

**The Edinburgh and South East Scotland City Region Deal
Update Report by Kenneth Lawrie, Chief Executive****1.0 Purpose of Report**

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, 12 May 2015 and 28 June 2016. In addition a more detailed briefing session was held for Members on 24 May 2016. In summary, City Deals are formal arrangements by which Government resources are awarded to a city region to drive economic growth and, through the 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 over 30 having been created to date, including Glasgow, Aberdeen and Inverness with a prospective one for Stirling.
- 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.
- 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 two years and, during that period, propositions were submitted in September and December 2015, and in April and October 2016. On the basis of the most recent submission there has been further detailed negotiation with UK and Scottish Governments' officials. A statement about progress in pursuing a city deal was contained in the Chancellor of the Exchequer's Autumn Statement. It is hoped that this could now be secured in spring 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 key elements of the city deal are as follows:

3.3.1 Innovation – 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 of private sector investment. Identified potential centres for these innovative hubs include 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 Inclusion – the ambition is to see all parts of the region sharing in economic success. The city region deal is focusing on measures to reduce inequalities and make the region more inclusive through investment in skills, housing and infrastructure. The impact of inclusive growth is a key measure that is being considered in the prioritisation of proposals.

3.3.3 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, increase productivity and ensure the region's residents are equipped with the skills to meet emerging labour market demand and opportunities.

3.3.4 Low Carbon - the city region deal proposes a wide-ranging programme of investment with low carbon embedded within it. The region has distinctive strengths in low carbon innovation and the deal provides an opportunity to further exploit this, ensuring alignment with ambitious propositions relating to skills development, house building and infrastructure.

3.3.5 Affordable Housing Programme – central to the inclusion agenda is the issue of housing. Edinburgh has one of the most expensive regional housing markets in the UK and in the projected growth of the city and surrounding areas, rebalancing the housing market is fundamental to delivering inclusion in the region. There is an urgent need to accelerate the supply of affordable and mid-market housing if the housing market is not to act as a drag on the region's labour market by more than doubling housing delivery rates.

The programme is also being designed to have a direct link to the innovation activity, identifying cutting-edge technologies to develop highly-connected, low carbon and energy efficient houses. This scale of housing delivery requires innovative approaches to manufacturing and construction materials, which can make South East Scotland a centre for innovation and manufacturing in new housing. The housing programme has the potential to create an estimated 11,000 sustainable jobs and deliver significant investment in skills and development programmes.

The proposals also includes a **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, and an **Additional Affordable Housing Grant** over a ten year period to fund primarily new social rented accommodation, giving sufficient certainty to enable leverage of private sector finance for new housing.

In addition a **Regional Land and Property Commission** would be established to accelerate the pipeline of deliverable sites for housing across the region. It would operate as a group of public sector agencies to identify public sector land for the accelerated development of affordable housing.

3.3.6 Infrastructure – this is critical to competitiveness and inclusion across the region. Connectivity, both physical and digital, is a key component of driving up productivity and in delivering on the social objectives in improving access to employment for those parts of the region with low income and poor access to jobs. Transport will need to play a key role in linking those areas in the region to the opportunities created. The city region deal focus is on maximising the capacity of the region's existing infrastructure, addressing capacity constraints, public transport and active travel provision.

3.3.7 Culture – the city deal proposal also includes a creative/cultural proposition primarily focussed on the City of Edinburgh as a centre of cultural activity.

3.3.8 Governance – an essential element which needs to be part of the city deal bid is a robust and durable governance model. At its meeting on 28 June 2016 Council agreed to the establishment of a Joint Committee for the purpose of developing a city region deal. Currently, a Council Leaders' Group, including representation from both the university and business sectors is meeting monthly to help shape the deal and support the negotiations with the Government.

The establishment of a new city region Business Leadership Council is also being considered, to bring together representatives from across the private sector to play a full role across the city deal development and delivery process.

4.0 Report Implications

4.1 Resources

Financial arrangements for agreeing a City Region Deal remain subject to negotiation. Based on other agreed City Deals, it can be assumed that partners will contribute between 10% and 30% of total project costs. In addition, an element of city deal grant funding may be provided on a 'payment by results' basis, with partners required to fund project costs and related financing in advance of grant receipt. The exact nature of the funding models is currently under negotiation.

Further work will need to be carried out to determine the final contribution required from the Council as this will depend on the projects approved and associated funding models. At its meeting on 28 June 2016, the Council agreed to earmark £12m of the Capital Fund to be available to contribute to City Deal projects.

4.2 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.

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 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.

4.5 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.

4.6 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.

4.7 Ensuring Equalities

As this report is not proposing any new policies and 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.

4.8 Supporting Sustainable Development

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

4.9 IT Issues

None specifically.

5.0 Summary

The six Councils that make up the geographical area of Edinburgh and South East Scotland are preparing to bid for City Deal status, to be submitted to the UK and Scottish Governments. 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 innovation; as well as project specific infrastructure works within each Council area.

Negotiations continue with the UK and Scottish Governments on each of the investment programmes. A series of workshops was completed during December and early January. Follow up work is underway and discussions will continue on the detailed propositions into February 2017 with the aim of the partners being able to agree Heads of Terms during spring 2017.

6.0 Recommendations

It is recommended that the Council:

- i) notes the continued progress of the City Region Deal since the previous update to Council in June 2016; and
- ii) notes the ambition to achieve an agreed Heads of Terms document during spring 2017.

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