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**REPORT TO: SPECIAL MEETING OF MORAY COUNCIL ON 24 JANUARY 2024**

**SUBJECT: MORAY GROWTH DEAL – MANUFACTURING INNOVATION CENTRE FOR MORAY FULL BUSINESS CASE**

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

**1. REASON FOR REPORT**

- 1.1 To inform Council of progress made by the Moray Growth Deal to prepare a full business case for the Manufacturing Innovation Centre for Moray (MICM) project and grant delegated authority to enable final approval of the business case so enabling the project to move into delivery.
- 1.2 This report is submitted to Council in terms of Section (II) (20) of the Council's Scheme of Administration relating to a new policy matter which does not fall within the terms of reference of any Committee.

**2. RECOMMENDATION**

**2.1 It is recommended that the Council:**

- (i) consider and approve the Full Business Case (FBC) summarised in this report and contained in Appendix 1;**
- (ii) delegate authority to the Depute Chief Executive (Economy, Environment and Finance) to make any final changes as required following completion of the Government review process, with a view to agreeing final versions of each FBC to progress to implementation; and**
- (iii) delegate authority to the Depute Chief Executive (Economy, Environment and Finance) or other such signatory as may be required to accept the Government grants for the projects in line with the terms of the Moray Growth Deal**

**3. BACKGROUND**

- 3.1 In November 2021 (para 9 of the minute) Council approved full deal documentation for the Moray Growth Deal that included a full business case

for the Digital Health project and outline business cases for the remaining 7 projects.

- 3.2 Since then the project has been working to prepare it's FBC, with the Council presented with an overview of the status of activity as part of the MGD 2021/22 annual report that was submitted in March (para 13 of the minute) and as an information report in May 2023<sup>2</sup>.
- 3.3 This report summarises and presents the MICM FBC which is a £6.85m project led by Highlands and Islands Enterprise.
- 3.4 The submission of this document to the Council is part of an extensive assurance process that is outlined below.

Project	Pre-submission workshop with the Governments	Project Board approval	MGD Programme Board approval		Other approvals	Moray Economic Partnership
			First approval to trigger Government review	Second review following Government feedback*		
MICM	3 Aug 2023	8 Sep 2023	25 Aug 23	12 Dec 23	31 Oct 23: HIE Board	14 Dec 23

\* Alongside providing approval of the full business case document, this meeting also agreed to delegate authority to the Depute Chief Executive (Economy, Environment and Finance). This involves making any final changes as required following the completion of the Government review process, with a view to agreeing the final version that will enable the project to enter delivery.

- 3.5 Government clearance of the FBC is expected early to mid Quarter 4 2023/24 and this, coupled with approval by the Moray Council on 24<sup>th</sup> January 2024 and the Community Planning Board (following review and approval by MEP, with similar delegated authority to the Senior Responsible Officer (SRO) on 29 February 2024 will enable the project to enter delivery in late Q4 2023/24.

#### **4. CURRENT STATUS OF THE MICM PROJECT FBC**

- 4.1 The Government review process for the business case has commenced and the draft appended to this paper incorporates feedback provided from Policy Advisors. At this stage, it is not expected that further Government review will result in material changes to the FBC but rather changes which are more about added detail or presentation, hence the recommendation seeking delegated authority for final adjustments. Delegated authority is similarly sought to accept grant for the project in line with terms agreed previously.
- 4.2 In advance of the Council meeting, Member briefings have been held on all projects progressing to FBC shortly which gave an opportunity for the respective project teams to provide more detail on proposed activity.

## 5. **OVERVIEW OF MICM FBC v2 (APPENDIX 1)**

### **Summary of the project**

- 5.1 MICM will see the construction of a Manufacturing Innovation Centre at the Forres Enterprise Park and will be delivered through a combination of repurposing existing buildings and new-build construction.
- 5.2 Manufacturing accounts for 19% of jobs in Moray, but 67% of the businesses employ 9 people or less. This, coupled with a low level of R&D spend, has given rise to a need for this sector to be supported to innovate, helping to improve resilience, size and turnover.
- 5.3 In light of this, the facility aims to develop an innovation ecosystem which will help manufacturing businesses in Moray to become world-class.
- 5.4 Capital totalling £5.6 million will be required to deliver the facility, split between multiple partners:

<b>Funding partner</b>	<b>Capital contribution</b>
Highlands and Islands Enterprise (HIE)	£2,557,010
Scottish Government	£610,362
UK Government	£2,441,448
<b>TOTAL</b>	<b>£5,608,820</b>

- 5.5 The project will also be supported by revenue funding of £1.25m from the Scottish Government to support any deficit in the facilities operating costs during the first 10 years.

### **Investment objectives to be achieved**

1	To increase BERD (Business Enterprise, Research and Development) in Moray's indigenous manufacturing companies
2	To increase growth, productivity, and efficiency in Moray's indigenous manufacturing companies
3	To increase the number of manufacturing start-ups in Moray
4	To support the attraction of manufacturing inward investment to Moray
5	To accelerate the transition to net zero in Moray's indigenous manufacturing companies

### **What will this project mean for Moray?**

- 5.6 Services to be delivered by the facility include:
- Supporting product and process innovation projects in businesses
  - Facilitation of networking, peer-to-peer learning, and collaboration
  - Effectively co-ordinating service delivery guiding/steering businesses to the best solution for them and the most suitable providers. This will involve signposting businesses to support from a number of agencies including (but not limited to):
    - o Highlands and Islands Enterprise
    - o University of Highlands and Islands (MAATIC and BE Hub projects)
    - o National Manufacturing Institute Scotland (NMIS)

- Scottish Manufacturing Advisory Service (SMAS)
  - Interface
  - Links to other innovation centres
  - Business Energy Scotland
- Playing an active role in cluster management (advanced manufacturing, multi-sector)
  - Developing a detailed assessment and baseline of productivity and net zero performance, needs and opportunities for each manufacturing business

### Overview of options considered and the preferred approach

5.7 Three options were considered for the project, with the first discounted due to the need to support growth within the innovation landscape of Moray manufacturing businesses.

Option	Description
1	<b>Do nothing, business as usual:</b> No Growth Deal funding to be used, current way of working continues.
2	<b>Do the minimum:</b> Phase 1 MICM hub (in refurbished premises) and Phase 2 grow on space (mix of refurbished premises and new build),
3	<b>Do the maximum:</b> Phase 1 MICM Hub (in new premises) and new Phase 2 grow on space

5.8 Focusing on options 2 and 3, an appraisal of the expected benefits each would deliver was carried out:

Ref	Indicator	Option 2 MICM re-using Unit 9/and Unit 10/new grow-on space	Option 3 Full new build of MICM and grow-on space
A	Present Value(2023/24) of GVA benefits and carbon disbenefits £m	£40,144,579	£39,947,076
B	Present Value (2023/24) Net Additional Capital and Revenue Costs (£m) (over and above Option1, and adjusted for Optimism Bias)	£6,234,244	£12,385,869
C	Net Present Social Value (£m) [A-B]	£33,910,335	£27,561,207
D	Benefit Cost Ratio [(A / B]	6.4	3.2
E	Switching Value Benefits (% reduction in PV of benefits for BCR to be less than 1)	-84%	-69%
F	Switching Value Costs (% increase in PV Costs required for BCR to be less than 1)	643.9%	322.5%

- 5.9 Option 2 was identified as the preferred option. It delivers the same level of benefits more cheaply, faster, repurposes existing buildings and in doing so consumes less embodied carbon in the construction process.
- 5.10 While GVA analysis forms an essential part of the economic appraisal, it is worth highlighting that in employment terms (excluding construction effects). By year 10 Option 2 is expected to generate over 600 net additional job years of employment at the Moray level (over 700 job years at the Highlands and Islands level, over 800 job years at the Scottish level and over 600 job years at the UK level). By year 15 this is forecast to have grown to almost 700 net additional job years for Moray (more than 800 job years at the Highlands and Islands level, almost 1000 job years at the Scottish level and over 700 job years at the UK level).

**Key headlines from the business case**

- 5.11 The project has modelled the cost benefit cost ratio over 10, 15 and 25 year horizon, all of which are expected to generate strong outcomes for Moray

	Time horizon for economic analysis		
	10 years	15 years	25 years
Benefit cost ratio	4.5	6.4	9
Net additional benefit for Moray economy	£27.4m	£40.1m	£57.7m

- 5.12 The service offering is expected to be operational in autumn 2024, with work on development of the grow on space expected to start in 2026.
- 5.13 As the project prepares to enter delivery, the key risk relates to lower than expected revenue generation. In the event that the facility expects to exceed the £1.25m in revenue funding being provided by the Scottish Government, HIE will seek to ensure the viability of the facility by:
- Analysing facility performance data and refining the operating model
  - Securing additional revenue to support the facility

**6. SUMMARY OF IMPLICATIONS**

**(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

The MGD projects contribute to the Corporate Plan priority of promoting economic development and growth, whilst meeting the LOIP vision of raising aspirations, reducing inequalities in educational attainment, providing access to employment, expanding choices for residents, and improving livelihood and well-being.

**(b) Policy and Legal**

Each MGD project has been developed to meet local, regional and national policy agendas in line with legal requirements where relevant.

**(c) Financial implications**

This project is funded through the Growth Deal and led by a partner external to the Council – Highlands and Islands Enterprise.

**(d) Risk Implications**

The risks associated with these projects are captured in the FBCs and there are robust risk management processes embedded within both project and programme governance arrangements.

**(e) Staffing Implications**

No direct staffing implications beyond existing support for MGD.

**(f) Property**

Approval of these FBCs will see a range of properties constructed:

Partner	Facility to be constructed
HIE	MICM facility at the Forres Enterprise Park.

**(g) Equalities/Socio Economic Impact**

Equalities and socio impact assessments have been considered as each project has worked to develop their FBCs. Each FBC document contains an appendix that outlines further information on equalities / socio economic impact. Further information can be found in appendix 9 of the MICM FBC.

**(h) Climate Change and Biodiversity Impacts**

As part of their review process with the Governments, Growth Deal projects need to take account of carbon and environmental considerations, with net zero aspirations being integrated into design briefs for new properties.

**(i) Consultations**

The full business case that this report seeks approval for have been subjected to significant consultation, as highlighted in section 3.4.

Consultation has taken place with the Depute Chief Executive (Economy, Environment and Finance), the Head of Economic Growth and Development, the Head Governance, Strategy and Performance, the Equal Opportunities Officer, the Chief Financial Officer and Democratic Services Manager have been consulted and comments received have been incorporated into the report.

**7. CONCLUSION**

**7.1 This paper introduces a nearly final draft of the MICM FBC. The Council is asked to consider and approve this which, in conjunction with receiving Government clearance, will enable it to enter delivery.**

**7.2 Whilst the FBC presented has already been the subject of significant review, the Council is asked to delegate authority for the Depute Chief Executive and Moray Growth Deal Senior Responsible Officer to approval final iterations following comments from the Governments.**

**7.3 The Council is also asked to delegate authority to the Depute Chief Executive (Economy, Environment and Finance) or other such signatory as may be required to accept the Government grants for the projects in line with the terms of the Moray Growth Deal.**

Author of Report: Michael Kelly, Moray Growth Deal Programme Manager

Background Papers:

[Full Deal documentation \(December 2021\)](#)

Moray Growth Deal 21/22 annual report [8 March 2023](#) and [24 May 2023](#)