

Item: 21

Policy and Resources Committee: 22 June 2021.

Islands Deal.

Joint Report by Chief Executive and Executive Director of Development and Infrastructure.

1. Purpose of Report

To consider the resource required to achieve Deal sign-off and associated Programme Management Office requirements for the first three years.

2. Recommendations

The Committee is invited to note:

2.1.

That Heads of Terms for the £100 million Islands Deal were signed in March 2021, containing the approved list of projects to be funded through the Deal.

2.2.

That signing of the Islands Deal, currently anticipated for March 2022, is dependent on each project providing an approved Business Case developed in accordance with Treasury Green Book standards and following the five-case Business Model.

2.3.

That a Programme Management Office will be required to oversee implementation of the Islands Deal, with costs shared amongst the three Island Authorities.

2.4.

That, on 16 February 2021, the Policy and Resources Committee recommended:

- That the balance remaining on the original allocation from the Renewables, Regeneration and Redevelopment Fund, in respect of progressing the Islands Deal, amounting to £166,503, be utilised as follows:
 - To fund the Council's share of the costs of the Programme Director for three years, estimated at a total cost of £90,000.
 - To progress finalisation of the Deal by enabling specialist external support to develop Final Business Cases for each Deal project.
 - To enable any necessary temporary project resource requirements required to manage the transition to the Programme Management Office.

- That, following final definition of the resource requirements of the Programme Management Office, the Chief Executive and the Executive Director of Development and Infrastructure should submit a report, to the next available meeting of the Committee, detailing any necessary additional funding.

2.5.

That, as at 31 May 2021, the remaining balance on the original allocation from the Renewables, Regeneration and Redevelopment Fund had increased from £166,503 to £171,905.

2.6.

That project teams have now submitted their requirements to develop projects to the next stage of the process, as detailed in Appendix 1 to this report, which, together with the Council's share of the Programme Management Office, for a period of three years, which will oversee implementation of the Deal, as required by Government, and ensure that appropriate management and scrutiny processes are incorporated, amounts to £476,926.

It is recommended:

2.7.

That further budgetary provision of £305,021 be allocated to progress the Islands Deal, to be met from the Renewables, Regeneration and Redevelopment Fund, specifically in respect of the following:

- Estimated costs for completing the necessary Outline and Full Business Cases for the Deal projects.
- The Council's share of the Programme Management Office for three years.

3. Progress with the Islands Deal

3.1.

The formal announcement of the £100 million Islands Deal was made by UK and Scottish Governments in July 2020. The per-capital quantum of this Deal is far in excess of that provided to other areas in Scotland and is a clear indication of both the strength of the projects proposed and the significant impact that they are expected to have on both local and national economic strategic objectives.

3.2.

Following this formal announcement, Strategic Outline Cases (SOCs) for each of the projects in the Deal were submitted to both Governments in October 2020.

3.3.

Subsequent to this, Heads of Terms for the Islands Deal were signed by both UK and Scottish Governments and the three Island authorities in March 2021.

3.4.

In accordance with the agreed process, Outline Business Cases are now being developed for the Deal projects, in accordance with Treasury Green Book procedures. Successful conclusion of this process will then result in the signing of the Final Deal, currently expected to be March 2022.

3.5.

In order to ensure that the Outline Business Cases fully meet Treasury requirements specialist external expertise will be required in certain areas, to bring the necessary level of detail and scrutiny to the process.

3.6.

Following completion of the Outline Business Cases and the subsequent signing of the Deal, Full Business Cases will be required for each project in order to unlock the Deal funding and allow the projects to progress.

3.7.

It is a requirement of both Governments that a Programme Management Office is set up to manage the implementation of the Deal, ensure that appropriate reports are provided, that projects realise their stated benefits and that appropriate governance is implemented across the projects. This Programme Management Office will form part of the overall governance structure which will be the subject of a further report to Committee.

4. Islands Deal Resources

4.1.

In September 2018, the Policy and Resources Committee recommended further budgetary provision of £400,383 to progress the Islands Deal, to be met from the Renewables, Regeneration and Redevelopment Fund.

4.2.

On 16 February 2021, the Policy and Resources Committee recommended:

- That the balance remaining on the original allocation from the Renewables, Regeneration and Redevelopment Fund, in respect of progressing the Islands Deal, amounting to £166,503, be utilised as follows:
 - To fund the Council's share of the costs of the Programme Director for three years, estimated at a total cost of £90,000.
 - To support finalisation of the Deal by enabling specialist external support to develop final Business Cases for each Deal project.
 - To enable any necessary temporary project resource requirements required to manage the transition to the Programme Management Office.

- That, following final definition of the resource requirements of the Programme Management Office, the Chief Executive and the Executive Director of Development and Infrastructure should submit a report, to the next available meeting of the Committee, detailing any necessary additional funding.

4.3.

As at 31 May 2021, the balance remaining on the original allocation from the Renewables, Regeneration and Redevelopment Fund, reported to the Policy and Resources Committee on 16 February 2021 as £166,503, has now been assessed as £171,905.

4.4.

Updated estimates have now been received from project leads with regards to the expected costs for completion of the Outline Business Cases. Further work has also been undertaken with regards to determining the likely resource requirements for the Programme Management Office and initial estimates developed for the completion of the Full Business Cases. As the total sum required is in excess of the remaining allocation, in order to avoid a series of requests and associated reports, this report presents the full set of estimated costs, with an associated request for additional funding. This also enables Members to have a clear picture of the full resources required for the Deal over the next three years.

4.5.

The resource required in order to progress the Deal, to ensure that projects are able to draw down funding and to contribute to Orkney's share of the Programme Management Office are detailed in Appendix 1. This demonstrates that a further £305,021 is required until March 2024. Following this it is anticipated that management of the Deal can be done through existing structures and no additional resource will be required.

4.6.

Should this additional funding amounting to £305,021 be approved, the Council's outlay in procuring the Islands Deal, and the significant inward investment which it represents, will be just over £700,000. This is approximately 2% of the total £30 million funding being provided by UK and Scottish Governments to Orkney projects and an even smaller percentage of the total investment provided through the additional match funding which is currently estimated to increase the £100 million Deal funding to a total closer to £335 million over the 10-year period of the Deal.

4.7.

Significant contingency has been built into the estimated requirements, together with informed knowledge of the costs of developing a funding package of this magnitude. It is therefore anticipated that the requested funding represents the best realistic expectations at this time. Notwithstanding unforeseen exceptional circumstances arising, these costs are therefore recommended as a ceiling for the necessary

resource to conclude development of the Islands Deal to the point where Government funding is unlocked, and projects can be implemented.

5. Human Resource Implications

5.1.

At the time of writing, a recruitment exercise is being undertaken for the role of Islands Deal Programme Director. By the time this report is considered a candidate should have been appointed to the role.

5.2.

To support this role and the delivery objectives there may be some part-time, temporary project management resource required, but this is not yet determined and will be subject to review following the appointment of the Programme Director.

6. Links to Council Plan

6.1.

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Enterprising Communities.

6.2.

The proposals in this report relate directly to Priority 4.9 of the Council Delivery Plan, Work in partnership with the two other Islands Councils to finalise the Islands Deal.

7. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priorities of Strong Communities, Living Well and A Vibrant Economy.

8. Financial Implications

8.1.

There is £171,905 remaining from the original allocation provided from the Renewables, Regeneration and Redevelopment Fund. However, it is estimated that the funds necessary to develop Outline and Full Business Cases for each project, and to ensure that Orkney can contribute to its share of the Programme Management Office for the first three years of the Deal stand at £476,926.

8.2.

There is therefore a shortfall of around £305,021 required for the next stages of the Deal.

8.3.

The options for funding additional spending requests outwith the annual budget process are limited, but include:

8.3.1.

The Renewables, Regeneration and Redevelopment Fund which has a fund balance of £10,555,241.67 as at 31 March 2021, with outstanding commitments of £1,780,197.22 and an uncommitted balance of £8,775,044.45.

8.3.2.

The General Fund Contingency Balance which was established at £1,814,000 in 2021/22 could be applied to this project although this would not be the funding route preferred by the Head of Finance as this would limit the funds available to deal with unavoidable or unforeseen events.

8.3.3.

A contribution from the Strategic Reserve Fund would be a further possibility. This would require an accompanying assessment of the impact on the sustainability of the fund.

8.4.

With the Renewables, Regeneration and Redevelopment Fund having a sufficient balance, this fund is currently considered to be the most suitable source of funding for development of the Islands Deal.

8.5.

Long-term resourcing of the Programme Management Office following these first three years will be addressed through the annual budget setting process.

9. Legal Aspects

9.1.

There are no legal implications arising directly from the recommendations of this report.

9.2.

Under Section 50A(4) of the Local Government (Scotland) Act 1973, the public should be excluded from the meeting in respect of any discussion relating to Appendix 1. Appendix 1 contains exempt information as defined in paragraphs 6 and 9 of Part 1 of Schedule 7A of the Act.

10. Contact Officers

John W Mundell, Interim Chief Executive, extension 2101, Email chief.executive@orkney.gov.uk

Gavin Barr, Executive Director of Development and Infrastructure, Email
gavin.barr@orkney.gov.uk

Lorna Richardson, Strategic Policy and Projects Manager, Email
lorna.richardson@orkney.gov.uk

11. Appendix

Appendix 1. Required funding for progress and implementation of the Islands Deal.