

## **Edinburgh and South East Scotland City Region Deal Update**

### **Report by Kenneth Lawrie, Chief Executive**

#### **1.0 Purpose of Report**

- 1.1** This report provides an update on the progress towards securing from the UK and Scottish Governments a City Deal for the Edinburgh and South East Scotland region.

#### **2.0 Background**

- 2.1** Members may recall previous reports to Council on 16 December 2014, 24 March 2015 and 12 May 2015. In summary, City Deals are formal arrangements by which Government resources are awarded to a city region to drive economic growth and, through that uplift in the economy, tackle areas of poverty and deprivation within the region. These resources are primarily financial but also include financial freedom and devolved powers. City Deals were initiated by the UK Government in 2011, with around 30 having been created to date. In Scotland, where city deals are provided through both the UK and Scottish Governments, there are currently three in operation, at Glasgow, Aberdeen and Inverness.
- 2.2** Applications for city deal status are lodged by a consortium of local authorities that comprise the region. For Edinburgh and South East Scotland the relevant Councils are City of Edinburgh, East Lothian, Fife, Midlothian, Scottish Borders and West Lothian. Preparatory work on a bid for city deal status was initiated in 2014 overseen by a Council Leaders' Group, supported by the Councils' Chief Executives and relevant staff. Co-ordination is through a project management office based in the Edinburgh City Council offices, and the consortium of Councils has engaged consultancy expertise and support from EY.
- 2.3** Although it is the local authorities that submit the formal application for city deal status, the application needs to demonstrate the integral role of, and engagement with, a broad range of partners including the private sector (most notably business/commerce), the higher and further education sectors, public sector agencies and the cultural sector. Accordingly, substantial activity has taken place to establish that broad base of engagement.
- 2.4** There has been ongoing contact with the UK and Scottish Governments over the past eighteen months and, during that period initial propositions were submitted in September and December 2015, and then in April 2016. On the basis of that most recent submission there has been more detailed negotiation with UK and Scottish Governments' officials. If all of the constituent Councils agree to

continue to work towards securing a city deal for the region it is hoped that it could be secured by the end of this year or in the first quarter of 2017.

### **3.0 The City Region Deal Proposition: Accelerating Growth**

**3.1** The city deal proposition is founded upon an overall vision from which key investment interventions of a specific geographical nature emerge, supported by cross-cutting programmes of a generic nature, and devolved freedom and powers.

**3.2** The Vision seeks to accelerate the rate of investment and economic performance of the region by capitalising on its world class assets through an inclusive and sustainable growth model. By growing the economy in this way there is scope to tackle issues including notable welfare disparities across the region, the lack and mis-match of skills in some employment sectors, poor connectivity in terms of both transport and digital, and the insufficient availability of affordable housing.

**3.3** The **Investment Propositions** fall into four categories:

**3.3.1 Innovation Hubs:** the city region already has strengths in the life sciences, data technologies, low carbon, food and drink, and textiles sectors. The aim is to capitalise on these through significant investment involving the universities to use world-leading research and innovation to develop business incubation and skills development. This approach should also enable leverage in of private sector investment. Identified potential centres for these innovative hubs includes Easter Bush in Midlothian, where the new A701 relief road and A702 spur road will be an essential part of the project.

**3.3.2 Strategic Growth Zones:** where city deal funding could unlock development and accelerate economic growth in areas already identified as strategic development locations.

**3.3.3 Low Carbon Communities:** this is where city deal funding would assist in bringing forward major strategic predominantly housing allocations through provision of infrastructure and substantial levels of affordable housing. Shawfair is identified as one of these low carbon communities.

**3.3.4** Regionally significant transport improvements.

**3.4** The cross-cutting **Supporting Programmes** focus on employability and skills, business growth and productivity, improving digital connectivity, and low carbon investment.

**3.4.1 Employability and Skills:** this programme seeks to deliver a new integrated regional skills system and partnership across public and third sector agencies, education institutes and key industries so as to maximise the quality of the regional labour market.

**3.4.2 Supporting Inclusive Business Growth:** involves measures to support a wider range of businesses and entrepreneurs to innovate, internationalise and invest.

- 3.4.3 Accelerate delivery of **Digital Connectivity**: to enable access to superfast broadband, enhanced mobile and wireless coverage, connecting rural communities and empowering digital learning at primary and secondary schools.
- 3.4.4 **Low carbon investment**: an essential part of any city deal bid is a commitment to the development of a low carbon economy through such measures as creating exemplar new low carbon communities, promoting and supporting research into low carbon technologies, supporting firms in the commercial development of low carbon technologies, and moves to a 'circular' economy where re-circulating of resources can maximise resource productivity.
- 3.5 To address significant issues of concern the proposed **Regional Housing Programme** is a key element of the overall proposition; centred around the following specific interventions.
- 3.5.1 **Housing Infrastructure Fund** to deliver substantial numbers of affordable and market homes at major housing sites, with the funding mainly aimed at infrastructure constraints to development.
- 3.5.2 **Additional Affordable Housing Grant** over a ten year period to fund primarily new social rented accommodation, and giving sufficient certainty to enable leverage of private sector finance for new housing.
- 3.5.3 **Regional Land and Property Commission** would be established with a £50m site acquisition fund; operating as a group of public sector agencies to identify public sector land for the accelerated development of affordable housing.

#### 4.0 Governance and Regional Strategy

- 4.1 The essential elements which need to be part of a city deal bid are a robust and durable governance model, and a regional economic statement/strategy. In terms of governance the current City Region Leaders' Group has put forward the proposal for a Joint Committee of the six Councils with the opportunity to appoint additional members from sectors such as business and higher education. The role of the Joint Committee would be to set strategic direction, to agree investment priorities, to oversee planning and implementation activity, and to monitor and assess level of impact of City Deal interventions. In concert with the work of the Joint Committee the Councils could also review the operation of existing statutory and non-statutory regional bodies responsible for planning, transport, housing and economic development.

#### 5.0 The Midlothian Context

- 5.1 Members may recall that the seminar presentation on 24 May 2016 provided detail on the prospective specific projects in Midlothian and the particular benefits that would accrue to Midlothian from the cross-cutting programmes. Work on those matters is progressing towards the completion of a business case for each project, and this will be

reported separately at a later date. This current report is providing an update on progress in pursuit of a city deal for the region, and recommending governance arrangements.

## **6.0 Report Implications**

### **6.1 Resources**

An assessment of current potential proposals would suggest a level of city deal investment of around £2bn, with the potential to lever in up to £5bn of private and university sector investment. The model under which the city deal funding would be disbursed would need to be the product of negotiation with the UK and Scottish Governments: but it is likely that the model(s) used will inevitably require Councils to borrow to fund the investment projects and, subject to the delivery of the City Deal outcomes, these costs would be reimbursed by UK and Scottish Governments City Deal contributions at a later date. It is also certain that the constituent Councils will be required to provide a direct financial injection to the City Deal; for a £2bn city deal the Midlothian contribution would on a population pro-rata basis be about £12m, but the exact sum would be dependent on the nature and extent of projects in Midlothian. Accordingly, a key issue for each Council is the affordability of its project proposals both in terms of its own capital expenditure (and longer term additional revenue costs), and also in terms of its borrowing capacity. In respect of the Council's financial injection it is proposed that the Capital Fund be utilised for this purpose. At 31 March 2016 the available balance on the Capital Fund is £15.378m. At this time Council is recommended to earmark £12m for City Deal.

Council in May 2015 agreed a supplementary estimate of £60,000 to add to our original budget allocation of £25,000 as its contribution towards meeting the costs of preparing the city deal bid. Currently, it is expected that this funding may need to be further supplemented to cover external costs likely to be incurred for technical support and economic modelling: such additional funding is likely to be modest, but would need appropriate Members' approval.

### **6.2 Risk**

If Midlothian were not to be part of City Deal it would miss the opportunity to benefit from UK and Scottish Government funding, and potentially put it at a disadvantage when compared with neighbouring City Deal authorities. The risk can therefore be eliminated by Midlothian continuing to commit to the City Deal bid. However, in doing so, the Council needs to be mindful of the need to assess the affordability of its contributions to the City Deal, particularly where borrowing is required in advance of City Deal funding reimbursement. This risk can be mitigated by thorough business planning and conservative assumptions on borrowing capacity and payback arrangements.

### **6.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- Community safety
- Adult health, care and housing

- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

#### **6.4 Impact on Performance and Outcomes**

City Deal vision, programmes and projects are directed at achieving outcomes, many of which are common to the whole region.

#### **6.5 Adopting a Preventative Approach**

By growing the economy and tax base of the region through City Deal, it is intended that a consequence will be a lower level of requirement for welfare expenditure arising from improved economic indicators, with knock on benefits in terms of skills development and health outcomes.

#### **6.6 Involving Communities and Other Stakeholders**

In the preparation of the City Deal bid there is ongoing extensive engagement with the business/commerce sector, the further and higher education institutions, and the primary public sector agencies.

#### **6.7 Ensuring Equalities**

As this report is not proposing any new policies or strategies it has not been the subject of an equalities assessment. However, in submitting its bid for City Deal status, the consortium of the six Councils will need to demonstrate the positive impact of its proposals on minority and disadvantaged groups.

#### **6.8 Supporting Sustainable Development**

A central and integral part of the City Deal bid will be the strategy for low carbon development across the region.

#### **6.9 IT Issues**

None.

#### **7.0 Summary**

- 7.1** The six Councils that make up the geographical area of Edinburgh and South East Scotland are preparing a bid for City Deal status, to be submitted to the UK and Scottish Governments. The value of the bid is expected to be around £2bn with the potential to lever in a further £5bn from the private and university sectors. The principal aims of the City Deal are to accelerate growth of the regional economy and to tackle areas of poverty and deprivation. The interventions to achieve this are a series of programmes and projects comprising region-wide themes of skills development, digital, housing and low carbon; as well as project specific infrastructure works within each Council area. Final agreement on those projects is a matter for consideration at a later date. Negotiations with the two Governments have commenced, although a formal City Deal is only likely to be signed by the end of this calendar year at the earliest. At this present time each of the constituent Councils is being asked to note progress on the preparation of the bid and the prospective governance arrangements.

## 8.0 Recommendations

It is recommended that Council;

- i) notes the extent of progress made by the six constituent Councils in the preparation of a joint bid to the UK and Scottish Governments for a City Region Deal for Edinburgh and South East Scotland;
- ii) approves in principle the formation of a Joint Committee of the six Councils with an initial remit to prepare its scope of operation for further approval by the six Councils;
- iii) agrees that the Joint Committee consider the most appropriate arrangements for the preparation of a regional economic partnership strategy;
- iv) agrees the overall priorities for the City Region Deal to act as a basis for negotiation with the UK and Scottish Governments, and
- v) notes that each Council will be expected in principle to make a financial contribution towards a City Region Deal and in this respect agree to earmark £12m of the Capital Fund for City Deal.

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**Report Contact:** Ian Johnson, Head of Communities and Economy  
telephone: 0131 271 3460  
[ian.johnson@midlothian.gov.uk](mailto:ian.johnson@midlothian.gov.uk)

**Background Papers:** None