



Midlothian Council

# Outline Business Case

<b>Project Name</b>	Dalkeith Town Centre Regeneration		
<b>Sponsoring Service</b>	Place Directorate		
<b>Senior Responsible Officer</b>	Fiona Clandillon		
<b>Gateway Review by Programme Board</b>	Outline Business Case agreed	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
	Project scope modified – further options?	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
	Pilot exercise to test assumptions	Yes <input type="checkbox"/>	No <input type="checkbox"/>
	Postpone or abandon	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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*(F9 key will update contents after completion of document)*

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An Outline Business Case (OBC) is a very brief preliminary document designed to introduce the project concept and identify key issues at the earliest stages of project development. It helps to assess whether it is worth committing resources to developing a more detailed Full Business Case.

1. Project Overview
Briefly describe the basic project concept.
<p>The Dalkeith Town Centre Regeneration proposal that forms the basis of this Outline Business Case is based on the implementation of the initial phases of the Regeneration Development Framework and the incorporation of the refurbishment of Midlothian House into these proposals (<i>see section 4.7 and 4.8 of Development Framework for reference</i>).</p> <p>This follows on from the successful delivery of the deep retrofit of 36-38 Buccleuch Street to create four affordable homes and fit for purpose commercial units adjacent to Midlothian House, along with the development of six new affordable homes built to a passivhaus standard to the rear of these buildings.</p> <p>This development sets the bar for the continued regeneration of the town centre in terms of quality and sustainability and is a catalyst for the next phases of this project. These comprise:</p> <p><b>Phase 1</b> - Refurbishment of Midlothian House to address failure of building's external cladding, replacing the building's external envelope, while using this opportunity to significantly improve the building's thermal performance. Opportunities for creating suitable ground floor space in order to accommodate public services that require to be decanted from the town centre at a later stage to facilitate its development, will also be explored.</p> <p><b>Phase 1 a &amp; b</b> - Progressing plans to pedestrianise of a section of Dalkeith High Street and deliver an improved pedestrian link within a quality public realm from Buccleuch Street to Croft Street, as per the development framework, with longer term intention to connect directly to King's Park.</p> <p><b>Phase 2 – Subject to confirmation of delivery strategy that is affordable to Midlothian Council</b>, the redevelopment of the Eskdail Street site including Buccleuch House, Dalkeith Library and Arts Centre is taken forward. It is anticipated that the library and arts centre will be decanted into a new ground floor space at Midlothian House on a temporary basis. Current third sector organisations and the Family &amp; Child centre will also require decanting, which the refurbished Midlothian House will assist in.</p> <p><b>Phase 3 – Subject to confirmation of delivery strategy that is affordable to Midlothian Council</b> the redevelopment of Eskdail Court is taken forward. Taking phases 2 and 3 forward will allow for the creation of a new pedestrian street through the town centre, linking to Midlothian House, and the creation of a permanent home for the library and arts centre.</p> <p>These initial phases will create momentum within the town centre regeneration project and begin its transformation. They will also create the necessary commercial space to facilitate decanting of existing commercial spaces from later phases, such as Jarnac Court.</p> <p>In total Phases 1 to 3 will create:</p> <ul style="list-style-type: none"> <li>• 62 homes (2 Bed / 3 Bed Flats)</li> <li>• 1,223m<sup>2</sup> Commercial/community space</li> <li>• 621m<sup>2</sup> MLC Community Space</li> </ul>

Those later phases, including the redevelopment of Jarnac Court, Soutra Point and One Dalkeith will be brought forward when it is deemed affordable to do so.

## 2. Business Aims, Needs, Objectives & Constraints

Provide an overview of the sponsoring organisation and explain how the project is strategically placed to contribute to the delivery of organisational goals within the Single Midlothian Plan and the Local Development Plan (LDP).

As addressed within the Development Framework, the proposals are compatible with the current adopted **Midlothian Local Plan 2017** and the document is to comprise non-statutory planning guidance that will comprise a material consideration when assessing planning applications in the town centre in future.

The **Single Midlothian Plan 2023-27** is the shared plan for the public, voluntary and private sector and local communities. Of its seven goals, the following have a strong strategic fit with the project:

- Midlothian will be healthier: A Shaping Places for Wellbeing appraisal of the Development Framework has been undertaken, highlighting the beneficial elements of the plans that relate to health and wellbeing, including active travel proposals.
- Midlothian will be safer: the Development Framework will help people feel safer in the town centre by increasing housing density and improving passive surveillance. It will also reduce the amount of temporary accommodation in the town centre, which can contribute to incidences of anti-social behaviour.
- Midlothian will be greener: the Development Framework will connect the town centre into existing parks better, while also bringing more and better green space into the town centre itself. In addition, the new buildings will be far more energy efficient than those they are replacing.
- Midlothian will have a wellbeing economy and be better connected: Central to the proposals are better active travel and public transport accessibility to the town centre, but also integration of 20 minute neighbourhood proposals to improve accessibility of local neighbourhoods.
- Midlothian will work towards reducing poverty: The proposals for the town centre will include a significant amount of affordable housing, the provision of which is critical to poverty reduction.

Midlothian Council recently approved its **Transformation Blueprint**, which comprises the Council's new 5 year strategy. There are three main aims contextualised by a projected 13.8% population growth by 2028 and the requirement to think differently about the services we deliver and how we deliver them that this gives rise to:

- Individuals and communities have improved health and learning outcomes
- No child or household live in poverty
- Significant progress is made towards net zero carbon emissions by 2030

Our Transformation objectives are:

- Support the Council to address the 5 year funding gap of £29.121 million outlined in the Medium Term Financial Strategy
- Follow the Money to ensure that the services we commission, contracts we manage and digital solutions we use deliver value for money.
- Develop an organisational workforce that is flexible ensuring that all staff have the necessary skills to work effectively supported by digital technologies that fit for a 21st century workforce
- Design a workplace fit for the future delivering services in a holistic and integrated way as well as utilising our assets to maximise their potential.
- Drive forward multi-agency transformation to deliver systems-level change resulting in integrated service delivery which improve community outcomes

To achieve this, a number of sprints are commencing in 2023. Those of most relevance to the strategic case for this project are:

**Theme 2: 21st Century Workforce** Developing roles which move away from silo-based working to the delivery of joined-up services in our 'One Stop Shop' hubs, implementing hubs that provide integrated services at a local level within the existing financial envelope.

There are a number of critical, customer facing Council services delivered within Dalkeith Library, Fairfield House and Midlothian House. The refurbishment of Midlothian House and the development of the Library & Art Centre provides an opportunity to implement a one stop shop Hub approach within the town centre.

**Theme 3: Workplaces for the Future**. This focuses on Estates and Assets and has three main sprints which includes the Hub and Spoke model, Estate Rationalisation and Just Transition to Net Zero, and considers how we best make use of our assets with a reduced and more affordable footprint.

The requirement to make more effective use of Council assets within a smaller footprint, while delivering a more joined up, locally focused service experience for our communities has shaped this project. It is currently proposed to retrofit Midlothian House and decant third sector and other public sector services to utilise space within Midlothian House.

The Dalkeith Regeneration Development Framework is appended to this OBC. This document sets out a vision and strategy for the delivery of a vibrant and attractive town centre that is lived in and loved. The Framework aims to improve connections to surrounding neighbourhoods and communities, create high quality, green public spaces within the heart of town and created spaces in which a wide range of shops and services can be provided so all ages can spend time in Dalkeith here easily and confidently.

The seven key principles for the town centre are:

- Connected
- Accessible
- Attractive
- Healthy
- Diverse
- Lived in
- Sustainable

These are closely aligned to the Council's organisational goals.

Explain how the project supports the existing policies and strategies of the organisation and will assist in achieving the business goals, strategic aims and business plans of the organisation.

The project aligns with the following policies and strategies of Midlothian Council:

- Focus on delivering affordable housing and prioritisation of active travel and public transport articulated in the Local Housing Strategy, Local Transport Strategy and emerging Active Travel Strategy.
- Support Midlothian Council's Economic Strategy through re-imagining Dalkeith Town Centre and creating commercial, civic and cultural space that will support a vibrant local economy, with potential for community wealth building projects to be integrated into project, as well as direct creation of jobs through initial capital investment.
- Delivery of low carbon energy solutions within the development will create jobs in emerging green sector with opportunities to explore low carbon heating solutions with Midlothian Energy Ltd, assisting in delivering Midlothian's climate change strategy.
- The Vision and principles of the Development Framework align with the Scottish Government's Housing to 2040, the Place Principle and the 20 minute neighbourhood concept, which are now embedded in the National Planning Framework 4 as Scottish planning policy.

The Strategic Infrastructure Investment Framework (SIIF), sets out the key principles for decision making around capital investment in Midlothian at a time of financial constraint and is utilised in the option appraisal section of the OBC. These key principles are aligned to the Single Midlothian Place and the Transformation Blueprint. These are below:

## Key principles to be embedded into future decision making

These include recommendations that all future investment decisions should be:



1. **Place based:** Designed around the end user in a way that responds to the local spatial context, and developed in line with the Scottish Futures Trust *Process for improved Place-based decision making*, making use of available toolkits such as the Place Standards Tool



2. **Evidence based:** Developed through an evidence-based theory of change approach, based on a clearly defined set of objectives and performance metrics, utilising a detailed understanding of market demand



3. **Joined up:** Developed in partnership between all of the relevant Council personnel, private and third sector stakeholder organisations and neighbouring authorities, with clear lines of communication and robust data platforms for sharing information



4. **Community led:** Giving community members an opportunity to comment upon and influence decisions that affect them in every stage of the project development process



5. **Context specific:** Accounting for both the unique attributes of Midlothian's economy, labour market, population and geography and those of each individual community within it



6. **Strategically aligned:** Developed in a way that is consistent with and contributes towards the Single Midlothian Plan and Midlothian Local Development Plan, National Planning Framework Four, Scotland's Strategy for Economic Transformation and the Levelling Up White Paper



7. **Adaptive to change:** Developed in a way that factors in the changes to the delivery landscape caused by Covid-19, record level of construction cost inflation, Brexit and local authority austerity; and in a way that can adapt to any external shocks that may arise in future



8. **Environmentally sustainable:** With the carbon impacts of each project option fully understood, monetised and incorporated into the benefit-cost ratio calculation



9. **Socially beneficial:** With the benefits to society of each option fully understood including the scope of each option to tackle inequalities in the area



10. **Affordable:** With a clear understanding both of the capital outlay and how this will be met, and the long term revenue and cost projects, and how financial sustainability can be assumed, including a sensitivity analysis to understand the implications of any future inflation or over-spend

Establish a compelling case for change based on business needs, e.g. demand for services, deficiencies in existing provision etc. Where are we now and where do we need to get to?

The case for change is based on the following:

1. **Deterioration of town centre buildings:** Lack of certainty on the future of buildings within the Development Framework area has resulted in ongoing under-investment in buildings either wholly owned or partially owned by Midlothian Council. This has resulted in physical decline in the town centre. This has been exacerbated by the impact of pandemic on working patterns, resulting in the Council no longer requiring Buccleuch House, creating a significant town centre vacancy. Reiach & Hall Architects note in their analysis that residential accommodation has poor amenity and outlook and community spaces lack active frontages and feel detached from the town centre.

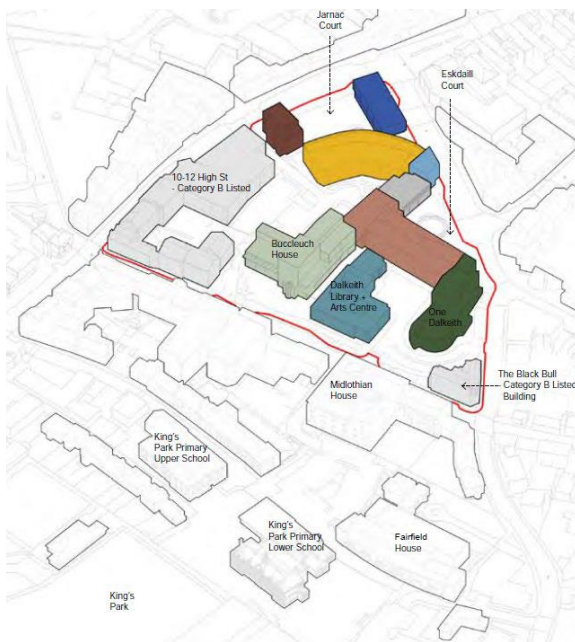


Figure 1: Development Framework Site



Figure 2: Views of Framework Site

2. **Poor quality creating low demand cycle:** This poor environment is creating a negative cycle, as it attracts vacancies, which exacerbates problems with the town centre environment. The Ryden Property Report (appended) highlights that Dalkeith has just 14 vacant commercial properties in the town centre (2%) however, 12 of these are all located within the boundary of what we have termed the 'town centre site', i.e., around Eskdaill and Jarnac Court. A similar pattern can be seen with residential accommodation. Of the 44 homes within the designated site (Figure 1) 24 are owned by Midlothian Council, however these are let for temporary accommodation only, in part due to uncertainty regarding the long term future of the site and also due to low levels of demand for homes within these developments. Home owners that engaged with the stakeholder engagement related their frustration at being stuck in homes they could not afford to maintain or move out of. This negative cycle is evident in the changes in the SIMD indicators between 2016 and 2020.



Existing Site		
Housing (2-Bed Maisonettes)	No of Flats	Approx. Net Area
Eskdail Street	7	630 m <sup>2</sup>
Eskdail Court	19	1615 m <sup>2</sup>
Jarnac Court	18	1260 m <sup>2</sup>
Total	44	3505 m <sup>2</sup>

Jarnac Court Temp Housing	22	876 m <sup>2</sup>
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Figure 3 Changes between SIMD 2016 and 2020 10% most Deprived (now including Development Framework area)

3. **High traffic area:** The streets and routes around the town centre are very busy with car traffic, which limits active travel, and narrow footpaths and unsatisfactory servicing arrangements contribute to issues of safety and environmental health. This is borne out by responses through community engagement on the town centre (see Insights Report, appended). As a result, the town centre is not connected to the high quality green space it is surrounded by or well connected to the neighbourhoods surrounding the town centre, which are also separated by the town's natural geography.





4. **Council Assets:** There is also a desire for Midlothian Council to take a place based approach in the consideration of how it uses its physical assets in the town centre. The requirement to re-clad Midlothian House presents an opportunity to consider how this building can better contribute to the regeneration of the town centre in a way that is compatible with the Transformation Blueprint for Council services.

Resulting from this case for change are the vision and principles set out below, which were generated through extensive consultation with the community.

Vision	Key Principles
<p>Generate a vibrant and attractive town centre that is lived in and loved. Improve connections to surrounding neighbourhoods and communities.</p> <p>Create high quality green public spaces within the heart of the town. Offer a wider range of shops and services so all ages can spend time here easily and confidently.</p>	<p><b>Connected:</b> Develop improved connections between neighbourhoods communities and the town centre using principles of 20 minute neighbourhood</p>
	<p><b>Accessible:</b> Create Dalkeith Town Centre as a hub for active travel and sustainable transport network. Reduce vehicular use and parking in the town centre and encourage people to be less car dependent by creating better, safer connections.</p>
	<p><b>Attractive:</b> Elevate the urban realm, improve the quality of buildings in the town centre and create a focal point for the whole community ad an attractive destination for visitors.</p>
	<p><b>Healthy:</b> Create a town centre that supports the community's wellbeing through improved connections to green spaces and networks in the surrounding areas and introduce and improve green space in the town centre.</p>
	<p><b>Diverse:</b> Introduce a diversity of uses and flexible space in the town centre, Improve the quality of commercial, employment and community space and ensure that existing independent local businesses are maintained.</p>
	<p><b>Lived In:</b> Address specific housing needs and encourage people of different life sages to live in the town centre.</p>
	<p>Adopt the passivhaus standard and incorporate green and blue infrastructure into the town centre to support climate resilience and biodiversity and local ecosystems.</p>

Identify any constraints, e.g. timing issues, legal requirements, professional standards, planning constraints. Any linkages and interdependencies with other programmes and projects should be explained, especially where the proposed project is intended to contribute to shared outcomes across multiple services.

Key project risks and constraints are as follows:

Risk
The development framework site is not wholly in Midlothian Council control, limiting ability to deliver co-ordinated delivery of regeneration and any commercial interest in the proposal
The project is not fully funded and this funding gap will need to be addressed with a combination of commercial partnerships and external funding. Until this is addressed, the development framework cannot be implemented.
Government grant funding will be required to allow this full programme to be delivered.
Low carbon goals are not delivered
Quality of development aspired to not be delivered, limiting the impact of the development on the regeneration of the town centre.

The key interdependencies are:

- Midlothian Council's office rationalisation in Dalkeith Town Centre
- Affordable Housing Supply Programme and need to ensure grant funding is in place for new house building if forming part of that programme.
- Completion and implementation of updated Active Travel Strategy for Midlothian, which includes proposals from the Development Framework.

These programme risks require to be managed through the financial and commercial case for the development in the form of a delivery plan.

### 3. Stakeholder Issues

Identify the key stakeholders and explain their involvement. Indicate their level of commitment to the project as specifically as possible. Describe any consultations held or still required. Are there any outstanding stakeholder issues?

Section 1.6 of the Development Framework sets out the extensive stakeholder and community engagement that has been undertaken for this project, by Nesta / People Powered Results and subsequently by Reiach & Hall Architects.



In Spring 2022, 315 people participated in the first element of consultation which was co-designed by People Powered Results and local residents and representatives of from community groups. This consultation closely reflected the structure of the Place Standard tool, developed by the Scottish Government as a means to engage communities in a dialogue about the kinds of places they wanted to live in. The findings of this process are included in the Insights report appended to this document.

The key themes that emerged were:

1. Desire for pedestrianised Central Square as focal point for cultural events, markets and socialising.
2. More diversity in facilities and businesses in the town centre.
3. Improved connections between green spaces , key transport links and the town centre
4. Refreshed and brightened appearance of the town centre.

These principles were translated into a series of ideas and were consulted on by Reiach & Hall Architects in September 2022. Over 180 responses were received to these proposals. A key preference that emerged from this was community support for the comprehensive redevelopment of the town centre, without the retention of Jarnac Court. This was embedded in the Regeneration Development Framework.

The key stakeholders for the delivery of this project is Midlothian Council itself as the key landowner, as well as a number of third sector organisations that will be able to contribute to its delivery and work in partnership with the Council. Local businesses and residents will require to be engaged, specifically as proposals to purchase properties to unify the ownership of areas for redevelopment progress.

Finally, there will be an ongoing need for engagement and consultation with local residents and representative groups, to ensure their continued support for these proposals, which is critical to their success.

## 4. Management & Implementation

Give a preliminary indication of the proposed project management structure and key personnel. Is any consultancy support likely to be required? Identify accommodation, staff and Trade Union issues. Describe any legal, contractual or procurement issues. Are there any important outstanding management/Implementation considerations?

The implementation of the Development Framework is challenging for Midlothian Council, given the costs associated with it and the fact that the General Services Capital Plan is to be prioritised for development required to meet the Council's statutory obligations. The extent of the latter means that the GSCP cannot be utilised for this project. Alternative sources of funding and delivery structure that could potentially bring need to be explored.

Ryden were instructed to undertake soft market testing with residential developers to assess the level of interest in partnership arrangements. Key take-away points are:

- The site should be fully assembled before commencing any redevelopment to avoid complexities of land being in multiple ownership.
- There is support in the market for comprehensive redevelopment.
- The viability of the site was recognised as being tight, with the likely requirement for further external funding to be sought / secured.
- Dalkeith is a desirable housing location and that the site was suitable for a wide range of affordable housing tenures, including low cost home ownership, with particular opportunities for housing for older people or supported living requirements. It was felt by some that private housing could also form part of the mix of housing.
- All developers were supportive of the proposals and had interest in being further involved.
- A joint venture between the Council and a developer was considered to be the most appropriate delivery model. Getting a developer involved at an early stage was recommended as was having the right people including those with direct experience of similarly complex sites.

The Dalkeith Town Centre delivery strategy is shaped by the anticipated programme for delivery. This proposes the phased delivery of the development, taking forward phases 1 (Midlothian House and public realm / active travel improvements if funded externally) and then phases 2 and 3, subject to an agreed delivery strategy that is affordable to Midlothian Council.

These phases deliver key benefits such as the new pedestrian route through the site, while also concentrating initial development where there is a concentration of Council ownership. This also presents the opportunity to deliver commercial units in advance of redeveloping Jarnac Court, which contains a high concentration of commercial operators, creating space for within the town centre for decanted or displaced businesses.

By taking forward these initial phases, there is an opportunity to create a 'place premium' which will help offset costs of later phases through creation of higher values via an enhanced town centre.

Midlothian Council will retain a master developer role, to ensure benefits are maximised and risks are managed. In particular, there is a need to ensure that the quality environment envisaged in the Development Framework is delivered as well as an affordable housing led development.

However, it is proposed that due to the complexity of the proposal, a joint venture partner is secured to take forward the site's delivery after Phase 1 alongside the Council.

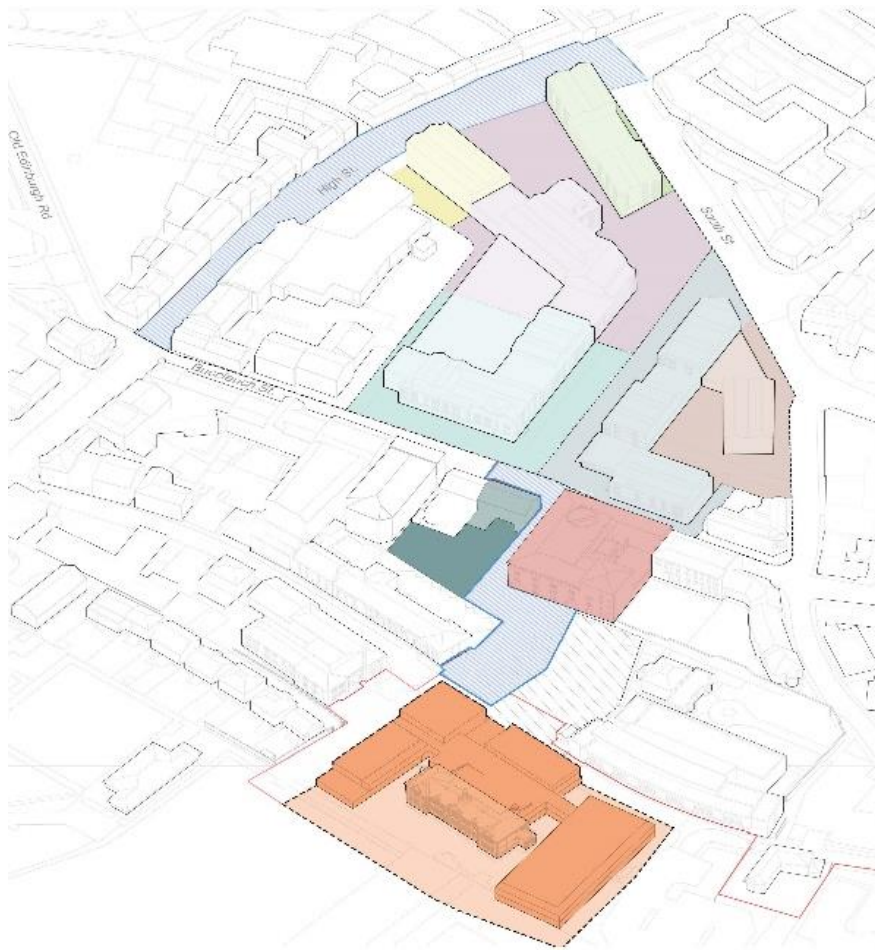
Initially, it is anticipated that this joint venture will be Council led. However, should circumstances change and a private sector led JV presents an opportunity to secure further / additional funding, an alternative structure could be considered for later phases.

A pre-development period is required in order to assemble the site. This may require a Compulsory Purchase Order to be utilised. This period can also be used to procure a joint venture partner.

This pre-development period will also be utilised to deliver the refurbishment of Midlothian House. This will be progressed without the involvement of a joint venture partner.

This can be summarised as follows:

Phase	Year	Project Name	Lead
Phase 0 (achieved)	2023/24 (Y1)	Buccleuch St Passivhaus Development	Midlothian Council
Phase 1 (Mid House)	Y2	Midlothian House refurbishment / decant services to Fairfield House	Midlothian Council
Phase 1 (Public Realm)	Y2	Active Travel interventions	Midlothian Council
Phase 2-3	Y2	Pre-development period: Delivery Plan to be agreed (funding/JV)	Midlothian Council
Phase 2-3 (Dependent on Delivery Plan)	Y3-4	Decant Council services from town centre to Midlothian House	Midlothian Council
Phase 2-3 (Dependent on Delivery Plan)	Y4-6	Delivery of phases with JV partner	Potential JV
Phase 4-5 (Dependent on Delivery Plan)	Y6-10	Delivery of phases with JV partner	Potential JV



- PHASE 1  
Buccleuch St Passivhaus Development.
- PHASE 1A & 1B  
Active Travel Interventions.
- PHASE 1C  
Midlothian House Refurbishment / decant services to Fairfield House.
- PHASE 2  
Redevelopment of the Eskdail Street site including Buccleuch House, Dalkieth Library and Arts Centre.
- PHASE 3  
Redevelopment of Eskdail Court.
- PHASE 4  
Redevelopment of the curved mixed use building on Jarnac Court.
- PHASE 5  
Opportunity for redevelopment of the One Dalkeith site.\*
- PHASE 6  
Opportunity for redevelopment of the Jarnac Court site.\*
- PHASE 7  
Opportunity for redevelopment of the Soutra Point site.\*
- KING'S PARK PRIMARY SCHOOL  
The reconfiguration of this site and the extension to the existing building, creates an opportunity for the new town centre active travel route to extend to King's Park.



In order to deliver a mix of tenures, such as homes for Mid-Market Rent (MMR), Midlothian Council will require an arm's length organisation (ALEO) to let these, as the Council itself cannot offer Private Rental Tenancies, which MMR typically utilises. This issue will be addressed through the development of a Mixed Tenure Strategy currently being prepared for Council decision.

**Governance**

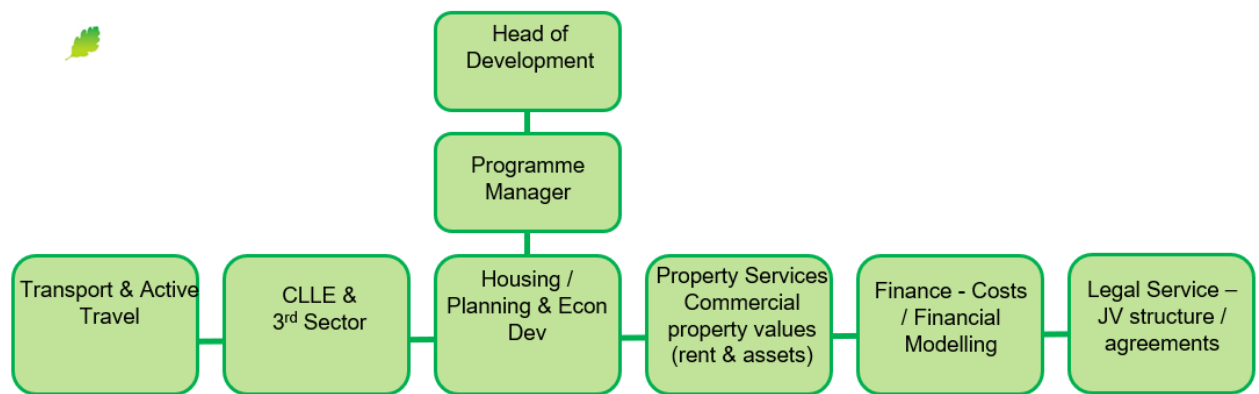
This development will be taken forward by the Development Team, however as highlighted by the Shaping Places for Wellbeing report, the successful implementation of the project will require a collaborative whole Council approach.

From that report *“A clear and visible governance structure will enable the expertise and contributions from all service areas to be drawn on in delivery. The Development Framework aligns with a variety of Midlothian Council and other partner strategies and plans as well as national prioritise and ambitions. In implementation these links can strengthen the delivery as the plan cannot be delivered in isolation. Clear identification of this at the outset of the delivery stage will create greater clarity on where collaborative work will be required to deliver the overall ambitions.”*

The project has had a cross Council Steering Group – this will be retained. It will also require a working group to ensure a consistent approach to collaborative working.

**Resource Requirements**

The likely internal resource requirements in terms of a working group to progress the project is set out below. This will need to be supplemented by external legal and property advice to progress the delivery strategy. If the wider construction project is delivered, a project board will be required.



## 5. Consideration of Options

Provide an initial list of options identified that could meet the objectives and briefly describe their main features (consider variations in scale, quality, technique, location, timing etc).

NB: A preferred option should not be identified before options have been developed and appraised more fully at the Outline Business Case stage.

Detail any planned or agreed dates, milestones, completion dates, required delivery deadlines or other time constraints on the project or the affected business areas.

A full options appraisal will be carried out once further advice on joint venture structures and their financial implications is obtained. This will allow the assessment of the best means to progress Phase 2-3 and its integration into a delivery plan.

## 6. Costs, Benefits & Risks

Provide broad estimates of the capital and revenue costs of the project. If financial savings are anticipated, explain their nature and quantify them broadly. Describe the non-monetary costs that are expected to arise. Set down the spending objectives as specifically as possible at this stage to describe clearly what the organisation is seeking to achieve in terms of targeted outcomes and provide the basis for post project evaluation. So, the key question to answer is **‘why are we undertaking this project?’** in terms of:

- Effectiveness
- Efficiency
- Economy
- Compliance
- Replacement

Doig & Smith were instructed to provide an outline feasibility cost plan to inform the Outline Business Case. Two cost plans were prepared, one for an earlier option that was considered as part of the master planning process that sought the retention of Jarnac Court. The other options was the preferred option that emerged from both the master planning process and internal and public consultation.

The overall cost of the full implementation of the Development Framework was based on the architectural information that was available to them with outline information on landscaping while cost allowances were made for services in connection with the works. An allowance was also made for building to a passivhaus or net zero standard. Prices are at Q1 2023 rating, excluding inflation.

The costs are built up in phases as follows:

Phase	Building Works	Landscaping Works	Total
1 a & b	-	£917,000.00	£917,000.00
2	£13,560,557.00	£1,152,700.00	£14,713,257.00
3	£14,346,776.00	£306,000.00	£14,652,776.00
Phases 1-3 (excl Mid House)			<b>£30,283,033.00</b>
Fees (9%)			£33,008,505.97
Risk (12.5%)			<b>£37,134,569.22</b>
4	£15,425,465.00	£1,131,100.00	£16,556,565.00
5	£4,122,700.00	£264,500.00	£4,387,200.00
6	£7,729,315.00	£1,162,550.00	£8,891,865.00
7	£4,482,320.00	£203,000.00	£4,685,320.00
Total			<b>£64,803,983.00</b>
Fees (9%)			£70,636,341.47
Risks (12.5%)			<b>£79,465,884.15</b>

The cost plan estimates the full implementation of the development framework, subject to the above, is £79,470m.

To deliver Phases 1-3 including fees and risk allowances, but with exclusions as listed above, notably site acquisition costs, the total cost to Midlothian Council is £37,134m.

Notable exclusions from the cost analysis are:

- Asbestos removal
- Primary substations or other significant infrastructure upgrades
- Section 75 costs
- Land acquisition costs / CPO costs
- EV charging points/infrastructure
- Inflation
- VAT

Ryden were instructed to carry out an initial development appraisal to establish the residual site value of the development. This assesses the cost of the development against its end value. Ryden tested this on the basis of a commercial development, with no external funding being provided and incorporating an assumption of 25% affordable homes across all phases. This generates the following site values:

### Residual Site Value by Phase

Indicative Development Appraisals - Ryden August 2023			
Phase	Gross Development Value	Less Gross Development Cost (Including Developer's Profit)	Residual Value
Phase 2	£6,657,450	-£17,871,205	-£11,213,755
Phase 3	£8,114,580	-£18,341,913	-£10,227,333
Phase 4	£8,766,050	-£20,791,520	-£12,025,470
Phase 5	£2,296,500	-£5,544,722	-£3,248,222
Phase 6	£4,385,850	-£11,689,659	-£7,303,809
Phase 7	£2,121,350	-£6,172,235	-£4,050,885
Totals:	£32,341,780	-£80,411,254	-£48,069,474

This exercise demonstrates that this development generates a significant negative value. It is therefore not a commercial / private sector opportunity and will require public sector leadership and funding in order for it to be delivered.

Identify the benefits, both monetary and non-monetary, in relation to the agreed scope and key service requirements for the project. The benefits can be direct (Midlothian Council) and indirect (e.g. Integration Joint Board).

Category	Benefit	Monetary / Non-Monetary
Economic Benefits	Initial capital investment in town centre, supporting jobs	Circa £80m investment (see Section 7) yields (15.4 jobs per £1m) 1224 job-years (i.e. one job for period of one year)
Economic Benefits	Longer term job creation and economic impact of operational jobs created by new / additional commercial space, higher footfall providing wider uplift to town centre economy.	Non-monetary. Yet to be quantified as would need to be additional (i.e. in addition to jobs currently supports in town centre) to arrive at net economic impact.
Economic Benefits	Focus on energy efficient buildings support transition to green economy, as skills / SMEs will work on capital programme.	Non-monetary. Opportunities to link with Community Wealth Building / Community Benefits to ensure economic benefits felt locally and assist wider transition to green economy.
Commercial	There is demand for flexible ground floor units that can accommodate a range of uses including retail, food & drink, office and community uses.	Monetary: Commercial units should be priced on a basis that offers efficiencies in terms of non-domestic rates burdens and reliefs and are therefore attractive to small local

		businesses, as there is a limited market for larger anchor occupiers.
Net Zero	Replacement of dated, costly commercial and housing stock with energy efficient buildings that are fit for purpose.	Monetary / Non-monetary: There is significant affordable housing demand for Dalkeith. The town centre regeneration site offers the opportunity to incorporate not just properties for social rent but other affordable housing models such as mid-market rent and shared low-cost home ownership.
Net Zero	Integration of green/blue infrastructure into town centre to support climate change mitigation / adaptation measures.	Non-monetary: Midlothian Council's Sustainable Transport Team will look to utilise funding opportunities to improve active travel connections to/from the town centre and will look to improve active travel provision where missing links within the town centre exist.
Housing	Creation of new, high quality housing in a mix of tenures that will help meet housing need in Midlothian while creating a diverse and sustainable town centre population, that will further support services.	Monetary: The town centre regeneration proposal enhances the residential provision on the site from 44No 2-bed maisonette flats, to around 136No. Residential units are assumed to be a mix of 2-bed and 3-bed flats.
Council Service Delivery – 20 minute neighbourhoods / One Stop Shop service hubs	Adapt Council service delivery to post-COVID-19, supporting hub and spoke model, which creates accessible customer hubs for essential services and high quality, efficient accommodation for Council employees, working in partnership for place-based solution and creation of sustainable 20 minute neighbourhoods for local communities.	Non-monetary: Supporting implementation of Transformation Blueprint for Midlothian Council. New model for service delivery supported by 21 <sup>st</sup> century workplaces for Midlothian Council and wider multi-agency co-working / colocation. Connecting those experiencing deprivation better to town centre to access services and opportunities it offers through implementation of 20 minute neighbourhood model.
Transport	Create an improved route within the masterplan site to prioritise pedestrians and cyclists, and reduce vehicular use.	Non-monetary: Encourage cafés, restaurants and community spaces to spill out onto the new walk. Create an environment with reduced air and noise pollution and opportunities to connect with nature, with significant health and wellbeing benefits.
Transport	Midlothian Council are currently developing a new parking strategy for the area. There are opportunities to use the existing underutilised parking sites that are a short walk from the town centre.	Monetary/Non-monetary: The proposed reduction of parking within the town centre regeneration site creates an opportunity for the introduction of green space and space for walking and cycling, thereby creating a more attractive environment that will attract higher spend / more visitors to area.

Place Making	The regeneration of the town centre site offers an opportunity to improve and enhance the existing town square and civic spaces to create an energised attractive central core that encourages the local and non-local to visit, increasing opportunities for business, enterprise and social engagement.	Monetary / Non-monetary: Civic spaces are a focus for public generated ideas and initiatives such as food markets, music events, carnivals, art festivals, book fairs and antique fairs. Creating flexible, simple and available public space. Enhance the appearance of external public spaces, introduce more green space and increase access to council facilities and services.		
Identify the main risks – business (political, reputational) service (design, operational, finance) and external (legislation, inflation) risks, in relation to the agreed scope and key service requirements for the project. Identify any potential mitigation measures.				
Project Overview - Risks		Impact	Likelihood	Mitigation
Midlothian House Retrofit & Refurbishment				
Health & Safety	Risk of further falls from masonry from Midlothian House.	5	1	Scaffolding to remain in place until remediation work implemented.
Financial	Adopting more extensive retrofit beyond recladding will be unaffordable to the Council's General Services Capital Plan.	5	3	Benefit to cost of retrofit to be assessed to understand revenue savings alongside carbon savings.
Financial	Adopting more extensive retrofit beyond recladding will be unaffordable to the Council's General Services Capital Plan.	5	3	Property upgrade to reduce carbon impacts allow access to alternative sources of funding such as Salix grant funds.
Financial	Adopting more extensive retrofit beyond recladding will be unaffordable to the Council's General Services Capital Plan.	5	3	Work is being undertaken to review the level of affordability of the General Services Capital Plan and prioritise projects accordingly



Dalkeith Town Centre Regeneration Framework				
Reputational	Failure to deliver development framework after additional community consultation	2	3	
Reputational	Further deterioration of buildings in town centre including library and council housing	3	3	
Financial	Delivering the development framework will be unaffordable to the General Services Capital Plan.	5	1	Close funding gap without recourse to GSCP. Utilise HRA and other sources of grant funding.
Financial	Development Framework is not deliverable due to negative residual valuation.	5	3	Take public sector led approach with development of delivery strategy with commercial partner to assist addressing funding gap.
Financial	Development Framework is not deliverable due to negative residual valuation.	5	3	Take development forward in phases to allow place premium to develop, making later phases more commercially attractive and initial phases more affordable to Midlothian Council.
Delivery	The development framework site is not wholly in Midlothian Council control, limiting ability to deliver co-ordinated delivery of regeneration and any commercial interest in the proposal	3	3	Site assembly will be required as a pre-requisite to allow for coordinated delivery.
Delivery	Low carbon goals are not delivered	3	1	Midlothian Council to be lead developer, setting specification, supported by the

				development framework, for buildings within the town centre.
Delivery	Quality of development aspired to not be delivered, limiting the impact of the development on the regeneration of the town centre.	3	1	Midlothian Council to be lead developer, setting specification, supported by the development framework, for buildings within the town centre.

## 7. Funding & Affordability

Outline the estimated phasing of cash requirements. Identify the expected sources of funding and the degree to which the funders are committed. Indicate the current cash provision for the project (if any) and the additional resources that are likely to be required. State any particular concerns over affordability.

### Costs

Ryden were instructed to carry out an initial development appraisal to establish the residual site value of the development. This assesses the cost of the development against its end value to understand if a development results in a positive value. Ryden tested this on the basis of a commercial development, with no external funding being provided and incorporating an assumption of 25% affordable homes across all phases. This generated the following residual values:

#### *Residual Site Value by Phase*

Indicative Development Appraisals - Ryden August 2023			
Phase	Gross Development Value	Less Gross Development Cost (Including Developer's Profit)	Residual Value
Phase 2	£6,657,450	-£17,871,205	-£11,213,755
Phase 3	£8,114,580	-£18,341,913	-£10,227,333
Phase 4	£8,766,050	-£20,791,520	-£12,025,470
Phase 5	£2,296,500	-£5,544,722	-£3,248,222
Phase 6	£4,385,850	-£11,689,659	-£7,303,809
Phase 7	£2,121,350	-£6,172,235	-£4,050,885
Totals:	£32,341,780	-£80,411,254	-£48,069,474

This exercise demonstrates that this development generates a significant negative residual value if taken forward on a commercial basis. It is therefore not a commercial / private sector opportunity and will require public sector leadership and funding in order for it to be delivered.

Doig & Smith has prepared an indicative cost plan for the proposals contained in the framework. The overall cost of the full implementation of the Development Framework is based on the architectural information available to the consultants them with outline information on landscaping while cost allowances were made for services in connection with the works. An allowance was also made for building to a passivhaus or net zero standard. Prices are at Q1 2023 rating, excluding inflation.

The costs are built up in phases as follows:

#### *Cost by Phase*

Phase	Building Works	Landscaping Works	Total
1 a & b	-	£917,000.00	£917,000.00
2	£13,560,557.00	£1,152,700.00	£14,713,257.00
3	£14,346,776.00	£306,000.00	£14,652,776.00
Phases 1-3 (excl Mid House)			£30,283,033.00
Fees (9%)			£33,008,505.97
Risk (12.5%)			£37,134,569.22
4	£15,425,465.00	£1,131,100.00	£16,556,565.00
5	£4,122,700.00	£264,500.00	£4,387,200.00
6	£7,729,315.00	£1,162,550.00	£8,891,865.00
7	£4,482,320.00	£203,000.00	£4,685,320.00
Total			£64,803,983.00
Fees (9%)			£70,636,341.47
Risks (12.5%)			£79,465,884.15

The cost plan estimates the full implementation of the development framework, subject to the above, is £79,470m. This including fees and risk allowances, but excludes items including service and infrastructure upgrades, Section 75 contributions, inflation and site acquisition costs. These costs also exclude any works to Midlothian House, which did not form part of the cost plan.

Were Midlothian Council to take forward Phases 1 to 3 (excluding any works to Midlothian House), which would allow the completion of the new pedestrian route through the town centre, indicative costs would be circa £30.283m (with exclusions).

#### **Funding**

The affordability of delivering this development at this time for Midlothian Council is challenging.

The utilisation of the General Fund to deliver this development must be ruled out, due to the need to prioritise the funding of development that is fully committed in order to deliver Midlothian Council's statutory obligations in relation to community infrastructure at this time.

However, this development is to be housing led. Therefore, the Housing Revenue Account can be utilised to lead its delivery.

£10m has been set aside for the purpose of town centre regeneration within the HRA that can be applied to this project. In addition, grant funding from the Affordable Housing Supply Programme can also be utilised to meet the costs of the development, where it is delivering social housing and housing or Mid Market Rent.

Based on 62 homes in Phases 2 and 3, and assuming a split (for illustrative purposes) of 30% MMR and 60% social rent housing, Scottish Government grant that can be utilised to offset the costs of this development from the ASHP is circa £5.224m (based on benchmark grant with uplift for balconies and zero emissions heating systems).

However, there are restrictions on the use of the HRA for any development that is not housing. Therefore, to deliver the commercial or non-housing elements of the proposal, alternative sources of funding are required.

The Ryden Property Review (appended to the Development Framework) highlights the opportunity to enter into a joint venture with a commercial partner. There are a number of different options and structures that are available, which will require careful assessment in relation to their suitability for this project in order to finalise the commercial delivery plan for these proposals. It is proposed that this is the next stage of work required, to ascertain how to bridge the remaining funding gap prior to committing to taking forward Phases 2-3 of the framework.

Finally, other sources of funding to be explored are:

- Salix grant
- Levelling Up Fund (Round 3)
- Regeneration Capital Grant Fund
- Place Based Investment Fund
- Developer Contributions (e.g. town centre /public realm)
- Scottish Government Heat for Social Housing

## 8. Assumptions

Document the high-level assumptions that have been made during the development of the business case and any other unanswered questions that may be significant. Refer to the Supplementary Guidance on Optimism Bias and detail the assumptions you have made in constructing the costs and business case.

[Green Book Supplementary Guidance Optimism Bias \(gov.uk webpage\)](#) (under 'Other Guidance and Reference Documents')

(See cost plan for exclusions)

## 9. Support Services Consulted

The minimum **consultation period for Outline Business Cases is 10 working days** unless the Programme Board Chair agrees there are exceptional circumstances that require a shorter turnaround time.

### Note:

- **It is mandatory for Capital projects to consult with the full list below.**
- If any services are not consulted with, this should be indicated in the Comments section, along with the reason why. All comments received should also be noted, or reasons for discounting them.
- At this early stage you should also be considering what impact implementing this proposal will have on employees, service users or other people who share characteristics protected by [The Equality Act 2010](#).

**Note:** There is a copy and paste version of the consultation list below which you can use for circulating your Outline Business Case – [Support Services Consulted Circulation List](#)

Service	Consultee	Comments	Date
Place	Kevin Anderson, Executive Director Place - Kevin.Anderson@midlothian.gov.uk		
Place	Derek Oliver, Chief Officer Place - derek.oliver@midlothian.gov.uk		
Corporate Solutions	Acting Chief Officer Corporate Solutions – Saty Kaur – saty.kaur@midlothian.gov.uk		
Finance	Head of Finance, David Gladwin- David.gladwin@midlothian.gov.uk		
Property Management	Gareth Davis, Property Manager - Gareth.Davies@midlothian.gov.uk		
Legal (Property/ Planning & Environment)	Alan Turpie, Legal Services Manager - Alan.Turpie@midlothian.gov.uk"		
Procurement	Head of Procurement		
Planning	Peter Arnsdorf, Planning Manager - Peter.Arnsdorf@midlothian.gov.uk		

## 10. Decision by Capital Plan and Asset Management Board

### Date

**\*Approved/Not Approved** to prepare a Full Business Case.

\*indicate whether approved, as well as any additional stipulations.

11.Document Revision History			
Version	Reason	By	Date