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## **CITY DEAL PROPOSAL**

**Report by Service Director Strategy & Policy**

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### **EXECUTIVE**

**3 February 2015**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 **This report seeks the Committee's approval for Council participation in the development of a business case for a City Deal for the Edinburgh City-Region/East of Scotland. The business case will investigate the potential for City Deal to contribute to the funding of future economic infrastructure across the city-region.**
- 1.2 A City Deal for the city-region could bring significant investment in infrastructure and could support economic growth across the city-region. In order to assess the likely benefits, including potential investments in the Scottish Borders, and to fully assess risks, further work needs to be carried out to establish if a robust and verifiable business case exists.
- 1.3 Once that business case has been developed, a further report will be prepared to allow Elected Members to consider the Council's future participation in a City Deal bid for the south east of Scotland.

#### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Executive:**
  - (a) **Notes the potential for a City Deal;**
  - (b) **Agrees that the Council should participate in developing a potential submission;**
  - (c) **Agrees that a contribution from the Council of up to £25,000 should be made available to support the development of the business case; and**
  - (d) **Agrees that officers should bring a further report to Executive outlining the benefits and risks of the proposal, prior to any formal decision on participation beyond the development of the business case.**

### **3 BACKGROUND**

- 3.1 "City Deals" seek to promote economic growth through investment in enabling infrastructure. Where economic growth is being limited by the availability of infrastructure, City Deals provide a mechanism whereby investment can be forward funded. The cost of the investment is then recovered through increased tax revenue resulting from the economic growth. City Deals can only recover a percentage of the tax increases which are shown to have been generated by the investment.
- 3.2 The "City Deal" provisions were initiated in late 2011 as part of the UK Government's "localism" agenda. They seek to empower cities and city-regions to drive economic growth through investment in enabling infrastructure.
- 3.3 Initially eight deals were agreed with the English Core Cities. Whilst each City Deal is unique, key features of these deals were:
  - (a) Local authorities developing a clear programme of infrastructure investment with the priority to deliver Gross Value Added (GVA) – GVA is essentially a local measure of jobs and productivity growth;
  - (b) An Infrastructure Fund established for the programme with funding from a variety of sources, including a significant proportion of local authority contributions;
  - (c) 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
  - (d) Robust local governance and delivery arrangements established across the geography over which the investment will be targeted.
- 3.4 Twenty-eight English cities and city-regions have now secured their own deals and in July 2014 the UK Government announced a City Deal for the Glasgow City-Region.

### **4 THE GLASGOW CITY DEAL**

- 4.1 The Glasgow City Deal includes a £1.13 billion Glasgow and Clyde Valley Infrastructure Fund. The UK Government will provide £500 million of capital funding, a further £500 million of capital will be provided by the Scottish Government and a minimum of £130 million of capital will come from local authorities across Glasgow and Clyde Valley. The funding will be used to improve the transport network across Glasgow and the Clyde Valley, including improvements to public transport, and to unlock key development and regeneration sites. These contributions will be made over a 20 year period.
- 4.2 In addition, other funds within the city deal will support growth in the life sciences sector, provide additional business incubator space, target youth unemployment and test new ways to boost the incomes of people on low wages.
- 4.3 The investment takes the form of £15m by each government, each year, for the first five years. It is understood that future investment by each government will be dependent on the scheme's benefits being realised through "above projection" economic growth. A formal process of 5-yearly "Gateway Reviews" will be put in place, with the reviews being undertaken by an independent Commission.

## **5 A POTENTIAL SOUTH-EAST SCOTLAND CITY-REGION DEAL**

- 5.1 City of Edinburgh Council is promoting a bid for the Edinburgh City-Region. The area being considered is that covered by SESPlan, i.e. City of Edinburgh, East Lothian, the southern part of Fife, Midlothian, West Lothian and Scottish Borders. The other Councils have already agreed to participate. There is also a possibility that Dundee City may become involved in the project, due to its economic, transportation and planning links with Fife.
- 5.2 An analysis conducted by 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. Any city-region deal could align with aspirations to improve the regional transport network, including enhancing public transport and active travel infrastructure; unlock strategic development areas; support key industry sectors and deliver sustainable places.
- 5.3 Development of the business case is on-going and agreement on this will be the focus of work in the coming weeks. As part of this work, and subject to approval by Executive, officers will begin to identify projects which could form a Scottish Borders component of any city-region submission. Members should note that any investment funded by Scottish Borders Council would be ring-fenced for infrastructure works in the Scottish Borders.
- 5.4 A key consideration for the Council will be the affordability of any contribution to the Fund given the likely need for forward funding by the Council. Forward funding, and the benefits it would bring, will have to be considered in the context of a number of risks which exist. The most significant risk identified so far is that investment does not achieve the level of growth anticipated. In these circumstances, it is possible that the expected financial return on investment would not be achieved. However, each deal is unique and the impact of this risk will not be fully quantifiable until the details of the terms of any potential deal are confirmed.

## **6 NEXT STEPS**

- 6.1 Subject to Executive approval, officers will contribute to a cross authority working group to develop a potential bid. This will include work on the geographical area to be covered by the bid, the growth sectors to be supported and the identification of the infrastructure investment necessary to achieve the aims.
- 6.2 No definitive timescale for this work has been set, but it is anticipated that the draft business case will be developed by spring, with a bid being submitted by the summer. There is an aspiration to submit the bid before the UK General Election in May 2015. However, there is significant work required to produce the business case and it currently seems unlikely that this can be achieved.
- 6.3 A cross-service officer group has been established to engage with City of Edinburgh Council and the other local authorities who participate in the City Deal. Consideration is also being given to how effective governance for the City Deal project can be put in place to ensure appropriate political and senior officer input.

- 6.4 The partner Councils are taking a step-by-step approach to the City Deal proposal that allows each Council to respond at each stage as it considers most appropriate. Once the business case has been developed, a further report will be prepared to allow Elected Members to consider the Council's future participation in a City Deal bid for the south east of Scotland. It will be essential that the report is clear about what the future financial implications could be for the Council's Capital Programme and revenue budget.

## 7 IMPLICATIONS

### 7.1 Financial

A City Deal for the city-region could generate significant funds for investment in infrastructure. Some forward funding may be available from the Scottish and/or UK Government. Forward funding will be required by the participant authorities, with repayment of the funding being via an agreed mechanism to apportion the 'tax take' generated from additional economic growth facilitated by the infrastructure investment. The need for forward funding will have to be assessed against the future capital priorities for the Council, as well as the need to make significant revenue savings. Funding support of up to £25,000 is required as the Council's contribution towards the development of the initial business case. This has been identified from existing Neighbourhood Services revenue budgets.

### 7.2 Risk and Mitigations

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

- (a) **Devolution of taxation powers:** The national debate on the tax raising powers to be devolved to the Scottish Parliament could delay the city deal negotiations.
- (b) **Scale of coalition/geography:** All City Deals so far have achieved a degree of scale that cannot be achieved by one local authority alone.
- (c) **Return:** All projects will be prioritised by their contribution to GVA growth and the Scottish Borders' GVA performance is significantly less than the City of Edinburgh's.
- (d) **Repayment Terms:** Each City Deal is unique and existing deals only provide an indication of what might be possible.
- (e) **Integration of use with other financial tools:** A City Deal is only one of a number of tools available to Councils. It should not be considered in isolation.
- (f) **Management of project portfolio:** The candidate projects may vary considerably in their costing approach and their maturity. Only truly additional projects can be included in a City Deal.
- (g) **Displacement:** The City Deal infrastructure displaces investment from other local authority areas to the detriment of their sustainable economic growth.

- 7.3 Council officers will need to assess the City Deal business case once it has been produced. This will allow them to understand how these risks, and any others identified, could be mitigated prior to making recommendations to Elected Members at a future meeting.

#### 7.4 Equalities

An Equalities Impact Assessment is not required because this report does not propose a change or revision to any existing policy or practice.

#### 7.5 Acting Sustainably

No decision is required that has economic, social or environmental implications.

#### 7.6 Carbon Management

No decision is required that has an effect on carbon emissions.

#### 7.7 Rural Proofing

This report does not propose a new or amended policy or strategy.

### 8 CONSULTATION

- 8.1 The Chief Financial Officer, the Service Director Regulatory Services as Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, 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**  
**Service Director Strategy & Policy**

**Signature .....**

#### Author(s)

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**Background Papers: Not applicable**

**Previous Minute Reference: Not applicable**

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