
EDINBURGH AND SOUTH EAST SCOTLAND CITY REGION DEAL

Report by Executive Director
SCOTTISH BORDERS COUNCIL

2 November 2017

1 PURPOSE AND SUMMARY

- 1.1 This report provides an update on the overall composition of the City Deal, including both Governments' financial offer and the Heads of Terms document signed in July and seeks authority to progress and implement the Edinburgh and South East Scotland City Region Deal through the establishment of a Joint Committee, and to delegate authority to the Chief Executive, in consultation with the Leader, to enter into a minute of agreement.**
- 1.2 The City Region Deal covering the City of Edinburgh and the South East Scotland Region involves East Lothian, Midlothian, West Lothian, Fife, City of Edinburgh and Scottish Borders Councils as the partners shaping the City Region Deal, along with input from universities and colleges, the private sector, the third sector and relevant public sector agencies. The City Region Deal aims to make a step change in economic growth across the region through a wide-ranging programme of investment. The proposals have been shaped around the following four interconnected programmes, with projects prioritised on strategic fit, impact and deliverability:
- a) Innovation hubs;
 - b) Infrastructure investment;
 - c) A regional housing programme; and
 - d) Culture and tourism programme.
- 1.3 Terms of Reference for a Deal were agreed in March 2016, Heads of Terms (detailed in Appendix 1 to this report) were received by partners from the Governments on 19 July 2017 and authority was granted to the Leader to sign the Heads of Terms of Agreement through an Emergency Powers Report on 19 July 2017.
- 1.4 The specific financial offer in the City Deal for Scottish Borders amounts to £15m (against an "ask" of £26.9M), mainly to be used for development of the Business Park at Tweedbank/Lowood. The overall costs of delivering the Tweedbank/Lowood project are estimated to be in the region of £58m. The funding commitment approved by the Council in the capital programme is currently £5m over 2017/18 and 2018/19, with a further £1.7m being provided by Scottish Enterprise towards the development of business infrastructure. Commercial rents and contributions of £10.6m are assumed

as part of the funding package. This indicates a current shortfall in capital funding of £25.7m to deliver the full project.

1.5 Authority is now sought to.

2 RECOMMENDATIONS

2.1 **I recommend that Council:**

(a) Notes the Heads of Terms of Agreement at Appendix 1 to this report;

And Agrees:

(b) To establish a Joint Committee under Section 57 of the Local Government (Scotland) Act 1973 with City of Edinburgh, East Lothian, Fife, Midlothian, and West Lothian Councils, representatives from the higher education and further education sector, and business to oversee the governance arrangements for the Edinburgh and South East of Scotland City Region Deal;

(c) The arrangements that will inform the proposed Minute of Agreement establishing the Joint Committee as detailed in Appendix 2 to this report;

(d) That the Leader of the Council be appointed to represent the Council on the Joint Committee;

(e) To delegate authority to the Chief Executive, in consultation with the Leader of the Council, to negotiate and agree the final Minute of Agreement (the draft attached at Appendix 3) establishing the Joint Committee, in line with the principles stated in Appendix 2 to this report, and any financial and resource contributions, if they are required; and

(f) That updates will be provided to the Economic Development themed meetings of Executive on an ongoing basis on progress with the implementation of the Edinburgh and South East of Scotland City Region Deal.

3 BACKGROUND

- 3.1 At its meeting held on 29 June 2016, Scottish Borders Council considered a report giving an update on the development of a City Region Deal covering the City of Edinburgh and the South East Scotland Region. East Lothian, Midlothian, West Lothian, Fife, City of Edinburgh and Scottish Borders Councils are the partners involved in shaping the City Region Deal, along with input from universities and colleges, the private sector, the third sector and relevant public sector agencies. The priorities for the Deal that form the basis of negotiations with UK and Scottish Governments are agreed by the Joint Committee, comprising representatives from the six local authorities and university and business sectors. This Joint Committee is supported by the Chief Executives Group.
- 3.2 The City Region Deal aims to make a step change in economic growth across the region through a wide-ranging programme of investment. The proposals have been shaped around the following four interconnected programmes, with projects prioritised on strategic fit, impact and deliverability:
- a) Innovation hubs;
 - b) Infrastructure investment;
 - c) A regional housing programme; and
 - d) Culture and tourism programme.
- 3.3 In 2016, the then Chancellor of the Exchequer, announced that the Government would be pursuing a City Region Deal for Edinburgh and South East Scotland. Terms of Reference for a Deal were agreed in March 2016, and Heads of Terms were expected by Spring 2017, although these were subsequently delayed by the announcement of the General Election in May 2017.

4 HEADS OF TERMS

- 4.1 The Heads of Terms, as received by partners on 19 July 2017 from the Governments, are detailed in Appendix 1 to this report. The Heads of Terms cover key commitments in:
- a) Research, Development and Innovation Programme
 - b) Employability and Skills
 - c) Transport
 - d) Culture
 - e) Housing
 - f) Governance and Assurance

4.2 The offer across the whole region is summarised below:

Theme / Project Name	UK Govt contribution (£m)	Scot Govt contribution (£m)	Total
Innovation	350 (between both Governments)		350
- Data-driven innovation projects and Queen Margaret University Food and Drink Innovation Campus	250		250
- Enabling infrastructure	50		50
- Economic infrastructure programme for Fife and Scottish Borders	50		50
Integrated Regional Skills Programme	-	25 (over 8 years)	25
Infrastructure	-	140	140
- A720 Bypass improvements at Sheriffhall	-	120	
- West Edinburgh	-	20	
Culture	10	10	20
- IMPACT	10	10	
Housing		65	65
- Regional infrastructure fund	-	50	
- Establishment of a new housing company		15	
TOTAL			600

4.3 The original ask for Scottish Borders amounted to £26.9m and the subsequent offer equates to £15m, mainly to be used for development of the Business Park at Tweedbank/Lowood.

4.4 Given the very tight timescale officers sought and were granted authority for the Leader to sign the Heads of Terms of Agreement through an Emergency Powers Report on 19 July 2017. A signing ceremony and announcement of the Deal was held on Thursday 20 July 2017, with Ministers from both Governments, Council Leaders and University and Business partners present.

4.5 Following the signing of the Heads of Terms of Agreement detailed work has begun on the full Deal document. This work will include developing detailed business cases to HMT Green Book standard. These will be presented to Council for consideration and approval in due course. The

target date for completion of the work and signing of the full Deal is 31 March 2018.

5 GOVERNANCE

Background

- 5.1 In June 2016, the six local authorities agreed to the principle of establishing a joint committee for the City Region Deal programme. Shadow delivery governance has been established, with the Leaders from the six partner local authorities providing strategic direction for the negotiations with the UK and Scottish Governments to secure agreement of the Heads of Terms in July 2017.
- 5.2 The role of the committee was highlighted as:
- a) Determine strategic focus;
 - b) Agree investment priorities;
 - c) Oversee planning and implementation activity; and
 - d) Monitor Impact
- 5.3 Although a joint committee has been meeting on a shadow basis (as the Leaders' group) since June 2016, it has not been established formally and the next steps are to establish this committee, its remit and membership.
- 5.4 The wider regional governance model to deliver the Edinburgh and South East of Scotland Deal will include:
- (a) A new cross-regional Business Leadership Group to bring together voices from across the private sector to play a full role across the City Regional development and delivery process
 - (b) An Executive Board comprising the six regional local authority chief executives, six regional local authority directors with a remit for the economy, plus a representative for the region's universities and colleges, and a programme management officer function. Its remit will be to support the Joint Committee in the delivery of the City Deal Programme; and
 - (c) A Programme Management Office (PMO). Experience from other Scottish City Region Deals has suggested that a well-resourced and led PMO that provides a central point of contact for all parties is essential. This must be in place before the funding of the deal can start to flow. Councils will be expected to contribute staff or financial resources to the PMO.
- 5.5 The Local Government (Scotland) Act 1973 gives power to local authorities to discharge their functions either by delegating power to a committee, sub-committee, officer or to another local authority in Scotland. This includes the power to appoint a joint committee made up of two or more local authorities.
- 5.6 The Joint Committee will aim to deliver increased value for money from the Edinburgh and South-East Scotland City Region Deal and wider

regional collaboration and provide the appropriate oversight and strategic direction

Remit

- 5.7 The local authorities have the power to delegate which decisions they feel necessary for the joint committee to be able to progress work streams. The remit contained in Appendix 2 provides decision making powers but would require any decision to commit funds and resources, to be undertaken by individual governing bodies rather than the joint committee. Significantly, the delegation of powers to a joint committee does not preclude the individual local authorities from still making those decisions.
- 5.8 The proposed powers are outlined in Appendix 2 to this report.
- 5.9 Constituent Councils will be able to add further powers to the remit of the Joint Committee at a later date if this is felt necessary. Non-Council members will be able to delegate further powers to their representatives when required.

Membership

- 5.10 It is proposed that the membership includes a representative from each local authority. Fife Council who have two co-leaders will have two members, although they will only have one vote between the two members.
- 5.11 The Local Government (Scotland) Act 1973 also allows the committee to contain members who are not councillors. If, as will be the case, the committee regulates or controls the finance of the local authority or its area then only councillors are permitted to be voting members.
- 5.12 The joint committee is a local authority decision making body. The non-Council members would make up three of the ten members and would include a minimum of one business representative and one higher education/further education representative.
- 5.13 It would be a decision for the higher education/further education and business member organisations whether they were content to empower their representatives on the committee to commit their organisations to the decisions made at the Joint Committee.

Minute of Agreement

- 5.14 It is proposed that a minute of agreement, a draft is attached at Appendix 3, is signed that will set out arrangements of the Joint Committee and how it will operate. These include amongst other things the membership, voting rights, period of office, quorum and who would chair the meeting. The details laid out in Appendix 2 to this report would form part of this minute of agreement.
- 5.15 It is proposed that the power to agree the Minute of Agreement is delegated to the Chief Executive, in consultation with the Leader of the Council, to allow for the details of the minute of agreement to be finalised but for there

to be no delay in the creation of the Joint Committee.

- 5.16 It is recommended that progress with implementing the Edinburgh and South-East Scotland City Region Deal and the work of the Joint Committee will be reported to the Economic Development themed meetings of Executive on a regular basis.

6 IMPLICATIONS

6.1 Financial

- (a) The Heads of Terms agreement provides £50m for infrastructure in the Scottish Borders and Fife Council areas. It is understood that the split of this sum is £35m for Fife and £15m for Scottish Borders. This is payable over a 15 year period. No profile for the funding has yet been provided. It should also be noted that the Heads of Terms document is silent on the mechanism by which funding will be provided, either via grant as enabling funding, staged payments, as a post construction grant claim or a payment by results mechanism.
- (b) The overall costs of delivering the Tweedbank/Lowood project are estimated to be in the region of £58m. The master planning exercise for Tweedbank is progressing and these costs will vary significantly depending on the scale of the development delivered, the level of public infrastructure required, and the eventual cost of any land acquisition.
- (c) The funding commitment approved by the Council in the capital programme is currently £5m over 2017/18 and 2018/19, with a further £1.7m being provided by Scottish Enterprise towards the development of business infrastructure. Commercial rents and contributions of £10.6m are assumed as part of the funding package.
- (d) Extant project cost estimates modelled on 2016 prices indicate a current shortfall in capital funding of £25.7m to deliver the project, assuming commercial income is delivered as presently envisaged.
- (e) With regard to Revenue consequences, the annual borrowing costs to finance this shortfall would be £1.2m. Should the scope of the project increase, each additional £1m of borrowing based on an assumed PWLB borrowing rate of 2.48% over 30 years, would cost a further £0.047m per annum.
- (f) The final project at Tweedbank and its financial consequences will only be known with any degree of certainty when the phasing of construction is modelled as part of the final business case approval.
- (g) The Heads of Terms document is currently silent on any revenue consequences arising from the regional skills programme.

6.2 Risk and Mitigations

- (a) There is currently limited information on the approach to risk for the City Region Deal; this may be shared between local authorities at a

programme level or be held by individual authorities on a project by project basis.

- (b) The region requires a long term programme of sustained capital investment to tackle existing issues such as congestion that constrain growth as well as open up opportunities to remain internationally competitive. Without this investment programme, there is a risk that the city region loses out on investment by the private sector and reduces its current contribution to the UK and Scottish economies. There is a further risk that the current situation where many residents in the region lack the opportunity to share in the region's economic prosperity does not change.
- (c) All City Deals require authorities participating to demonstrate a strong, local and accountable governance structure that includes each of the authorities participating in the Deal. The proposed governance is detailed in the main report and recommended for this Council to approve.
- (d) The key risk to the Council is that it will be required to front fund the net costs of Capital and revenue projects taken forward within the Scottish Borders. At present the grant funding levels and mechanisms around the City Region Deal and whether any "payment by results" model will apply, remains subject to agreement with the UK and Scottish Governments.

6.3 **Equalities**

All propositions aim to reduce inequalities across the city region. Inclusive Growth is one of the Scottish Government's four priority areas in its Economic Strategy. The integrated regional skills programme will work to ensure that all residents throughout the region have the ability to share in future success

6.4 **Acting Sustainably**

A City Region Deal would provide a mechanism to help drive forward investment in sustainable place making. A cross-cutting approach to sustainable growth is at the heart of the City Region Deal.

6.5 **Carbon Management**

No effect on carbon emissions are anticipated from the recommendations of this report.

6.6 **Rural Proofing**

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

6.7 **Changes to Scheme of Administration or Scheme of Delegation**

No changes are required to the Scheme of Administration or Scheme of Delegation.

