

ABERDEEN CITY COUNCIL

COMMITTEE	City Growth and Resources
DATE	24 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Investor Ready Propositions - Approach
REPORT NUMBER	COM/21/155
DIRECTOR	N/A
CHIEF OFFICER	Richard Sweetnam
REPORT AUTHOR	Lynn Mutch
TERMS OF REFERENCE	3.3

1. PURPOSE OF REPORT

- 1.1 To provide the Committee with the approach and methodology required to bring investor ready propositions to market, including resource implications and timescales for key projects within the various economic and infrastructure strategies.

2. RECOMMENDATION(S)

That the Committee:

- 2.1 Notes the key projects outlined in this report that are likely to be developed as investment proposals for the city;
- 2.2 Notes the four-phase approach that is employed to develop and bring investor ready propositions to market; and
- 2.3 Instructs the Chief Officer - City Growth to work with the Director of Resources to develop propositions for promotion by the Council and, Invest Aberdeen, to the Department for International Trade (DIT), Scottish Development International (SDI) and private sector investor events.

3. BACKGROUND

- 3.1 At the February 2021 City Growth & Resources Committee meeting, the Chief Officer – City Growth was asked to report back to the Committee on the methodology and approach to bring investor ready propositions to the market, including any resource implications and timescales for developing such opportunities.
- 3.2 In March 2017, the Council and Aberdeenshire Council approved the setting up of a dedicated inward investment team for the region with the aim of attracting inward investment in the form of company location, institutional investment and/

or expertise of development partners. Invest Aberdeen was set up and since then, it has supported the development of a number of investment opportunities in the city region that are continuously included in investment promotion activity by the UK Government, the Scottish Government and their agencies. These have included City Centre Masterplan (CCMP) projects, commercial developments for example TECA, and housing opportunities.

- 3.3 More recently there has been a focus on widening the portfolio in response to net zero and energy transition policy priorities of both governments, and the Council. In addition, industry has been responding to challenges from Covid-19 and the fall in oil barrel prices in April 2020 by seeking to diversify their activities with a focus on wider energy transition investments. The energy transition sector, and the role Aberdeen city region plays, has been attracting significant interest from UK and global investors with capital to invest.
- 3.4 The Council too reacted immediately to these new challenges and emerging opportunities. Having delivered the transformational projects in the 2012-2017 Strategic Infrastructure Plan (SIP), Net Zero Vision and a new Strategic Infrastructure Plan – Energy Transition was approved by the Council in May 2020. It proposed a number of new ‘green infrastructure investments’ that provides a framework for the development of capital infrastructure projects going forward.
- 3.5 Table 1 below provides a summary of the key projects for the city that identifies where potential investment propositions could come from. With clarity on the source of these potential projects, it will highlight resources needed for those that will be seeking investment in the immediate future. They are drawn from the SIP – Energy Transition, the CCMP and the current review work, the Council’s own Climate Change Plan, and the Regional Economic Strategy (RES).

Table 1: Key Projects for the City

Project	Investment Sought	Date	Comment
<i>ACC Projects</i>			
Aberdeen Hydrogen Hub Programme	Development partner Commercial funding	2023	Key strand of the Net Zero Vision to become climate positive; and Focus on application of h2 power in heat networks for housing (under feasibility)
Solar Farm – Energy Transition Zone	Development funding Development expertise and	Tbc	Some investor interest and potential application in h2 work

Project	Investment Sought	Date	Comment
	Commercial Operation.		
Retrofit of existing Council housing stock to meet net zero ambitions.	Commercial funding Development partner Energy billing and management solutions.	2022	c22,000 housing units plus Council buildings to be 'decarbonised'. Works may include fabric upgrades installation of heat pumps, electric heating solar pv, battery technology etc.
Queen Street Redevelopment	Commercial Funding Development Partner Operated of completed projects	2023	CCMP priority, and significant enabling work underway. Potential mixed use - residential led scheme.
Former BHS and indoor market sites (Union street/ Hadden street/ Market street)	Delivery partner/ scheme operator and end users/ occupiers.	2021/22	Site being acquired by ACC and clearance works being progressed. Scheme to develop international market concept linking key areas within city centre.
Beach Masterplan	Development Finance Development Partner(s)	2021/22	Masterplan currently being progressed which is likely to generate a range of development and operational opportunities
<u>Other Projects</u>			
Energy Transition Zone (ETZ)	Company location	2022	Focus on attracting new companies to locate to the city; Financial investment could be required as activity develops –

Project	Investment Sought	Date	Comment
			e.g. link to H2 programme above
BioHub – Life Sciences	Operating partner Company location	2022	Aberdeen City Region Deal project
SeedPod – Food, Drink and Agriculture	Company location	2022	Aberdeen City Region Deal project
Aberdeen Harbour Expansion – Green Port	Commercial funding	2022/ 2023	Could support port electrification

4. Approach and Methodology

- 4.1 The previous section identified key projects from the SIP – Energy Transition, CCMP, RES and the Climate Change Plan that could be of more interest to the investor market. The next stage involves assessing the maturity of the propositions and identifying any information gaps. The proposed approach below will ensure that all the constituent elements of a particular project are in place, from which officers/ project leads can progress to developing a financial model. This section looks at a four-phase approach to develop investor ready propositions for these projects. 0
- 4.2 For Council-led projects, officers will ensure that development work will provide information for these propositions, identifying any gaps and additional resources that may be needed. The first three phases highlight the work and resources to develop projects in the form of business cases that in turn provide the basis for the investor proposition.
- 4.3 The **first phase** involves preparatory work around research and development of the project. This will likely include a strategic assessment to establish the case for change and initial sequencing of activity and milestones in the form of a programme for the project. A *strategic outline case* will determine how project options have been arrived at and an assessment of how they meet the objectives and policy priorities of government and the Council (for its projects). This stage will also set out the key assumptions and data requirements that would be required for a final investor pitch, as well as any public sector funding requirements.
- 4.4 The **second phase** involves the market testing of a project with external third parties. During this phase information gaps are highlighted, assumptions developed and tested. At this stage, market insight will be gathered that potential investors in future will require. For example, investment in green infrastructure is higher risk as sometimes concepts and the rate of return is not proven. In developing the proposition for the Aberdeen Hydrogen Hub for example, officers undertook an industry engagement exercise that established the key information that would be needed around pricing and offtake (demand) for hydrogen in future. This allows officers to address and investigate issues

before progressing to market for a development partner, in the form of an *outline business case*.

- 4.5 The output from this phase is a more detailed appraisal of options and the preferred project to undergo further due diligence and testing. At this point an overall delivery strategy for the investor is also drafted.
- 4.6 The **third phase** will see the development of a *full business case*. This will continuously evolve in this phase and will incorporate feedback from the ongoing consultation or testing of a project. The full business case will determine the investment decision to proceed or not.
- 4.7 Each of these stages will form the basis of the **fourth and final phase** which is development of the investor proposition and to support the final investment decision (FID). In general, an investor proposition will at a minimum provide information on:
- Project – e.g. land ownership, control, costs, project dependencies, expected asset classes in completed development;
 - Type – retail, commercial, residential, industrial, leisure, education, health
 - Investor readiness – e.g. planning consents in place, contracts in place, delivery dates, connectivity (transport, digital);
 - Investment sought – e.g. finance; debt/ equity
 - Financial criteria – cashflow, expected timing of positive cashflow; rate of return; business case; income generation, all subject to sensitivity testing in response to changes in any of the key financial or economic assumptions;
 - Economic – demand (offtake demand re energy projects), on- off-site job creation, with input of property agent experts;
 - Delivery/ management model – e.g. joint venture, equity stake etc
 - Sustainability/ Net Zero – has the project assessed its ability to meet net zero carbon targets;
 - Political/ Government Support – e.g. has the project secured any central Government Funding;
 - Incentives – e.g. subsidy, grants, tax, R&D
- 4.8 The above information must be supported by robust and tested assumptions around costs, income (rate of return); risk and demand/ end market from the HM Treasury compliant business case development phases. During this phase there is also an opportunity to test the model through independent 'Gateway'/ peer review to provide additional assurance of the business cases prior to seeking final approval for the projects listed. This could involve relevant sector teams within DIT and SDI.
- 4.9 This information will be provided to investors in the form of a detailed template, from which any marketing or promotional collateral will summarise the propositions. For example, the projects promoted via Invest Aberdeen channels are summaries of more detailed analysis by relevant promoters, essentially a 'shop-window' to the project. Currently officers are working up investor propositions for the Aberdeen Hydrogen Hub and the information required is being developed in response to commercial investor interest (see Appendix 1 as an example of a general prospectus).

- 4.10 In the current economic climate and the context of Covid-19, more ‘traditional’ investment projects may not be as attractive to investors and there has been significant interest in the ‘energy transition’ sector, hydrogen deployment and Aberdeen city region. This also reflects the foundation of the offshore engineering supply chain in the city region, Aberdeen Harbour South Expansion and the Scotwind sea bed licensing rounds that will stimulate significant investment in the city.
- 4.11 Officers will work with inward investment agencies to develop propositions that will in turn be supported by Invest Aberdeen team. Opportunities in the city region have been promoted by the team in partnership with DIT, SDI and the Investment Promotion Working Group at SCA. An immediate challenge in the current investment climate is that green investment projects may need more appraisal in relation to their ability to contribute to the UK Government and Scottish Government climate change targets.
- 4.12 It is recommended that officers continue to employ this approach to development of investor ready proposals with a current focus on energy transition benefits. The table below highlights where resource is needed. Opportunity sourcing from developers and promoters across the city region will be ongoing supported by the regional Invest Aberdeen team. This is a two way process that relies on concepts coming forward from industry/ developer community.

Table 2 – Summary of Status of Key Projects using the Four Phases

Project	Status	Priority
Aberdeen Hydrogen Hub Programme	Phase 1-2 complete Phase 3 ongoing Phase 4 underway	High – in response to market interest and funding
Solar Farm – Energy Transition Zone	Phase 1-2	High – being reassessed in response to market interest
Retrofit of existing Council housing stock to meet net zero ambitions. -	Phases 1-2 – pilot projects underway	High – number of options currently being considered and being developed.
Queen Street Redevelopment	Phase 1-2	Medium
Former BHS and indoor market sites (Union street/ Hadden street/ Market street)	Phase 1	High
Beach Masterplan	Phase 1	Medium
Energy Transition Zone (ETZ)	Phases 1-3	High
BioHub – Life Sciences	Phases 1-3	High
SeedPod – Food, Drink and Agriculture	Phases 1-3	Medium

Project	Status	Priority
Aberdeen Harbour Expansion – Green Port	Phases 1-4	High

5. FINANCIAL IMPLICATIONS

- 5.1 The resource requirements for the above is anticipated to include a blend of Council officers/ project leads, the Invest Aberdeen team, DIT, SDI and SE. However other specialist resource (typically including technical/ commercial and external specialist legal advice) may also be needed at different phases, and around phases one and three in particular.
- 5.2 For Council-led projects, market testing and engagement with interested parties in the second phase would be undertaken within the existing resources of clusters and/ or project budgets. Typically this would involve Resources, Commercial Procurement, Corporate Landlord and City Growth.
- 5.3 While feasibility work or business cases are being prepared for the work on key projects themselves, and this is within the scope of these budgets, some additional work could be required to develop investor propositions. This could result in additional cost that would come from within the existing project budgets, City Growth budget or Invest Aberdeen budget where appropriate. Officers are also continuing to work with the Scottish Cities Alliance (SCA) investment promotion teams as it embeds a consistent approach to financial modelling across cities' projects.
- 5.4 As well as institutional investment, it is likely that the key projects could be supported by other external funding. Officers will continue to develop the key projects for potential application to funds such as:
- UK Shared Prosperity Fund (UK Government launch in January 2022 as successor to EU Structural Funds – could see £1.5bn funding annually with spend profiles confirmed at next Spending Review);
 - Levelling Up Fund (UK Government, including building/ site development, with £800m earmarked for Scotland);
 - UK Infrastructure Bank (£12bn of debt/ equity finance and issue of guarantees);
 - Scottish National Investment Bank (debt/ equity finance on commercial terms – businesses or projects seeking more than £1m debt/ equity support);
 - Emerging Technologies Fund (Scottish Government, £180m for H2 and carbon capture and storage)
 - Energy Transition Fund (Scottish Government, North East of Scotland use, £62m);
 - Green Growth Accelerator (Scottish Government, relying on local government to deliver but potential to unlock £200m over the next five years. Call for Pathfinder projects to be submitted in September 2021)
- 5.5 As well as these government schemes, officers meet regularly with institutional investors. There has also been a shift in their investment policy towards 'green investment' for market ready projects seeking private capital to support energy transition.

5.6 Any bids for government funding will be supported from within existing resources.

6. LEGAL IMPLICATIONS

6.1 There are no legal implications arising directly from this report given this it is seeking approval for propositions for promotion to be developed. Depending on the final outcome of securing investment, each proposition will need to be developed in a legally compliant manner with support from legal services and appropriate external specialist legal advice being sought if necessary.

7. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Failure to secure inward investment for key regional projects that will promote recovery from the Covid-19 Pandemic or achieve the Council's Net Zero and energy transition ambitions	M	Development of robust investor ready propositions using the three phased approach described in section 3.10 that can be promoted in partnership with the Investment Promotion Team at Scottish Cities Alliance and by investment teams in both the UK and Scottish Governments as well as by dissemination at national and international events promoting regional strengths.
Compliance	None		
Operational	Working from home, attendance at Marischal College and potential travel to events and in-person investor meetings may pose additional risks due to the physical and mental health issues associated with Covid-19	L	Overseas travel risks are covered by the pre-travel risk assessment process. Health and wellbeing will be managed by lead officer.
Financial	Costs associated with the development of investor ready propositions and travel to meetings	L	Any additional costs associated with the development of investor ready propositions will be closely monitored by officers and managed under the

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
	and events are found to be beyond available resource envelope.		Invest Aberdeen budget. Many events in the near to medium future are likely to become virtual events therefore attendance costs will be lower. In each case Officers will participate in planning groups for events including oversight and monitoring of budgets.
Reputational	Other major cities becoming the forerunners in the Hydrogen and Energy Transition sectors due to a failure to capitalise on the Cities first mover advantage and existing local expertise by developing robust project plans and propositions	M	Ensure our investment promotion collateral and activities are robust enough to engage potential investors and are widely promoted both locally and internationally by continuing to engage with local and international stakeholders and potential investors.
Environment / Climate	Failure to adequately secure investment in pursuit of the Council's Net Zero and energy transition ambitions	M	The development of strong business cases for energy projects and robust Investment propositions for use in stakeholder initiatives promoting the regional strengths. Attendance at events promoting the investment opportunities and actively promoting sectors via Investment leads and enquiries.

8. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
	Impact of Report
Aberdeen City Council Policy Statement	The proposals within this report support the delivery of the following Policy Statement objectives: Economy:

	<p>7: Continue to maximise community benefit from major developments</p> <p>14. Work with both governments to unleash the non-oil and gas economic potential of the city</p> <p>Place:</p> <p>1. Build up existing strength in hydrogen technology</p> <p>2. Support efforts to develop the inward investment opportunities including the Energetica corridor</p>
Aberdeen City Local Outcome Improvement Plan	
Prosperous Economy Stretch Outcomes	The proposals within this report support the delivery of LOIP Stretch Outcome 1 – 10% increase in employment across priority and volume growth sectors by 2026.
Prosperous People Stretch Outcomes	The proposals in this report support the delivery of stretch outcome 11 - Healthy life expectancy (time lived in good health) is five years longer by 2026 by seeking investment in to Hydrogen and Net Zero initiatives that will support zero carbon emissions.
Prosperous Place Stretch Outcomes	The proposals in this report support the delivery of stretch outcome 14 – Addressing climate change by reducing Aberdeen’s carbon emissions by 42.5% by 2026 and adapting to the impacts of our changing climate by promoting and seeking investment for the Aberdeen Hydrogen Hub and the Energy Transition Zone.
Regional and City Strategies	
	The proposals within this report support the Regional Economic Strategy & Action Plan, Energy Transition Vision, Net Zero City Vision and Strategic Infrastructure Plan by working towards developing investor ready propositions that will attract potential investors to priority projects, supporting innovation and infrastructure development while creating jobs and supporting inclusive growth.
UK and Scottish Legislative and Policy Programmes	
	The recommendations in this report support the City’s response to the Intergovernmental Panel on Climate Change set under the Paris Agreement and the UK Governments ambition to have Net Zero emission by 2045. The report also set out the City’s plans to meet the Scottish Government’s Climate Change (Emissions Reduction Targets) (Scotland) Act 2019.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	not required
Data Protection Impact Assessment	not required

10. BACKGROUND PAPERS

- 10.1 RES/21/049 – Strategic Infrastructure Partnership with North East Scotland Pension Fund, City Growth and Resources, May 2021.
- 10.2 PLA/20/088 – Net Zero Vision and Infrastructure Plan, Urgent Business Committee, May 2020.

11. APPENDICES

- 11.1 Appendix 1 - Hydrogen Opportunities in the Aberdeen City Region

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