

Growth Accelerator Guidance

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1.0 Introduction

The first Growth Accelerator (GA) was developed by the City of Edinburgh Council (CEC), Scottish Government (SG) and Scottish Futures Trust (SFT). Full approval was given for the scheme by Scottish Ministers in October 2016. The model has now been applied in Dundee and is being considered in a number of other areas. Consequently, the approach continues to evolve, establishing the GA as an effective and responsive model to support infrastructure investment decision-making and funding within the framework of inclusive economic growth.

This document provides initial high level guidance on the principles of the GA, as well as the application process for interested authorities and other public sector bodies. Ultimately, the paper is designed to provide an outline and will be developed further to reflect activity and lessons learned.

2.0 The Growth Accelerator Approach

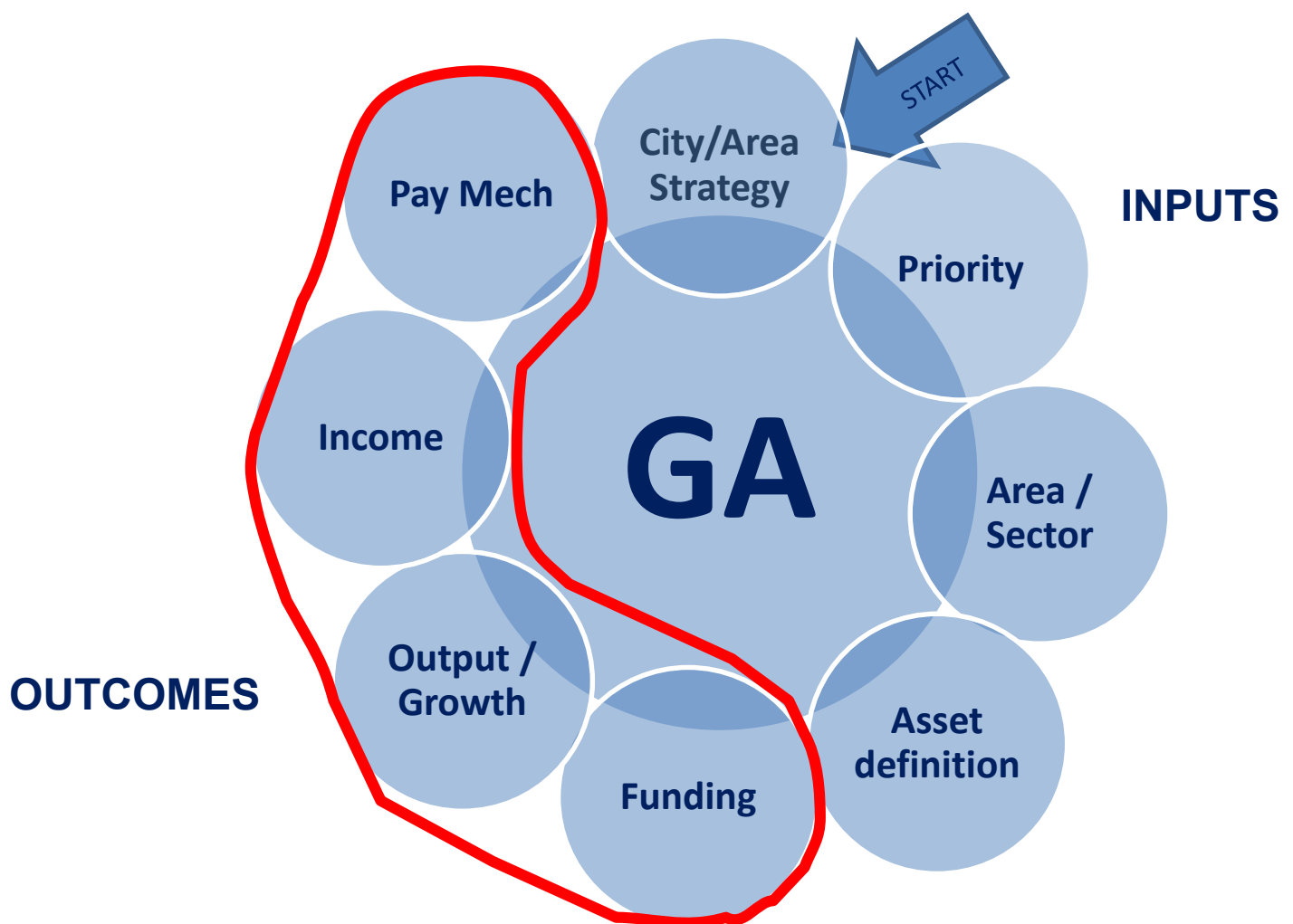
The key objective of the GA approach has been to deliver a funding mechanism for the effective identification and delivery of public sector enabling infrastructure which stimulates private sector investment and the wider economy. In making this case, the model recognises and captures both the economic, financial and social impacts of these investments; and establishes a payment-by-results mechanism based upon modelled impacts. Figure 1 below seeks to explain the GA approach, by following clockwise the inputs to identify investments; to the outcomes including understanding the funding basis and any gap, along with the measures associated with releasing the grant.

The starting position for any GA is the city or area strategy and local growth priorities which may be spatial or sectoral. This allows an articulation of the enabling interventions, assets and collaboration where support is required; firmly setting it within existing strategy and evidence. There is no set definition around these elements, however to date infrastructure has reflected traditional enabling local-authority-funded infrastructure. We would also encourage the local authority to think about how collaboration can deliver change and the role of place in any considerations. This may reflect activity around 'non-bricks and mortar' interventions, however, this collaboration should be a key element of any GA approach.

Clearly explaining the existing funding available, including the role of other stakeholders such as the private sector is another key theme. Alongside this, identifying the benefits to flow from the investment, including fiscal flows that economic and other social impacts may generate, need to be detailed. Those economic and social impacts are likely to form the basis of any 'ask' of Scottish Government and any other key parties and are captured through a business case. This includes in relation to the release of grant (more detail will be provided in this regard later). This approach

changes the risk for public investment, moving from more traditional upfront grant to payment based on achieving identified priorities; thereby taking the model full circle to the strategic context and rationale for investment.

Figure 1: GA Process



3.0 The Business Case

The link between the vision, investment and impacts is articulated through a business case, submitted via SFT for Ministers' consideration. The submitted Business Case will be assessed by SFT and as detailed above, must present to the Scottish Ministers the clear vision underpinning any project and the benefits and outcomes it produces. Authorities are strongly encouraged to engage with SFT at an early stage as support and guidance can be provided to those local authorities considering the Growth Accelerator (GA). An initial business case outline is provided at Appendix A, based upon Green Book¹ principles for which extensive guidance is available. While not a replication of Green Book, the outline seeks to capture the fundamentals of the Green Book 5-Case business case model i.e.: -

1. That the intervention is supported by a compelling **case for change** that provides holistic fit with other parts of the organisation and public sector i.e. the "strategic case";
2. That the intervention represents best **public value** i.e. the "economic case";
3. That the proposed investment is attractive to the market place, can be procured and is **commercially viable** i.e. the "commercial case";
4. That the proposed spend is **affordable** i.e. the "financial case";
5. That what is required from all parties is **achievable** i.e. "the management case".

3.1 Stimulating & Measuring Growth

The GA business case is intended to both articulate the case for any enabling investment and interventions and provide evidence of the impacts to support the GA 'ask'. Appendix B provides information on the modelling that may support the narrative to be provided in the business case. Much of the economic modelling will be familiar to applicants, however GA also seeks to capture the fiscal impacts, including the potential impact upon any existing public expenditure; demonstrating the benefits to the public purse alongside the economic impacts. These fiscal impacts are the public sector income streams, such as Council Tax, Non Domestic Rates (NDR), Income Tax and VAT, which are generated as a result of investments; alongside impacts on existing public sector expenditure such as national welfare spend or local authority social spend.

Alongside the tax-take and expenditure data, any capital and revenue flows are also captured, to inform the level and need for grant. For example, an investment may provide a commercial return

¹ The Green Book, Appraisal and Evaluation in Central Government, 2003 version with 2011 update
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

after a period. Demonstrating this return and the impact on borrowing and therefore cash-flows is an essential element of the GA, to ensure public support is used where required. Arguments for retention of any revenues would need to be clearly made. Again Appendix B discusses this in more detail.

3.2 Legal Agreement & Payment-by-Results

Key outcomes captured through economic and fiscal modelling will form the basis of a legal agreement with Scottish Government. The legal agreement is developed from Scottish Government's standard grant agreement and will detail the basis of the mechanism and how grant is released: -

1. Against the achievements of a series of agreed measures;
2. That Authorities are liable for sourcing all upfront funding;
3. That a pro-rata release of grant may be considered, when outcomes are not fully met.

GA is a payment-by-results model with the risk for achieving the impact and release of grant remaining with authorities. This approach is intended to improve upon the identification and development of robust investment proposals. Monitoring and evaluation will be central to evidencing outcomes have been achieved.

To date outcome metrics have included: -

- Increase of x% of Rateable Value (RV) within investment zone;
- Increase of RV of x% above national average within wider investment zone;
- Increase of x no. of international tourism within agreed area;
- Increase of x no. jobs within defined poorest performing Scottish Index of Multiple Deprivation (SIMD) datazone;
- Occupancy levels of x% within commercial development.

The metrics will be reflective of the project itself i.e. each project will lend itself to key, identifiable outcomes. The measurements will be set and agreed as the GA business case develops and is submitted. The metrics once agreed between the key parties will be enshrined within the GA grant agreement.

4.0 The Process

The overall process includes: -

1. Interested authorities/public bodies contact SFT to investigate options for developing a GA;
2. If suitable for GA, SFT will work with the interested body to approach SG and Scottish Ministers for approval to proceed to Business Case;
3. Business case development, in collaboration with SFT;
4. Following completion of a business case, SFT will prepare an appraisal of that business case for Scottish Government which will form the basis of advice to Ministers;
5. Clarifications on the basis of the business case;
6. Following successful approval in principle, the legal agreement and metrics for release of grant will be negotiated;
7. Legal Agreement signed;
8. Ongoing Executive Meetings and monitoring;
9. Release of grant on annual basis

5.0 Case Study: Edinburgh St James Quarter

The Project

St James Quarter (SJQ) was the first large-scale infrastructure development to receive GA support, with City of Edinburgh Council (CEC) instrumental in developing the approach. Built in the 1960s at the top of Leith Walk in Edinburgh, the St James Centre incorporated a shopping centre, an office block and a hotel; and for a number of years was regarded as being past its best by many. To this end, CEC had a vision to update and regenerate the St. James quarter, working with the private sector to deliver change. To achieve this, SFT, together with SG and CEC, developed the GA to unlock the potential economic growth and investment.

The Growth Accelerator support focuses on the delivery of c.£60m of public sector enabling spend, which in turn will create the right conditions to unlock over £1Bn of private sector investment, alongside meeting the strategic priorities of the Council to deliver city-centre improvements and inclusive economic growth. During 2016/17, work started on demolishing the site to create a new destination, incorporating 750,000 sq. ft. of retail space, a five-star hotel and up to 250 private residential apartments, due for completion by 2021.

The GA investment supports public sector enabling investments: -

- public-realm improvements;
- major highway improvements and traffic management proposals; and
- a new energy centre, as well as replacing and upgrading essential utility services.

Market Failure & Commercial Relationships

SJQ GA responded to an inability within the investment market to finance the necessary public sector infrastructure, despite a recognition of the strong demand within Edinburgh for a mixed-use development. This had resulted in the proposal stalling since initial investigations in 2008. The proposal and supporting business case was developed by CEC to support bringing the project forward. This was based upon significant impacts to the local, regional and national economy should the private sector investment be unlocked. The strength of these outcomes and the level of private sector investment that could be leveraged formed the basis of the GA investment. CEC working in partnership with the private sector has been key to delivering the project: this work ranges from agreeing appropriate documentation to understanding and managing risk and enshrining value for money in the proposals.

Impact & Outcome Measures

GA seeks to identify the widest impacts from investments, using good practice methods of identifying those impacts. Alongside the significant private sector leverage, SJQ was assessed to create approximately 2,500 full-time long-term jobs and £32 million of gross value added per annum, as well as short-term construction jobs. In addition, benefits to the public purse included council tax, stamp duty and landfill taxes. Based upon these outcomes, SG agreed to provide revenue grant funding to CEC in relation to the enabling investments. Release of the revenue grant over 25 years is based upon a number of broad areas, and achieving these, reflecting the anticipated growth: -

- Increases in rateable value within the development;
- Increases in rateable value in the wider Edinburgh economy beyond historic performance; and
- Job and training outcomes within identified areas of deprivation in Edinburgh, identified through the Scottish Government's Index of Multiple Deprivation.

Ultimately, SJQ is a key infrastructure development within a prime city centre location. Despite the strength of the Edinburgh economy, a number of barriers to development were identified. GA was

able to respond to these barriers while ensuring risk was shared by the public and private sector. It is seen to be a positive model for public-private partnership, demonstrating the potential to leverage significant outcomes for the Scottish economy, whilst recognising a need to invest based upon targeting growth and positive outcomes.

6.0 Contacts

This guidance is not exhaustive. Any enquiries or clarifications should be directed to Neil Rutherford neil.rutherford@scottishfuturestrust.org.uk or Lynne Ward lynne.ward@scottishfuturestrust.org.uk in the first instance.

Appendix A: Business Case Guidance

1.0 Introduction

2.0 Background

3.0 Purpose

This section sets out the purpose of the proposed project. This should include details of:

- Key sponsors
- The vision, aims and objectives of the GA.

4.0 Strategic Context of the Scheme

This section should detail how the proposed GA projects relate to the following:

- The overarching vision, strategic objectives and priorities of the local authority;
- Policy context;
- The case for change;
- The ability to deliver economic growth;
- The identity of key stakeholders: e.g. the wider public sector, land owners and partners and their likely roles and resources;
- The scope of the GA project e.g. an outline of the proposed project including the area(s) of impact, the infrastructure need and early priorities and expected outcomes (across a series of key identified measures (e.g. rateable value growth, jobs, training, tourism spend, private sector investment, as appropriate, etc) relating to the vision and strategic objectives of the authority);
- Details of the types of space, activities and development likely to be enabled by sector and / or industry;
- Detail the basis for and the need for the GA;
- Details of any options appraisal underpinning the basis of the GA e.g. location, area / sector of focus, etc. and the rationale for proposed interventions

5.0 Proposed Enabling Infrastructure

Details should include:

- The overall infrastructure basis of the GA;
- A high level description of the proposed infrastructure package and why this enables further economic growth and activity;
- Costings (including risk allowances and optimism bias) for infrastructure and details of any supporting advice, work or consideration to date;
- Proposed programme (referring to wider development and prioritised programme);
- Other sources of finance and related certainty, particularly if private sector funding is utilised; and
- Any existing / other available sources of funding and finance, both public and private e.g. s75 contributions, existing budgets, efficiencies, lottery funding, European funding, wider public sector budgets, etc, with an aim of identifying the funding gap for the infrastructure elements identified.

6.0 Economic & Fiscal Analysis

Underpinning the GA, supporting economic and fiscal analysis should be provided which captures the impacts, outcomes, impact on the public purse and potential revenue generation of the GA. Appendix B should be referred to for further detail. Any economic and fiscal assessment should incorporate:

- An assessment of the economic impact and other benefits / outcomes produced by the proposed GA;
- An assessment of the counterfactual i.e. what would have happened if the GA did not occur;
- An evaluation of economic factors such as anticipated displacement, deadweight and leakage at a national level;
- An assessment of the fiscal impacts e.g. public sector income streams, such as Council Tax, Non Domestic Rates (NDR), Income Tax and VAT, which are generated as a result of investments; alongside impacts on existing public sector expenditure such as national welfare spend or local authority social spend.
- The additionality offered by the GA and how these fit with the strategic objectives of the key parties, including Scottish Government; and
- Identification of the how the likely outcomes correspond to revenues and cash inflows / outflows for the key GA parties.

In terms of developing the economic and fiscal case underpinning the GA, these may draw upon the following:

- Existing economic analyses undertaken in support of the GA, key assets or strands of the proposal;
- Commissioning an impact assessment based upon the circumstances of the specific GA;
- Utilising interviews with and submissions from key stakeholders, local organisations / bodies affected by the GA and other relevant parties;
- Applying recognised best practice methodologies, and comparison against the existing evidence base (e.g. SG multipliers, BIS additionality guidance); and
- View of an objective economist with a recognised track-record of economic assessment for public bodies.

7.0 Financial Analysis

Financial analysis of the GA proposals should be undertaken through modelling the project initially over a 25-year period. This analysis and its outputs should consider:

- The use of funds linked to the GA infrastructure investment plan;
- Forecast future incomes and the recipient of these. The narrative should also detail the likelihood of capturing such sums under GA;
- Sources of funding e.g. EU funding, s75 contributions, other existing forms of funding (both public and private), prudential borrowing, including deliverable draw-down / repayment assumptions and a funding cost buffer;
- Profiling of costs and revenues;
- Cost Benefit Analysis
- Key assumptions (e.g. cost and source of any funding, inflation) and ratios (where applicable) utilised in the modelling;
- Fiscal modelling, i.e. how, if applicable, would the public sector share in the value creation / outcomes of the private sector development;
- Details in relation to the sharing of enhanced outcomes (i.e. greater upside than forecast e.g. increased property values from initial infrastructure investment and overage provisions), proposed mechanisms and who would benefit (i.e. SG, the Local Authority, Developers, etc); and
- Sensitivity analysis considering key variables: delay, interest rate movements, inflation rate movements, displacement range, increased construction costs, yield/void rates, etc.

8.0 Risk

Consideration of risk: including risk identification, allocation and management. Such elements may include:

Key viability risk considerations including:

- LA vires (including asset ownership issues and access to funding);
- Procurement approach and strategy; and
- State aid (the Local Authority is invited to seek advice directly from the Scottish Government's State Aids Unit, including SFT in any meetings or written advice);

Key delivery risk considerations including:

- Linking infrastructure to development; and
- Partner(s) activity.

Project risks e.g.:

- Cost over runs;
- Delays in starting / finishing construction;
- Outcomes not seen as forecast;
- Incomes and revenues not received as forecast; and
- Changes in economic environment.

The Business Case should include a description of the opportunities for transferring risk from the public sector to the private sector (and the likely pricing of that risk, if applicable).

9.0 SG Payment Mechanism

A number of income streams will be enabled by the GA. This includes receipts and income for SG. The local authority, based upon the elements outlined above, should propose the underlying payment mechanism related to any Scottish Government outcome based payment (on a grant basis). This work (which SFT will support), and essentially the SG payment mechanism, captures the 'ask' of SG in financial terms. This should detail:

- The key outputs associated with the GA (in numerical terms);
- An assessment of the importance of each output and identify those which will trigger payment from SG. Section 2.2 of the main guidance identifies some measures used to date, however these should reflect the specific interventions being proposed;
- Identify which elements are for the account of the Scottish Government, and what level of grant overall is being requested by the local authority. This should be considered alongside the economic outturn of the GA;
- Allocate, if applicable, a proposed sharing mechanism for the SG sums in relation to the key outcomes i.e. how any overall payment is tied to individual measures; and
- Propose a ratchet mechanism for underperformance associated with any forecast outcome.

Prior to and following the submission of the business case, the local authority, Scottish Government and SFT will consider the basis of the SG payment mechanism and agree the basis of this for recommendation to Scottish Ministers. Scottish Ministers will have responsibility for approving this.

10.0 Delivery

This section should consider:

- Delivery structure /options
- Procurement and how Value for Money will be delivered / assessed
- The delivery section should also consider:
 - How will the GA be monitored and managed at the project delivery level e.g. details of likely KPIs, reporting regime;
 - Resourcing at different levels e.g. local authority, overall delivery and any, if required, additional vehicles;
 - Internal / external resources available, and their suitability, for the delivery / management of the GA;
 - How both the public and private sectors are incentivised, and details of any underlying payment mechanisms, key payment milestones, etc; and
 - Details of the local authority team.

11.0 Governance

A robust project governance and reporting structure will need to be established to ensure quality assurance, transparency and clear decision making. As part of this governance structure a standard approach has been adopted from the TIF initiative which will see an Executive established to perform

a monitoring and evaluation role of the project. The Executive will include one representative from the Local Authority, the Scottish Government and SFT and will meet no less than quarterly unless otherwise agreed. The Executive will:

- Review and monitor the progress of the GA Project and provide advice and guidance where necessary;
- Review and consider the output of any reporting regime; and
- Consider the scope of any changes or amendments to the GA project and/ or the Business Case, and make any recommendation to Scottish Government.

12.0 Next Steps

Should include a discussion of key programme dates and milestones: -

- Critical next steps towards delivery;
- The strategy for taking forward the project and responsibility for doing so;
- Items to be agreed which will be documented in the written GA Agreement to be executed by the Local Authority and the Scottish Government. N.B. this written agreement will take the form of a letter to be signed by both the Local Authority and the Scottish Government and will cover the following key items:
 - Key Dates
 - GA Area
 - GA Assets and costs
 - The SG Payment Mechanism
 - Compliance
 - Governance
 - Roles & Responsibilities
 - Reporting Requirements
 - Amendments/ Business Case Revisions.

13.0 Conclusion

Summary of the case

14.0 Annexes

Detailed analysis and assumptions to support the case should be inserted / attached. This should include, but not be limited to:

- The outturn of any options appraisals in support of decisions, including demand appraisal as appropriate;
- The Financial Model Outputs/ Summary Sheet;
- Any Economic Impact Assessment;
- Details of stakeholder Surveys used; and
- Map of the proposed GA area.

Appendix B: Modelling

1.0 Growth Accelerator Development

The following guidance has been prepared to assist in project modelling preparation for inclusion within the Growth Accelerator (GA) business case proposal i.e. within the financial and economic & fiscal case. Appendix A provides an outline of the areas for inclusion within the business case.

Learning to date has identified outcome data that is invaluable in understanding the 'ask' of Scottish Government and the impact of the enabling assets being developed. This supplementary guidance therefore highlights outcome data that should be submitted within a GA business case. It also indicates where further detailed guidance can be found, along with data sources to develop an understanding of impacts. Finally, it highlights principles and methodologies to be considered in preparing required information.

2.0 Economic & Fiscal Modelling

Economic Modelling may include (but not be limited to) the following, as appropriate: -

1. Employment (separating short term construction jobs)
2. Training and any other community benefits
3. SQM of space developed
4. Visitor numbers
5. Visitor spend
6. Reductions in welfare spending
7. GVA
8. Carbon reduction
9. Other social impacts e.g. safeguarding of services etc as a narrative

As appropriate, these impacts should be demonstrated at a local and national level. Timeframe should be clear i.e. annual and over the life of the GA grant payment, as appropriate. Outcomes may be targeted at a specific area e.g. SIMD datazone, in which case this should be identified within the narrative. The aim of the economic and fiscal modelling is to capture the key outputs specific to the 'ask'; and again demonstrate the additionality to the local and national economy.

Fiscal modelling should include: -

- tax-take data from both investments and any leveraged projects identified. Tax take will vary by project and may include: NDR, Council Tax, Income Tax, Corporation Tax (UK and Scotland), VAT (UK and Scotland) and others as appropriate e.g. LBTT. This should also be provided as a cashflow appendix to help track impacts against the project grant payments;
- Any impact on existing public spend e.g. reduction in welfare spend.

3.0 Financial Modelling

Financial Modelling to include: -

1. **Full Cashflow**, both capital and revenue flows e.g. capital outflows; any income from developed assets (whether in capital or revenue terms); repayment of borrowing; and therefore annual grant request. Note GA is a payment-by-results model with grant income paid when pre-agreed measures are achieved. This should be considered when reviewing any cashflow i.e. grant may not be available immediately on completion of assets and therefore meeting borrowing requirements until this period should be factored into your cashflow.
2. **Cost Benefit Ratio Analysis**

In terms of preparing the above financial data, it is suggested that this is based upon any core project, alongside where the wider impacts of the GA will be felt, including levered projects, both direct and indirect/induced; and adjusted to reflect additionality. As such, it seeks to assess the widest impact.

4.0 Methodologies & Principles

4.1 Additionality

Demonstrating additionality is fundamental to understanding the true impact of the GA and should be clearly demonstrated. Gross to net measures should be demonstrated by considering displacement, leakage and deadweight. Workbooks should be provided as an appendix to the business case, that can allow the modelling approach to be followed. All assumptions and sources

need to be listed. Direct, Indirect and Induced outputs should be shown, to demonstrate the breadth of impact. Where leveraged projects can be evidenced, these should also be modelled as a separate sub-grouping.

4.2 Sensitivity Analysis

Key financial and economic outcome variables should be modelled for a high, medium, low range to allow an appraisal of the return to Scottish Government for different uncertainties. For example, tax-take based on a 25%, 50% and 75% occupancy of a commercial development; displacement impact when low, medium, high (as per guidance); or interest rate or cost changes by x%. It is suggested the sensitivities appropriate to the project/s are agreed with SFT in advance and should be provided in a separate table for ease of reference. In summarising the impacts of the interventions, a clear rationale for the chosen base range should be given.

4.3 Tax-Take

Fiscal or tax-take impacts is not a traditional outcome requested within business case appraisal, therefore applicants should note the following principles: -

- **Additionality**, as with all measures, needs to be demonstrated, showing gross and net outcomes.
- The tax-take of UK v SG should reflect current agreements between both governments, including anticipated **implementation and transition periods**.
- Should be based on **local sectoral data** as much as possible i.e. local salaries, allowances and tax rates and within identified sectors.

4.4 General Guidance and Data Sources

Green Book provides the overarching guidance on preparing metrics. Other data guidance is however available, often including ready-reckoners for appraising economic impact of interventions. The key UK and Scottish development agencies guidance documents are: -

- Housing & Communities Agency: Additionality Guide, 2014
- BIS: Evaluating the Impact of Interventions on Business, 2011
- Scottish Enterprise: Additionality & Economic Impact Assessment Guidance, 2008

Sources to support economic and financial modelling are detailed in Table 1 below, however it is recognised that these sources continue to develop, so applicants should always seek to reflect best practice.

Table 1 Measures Preparation - Data Sources²

Measure / Consideration	Data Source/s
Employment Density	Housing & Communities Agency: Employment Densities Guide, 2010 Regional/Local densities preferred where available
Displacement / Leakage / Deadweight	Scottish Enterprise: Additionality & Economic Impact Assessment Guidance, 2008 BIS: Research to Improve the Assessment of Additionality, 2009 Housing & Communities Agency: Additionality Guide, 2014
Multipliers	Scottish Government: Input-Output tables (national only) Previous research/evaluations Economic models Local research where available
Salary & GVA data	ONS: Annual Business Inquiry Scottish Government: Scottish Business Statistics Local Authorities for big three (manufacturing/construction/services) ONS: Labour Market Statistics Scottish Government: Input-Output tables
Visitor Numbers & Spend	ONS: Passenger Survey data (international) VisitScotland: Great Britain Tourism Survey (domestic) & Factsheets

² Reference documents are updated at intervals. Please refer to organisations' main site to access the latest version.

Where data is provided for various years, it should be deflated/inflated as required. Equally data such as GVA & salaries may show large shifts which are better taken as a 5-year average to compensate.

It is acknowledged that while there are established approaches to modelling a number of outcomes, availability of data may impact on the ability to use these approaches. The modelling of all outcomes should therefore demonstrate the methodology through the workbooks and accompanying narrative, with sources referenced.