel(s) (18%) and housing (17%). Interestingly respondents did not identify the scheme as having the potential to increase 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 scheme was identified as having the greatest likelihood to increase uplift in the development potential for office space within the City Centre (by 42% of respondents), followed by the potential to increase housing and retail development potential (25% in each case). Business/industrial units and the number of tourists were not identified as being impacted as a result of this scheme;

- **Upper Denburn Valley:** the majority of respondents (67%) identified this scheme as having the greatest likelihood to increase the development potential for business/industrial units in the City Centre, followed by half of all respondents identifying the potential for uplift in housing followed by office space (identified by 33% of respondents). As above the number of tourists was not identified as being impacted; and,

- **Art Gallery Linkages:** this development scheme was identified as likely to impact upon the potential for an uplift in the number of tourists (45%) followed by other leisure and tourism developments (31%) and finally the number of hotels (18%). No other (commercial or housing) options were identified.

Figure Four: Potential for Uplift in Development in the City Centre



The next question in the survey requested developers to provide an indication (in quantifiable terms such as the number of units, square footage etc) of the extent to which the identified benefits would impact upon their organisation's investment plans and/or objectives. Unfortunately this question did not garner any responses as consultees felt it was too soon and/or complex to attribute impacts in these terms.

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 benefit. The results from this question are provided in Figure Five below.

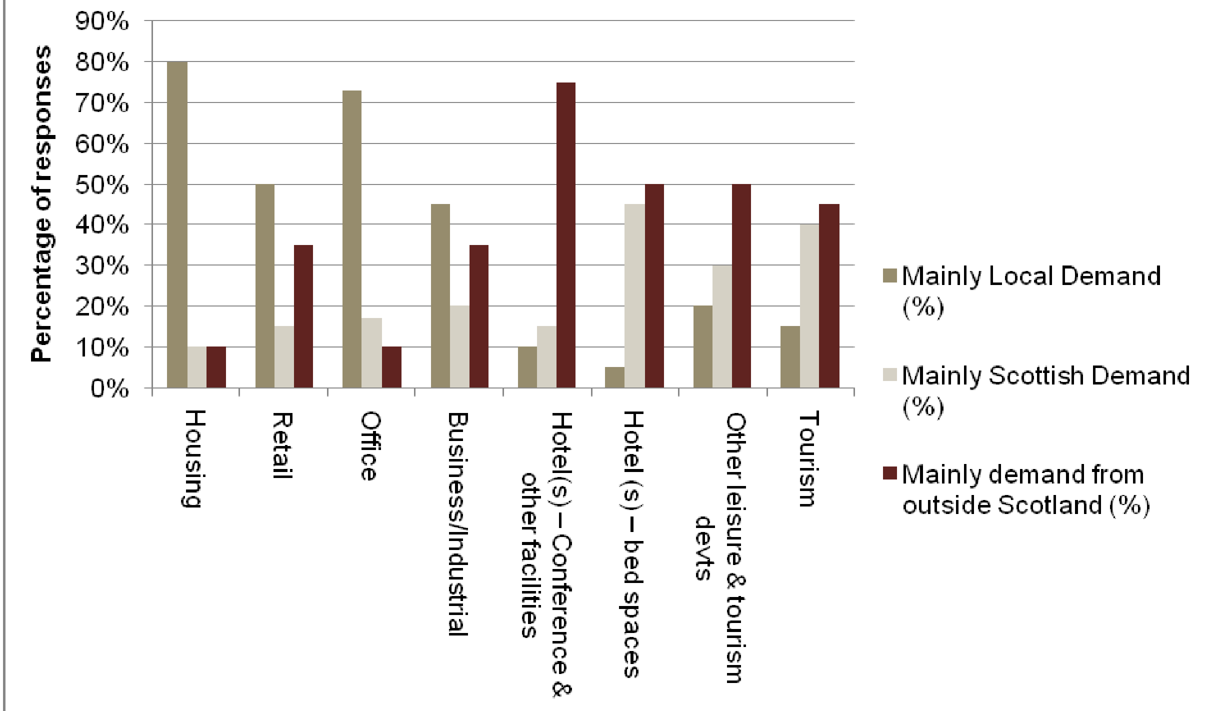


Figure Five: Sources of Demand

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;
- Retail expenditure is likely to be split primarily between local (50%) and outwith Scottish (35%) residents;
- Office space take–up is largely expected to be derived from within the Aberdeen City Region (73%);
- Business/industrial space is split between local (45%) and international demand (35%); 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%).

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 taken forward. The purpose of this question was to identify the impact of the counterfactual or 'without TIF' scenario on future development outcomes. Figure Six below illustrates the responses from this question by each development scheme.

The following themes emerged for each project:

- **City Gardens Project**: half of respondents (50%) identified that similar benefits could be delivered but that this 'may involve significantly more time, more costs and with less certain outcomes', followed by 33% who identified that 'without this development we would be unable to secure the benefits identified'. Only 16% identified that the same level of benefits would be delivered 'without any difference in time or effort on outcomes' if the City Gardens project did not go ahead;

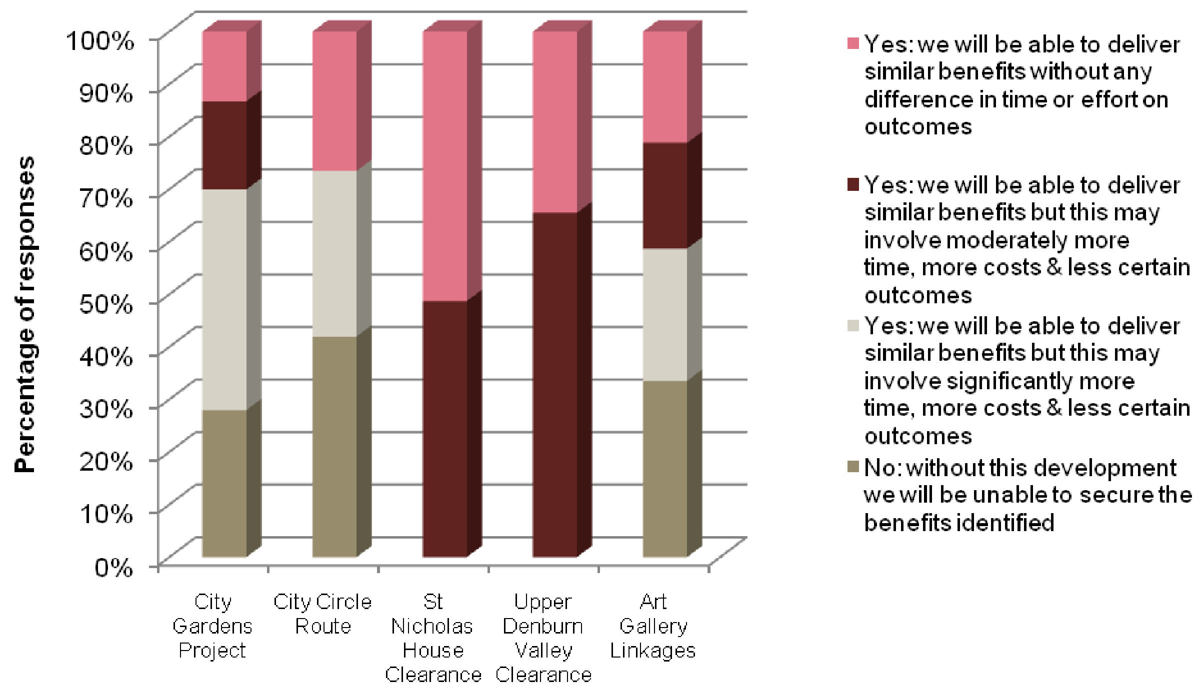
- **City Circle Route:** responses to this question were mixed, however the majority of respondents (33%) identified that 'no: without this development scheme they would be unable to secure the benefits identified'. The remainder of the responses were relatively evenly split between 'yes: but may involve significantly more time' (25%) and 'yes: without any difference' (21%);

- **St Nicholas House:** of those respondents who answered this question the following two options were selected: 21% 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**: the majority of respondents (42%) selected 'yes: we will be able to deliver similar benefits but this may involve moderately more time, more costs and less certain outcomes'; followed by 21% whom identified similar benefits would be delivered 'without any difference'; and,

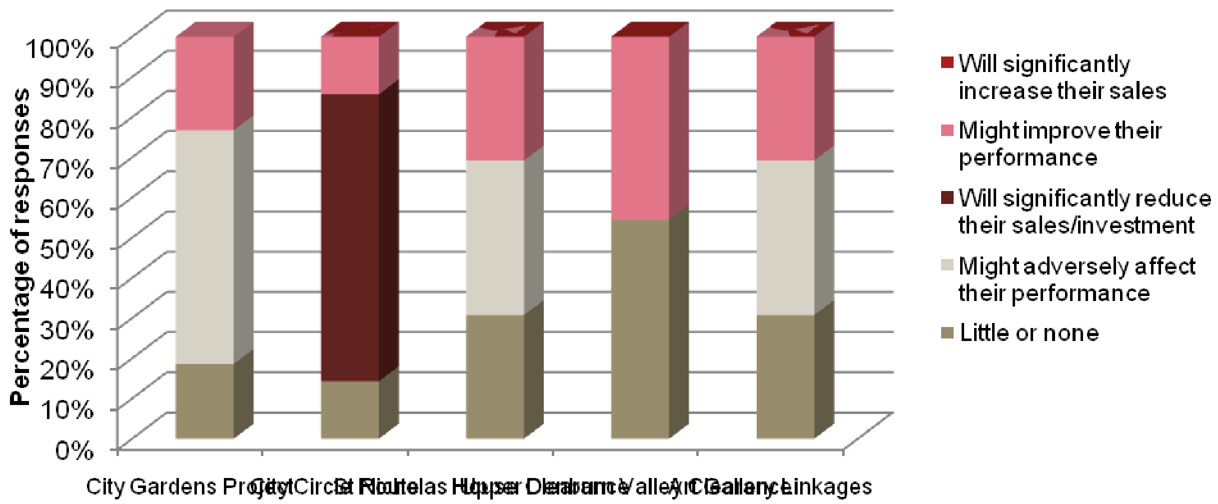
- **Art Gallery Linkages:** the majority of responses suggested that this scheme was important to secure any future benefits with 33% selecting that 'no: without this development we will be unable to secure the benefits identified' followed by 25% selecting that it would take 'significantly more time, more costs and less certain outcomes'. The remainder responses identified the 'moderately more time' (20%) and 'without any difference' options (21%).

Figure Six: Potential Impact in the Absence of Future Developments



Finally in order to inform the likely levels of displacement associated with the five development projects respondents were asked to identify what impacts (on average) they expected each of the projects would have upon regional (outwith Aberdeen City Centre) competitors' operations. Responses to this question are provided in Figure Seven below.

Figure Seven: Potential Impact on Local/Regional Competitors



The key findings emerging from this question for the five development projects:

- **City Gardens Project:** half of all respondents (50%) identified the City Gardens Project 'might adversely affect their performance', followed by 20% who identified that the project 'might improve their performance' and a further 16% stating it would have 'little or none' impact on local/regional competitors;

- **City Circle Route:** the majority of respondents (80%) identified the project as 'significantly reducing their sales and investment' with the remainder split between 'little or none' impact (10%) or might improve their performance (10%);

- **St Nicholas House:** responses in relation to this development scheme can be split between the majority (25%) who identified the scheme as 'might adversely affect their performance' with the remainder identifying 'little of none' impact (20%) and 'might improve their performance (20%);

- **Upper Denburn Valley:** of those who responded, the majority of respondents (24%) identified this scheme as having 'little or none' impact on competitors activities, whilst a further 20% highlighted it 'might improve their performance'; and,

- **Art Gallery Linkages**: as with St Nicholas House the majority of respondents identified this scheme as 'might adversely affect their performance' (25%) followed by 'little or none' impact (20%) and 'might improve their performance (20%).

Responses from this cohort provide supporting evidence regarding the potential of the proposed development schemes to generate economic benefit for Aberdeen City Centre. Specifically the majority of respondents identified the potential for uplift in the number of tourists, creation of additional commercial and hotel space, and retail outlets as the key benefits as demonstrated in Figure Four.

The above analysis also supports the view that the proposed development projects will result in relatively high levels of additionality with the majority of respondents indicating that without the development projects the higher levels of benefits would not be secured or would take longer to be realised.

Finally respondents in this cohort provided a range of responses in relation to the likely levels of displacement associated with the five development projects per Figure Six above. Overall the majority of the projects (4 out of 5) were identified as 'might' adversely affect competitor's performance or having little or no impact, demonstrating the potential for low levels of displacement. Only the City Circle Route was identified with the potential to significantly reduce competitor's sales/investment.

1.6. Gross and Net Impacts

Based on the survey outcomes above consideration was given by ACGT Enterprises, the Council and their advisors CBRE to the potential development outcomes with and without TIF.

This involved a series of steps, namely:

- Analysis of 18 development sites within the agreed 'red line' area that might be impacted by the TIF proposals;

- Projecting the likely ‘counterfactual’ by reviewing, based on the survey responses and professional judgement of CBRE, the potential development profile for the 18 sites under a non TIF scenario;

- Reviewing likely displacement: to assess, if the TIF goes ahead, whether this might have a ‘negative’ effect on existing businesses and other economic activities outwith the ‘red line’ area;

- Assessing the ‘TIF uplift’: through considering, again on the basis of the survey responses and professional experience, the differences in the profile and timing of development likely under the current TIF proposals; and,

- Determining the net additional benefits: by considering the TIF vs. non TIF outcomes in terms of net employment and gva impacts.

1.7. Baseline

For the purposes of the two surveys (detailed above) CBRE identified – as illustrated in Table Four below - all the known sites subject to developer interest within the agreed ‘red line’ of 18 sites across a range of potential developments and uses.

In taking forward the assessment of the potential net impacts of the TIF proposals the questions that the Council and their advisors have focused upon relative to this baseline are:

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

- What differences, in timing and profiles, are likely **with** TIF.

Table Four: Number of Sites by Type of Development within the TIF Red Line Area

Type of Development	No. of Sites	Amount Expected (‘000 sq ft)
Office	10	951
Hotel	2	250 beds
Industrial	6	2,364
Total	**18**	**3,315 (250 beds)**

1.8. Counterfactual (“But For” Case)

The counterfactual 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. Without TIF, ACC does not have the means to deliver the any of the 5 projects comprising the CCRS. Therefore, 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.

From the responses received from developers – as detailed at Appendix 2 – it is 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.

Additionaly it was apparent that individual developers and other respondents identified potential uplifts in activity and recognised that the timing of investments would be brought forward as a result of TIF. However, many of these developers still had expectations that, irrespective of future economic conditions or CCRS, their specific sites will be taken forward.

In balancing these different responses (i.e. CCRS will act as a stimulus to market uplift in general versus developers views that each individual site is likely to be taken forward anyway) the Council, ACGT Enterprises and their advisors have initially assumed a profile of development under the no CCRS scenario whereby:

- None of the cultural, leisure or retail elements of the CCRS projects will be taken forward;
- At least one major site totalling 0.720 million square feet will be taken forward in the anticipated timescales projected by developers regardless of CCRS; and,
- On the remaining sites identified, 1.369 million square feet will go forward without TIF over the 25 year period considered, but such developments will lag, on average, three years behind the profile assumed with CCRS.
- On the remaining sites identified, 2,029 million square feet of development (out of total development potential of 3.468 million square feet) will not go forward without the CCRS, over the proposed 25 year TIF period.

1.9. Displacement

Displacement aims to take account of 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 the current TIF project as it allows the Council 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).

As reflected by the (previous) project rationale and objectives section the purpose of taking forward these proposals is to ensure that – in the future – (mobile) investors and businesses already in the City do not leave to other global energy cities and, equally, (inward) investors decide to relocate to the City.

It is apparent, therefore, that a significant element of any future investment resulting from the TIF funded projects will be related to activities (and investments) that would otherwise not take place either in the City or across Scotland as a whole. In short there is likely to be little or no ‘displacement’’ of other activities in the City as a result of TIF related activity. Accordingly it has been assumed, by ACGTE, ACC and CBRE, that displacement levels are likely to be at a (minimal) level of 10%.

This is broadly consistent with the findings from Cohort 2 in relation to the likely impact on competitors’ activities if the proposed development schemes were to go ahead. As illustrated in Figure Six the majority of respondents identified that the current proposals will provide a significant stimulus to new development as well as bringing forward existing ‘planned’ investment.

1.10. Net Uplift

In assessing the likely effects of the CCRS on the profile of development on new sites within the redline area ACC, ACGTE and CBRE have considered the survey results, from developers and other respondents, as well as current market conditions. In this context the assumptions that have been drawn are that the:

- Profile of development identified is more likely to occur with CCRS (then without) given the wider effects that such an investment may have on investor interest in the City, specifically in the energy sector; and,
- Likely timing of such developments will occur sooner with CCRS and, on average, three years before that identified under the counterfactual position.

1.11. Net Economic Impact

1.11.1. Approach

In considering the economic impact of the CCRS proposals it is necessary to apply both the counterfactual and displacement effects identified to the profile of developments anticipated as well as draw assumptions in regard to leakage and multiplier impacts (namely the subsequent rounds of expenditure that either occur outside "leakage" or inside "multiplier" the local TIF area).

Table Five below, indicates the range of development that is expected to be enabled through delivery of the five development projects with and without TIF over a 25 year period (i.e. the timescale over which initial funding by the Council will require to be 'paid back' through uplifts in business rates).

Table Five: Gross Development Profile with TIF

Type of Development	Amount Expected with TIF at Year 25 (Sq ft)	Amount Expected without TIF at Year 25 (Sq ft)	Net Amount Expected at Year 25 (Sq ft)
Leisure/Retail	86,219	-	86,219
Office	951,315	495,726	455,589
Cultural	66,736	-	66,736
Industrial	2,363,799	945,520	1,418,279
Hotel (beds)	250	100	150
Total	**3,470,000 (250 beds)**	**1,441,000 100 (beds)**	**2,029,000 (150 beds)**

To assess the proposed economic benefits in employment terms likely to be supported by the above standard job density ratios (as detailed in the English Partnerships: "Employment

Densities: A Full Guide"[28]) have been applied to each of the development types (excluding housing) as illustrated in Table Six below.

Table Six: FTE Density Ratios	
Sector	**EP Density ratio**
Leisure/Retail[29]	194 sq ft per employee
Office [30]	205 sq ft per employee
Cultural	390 sq ft
Industrial[31]	453 sq ft per employee
Hotels [32]	0.8 employees per room

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 employment and related services that might support any future developments would be sourced from outwith Aberdeen)[33].

1.11.2. Results

Table Seven below details the net additional outcomes of applying displacement, deadweight, leakage and multiplier effects across the development profiles identified at Table Four.

Table Seven: Gross to Net Analysis Additionality (at year 25)

Type of development	Gross Floor space (sq ft)	Deadweight	Net Floor space (sq ft)	Displacement	Net of Displacement	FTE's	Leakage	Net of Leakage	Multiplier[34]	Net FTEs
Leisure/Retail (sq.ft)	86,219	-	86,219	10%	77,597	400	10%	360	1.3	468
Office (sq ft)	951,315	495,726	455,589	10%	410,030	2,000	10%	1,800	1.3	2,340
Cultural (sq.ft)	66,736	-	66,736	10%	60,062	154	10%	139	1.3	180
Industrial (sq ft)	2,363,799	945,520	1,418,279	10%	1,276,451	2,821	10%	2,539	1.3	3,300
Hotel (beds)	250	100	150	10%	135	169	10%	152	1.3	197

28 There are no equivalent Scottish data sources and, consequently, this guide is typically adopted – in the absence of any specific job estimates – in Scottish Enterprise assessments.

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

30 This is based on the English Partnership metric for "general office".

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

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

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

34 The multipliers used are based on the "Scottish Enterprise Economic Impact Assessment Guidance Note" which provides estimates of multipliers across different sectors

Once the levels of additionality have been applied to the average net floorspace developed per annum net employment, is estimated to be 6,500 full time equivalent ("fte") employees.

Table Eight outlines the likely Gross Added Value (or "GVA") per employee per relevant sector.

Table Eight: GVA per head per annum[35]	
Sector	**GVA per employee (£)**
Leisure/Retail	£23,267
Office	£43,519
Cultural	£17,237
Industrial	£51,739
Hotels	£15,712

Applying these estimates to total net employment suggests, as detailed in Table Nine below, an uplift in total GVA – once all the developments are completed – of around of around £122.60 million per annum in today's terms (net present value at the HM Treasury real discount rate of 3.5%)[36].

Table Nine: GVA per annum (NPV terms)[37]	
Sector	**GVA per annum (£m)**
Leisure/Retail	£5.9
Office	£69.5
Cultural	£1.7
Industrial	£44
Hotels	£1.28
Total	**£122.60**

Finally, consideration has been given to the level of private sector investment which the investment by the public sector is likely to unlock. As summarised at table 10 below, based upon industry standard construction cost multipliers for each type of space the net "with CCRS" development profile is expected to represent investment by the private sector of

[35] Based on Scottish Executive Data on GVA per employee for each of the identified areas of development.

[36] This is calculated on the basis of the cumulative profile of GVA over a 25 year period totalling £2.6bn in today's terms.

[37] Based on Scottish Executive Data on GVA per employee for each of the identified areas of development.

£150m[38]. Combined with the £70m of private sector contributions to deliver CCRS the £92m invested by the public sector is anticipated to unlock total investment by the private sector of approximately £220m representing a public:private leverage ratio of 1:2.4. The project is expected to have a long 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 (e.g. investment in refurbishing and extending existing properties in the city centre). As such this ratio is likely to be substantially exceeded in practice.

Table 10: Public:Private Investment Ratio

Office	£125	455,589	56
Industrial	£50	1,418,279	70
Hotel (beds)	£150,000	150	22
Other Private Investment	N/A	N/A	70
Total Private Sector Investment	N/A	**2,029,000 (150 beds)**	**150**
Total Public Sector Investment			92
Public: Private Leverage Ratio			**1 : 2.4**

38 note the cultural, leisure and retail space is excluded from this calculation as this space is delivered as part of the CCRS projects and is therefore assumed to be funded by the public sector contribution

APPENDIX 4

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 to 30/09/12	01/10/2012 to 31/03/13	01/04/2013 to 30/09/13	01/10/2013 to 31/03/14	01/04/2014 to 30/09/14	01/10/2014 to 31/03/15	01/04/2015 to 30/09/15	01/10/2015 to 31/03/16	01/04/2016 to 30/09/16	01/10/2016 to 31/03/17
St Nicholas House	6,000	0	6,000	0	0	0	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**	**7,000**	**4,000**	**5,000**	**6,500**	**6,500**	**61,500**	**51,500**	**20,000**	**20,000**
Less Grants	(20,000)	0	0	0	0	(824)	(165)	(5,659)	(5,660)	(3,846)	(3,846)
Sub-Total	162,000	0	7,000	4,000	5,000	5,676	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)
Public Finance *	(6,000)	0	(6,000)	0	0	0	0	0	0	0	0
Reimbursement to ACC*	6,000					6,000					
TIF Drawdown	**92,000**	**0**	**0**	**0**	**0**	**6,676**	**1,335**	**28,341**	**28,340**	**13,654**	**13,654**

* In respect of costs incurred in the Demolition of St Nicholas House should this be required prior to the approval of the CCRS TIF.