

City Deal for Edinburgh City Region: Progress Update

Report by Kenneth Lawrie, Chief Executive

1.0 Purpose of Report

- 1.1** This report provides a further update on progress being made in the preparation of a bid for a City Deal for the Edinburgh City Region, and seeks approval for funding towards the second stage of the bidding process.

2.0 Background

- 2.1** An initial report on City Deal was considered by Council on 16 December 2014, and an explanation of what constitutes a city deal was set out in that report. An update to Council was provided on 24 March 2015 at which Members:
- i) noted the further progress towards submission of a City Deal bid for the Edinburgh City Region;
 - ii) authorised the Chief Executive, in consultation with the Council Leader, to act on behalf of the Council in agreeing the terms of the first stage City Deal bid submission; and
 - iii) agreed to receive further reports on the outcome of the first stage bid and any other matters relevant to City Deal.

3.0 Recent Activity

- 3.1** On 01 April 2015 letters were sent to the UK Government's Minister of State at the Department for Business, Innovation and Skills, and to the Scottish Government's Cabinet Secretary for Infrastructure, Investment and Cities. The letters, signed by the leaders of the six Councils making up the City Deal area (Edinburgh, East Lothian, Fife, Midlothian, Scottish Borders and West Lothian), constituted the first formal request for City Deal status for the Edinburgh City Region. The letters identify the primary elements of the bid in the following terms:

"The six authorities of the Edinburgh and South East Scotland City Region (ESESCR) have agreed to work together, to develop an ambitious city deal with the Scottish and UK Governments that will grow the ESESCR, Scottish and UK economies, whilst also ensuring every community in the city region is able to contribute to and benefit from this additional growth."

At the heart of the proposition there will be a £1bn plus 10 year ESESCR infrastructure fund designed to maximise growth, and thereby deliver additional tax receipts for both the Scottish and UK Governments. It will incorporate a complementary package of skills and innovation measures and will tackle constraints which threaten to hold both the city region and Scotland back and address persistent pockets of inequality.

This means a disciplined and targeted approach to investment, under which every penny invested makes the maximum possible impact on employment growth, skills development, and productivity, whilst also ensuring that the opportunities created are shared.

While much has been done in recent months in setting the strategic direction at City Region level, the detailed work on prioritising potential investment and ensuring that the overall programme also addresses inequality will take several months, so it is too early to list the specific schemes the ESESCR fund will deliver.

However, drawing on the precedents elsewhere it is clear that the ESESCR fund proposition will:

- Be broadly based in terms of both the types of investment delivered and in the programme's coverage of the city region. This has been the case in similar fund-based city deal in city regions such as Greater Manchester, West Yorkshire, and Glasgow and the Clyde Valley;*
- Look to make a permanent step change in economic output across the Edinburgh City Region of at least 5% in the longer term, increasing the city region's long term employment potential by some 25,000, with further jobs being created during the 10 year investment programme;*
- Generate net gains for Scotland and the UK as a whole, principally through productivity improvements. Based on the precedents elsewhere, an up-front £1bn fund designed to maximise its impact on the ESESCR economy could be expected to deliver a sustained annual increase in GVA of £900m at the Scottish level and £700m a year at the UK level.*
- Be expected to more than pay for itself through additional tax receipts for the Scottish and UK Governments. Again drawing on the precedents from elsewhere, an economically prioritised ESESCR fund would – over 30 years - be expected to generate tax gains for the UK as a whole some 10 times the investment cost of the fund in cash terms, with (on the assumption of the Smith proposals) between four and five times the total costs of the fund accruing to Scotland in additional tax; and*
- Gear in three times as much private investment as public – pointing to an additional investment total for the ESESCR of more than £4bn. “*

- 3.2** A response from Scottish Government Cabinet Secretary, Keith Brown states that “..... *Scottish Government is fully prepared to engage on city deals.....*”, and “*I am therefore pleased to see the six Local Authorities in the Edinburgh city region preparing to work together, not just to grow the economy but also to ensure that the benefits of growth are spread to every community in the region.*” A formal response from the UK Government is awaited.
- 3.3** In addition to the formal letters to Ministers, a draft prospectus document has been sent to the two Governments’ officials. Due to its draft nature it has not been published. Therefore, confidential copies have been circulated to the Groups and a further copy placed in the Members’ Library.
- 3.4** In order to meet a demanding timetable, preparations are underway to enable a start to be made on stage two of the bidding process. This is a substantial area of work which is due to be complete early in 2016, at which point the main formal detailed bid can be submitted to the two Governments. The work programme requires a comprehensive collaborative approach across all six Councils and specifically on matters of finance, governance, skills, innovation and stakeholder communication. A key element of the work will be the identification of priority infrastructure and other projects across the region, and for these to be the subject of economic modelling to assess those which most effectively meet the outcomes of the City Deal.
- 3.5** The costs of this stage two work can only be properly identified through the required formal procurement process. It is intended that the six constituent partner Councils will pay a contribution based upon their proportion of the region’s population. On the basis of initial estimates the provision required for the second stage bid and associated preparation costs for this Council are currently estimated at £60,000.

4.0 Report Implications

4.1 Resource

Further to the Council’s previously agreed contribution of £25,000 towards preparation of the stage one bid, the second stage bid and associated preparation costs will require the allocation of a further £60,000 for which a supplementary estimate is required.

4.2 Risk

The risks contained in the previous reports to Council remain valid.

- **Devolution of taxation powers:** the national debate on the tax raising powers to be devolved to the Scottish Parliament delays the city deal negotiations.
- **Scale of coalition/ geography:** All city deals so far have achieved a degree of scale that cannot be achieved by one local authority alone.
- **Return:** All projects will be prioritised by their contribution to GVA growth and Midlothian’s GVA performance is significantly less than the City of Edinburgh’s.

- **Repayment Terms:** Each city deal is unique and existing deals are indicative only.
- **Integration of use with other financial tools:** A City Deal is only one of a number of tools available to the Council. It cannot be considered in isolation.
- **Management of project portfolio:** The proposed projects vary considerably in their costing approach and their maturity. Only truly additional projects can be included in the City Deal.
- **Displacement:** The City Deal infrastructure displaces investment from other local authority areas to the detriment of their sustainable economic growth.

4.3 **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

4.4 **Key Priorities within the Single Midlothian Plan (SMP)**

Promoting economic development and supporting business growth is a key priority for the Council. Wide ranging measures, which would be central to the City Deal, which increase GVA and thereby grow the economy and have a direct impact on levels of employment, business start ups and growth, inward investment, as well as increasing the skills base of the workforce and, as a consequence, increasing wage rates. This promotes wider positive socio-economic benefits for Midlothian communities, most particularly in relation to health and quality of life factors as well as reductions in public welfare funding.

4.5 **Impact on Performance and Outcomes**

The Council will need to be clear about what it expects from City Deal, particularly for any defined sectors and/or geographical areas/localities in Midlothian. As part of this a suite of identified targeted outcomes would be essential in order to monitor and review the performance of the project.

4.6 **Adopting a Preventative Approach**

The provisions of the City Deal, by driving up GVA, can directly and indirectly seek to address the risks of local economic stagnation or recession, and thereby prevent the negative consequences of such potential economic failure.

4.7 **Involving Communities and Other Stakeholders**

There has been initial consultation with the Director Resources, Head of Finance and Integrated Service Support and Head of Communities and Economy on the financial and economic implications for the Council arising

from the City Deal proposal. As part of the preparation of the stage one bid a comprehensive database of stakeholders has been created. In addition, the consultants retained by the six Councils (KPMG) provided a half day briefing and workshop specifically for a range of Midlothian Council staff on 15 April 2015.

4.8 Ensuring Equalities

An EqlA checklist is not required because this report does not propose a change or revision to any existing policy or practices.

4.9 Supporting Sustainable Development

If approved by Council the proposals as set out in this report will determine the future strategic involvement of the Council as part of the Edinburgh/South East Scotland City Region.

4.10 IT Issues

There are no IT issues associated with the proposals as set out in this report.

5 Summary

- 5.1** Since reporting previously to Council in March the first stage of the bid for city deal status has essentially been completed, although formal feedback is awaited from the UK Government. Preparations for the much more extensive stage two part of the bid are underway with completion due by the end of this calendar year. Given the significance of this project and its fairly fast-moving pace it is expected that there will be regular reports and briefings for Members during 2015.

6 Recommendations

6.1 It is recommended that Council

- i) notes the further progress towards submission of a City Deal bid for the Edinburgh City Region;
- ii) agrees to the supplementary estimate of £60,000 as set out in section 4.1; and
- iii) receives further reports on progress with the City Deal bid.

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Background Papers: None