

**RURAL GROWTH DEAL – UPDATE AND DETAILED DESIGN COSTS**

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**1.0 EXECUTIVE SUMMARY**

- 1.1 This report provides an update on the Rural Growth Deal (RGD). The RGD will deliver £50m of investment from the Scottish and UK Governments for projects that are a driver for inclusive and transformational economic growth across the region. The Council and key delivery partners will also provide a minimum of £20m of match funding throughout the 10-year Deal programme.
- 1.2 The Council, UK and Scottish Governments agreed the ‘Heads of Terms’ for the RGD on the 11th February 2021. The Heads of Terms Agreement sets out the general areas for investment and the Full Deal Agreement builds upon this in more detail.
- 1.3 Signing of the Full Deal Agreement was scheduled for 7th June 2024 however required to be postponed due to calling of the General Election. The RGD Programme Management Office (PMO) are liaising with Civil Servants at both the UK and Scottish Government level to agree a revised date for Full Deal Signing following the General Election.
- 1.4 The RGD PMO have procured the services of the consultancy Stantec to assist with the development of business cases for the RGD programme. All Projects have now had at least one iteration of an Outline Business Case (OBC) or Full Business Case (FBC) submitted to Government. An update on the position of RGD business cases is included in **Table 1** of this report.
- 1.5 To date, costs associated with business case and project development works have largely been funded from the Council’s Inward Investment Fund. Match funding has also been secured from a number of key partners such as HIE and Scottish Enterprise. The Policy and Resources Committee have previously approved the release of 4 tranches of funding totalling £600k from the Inward Investment Fund with authority delegated to the Internal Programme Board to authorise spend to support Rural Growth Deal project development work. At the time of writing this report, total approved spend on RGD project development work stands at £569,358.
- 1.6 Where possible, the RGD PMO will seek to recoup capital costs from RGD funding allocations however, it will not be possible to submit any claims for funding until the Full Deal Agreement has been signed and Full Business Cases for projects are endorsed by Central Government. Costs associated with the

development of project Full Business Cases will require to be met by the Council and strategic partners at risk in advance of funding being approved by Central Government.

- 1.7 The Policy and Resources Committee are therefore asked to approve a further £150k of funding from the Inward Investment Fund to support the development of RGD Full Business Cases and any associated pre-construction works e.g. planning, detailed design and consultancy support.
- 1.8 The RGD PMO will continue to seek external match funding to support project development costs and meet funding gaps. To date, the Council and key funding partners have secured over £20m of match funding that will directly support projects within the RGD programme. Given the significant funding secured to date, throughout the lifetime of the programme it is considered likely that RGD partners will exceed the £20m match funding commitment set out in the Heads of Terms Agreement.
- 1.9 In advance of the completion of the Full Business Case (FBC), there remains a significant amount of project development work to be undertaken, across the majority of RGD Projects. This includes detailed design, procurement, site investigation works and statutory consents.
- 1.10 The development of detailed design for projects is a key stage, however it comes at considerable expense and will bring a degree of risk to the Council and RGD Partners. The appointment of a Detailed Design team will include an Architect, Quantity Surveyor, Engineers and Project Manager support. As a general estimate, up to 10% of project capital budgets should be set aside for Detailed Design cost.
- 1.11 Kintyre Seaports will be the first project to receive OBC approval and this project is programmed to begin construction in Autumn 2025. There is therefore an urgent need to progress detailed design work. Tenders for this work have identified costs of circa £238k for the design, consultancy and engineering support necessary to see this project through to practical completion. These are capital costs which will be re-claimed from RGD funds following endorsement of the Full Business Case. It should however be noted, that all costs incurred in advance of FBC endorsement are at risk to the Council.

#### **RECOMMENDATIONS:**

- Members should note that a revised date for Full Deal Signing will be arranged once a new UK Government is formed.
- Approval is sought from the Policy and Resources Committee for a further drawdown of funding from the Inward Investment Fund (up to £150k). Similar to previous arrangements, funds will only be drawn down subject to the Chief Executive and two Executive Directors of the Council being satisfied that the monies are for the purpose of delivering the Rural Growth Deal. Any further funding required in excess of the approved value will require further approval from the Policy and Resources Committee.

- Members are asked to approve spend of up to £250k to support the next stage of project development for Kintyre Seasports, including Detailed Design works.

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**2.0 INTRODUCTION**

- 2.1 This report provides an update on the Rural Growth Deal (RGD). The RGD will deliver £50m of investment from the Scottish and UK Governments for projects that are a driver for inclusive and transformational economic growth across the region. The Council and key delivery partners will also provide a minimum of £20m of match funding throughout the 10-year Deal programme.
- 2.2 The Council, UK and Scottish Governments agreed the 'Heads of Terms' for the RGD on the 11th February 2021. The Heads of Terms Agreement sets out the general areas for investment and the Full Deal Agreement builds upon this in more detail.
- 2.3 Signing of the Full Deal Agreement was scheduled for 7<sup>th</sup> June 2024 however required to be postponed due to the UK General Election on the 4<sup>th</sup> July. The RGD PMO are liaising with Civil Servants at both the UK and Scottish Government level to agree a revised date for Full Deal Signing following the General Election.
- 2.4 The RGD PMO have procured the services of the consultancy Stantec to assist with the development of business cases for the RGD programme. All Projects now have at least one iteration of an OBC or FBC submitted to Central Government. An update on the position of RGD business cases is included in **Table 1** of this report.
- 2.5 To date, costs associated with business case and project development works have largely been funded from the Council's Inward Investment Fund. Match funding has also been secured from a number of key partners such as HIE and Scottish Enterprise. The Policy and Resources Committee have previously approved the release of 4 tranches of funding totalling £600k from the Inward Investment Fund with authority delegated to the Internal Programme Board to authorise spend to support Rural Growth Deal project development work. At the time of writing this report, total approved spend on RGD project development work stands at £569,358.
- 2.6 Where possible, the RGD PMO will seek to recoup capital costs from RGD funding allocations however, it will not be possible to submit any claims for funding until the Full Deal Agreement has been signed and Full Business Cases for projects are endorsed by Central Government. All costs incurred in

advance of FBC endorsement are at the risk of the Council and project stakeholders. It should be noted that these costs are necessary in order to progress projects through to FBC endorsement.

- 2.8 The Policy and Resources Committee are therefore asked to approve a further £150k of funding from the Inward Investment Fund to support the development of RGD Full Business Cases and any associated pre-construction works e.g. planning, detailed design and consultancy support.
- 2.9 The RGD PMO will continue to seek external match funding to support project development costs and meet funding gaps. To date, the Council and key funding partners have secured over £20m of match funding that will directly support projects within the RGD programme. Given the significant funding secured to date, throughout the lifetime of the programme it is considered likely that RGD partners will exceed the £20m match funding commitment set out in the Heads of Terms Agreement.
- 2.10 Kintyre Seasports will be the first project to receive OBC approval and this project is programmed to begin construction in Autumn 2025. There is therefore an urgent need to progress the detailed design work necessary for the project FBC. Tenders for this work have identified costs of circa £238k for the design, consultancy and engineering support necessary to see this project through to practical completion. These are capital costs which will be reclaimed from RGD funds following endorsement of the Full Business Case. It should however be noted, that all costs incurred in advance of FBC endorsement are at risk to the Council.

### **3.0 RECOMMENDATIONS**

- Members should note that a revised date for Full Deal Signing will be arranged once a new UK Government is formed.
- Approval is sought from the Policy and Resources Committee for a further drawdown of funding from the Inward Investment Fund (up to £150k). Similar to previous arrangements, funds will only be drawn down subject to the Chief Executive and two Executive Directors of the Council being satisfied that the monies are for the purpose of delivering the Rural Growth Deal. Any further funding required in excess of the approved value will require further approval from the Policy and Resources Committee.
- Members are asked to approve spend of up to £250k to support the next stage of project development for Kintyre Seasports, including Detailed Design works.

## 4.0 DETAIL

### 4.1 Business Case Progress Update

- 4.1.1 The Council agreed the 'Heads of Terms' for the RGD on the 11th February 2021. The next key milestone is the signing of the Full Deal Agreement. This was arranged for 7<sup>th</sup> June 2024, however required to be postponed due to the announcement of a General Election. A revised date for Full Deal Signing will be agreed once the new UK Government is formed and it is hoped that this milestone can be reached by September 2024.
- 4.1.2 Upon signing the Full Deal Agreement, the Council will enter year 1 of a 10-year programme of delivery for the RGD. It is currently anticipated that Year 1 will be 2024/25, with the Deal reaching completion in 2034/35.
- 4.1.3 The RGD PMO have been working with Stantec and key delivery partners to progress Business Cases for RGD projects. All projects now have at least 1 iteration of an OBC or FBC submitted to UK and Scottish Government. The RGD PMO and Project Leads have been working to address feedback received and a number of OBCs are now nearing approval. An update on Business Case Progress for each RGD Project is provided in **Table 1** below:-

**Table 1 Business Case Tracker**

Project	Stage	Next Milestone
<b>Rothesay Pavilion</b>	2 <sup>nd</sup> iteration of FBC submitted to Government on 8 <sup>th</sup> May 2024.  A number of meetings have been held between Government and the Council to discuss conditions that would allow endorsement of the FBC to allow the next stage of contracts to be awarded.	Conditional Endorsement of FBC
<b>Kintyre Seaports</b>	The OBC was approved by Government on 4 <sup>th</sup> July 2024.	Detailed Design
<b>Low Carbon Economy - Islay</b>	Government advised that they were not content to proceed with the project that was in the first Outline Business Case. Therefore the project has gone back to initial options appraisal stage. Engagement with stakeholders is ongoing to redevelop project options.	Completion of options appraisal and identification of new preferred option.

<b>Rural Skills Accelerator Programme OBC</b>	A second iteration of the OBC was submitted to Government on 23 <sup>rd</sup> May 2024.	Feedback to be provided by Government.
<b>Housing – Isle of Mull</b>	Second iteration of OBC submitted on 2 <sup>nd</sup> May 2024.	Feedback/approval of OBC
<b>Housing – Isle of Islay</b>	Feedback received on the first iteration OBC on 29 <sup>th</sup> May 2024. Project Leads are considering feedback in advance of re-engaging with Stantec.	Second iteration OBC to be drafted by Stantec.
<b>Clyde Engineering &amp; Innovation Centre</b>	Feedback on second iteration OBC was received on 24 <sup>th</sup> April 2024. PMO and Stantec currently working to address outstanding comments.	Third iteration to be submitted to Government.
<b>West Coast UAV</b>	3 <sup>rd</sup> iteration OBC submitted to Government on 20 <sup>th</sup> May 2024.	Feedback/approval of OBC
<b>Marine Aquaculture Programme – Marine Industry Training Centre</b>	Second iteration OBC submitted to Government on 26 <sup>th</sup> April 2024.	Feedback to be provided by Government
<b>Marine Aquaculture Programme – SAMS International Seaweed &amp; Shellfish Industry R&amp;D Centre</b>	Feedback received on 2 <sup>nd</sup> April 2024 on second iteration OBC. SAMS/HIE currently reviewing feedback and redrafting OBC.	Third iteration OBC to be submitted to Government
<b>Marine Aquaculture Programme – Marine Environmental Research Laboratory</b>	Second iteration OBC submitted to Government in June 2024.	Feedback to be provided by Government.

## **4.2 Full Business Case Costs**

- 4.2.1 To date, costs associated with business case and project development works have largely been funded from the Council's Inward Investment Fund. Match funding has also been secured from a number of key partners such as HIE and Scottish Enterprise. The Policy and Resources Committee have previously approved the release of 4 tranches of funding totalling £600k from the Inward Investment Fund with authority delegated to the Internal Programme Board to authorise spend to support Rural Growth Deal project development work. At the time of writing this report, total approved spend on RGD project development work stands at £569,358.
- 4.2.2 There is an Earmarked Reserve of £540,897 for the Inward Investment Fund, with £307,232 of this previously committed. Therefore there is a remaining balance of £233,665 available to support the development of the Rural Growth Deal.
- 4.2.3 A number of the Outline Business Cases are nearing approval and it is not expected that further funds will be required to support Outline Business Cases, with the exception of the Islay Low Carbon Economy project which is still at options appraisal stage. The RGD PMO have been scoping requirements for FBCs, and it is anticipated that the costs associated with development of the FBC for each project will be in the region of £20k-£30k. At this time, a total of 14 FBCs will be required across the programme. Some of these will be funded by RGD Partners such as HIE.
- 4.2.4 The RGD PMO have commissioned Stantec to undertake the FBCs for the Kintyre Seaports and Tobermory Housing projects, given these projects will be delivered in the early phases of the RGD Programme. The FBC for Rothesay Pavilion has already been completed and the Council is in the process of agreeing a conditional endorsement of £9m of RGD funding for this project.
- 4.2.5 The Policy and Resources Committee are asked to approve a further £150k of funding from the Inward Investment Fund to support the development of RGD FBC's and associated pre-construction works e.g. planning, detailed design and consultancy support. Aligned with previous arrangements, funds will only be drawn down subject to the approval of the Council's Chief Executive and two Executive Directors. Any further drawdown from the Inward Investment will require approval of the Policy and Resources Committee.

## **5.0 Detailed Design Costs**

- 5.1 A significant amount of project development work is necessary in order to complete Treasury Five Case compliant FBC's. This includes detailed design, construction tenders and statutory consents. In order to develop FBCs the following milestones should be completed:
- Design to RIBA Stage 4 (Technical Design);
  - All consents should be approved (including Planning, Building Warrant etc);



- Procurement – costs in the FBC should be based on a tendering exercise;
- Match funding – must be identified and approved by funders;
- Any Legal agreements between the Council and Partners should be finalised;
- Carbon Impact Assessments finalised;
- Equalities Impact Assessments finalised;
- Programme of works agreed.

5.2 Pre-construction activities such as Detailed Design incur considerable expense for the Council and RGD Partners. The appointment of a Detailed Design team will include an Architect, Quantity Surveyor, Engineers and Project Manager support. As a general estimate, up to 10% of project capital budgets should allocated for Detailed Design costs.

5.3 Detailed design has to be undertaken to inform the project FBC therefore spend will be incurred at risk to the Council and project partners. The figure below details the approvals process for RGD projects in advance of funding drawdown:-



5.4 The key risk to the Council and project partners is construction tenders being unaffordable and projects having funding gaps requiring additional match funding or a requirement to value engineer or reallocate RGD funds. In this scenario the Council and/or RGD Partners could have incurred significant abortive costs associated with project development work.

5.5 Funding of project development costs is a risk that is common across all City Region and Growth Deals in the UK. **Appendix 1** includes projected timescales for detailed design development and FBC submission for the wider RGD programme. It should be noted that these are current projected timescales and that it is likely that they may change depending on project development progress. Projects are currently profiled to ensure compliance with a funding drawdown of circa £5m per annum.

5.8 Where there is a requirement to fund detailed design and project development costs upfront, a report on each project will be brought to the Policy and Resources Committee to allow Members to consider the request and associated costs and risks.

## 6.0 Kintyre Seasports

6.1 Kintyre Seasports received OBC approval on 4<sup>th</sup> July 2024. This project seeks to redevelop the existing Campbeltown Sailing Club facility into a modern watersports facility. The total budget available for capital works through the

Rural Growth Deal is £2m. The RGD PMO and Kintyre Seaspports continue to seek other opportunities for match funding.

- 6.2 This project is programmed to begin construction in Autumn 2025, therefore there is a urgent need to progress the detailed design work necessary for the FBC. This project has already scoped detailed design requirements and undertaken a tender however was subsequently abandoned as the tendered costs returned were in excess of the threshold for an unregulated procurement. There was only one tender return with a value of circa £238k. The scope of works included all detailed design and support through to handover of the new facility.
- 6.3 Procurement activity has been undertaken on an “on behalf” of basis with Argyll and Bute Council undertaking procurement activity on behalf of Kintyre Seaspports. It is proposed that Argyll and Bute Council would pay all invoices associated with works, given that Kintyre Seaspports would be unable to cash flow the project themselves.
- 6.4 The RGD PMO and KSS are liaising with colleagues from the Council’s Procurement Team to agree next steps. The PMO are also investigating opportunities associated with a design and build contract or a reduced scope of works to try and limit financial risk to the Council and KSS.
- 6.5 Members are asked to approve spend of up to £250k to support the next stage of project development for Kintyre Seaspports, including Detailed Design works. It is expected that the cost of this will be retrospectively claimed from the Rural Growth Deal following endorsement of the project FBC by Central Government. With the exception of Rothesay Pavilion, this is the first project within the RGD programme to reach detailed design stage.

## **7.0 CONCLUSION**

- 7.1 The next key milestone in the RGD process is the signing of the Full Deal Agreement. It is anticipated that a revised date for Full Deal Signing will be agreed with Central Government following the UK General Election on the 4<sup>th</sup> July.
- 7.2 The RGD PMO continue to work with key stakeholders and Stantec to develop RGD projects and progress associated project business cases. To date, all projects within the RGD programme have submitted at least one iteration of their OBC or FBC to Central Government and have received feedback. It should be noted that this process can take several months.
- 7.3 The Policy and Resources Committee have previously approved the release of 4 tranches of funding totalling £600k from the Inward Investment Fund with authority delegated to the Internal Programme Board to authorise spend to support Rural Growth Deal business case and project development work. At the time of writing this report, total approved spend on RGD development work stands at £569,358.

- 7.4 Following signing of the Full Deal Agreement, it will be necessary to draft FBC's for all projects. Drawdown of RGD funding is subject to endorsement of FBC's by Central Government. This will require further project development work such as detailed design, planning and consultancy support which is necessary in order to develop Treasury compliant FBC's.
- 7.5 The Policy and Resources Committee are asked to approve a further £150,000 draw down from the Inward Investment Fund to support the development of Full Business Cases and associated project work.
- 7.6 The OBC for Kintyre Seaports will shortly be approved and the Policy and Resources Committee are asked to approve spend of up to £250k on this project to support the next stages of development, including detailed design works. It is expected that these costs will be retrospectively claimed from the RGD funds following endorsement of the FBC by Central Government.
- 7.7 Members are asked to note that all spend in advance of FBC endorsement is at risk to the Council and key project partners however, this is necessary in order to achieve endorsement of RGD projects by Central Government.

## **8.0 IMPLICATIONS**

- 8.1 Policy – The RGD is consistent with the Council's Economic Strategy.
- 8.2 Financial – RGD Projects require a level of upfront spend at risk to allow project development to progress. Support will be required from Financial Services. There are limited remaining funds in the Inward Investment Fund to support Rural Growth Deal Development costs, however capital costs can be claimed back from RGD funds following endorsement of FBCs and at the discretion of the Section 95 Officer.
- 8.3 Legal – The RGD may require input from Legal Services as part of the Full Deal Signing.
- 8.4 HR – None at present.
- 8.5 Fairer Scotland Duty: Required as part of OBC process.
- 8.5.1 Equalities - protected characteristics - Equality Impact Assessments are required for all RGD projects.
- 8.5.2 Socio-economic Duty - The Rural Growth Deal will follow Scottish Government guidance on Inclusive growth including measures to address socio-economic disadvantage
- 8.5.3 Islands – Islands impact assessments required as part of OBC process where necessary.
- 8.6 Climate Change – Carbon Management Plans are required for all RGD business cases.

- 8.7 Risk – Spend incurred in advance of approval of FBCs will be at risk to lead partner.
- 8.8 Customer Service – None at present.
- 8.9 The Rights of the Child (UNCRC) – None at present.

**Kirsty Flanagan, Executive Director with responsibility for Development and Economic Growth**

**Councillor Jim Lynch, Leader of Argyll and Bute Council**

June 2024

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## **APPENDICES**

**Appendix 1 – Rural Growth Deal Projected Programme (as at July 2024)**

## **Appendix 1: Rural Growth Deal Projected Programme (as at July 2024)**

The following table shows the current projected delivery timeframe for RGD Projects. It should be noted that there may be changes to the Programme as projects progress through their development stages.

<b>Project</b>	<b>OBC Approval</b>	<b>Pre-Construction Phase*</b>	<b>FBC Endorsement</b>	<b>Projected Construction Start</b>
<b>Rothesay Pavilion</b>	N/A	Stage 1 works ongoing	Conditional Endorsement expected July 2024	Stage 2 & 3 due to start September/October 2024
<b>Kintyre Seaports</b>	Received July 2024	July 2024-July 2025	Expected September 2025	October 2025
<b>Creating a low carbon economy – Islay</b>	Project has returned to options appraisal.	TBC	TBC	TBC
<b>RSAP - South STEM Hub (Dunoon)</b>	Rural Skills Accelerator Programme Level OBC is expected to be approved by October 2024	2024/25-2025/26	Expected 2026/27	2026/27
<b>RSAP - North STEM Hub (Oban)</b>		2025/26-2026/27	Expected 2026/27	2026/27
<b>RSAP - UHI Argyll College Built Environment (Dunoon)</b>		2027/28-2028/29	Expected 2028/29	2028/29
<b>RSAP - Business Skills</b>		N/A	Expected December 2024	Delivery of Business Skills Programme to begin in 2025/26
<b>Housing - Isle of Mull</b>	Expected August 2024	2024-2025	Expected December 2024	2025/26
<b>Housing - Isle of Islay</b>	Expected by March 2025	2027/28	Expected 2027/28	2028/29
<b>Clyde Engineering and Innovation Cluster</b>	Expected August 2024	2027/28-2028/29	Expected 2029/30	2029/30
<b>West Coast Aviation, UAV, Robotics and Compliance Hub</b>	Expected August 2024	2030/31	Expected 2031/32	2032/33
<b>MAP - Machrihanish Innovation Campus</b>	Expected September 2024	2025/26	Expected 2025/26	2025/26
<b>MAP - SAMS International Seaweed</b>	Expected September 2024	2026/27-2027/28	Expected 2027/28	2027/28

<b>and Shellfish Industry R&amp;D Centre</b>				
<b>MAP - Marine Industry Training Centre</b>	Expected October 2024	2026/27- 2027/28	Expected 2027/28	2027/28