

**SCOTTISH BORDERS COUNCIL**

**21 MAY 2015**

---

**1 PURPOSE AND SUMMARY**

- 1.1 This report seeks to update the Council on its participation in the development of a City Region Deal for the Edinburgh and South East of Scotland (EESCR).**
- 1.2 The report updates members on progress to date and outlines the next steps required to take forward a City Region Deal should Scottish Borders Council wish to continue to be a participant. It identifies the process for prioritising projects, infrastructure in scope and potential fund size.
- 1.3 The report also details the payment by results criteria, the potential risks for the authority in a City deal programme and the proposed next steps should members wish to continue to engage in the process.

**2 RECOMMENDATIONS**

**2.1 I recommend that the Council:**

- (a) Notes the progress to date in developing a City Region Deal;**
- (b) Approves the approach undertaken to developing the City Region Deal with respect to;**
  - i) Key Objective and Programme Minima**
  - ii) Each Local Authority investing in its own projects**
- (c) Agrees that the Council should continue to participate in developing a bid to UK and Scottish governments;**
- (d) Agrees that a contribution from the Council of up to £60,000 should be made available to support the further development of the business case.**
- (e) Subject to recommendation (d) delegate to the Service Director Strategy and Policy in consultation with the Economic Development Portfolio holder authority to approve stage 2 tender award; and**
- (f) Agrees that officers should bring a further report to Executive once the shortlist of infrastructure projects have been agreed across the City Region.**

### **3 BACKGROUND**

3.1 This report builds on the initial report to Executive Committee in February 2015 which outlined the potential benefits to the Scottish Borders in participating in a City Deal. The six participating authorities include

- a) Scottish Borders Council,
- b) Edinburgh City Council,
- c) Fife Council
- d) East Lothian Council
- e) West Lothian Council and
- f) Midlothian Council

At that time members approved our participation in the initial development of a business case, now termed the 'Prospectus' that would lay out to Scottish and UK ministers the potential benefits of a City Deal. The prospectus has now been completed.

3.2 In the intervening nine weeks officers from the participating Councils have been engaged in three workshops, numerous Director meetings including two Leaders updates. Economic Development portfolio holders have also met to ensure there is a collective understanding across the region on progress.

### **4 DEVELOPMENT OF THE BID**

4.1 At the beginning of March 2015 KPMG were appointed by the partnership to assist in the development of the prospectus and initial development of the bid. KPMG have significant experience in developing successful City deals and have supported all of the major City Deal bids to date. As a result of their engagement the partnership has been able to make significant progress with the following activity.

#### 4.2 Developing the Key Objective and Programme Minima

The key objective of the programme is a targeted increase in Gross Value Added (GVA). GVA is a measure of wealth in an economy, the value of goods and services produced in an area, industry or sector. Therefore any infrastructure investment programme must as its primary objective lead to an increase in GVA and productivity across the Region that would not have happened had there been no investment.

4.3 The increase in GVA being aimed for across the region is 5% over the 20 year period. This has been established following an assessment of other similar City Deals across the UK and is considered achievable by KPMG.

4.4 Two secondary criteria or 'Programme Minima' have also been established. The first is in relation to tackling inequality. The deal will seek to address economic inequality across the region through targeted action that improves opportunity for employment across our most disadvantaged areas and a consequential overall increase in the average wage. The second criteria relates to geographic balance. Principally, this seeks to ensure balance across the region in terms of projects and economic benefits delivered, e.g. as measured by improved access to employment.

#### 4.5 Economic Prioritisation: Principles and Process

In the first City Deals a 'fund approach' was taken whereby partners pooled both national and local funding streams. The principle behind the pooled approach was a commitment to outcomes rather than a project. However, the most recent City Deal in Glasgow moved away from this approach and agreed a mechanism that required individual authorities to fund their own projects whilst maintaining a commitment to joint outcomes as evidenced by the Key objective and Programme Minima. At the City Region Leaders meeting it was proposed and accepted that the partnership should adopt a similar approach to Glasgow (subject to individual Council approval) and each participating authority be responsible for funding its own projects.

4.6 In terms of prioritising a projects' inclusion in the City Deal, KPMG has been tasked with developing an economic model that will be able to objectively assess each scheme against the Key objective and Programme Minima. The next stage of the process will be for KPMG to work with each Local Authority in drawing up a long list of projects that have the potential for inclusion in the overall bid. This 'long' list will then be subject to testing by KPMG through the economic model. Each individual project will then be subsequently prioritised across all potential projects across the Region.

4.7 This process will lead to a 'medium' list of projects prioritised in order of their ability to meet the Key objective and Programme Minima. It is this list of projects that will be finally refined to a short list creating a coherent investment programme with a strong economic case for investment that can (subject to individual authority approval) then be submitted to UK and Scottish Governments for their approval.

#### 4.8 Payment by Results

The City Deals operate a 'Payment by results' approach. This requires all authorities to be collectively 'on the hook' for delivery of the programme against the success criteria. It is therefore very important that the prioritisation process is assessed independently and importantly to be very robust as the overall programme must deliver the required GVA for UK and Scottish Government grant funding to be triggered.

#### 4.9 Scale of Ambition and fund size

As stated in para 4.2 the increase in GVA being aimed for across the region is conservatively estimated to be 5%. The current scale of the Edinburgh and South East Scotland City Region economy is £30bn. That means to be successful; the programme needs to deliver approximately £1.5bn of growth over the next twenty years in excess of that which would happen should there be no infrastructure fund in place. Using other City Deal methodologies it is anticipated that to achieve this it will require a fund size of around £1bn giving a return on investment in terms of investment of 1:1.5. Again, this is similar to other successful City Deals.

#### 4.10 Funding and Finance

The current Infrastructure Deals are based around a proposition of Government providing funding in the form of capital grants. The Glasgow City Deal has approximately 90% of the Infrastructure funded by capital grant from the Scottish and UK Governments. The remainder (10%) is to be funded by the Councils. The capital grants are received over a 20 year period (subject to gateways being achieved) while the capital programme is over 10 years.

4.11 If Scottish Borders were to enter into a City Deal it would therefore need to finance the cost of the infrastructure until the grants are received. This means that the real net costs of a City Deal for the Borders will be significantly higher than the headline 10% gross cost. Using current indicative only models officers anticipate real net costs to be in the region of around 50% although this is not based on estimated costs and the conditions applicable to previous deals which may not apply to the current bid process.

4.12 While the main source of funding will be from payment by results, it is for each council to consider which sources of funds it wishes to bring into "play". Additional funding from sources such as supplementary business rates or developer contributions could also be applied to funding the City Deal.

#### 4.13 Infrastructure in Scope

The City Deal partners have sought to keep the definition of infrastructure as broad as possible consistent with a local investment case for a number of reasons:

- a) A wide approach reduces the risk of diminishing returns, and;
- b) In practice there are many forms of investment that can drive jobs & productivity:- Housing and transport both improve labour markets which are critical to economic density and productivity;
- c) The utilities also need to work to support land for housing / commercial development;
- d) The social cultural offer also has real economic value as does public realm;
- e) Reducing dependency costs will require a special focus on infrastructure that can link people to areas of employment density.

All of these infrastructure areas can be considered however, as stated any project must lead to demonstrable increases in GVA to be considered in the wider programme.

## 5 NEXT STEPS

5.1 The approach the partnership is currently taking is split into four distinct phases or 'Gateways'. There is no obligation on any authority to commit to the process any further that it feels appropriate. Therefore at each of the four Gateway stages Scottish Borders Council has the opportunity to withdraw. A copy of the process is attached at Appendix 1.

5.2 Scottish Borders Council has already committed to being involved in Gateway One. This has resulted in the development of the Business Case or 'Prospectus' and the activity identified above. The partnership has now progressed to where it is almost ready to progress to Gateway 2. This stage will:

- a) Test/demonstrate economic modelling suite and sign-off that it is fit for purpose. As stated above the economic model is currently being developed by KPMG and will soon be ready for initial testing with partners.
- b) Initial sift of long list and sign-off on medium list of investments/interventions. This will require consultants to work with Scottish Borders Council to refine a potential long list of projects down that will be then prioritised against all partner projects to create a medium regional list of projects.

- c) Agree funding scenarios to be developed. Finance Colleagues from across the region will form a sub group of the partnership to test possible funding scenarios within any proposed bid.
- d) Engage with potential partners and government on scale of contribution / funding devolution available and scope for Payment by Results (PbR). Each City Deal is unique and subject to agreement with all parties involved. Gateway 2 is where initial conversations with Scottish and UK government officials will commence and begin to shape the programme and the rules on how it will operate.

5.3 KPMG has supported the process through Gateway One. However, in moving to Gateway 2 there will be a requirement to go to tender to procure support for the next stage. Based upon Glasgow's actual costs for stage 2 it is likely to cost the partner authorities in the region of £600,000. The cost pro-rated on population is likely to result in a cost to Scottish Borders Council of up to £60,000, should the Council wish to proceed.

## 6 TIMELINE

6.1 The following timeline has been provisionally forward for procurement of stage 2 City Deal.

ITT Released	28/4/15
ITT return	18/5/15
Consensus Meeting	22/5/15
Tender award	Early June

In the meantime officers will be meeting regularly to:

- a) Develop the Economic modelling approach (bespoke) utilising existing ECR models (Transport, Land use and Economic models) to assist in prioritising future projects;
- b) Develop the Governance and Joint working arrangements for stage 2;
- c) Developing the financial and funding model; (similar to Glasgow City Region and Greater Manchester City Region);
- d) Develop consistent and accurate costing data for projects for discussions with HM treasury and SG; and
- e) Develop the Lobbying and Stakeholder Engagement strategy.

## 7 IMPLICATIONS

### 7.1 Financial

The estimated cost of £60,000, plus the £25,000 already committed in order to move forward to Gateway 2, will be funded from budget carried forward into 2015/16 specifically to support Economic Development activity and infrastructure.

### 7.2 Risk and Mitigations

#### (a) 1) *Affordability of the capital projects*

As stated in paragraph 4.6, should Scottish Borders wish to participate in the City Deal initiative it is likely that the Council will be required to front fund the net costs of Capital projects taken forward within the Scottish Borders, with UK and Scottish Government grants being paid, subject to performance over 20 years. Clearly, if projects accepted into the final City Deal programme already exist in the Councils own Capital Investment

Programme (CIP) then there is no additional risk associated with our involvement. However, should the Council decide to include additional projects that are not currently in the Capital Programme then the additional costs of financing these projects would have to be found from the Councils existing revenue budget.

2) *The ability across the region to Increase GVA.*

The targeted investment must result in fiscal gains for both HM Treasury and Scottish Government otherwise the partnership will not receive the level of grant funding expected. Having an independent assessment of the potential projects which are then prioritised accordingly will maximise the likelihood of a successful outcome.

3) *The risk sits with us* – All participating authorities are collectively on the hook in terms of success. Again, having an independent assessment of the projects which are then prioritised accordingly for maximum GVA will increase the likelihood of achieving a successful outcome. Determinations will be made by the commission at 5 yearly 'Gateway' intervals where economic performance is assessed as part of the Payment by Results approach, with

- i) The first gateway focused on programme delivery (outputs - did the partnership do what it said it would do), and
- ii) Subsequent gateways being increasingly focused on the demonstration of additional growth and thus fiscal benefits at the national level (outcomes – did it deliver what the partnership said it would).

Furthermore, the UK government is to establish an independent panel to assess all of the City Region programmes across the UK. Any successful City Deal will require the partnership to agree to being assessed in the same way. It is important to state however, that the assessment is not a simple pass/fail mechanism. It is anticipated that a graduated approach that recognises the overall level of delivery will be applied which in turn will help to mitigate the partnerships risks should one project fail to deliver the required level of GVA growth.

### 7.3 **Equalities**

- (a) An Equalities Impact Assessment needs to be carried out as part of the overall development of the City Deal Business Case, but it is not required at this time.

### 7.4 **Acting Sustainably**

- (a) There are considered to be no environmental risks associated with the recommendations.

### 7.5 **Carbon Management**

- (a) The report seeks approval to proceed to project identification. There are no effects on carbon emissions arising from the proposals contained in this report at this stage.

### 7.6 **Rural Proofing**

- (a) Not applicable.

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

- (a) There are no changes to be made to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals contained in this report.

**8 CONSULTATION**

8.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Chief Officer HR, and the Clerk to the Council have been consulted and their comments have been incorporated into the final report.

**Approved by**

**David Cressey**

**Signature .....**

**Service Director, Strategy & Policy**

**Author(s)**

Name	Designation and Contact Number
David Cressey	Service Director Strategy and Policy

**Background Papers:** [insert list of background papers used in compiling report]

**Previous Minute Reference:** [insert last Minute reference (if any)]

**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. David Cressey can also give information on other language translations as well as providing additional copies.

Contact us at: Corporate Management Support, Council Headquarters, Newtown St Boswells, Melrose, TD6 0SA