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City Deal Proposal

Report by Kenneth Lawrie, Chief Executive

1 Purpose of Report

This report seeks the Council's endorsement of the proposed approach to participation by Midlothian Council in a potential City Deal for the City of Edinburgh/East of Scotland Region.

2 Background

The "City Deal" process was initiated in late 2011 by the UK Government. City Deals seek to empower cities to drive economic growth in the region by putting greater resources and financial freedoms in the hands of local leaders.

Initially eight deals were agreed in England. Whilst each City Deal is unique key features include:

- Local authorities developing a clear programme of infrastructure investment prioritised to deliver Gross Value Added ("GVA") – GVA is essentially a local measure of jobs and productivity growth;
- An Infrastructure Fund established for the programme with funding from a variety of sources, including significant local authority contributions;
- In return, central government allows the fund to earn back locally funded contributions under a formula linked to economic growth and the increase in total tax revenues (not just non-domestic rates as in Tax Increment Finance schemes). This may take the form of conditional government grants; and
- Robust local governance and delivery arrangements be established across the geographic area over which the investment will be targeted.

A further 20 second-tier English cities have since secured their own deals and in July 2014 City Deal for the Glasgow City Region was announced.

3 Glasgow City Deal

3.1 The Glasgow City Deal includes a £1.13 billion Glasgow and Clyde Valley Infrastructure Fund. The UK Government will provide £500 million of funding, a further £500 million will be provided by the Scottish Government and a minimum of £130 million will be provided from the local authorities across Glasgow and Clyde Valley. The funding will be used to:

- improve the transport network
- improve public transport
- unlock key development and regeneration sites.

3.2 The Glasgow City Deal is one of the largest agreed and represents an agreement between:
  - the UK Government
  - the Scottish Government
  - eight local authorities across the Glasgow and Clyde Valley region.

Over its lifetime the deal is estimated to:

- Support an overall increase in the economy of around 29,000 jobs in the region;
- Work with 19,000 unemployed residents and support over 5,500 people back into sustained employment;
- Lever in an estimated £3.3 billion of private sector investment into the proposed infrastructure investment programme; and
- Spread the benefits of economic growth across Glasgow and Clyde Valley region thus ensuring deprived areas benefit from this growth.

3.3 The Heads of Terms Agreement confirms that:

- The UK Government and Scottish Government will each contribute £500 million of capital funding over 20 years, from 2015/16 – 2034/35, to the Glasgow Infrastructure Fund;
- In the first five years the UK and Scottish Governments will each provide Glasgow and Clyde Valley with total capital grant of £75 million (2015/16 to 2019/20), totalling investment of £150 million. This will consist of five annual payments of £30 million.
- The remaining £850 million of funding will be conditional on local partners demonstrating
- robust governance of the Deal
- a clear record of infrastructure project delivery
- evidence that projects provide good value for money at the local and national levels, as determined by the criteria set out in an assurance framework.
- The formal process for agreeing the release of future grant will be a series of 5-yearly Gateway Reviews, commencing in 2019. These reviews will be conducted by an independent Commission. If Glasgow and Clyde Valley meet the agreed outputs and outcomes at each review stage they will unlock the full £1 billion of funding from the UK and Scottish Governments.

4 Scottish Cities Alliance (SCA) Activity

4.1 The Scottish Cities Alliance has set as one of its key objectives the development of new ways to fund infrastructure development. This is being driven by the need to achieve economic growth and unlock opportunities for all.

4.2 In June 2014, the city leaders considered a report from technical advisors which outlined the applicability of a Strategic Infrastructure Fund model for Scottish Cities. The group agreed to pursue, with their regions, the appropriateness of creating such funds for longer term investment in the economic infrastructure. It was also agreed that economic impact (i.e. GVA return for each £ of public sector investment) at the regional level be used as the primary method for prioritising the use of such funds. The city regions would identify appropriate secondary prioritisation metrics to ensure that further outcomes are delivered, such as reduced carbon emissions or a broader spread of employment opportunities, where appropriate.

4.3 The geographic area over which a fund might be applied is central to City Deal questions regarding the scale and size of interventions, the way in which economic outcomes are measured, the population across which costs will be shared and the level of displacement. A larger geographic area implies a better measure of success since the economic impacts of investment are closer in size to those at a national level, thus allowing the Treasury and Scottish Government to ascertain in full local and national objective alignment. There is also less scope for the displacement of economic activity from one local area to another.

5.0 The Edinburgh City Region Model

5.1 The analysis conducted by for the Scottish Cities Alliance suggests that the Edinburgh City Region could benefit significantly from an Infrastructure Fund, and accompanying payment-by-results deal with Government.

The Edinburgh City Region being defined as the local authority administrative areas of:

- City of Edinburgh
- East Lothian
- Fife
- Midlothian
- Scottish Borders and
- West Lothian

There is a clear ambition to invest in growth, with an emerging project pipeline which includes significant potential investments. These align with aspirations to:

- Improve the regional transport network, including enhancing public transport and promote active travel infrastructure;
- Unlock strategic development areas;
- Support key industry sectors; and
- Deliver sustainable places.

With the opening of the Borders Railway and the establishment of four stations in Midlothian in September 2015 it is anticipated that the establishment of the Edinburgh City Region model will complement the ongoing investment in infrastructure.

5.2 By developing an Infrastructure Fund local authorities are aiming for:

- a step-change in the scale of investment;
- an approach to project prioritisation; and
- governance arrangements which ensure that every pound spent has the maximum impact on growth.

The GVA growth being targeted requires to be in addition to any increase already forecasted as a result of existing capital investment programmes e.g. the Borders Rail project, Shawfair and developments at the Bush.

The table below sets out indicative figures for funds across the geographic area, assuming an ambition for a 5% or 2% increase in GVA (It should be noted that Glasgow city deal is targeting a GVA uplift of 4%):

	Edinburgh City Region	
Population	1,323,600	
GVA in 2012 (£bn)	£30.22bn	
Targeted one-off uplift in GVA: % Increase £m	 5.00% £1,511m	 2.00% £604m
Size of fund required to meet target in full:	£1,007m	£403m

Other geographical options may be considered as discussions proceed with neighbouring local authorities.

5.3 The Glasgow City Deal has approximately 90% of the Infrastructure funded by capital grants from the UK and Scottish Governments, with the remainder being funded by the participating Councils.

Glasgow and Clyde Valley Councils will deliver and finance investment projects over a ten year period with the financial support from UK and Scottish Governments being delivered over the longer twenty year period and subject to achievement of the gateway reviews.

5.4 A key consideration for the Council is therefore the affordability of any contribution to the fund and also the affordability associated with forward funding the planned investment where the capital investment costs are incurred over a ten year period but the government grants are repaid over a 20 year timeframe. Affordability is in the context of the Council’s longer term financial stability and future capital investment in the Council’s existing asset base and identified essential infrastructure requirements. The Council will test the affordability and best value of any contributions with local authority partners during the development of the City Deal Proposition. A range of income sources, including developer contributions, may be used to help offset Council contribution. However, there remain questions that need to be addressed as to how the Council would be able to sustain its proportion of investment over the short and long term. Accordingly any investment requirements would be reported in advance to the Council for consideration.

6 Next Steps

6.1 Midlothian as part of the wider city region has the potential to benefit from an Infrastructure Fund / City Deal arrangement with the UK and Scottish Governments. The Scottish Government has indicated an appetite to explore alternative funding mechanisms to help drive growth across the city regions and an opportunity is being presented to secure UK government commitment ahead of the next General Election in 2015.

6.2 The key issue is to obtain agreement on the potential geographic area for any fund proposal. Some preliminary informal discussions have taken place with potential partners and formal engagement is now required by the Council.

6.3 In addition, work is required on developing a programme of infrastructure investment, although work already carried out as part of the Scottish Cities Alliance commission will help to inform this. Criteria for project prioritisation also requires to be developed; whilst assuming that GVA per £ spent would be the lead metric, secondary criteria will be required to secure a wider buy-in across local authorities. It is an early priority for the Council and partners to establish these criteria to assist in the prioritisation of the candidate projects.

6.4 The development of any city deal proposal will require technical assistance, particularly with the deep econometrics exercise which is required to satisfy the Treasury, as well as project management resource and capacity. Experience from elsewhere suggests a cost of around £500,000 is required to develop a robust proposal. This cost would be shared across participating authorities on an as yet to be determined basis.

6.5 Based on previous geographic arrangements the timeframe for securing a City Deal has varied considerably. However, much of the ground work has already been covered by the Scottish Cities Alliance work and the Glasgow Deal which provides a useful reference point and model to build upon. Accordingly there is a real opportunity for the city region to develop a proposition for discussion with the UK and Scottish Governments ahead of the next UK General Election.

6.6 To collate and submit a business case for an Edinburgh Region/East of Scotland City Deal in time for the UK March budget statement is achievable, but challenging. This timeframe will require a procurement process, as well as very close collaboration with the other partners of the region.

7 Report Implications

7.1 Financial Implications

A cross-service officers group chaired by the Chief Executive will be established with representation from across the Council, to engage with other neighbouring Local Authorities who participate in the City Deal.

This group will consider any Council contribution towards the technical support and economic modelling required in 2014/15 and will be determined once initial discussions have been taken forward and will be subject to a further report to Council.

As outlined in Section 6.4 the cost to develop the proposal on a geographic regional basis is likely to be in the region of £500,000 to be shared by the participating Councils.

Both the UK and Scottish Governments will be engaged in the process of developing a City Deal proposition to ensure that all tax raising scenarios are considered.

7.2 Risk Implications

A number of risks have been identified by Officers in relation to a City Deal and mitigating actions will require to be adopted to manage these risks during the development of the proposition. These risks include:

- **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.

7.3 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

7.4 Key Priorities within the Single Midlothian Plan

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.

7.5 Impact on Performance and Outcomes

Whilst the primary benefits of increasing GVA are set out in paragraph 7.4 above, 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.

7.6 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.

7.7 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. During the development of the Glasgow Deal there were regular meetings of the Leaders and Chief Executives of the participating local authorities. Consultation with adjoining local authorities will clearly be an essential element of this.

7.8 Ensuring Equalities

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

7.9 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.

7.10 IT Issues

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

8 Summary

The investment in infrastructure investment being made by Manchester, Leeds, Glasgow and other UK cities puts the Edinburgh City Region at risk of falling behind its competitors. An opportunity exists to ensure a step change in economic performance across the city region, through a targeted and ambitious programme of infrastructure investment delivered by way of a City Deal Infrastructure Fund.

9 Recommendations

It is recommended that the Council:

- Note the content of this report and the progress to date led by the Scottish Cities Alliance;
- Authorise Midlothian Council to engage with City of Edinburgh Council and neighbouring local authorities; and to negotiate directly with HM Treasury and the Scottish Government over the potential operation of an Infrastructure Fund and wider City Deal;
- Delegate to the Chief Executive in consultation with the Leader of the Council authority to establish an interim Governance structure with other potential participating Authorities and authorise the Chief Executive to lead on this;
- Agree to authorise the Head of Communities and Economy to act as project sponsor, liaising with colleagues from across the City Region as appropriate;
- Agree to receive further reports on the development of the fund at key stages in its development; and
- Note that a procurement process will need to be undertaken to secure technical support and
- Note that a further report will be brought forward to Council in respect of resource implications at an early date.

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Background Papers: