

**REPORT TO:** East Lothian Council

**MEETING DATE:** 28 June 2016

**BY:** Chief Executive

**SUBJECT:** Edinburgh and South East Scotland City Region  
(ESESCR) Deal

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## **1 PURPOSE**

- 1.1 The purpose of this paper is to provide an update on the focus, scope and scale of the City Region deal and to agree to the recommendations in Section 2.

## **2 RECOMMENDATIONS**

- 2.1 It is recommended that Council:

- Notes the progress of the City Region Deal since the previous update in April 2015;
- Approves the proposed formation of a Joint Committee for the City Region Deal programme;
- Notes ongoing discussions on the opportunity for a reformed approach to policy integration under a new cross-sector partnership model;
- Agrees the priorities for the City Region Deal that form the basis of negotiations with the UK and Scottish Governments; and
- Authorises the Chief Executive to negotiate a total contribution from East Lothian Council towards a City Region Deal that secures a deal of significance for East Lothian. The deal contribution should be in accordance with project(s) and programme interventions that are negotiated with Governments, whilst being balanced against parameters of affordability and risk.

## **3 BACKGROUND**

- 3.1 At its meeting in December 2014 the Council agreed to contribute initial resources to support the development of an outline business case for a City Region Deal Infrastructure Fund, in partnership with the City of Edinburgh, Fife, Midlothian Scottish Borders and West Lothian councils.

Further resources were committed in April and May 2015 to enable a more detailed proposition to be developed. This was submitted to the UK and Scottish Governments in September 2015, with further, more detailed iterations in December 2015 and April 2016.

- 3.2 Partners involved in shaping the City Region Deal include the local authorities, universities and colleges, the private sector, the third sector and relevant public sector agencies.
- 3.3 Following the statement in the 2016 Budget from the Chancellor of the Exchequer on pursuing a City Region Deal for the region, the Scottish Government, the UK Government and the local authorities signed Terms of Reference for a City Region Deal, and negotiations are now underway on the scope and timing of the Deal.
- 3.4 The City Region Deal aims to make a step change in economic growth across the region through a wide-ranging programme of investment. Integrated regional low carbon and skills programmes will cut across all interventions.
- 3.5 A number of freedoms and powers are also being sought in the proposition submitted to both governments as well as proposing delivery governance.

#### **Leadership, Governance and Policy Integration**

- 3.6 Both the UK and Scottish Governments have emphasised that local leadership and commitment across the regions is important to deliver their aspirations for local economic growth through the City Region Deal programmes. 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. Recognising the importance of robust governance arrangements, the City Region Leaders have agreed to establish a Joint Committee for this purpose and to include representation from both the university and business sectors on that committee.
- 3.7 The role of the committee would be fourfold: to determine strategic focus; to agree investment priorities; to oversee planning and implementation activity; and to monitor impact.
- 3.8 The City Region Deal provides the opportunity for a new approach to policy integration which could bring together strategic planning functions for the region under a new cross-sector partnership model. The potential benefits would include a clear alignment of activities and more efficient working. Discussions on a reform of the approach to city region governance and programmes are ongoing.

## **Investment programmes**

3.9 The City Region Deal proposals have been shaped around four interconnected programmes:

- innovation hubs;
- infrastructure investment;
- a regional housing programme; and
- a culture and tourism programme.

3.6 Taken together across the region, these amount to around £2bn of investment, with the potential to lever in £5bn of private sector monies. This cohesive programme of investment will create a step change in the regional economy, accelerating inclusive growth over the next 20 years. Projects will be prioritised based on strategic fit, impact and deliverability.

### **(i) Innovation Hubs**

3.7 At the heart of the vision is the aim of accelerating growth through investing in dynamic, future-oriented sectors of the economy. Universities are potential powerhouses for economic growth and can play a unique role at the heart of an innovation ecosystem, connecting world-leading research and innovation to business incubation and skills development.

3.8 Sectors in which the region already has significant strengths, and in which universities already have potential to deliver a step-change to sectoral growth include:

- low carbon;
- data technologies (with applications in creative industries including Edinburgh's festivals, fintech, communications technology and the 'smart' public sector);
- life sciences, (medicine / health care and veterinary medicine and agriculture);
- food and drink; and
- textiles.

3.9 The partners aim to scale up or establish innovation hubs around each of the above sectors, placing university research and innovation at the heart of the region's growth strategy.

3.10 Co-funding is being sought to establish or develop the facilities in which leading-edge research can produce innovative technologies in close engagement with businesses, in ways that leverage in private investment to take products to market. By investing in this way in incubation and reformed business support capabilities the region will build the comparative advantage that grows dynamic sectors that can compete and lead in national and global markets.

## **(ii) Infrastructure Investment**

- 3.11 The Innovation Hub activity will take place within a broader context of City Region Deal investment in infrastructure – both physical and digital – across the region. This programme of investment will focus on developing a pipeline of strategically significant projects which have the potential, both individually and collectively, to contribute to significant economic impact across the city region.
- 3.12 The City Region Deal also provides a unique opportunity to provide a step change in digital connectivity and activity. Access to high quality digital provision across the region is both complex and a major barrier to economic growth.

## **(iii) Regional Housing Programme**

- 3.13 There is an urgent need to accelerate the supply of affordable housing across the region. The market is failing to deliver enough new homes to meet demand and the response to the housing crisis facing the region cannot be solved without innovative solutions and key policy intervention. House prices and rents in the private rented sector continue to rise. This has led to rising inequality and a cost of living crisis in many areas across the city region.
- 3.14 The Regional Housing Programme will enable the development of major strategic housing sites and the delivery of affordable housing across sites identified in strategic housing investment programmes and the wider public sector estate:
- A strategically significant revolving **Housing Infrastructure Fund** could materially assist in the delivery of a large number of affordable and market homes across major housing sites;
  - **Additional affordable housing grant** funding for the region is sought over the next ten years;
  - **A Regional Land and Property Commission** will assess public sector sites viability for accelerated affordable housing led development prior to sites being marketed on the open market. It will also have powers to acquire sites from private market. A start up loan fund is sought to enable site acquisitions between partners, with loans repayable post development. Potential partners could include: Local Authorities, Scottish & UK Government, NHS, MoD, Police & Fire services and the Crown Estate.

## **(iv) Culture and Tourism Programme**

- 3.15 The city region, including the capital city, is one of the most desirable tourist destinations in Europe, welcoming over 3.8m visitors a year. The world-class cultural assets offer is also a vital stimulus for the region's

wider creative and services industries, and its attractiveness to knowledge-based workers, businesses and students.

- 3.16 Investment in enhanced cultural infrastructure is critical for the city region to maintain its international standing. A number of investment propositions are being considered as part of the city region deal, including increased levels of funding for the festivals and enhanced workspace provision for the creative sector.

### **Cross-Cutting Programmes**

- 3.18 The City Region Deal provides an opportunity to future proof the economy of the city region and to further develop the world-leading low carbon sector within its boundaries. The work of the Edinburgh Centre for Carbon Innovation shows the potential to connect academic expertise both to early-stage business incubation but also to support the development of a 200-strong network of established companies in developing products for regional, UK and now international markets. The opportunity is to replicate and scale up this model across the range of low carbon technologies that have a strong basis in research and innovation in the region's universities, and to link these to development opportunities across the region.

- 3.19 With innovation hubs at the heart of the City Region Deal, a cross-cutting Integrated Regional Employability and Skills (IRES) programme will marry the world-class research of the region's universities, the excellent skills training provided by its colleges, and insights and planning from businesses to match supply and demand in skills. Bespoke skills pipelines will help to up-skill the region's workforce ensuring that new jobs created can both attract talent from outside the region and be filled by talent nurtured from within the region.

- 3.20 The IRES programme will re-engineer and augment the currently separate employability and skills infrastructures into an integrated regional system that is co-produced with stakeholders and led by an underpinning regional partnership. The Scottish Government announcement to review SE, HIE, SDS and the SFE is timely in respect of our proposals.

- 3.21 Through this enhanced participation by stakeholders and the sharing and joining up of expertise at a more natural economic scale, significant quantitative and qualitative benefits will be realised.

### **Impact**

- 3.22 These mutually reinforcing programmes of investment will be transformational for the city region. Detailed modelling of the programme of investment will be undertaken over coming weeks. The City Region Deal programme represents an ambitious and game-changing approach to accelerating and future-proofing inclusive growth across the region.

- 3.23 The proposed investments align clearly with national priorities identified within the Scottish Government's Economic Strategy and with targets included in the National Performance Framework.

#### **Next steps**

- 3.24 Negotiations are underway with the UK and Scottish Governments on each of the investment programmes. A series of workshops are planned over coming weeks with the aim of delivering a City Region Deal by the end of the calendar year.

#### **Measures of success**

- 3.25 The success of projects will be measured and assessed by an agreed formula between Treasury and the partners. This will include indicators to determine the increase in productivity and reduction in inequalities arising from the investment.
- 3.26 It is likely that Gateway Reviews will determine whether projects have delivered value for money, and whether funds will be returned from Government for further investment (see Financial Impact section).

#### **Consultation and engagement**

- 3.27 A stakeholder engagement strategy has been developed within the Project Management Office (PMO) function of the City Region Deal partnership. Through the Sustainable Economy Partnership (SEP) we will continue to engage with local businesses to ensure optimal alignment of interventions with business requirements.
- 3.28 Ongoing discussions on the composition and scope of City Region Deal have been held over the past 18 months with city region local authorities, the UK and Scottish Governments and agencies, and key regional stakeholders in the business and third sectors.

### **4 POLICY IMPLICATIONS**

- 4.1 City Deal negotiation is evolving and an eventual deal is likely to have significant policy impact.

### **5 INTEGRATED IMPACT ASSESSMENT**

- 5.1 All of our propositions aim to reduce inequalities across the city region and by definition within East Lothian. 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.

- 5.2 A City Region Deal would also 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 RESOURCE IMPLICATIONS**

- 6.1 Financial – financial arrangements for agreeing a City Region Deal remain subject to negotiation. Based on other agreed City Deals with infrastructure funds of scale, it can be assumed that local authorities will contribute 10 per cent of the capital funding. Assuming a total infrastructure fund of approximately £2bn this would mean local authority contributions of £200m. The share of this attributable to East Lothian Council will be dependant not just on the scale of the Deal agreed, but on the projects and programme interventions that progress. It is important to note that along with a capital funding component, there may also be revenue funding implications. Taken together these proposals currently amount to around £2bn of investment, with the potential to lever in £5bn of private sector monies. Financial arrangements for a Deal are still to be determined but funds are likely to be released from Government, at least in significant part, on a “Payment by Results” basis. Although City Deal is referenced within the Council’s approved Financial Strategy, commitment of resources to the City Deal will have a significant impact upon the Council’s financial plans, especially in the medium to long term and it will be necessary for the Council to consider this further when the detail becomes known.
- 6.2 Risk - 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. 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.

## **7 BACKGROUND PAPERS**

- 7.1 Edinburgh City Region Deal, East Lothian Council, 16 December 2014
- 7.2 Edinburgh City Region Deal, East Lothian Council, 21 April 2015

<b>AUTHOR'S NAME</b>	Douglas Proudfoot
<b>DESIGNATION</b>	Head of Development
<b>CONTACT INFO</b>	<a href="mailto:dproudfoot@eastlothian.gov.uk">dproudfoot@eastlothian.gov.uk</a>
<b>DATE</b>	28 June 2016