

The City of Edinburgh Council

10.00am, Thursday, 26 January 2017

The Edinburgh and South East Scotland City Region (ESESCR) Deal

Item number	8.1
Report number	
Executive/routine	Executive
Wards	All

Executive Summary

Following announcement in the 2016 Budget from the Chancellor of the Exchequer on pursuing a City Region Deal for Edinburgh and South East Scotland, and the subsequent confirmation of ongoing negotiations in the recent Autumn Statement, discussions between partners and both Governments have continued.

City Region Leaders have established a Shadow Joint Committee to oversee the City Region Deal Programme. This includes representation from the local authorities, and from the university and business sectors.

A series of workshops with Government took place over the summer of 2016 at which the partners presented outline propositions. A further round of discussions during December 2016 ensured a more detailed examination of the potential areas for investment.

The partners are working with Government towards achieving an announcement of Heads of Terms of the City Region Deal in Spring 2017.

Links

Coalition Pledges [CP8, CP9, CP15, CP17, CP21, CP28, CP30, CP31](#)

Council Priorities [reducing poverty, inequality and deprivation; providing for Edinburgh 's prosperity](#)

Single Outcome Agreement [SO1](#)

The Edinburgh and South East Scotland City Region (ESESCR) Deal

1. Recommendations

- 1.1 It is recommended that the Council:
- 1.1.1 Notes the continued progress of the City Region Deal since the previous update to Council in [June 2016](#), including the establishment of a Shadow Joint Committee for the City Region Deal programme;
 - 1.1.2 Notes the further development of investment propositions shaped around a twin focus on innovation and inclusion;
 - 1.1.3 Notes the ambition to achieve an agreed Heads of Terms document by the Spring 2017; and
 - 1.1.4 Notes the requirement for a potential match funding allocation.

2. Background

- 2.1 At its meeting in [December 2014](#), the Economy Committee agreed to contribute initial resources to support the development of an outline business case for a City Region Deal Infrastructure Fund, in partnership with East Lothian, Fife, Midlothian Scottish Borders and West Lothian councils. Further resources were committed in [April 2015](#) (Economy Committee) and [May 2015](#) (Corporate Policy and Strategy Committee) to enable a more detailed proposition to be developed. This was submitted to the UK and Scottish Governments in September 2015, with further iterations in December 2015, April 2016 and October 2016.
- 2.2 A paper was considered by the City of Edinburgh Council in [June 2016](#) when the formation of a Joint Committee for the City Region Deal programme was approved, to agree the priorities for the City Region Deal that form the basis of negotiations with the UK and Scottish Governments. It was also noted that a financial contribution would be required from the City of Edinburgh Council.
- 2.3 In 2016, the then Chancellor of the Exchequer, announced that Government will be pursuing a City Region Deal for Edinburgh and South East Scotland. This commitment was confirmed by the incoming Chancellor in his 2016 Autumn Statement. Negotiations have been ongoing with the Scottish Government, the UK

Government and the local authorities since Terms of Reference for a Deal were agreed in March 2016, and partners are now working towards Heads of Terms being agreed by Spring 2017.

- 2.4 The City Region Deal aims to accelerate the region's rate of economic performance by a twin focus on innovation and inclusive economic growth. A wide-ranging programme of investment is envisaged, with low carbon and skills programmes cutting across all interventions.
- 2.5 A number of freedoms and powers are also being sought in the proposition being discussed with both governments, as well as proposing delivery governance.

3. Main report

- 3.1 The purpose of this paper is to provide an update on the progress towards achieving a City Region Deal for Edinburgh and South East Scotland and to agree to the recommendations in Section 1.

Governance and strategic focus

- 3.2 At its meeting on 30 June 2016 Council agreed to the establishment of a Joint Committee for the purpose of developing a City Region Deal. This Committee includes representation from both the university and business sectors and is meeting monthly to help shape the Deal and support the negotiations with government.
- 3.3 As outlined in the previous report to Council, the role of the committee will be fourfold as the Deal progresses: to determine strategic focus; to agree investment priorities; to oversee planning and implementation activity; and to monitor impact.
- 3.4 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.

Innovation and Inclusion

- 3.5 The City Region Deal proposition has been further shaped around two mutually exclusive pillars for investment: Innovation and Inclusion.

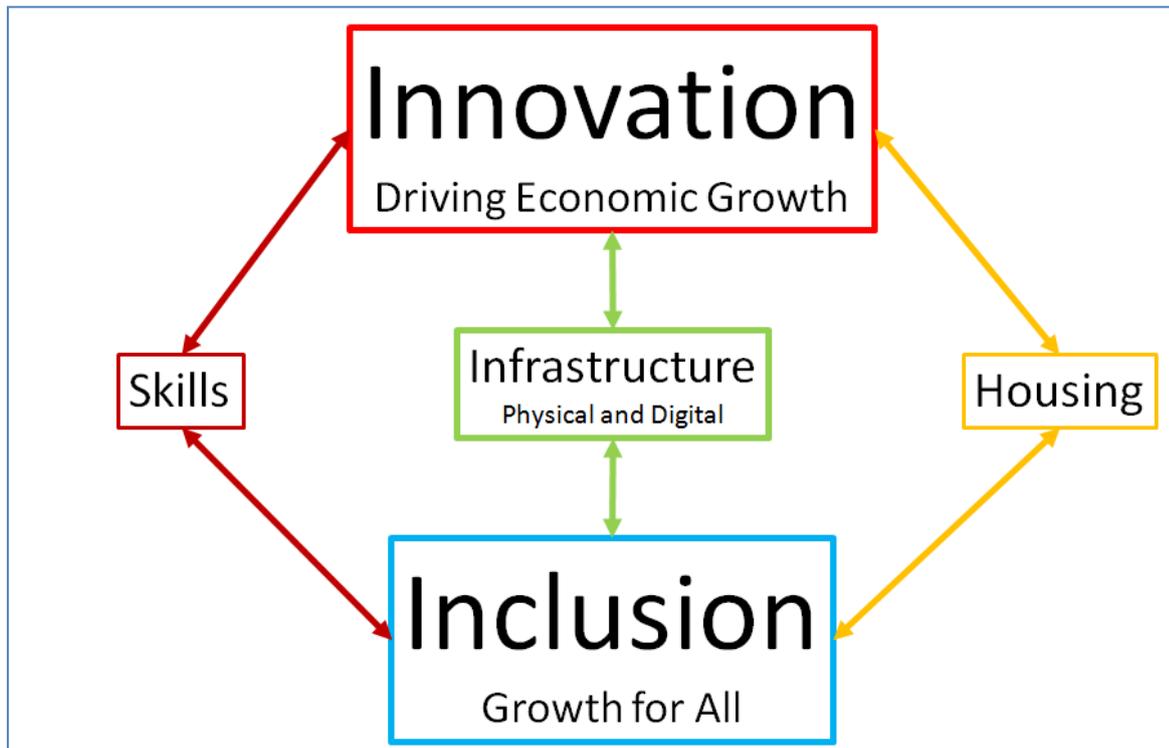


Figure 1 – The ESESCR Deal Proposition

Innovation

3.6 The City Deal focus on Innovation has investment at its heart and, as previously reported to Council, will seek to tackle the underlying barriers to market-led investment and enterprise, through inter-connected innovation centres. The region's distinctive strengths lie primarily in health and life sciences, data, robotics, and in low carbon driven innovation.

3.7 Enhanced links between university-based research and the private sector are to be delivered, and these will take place through physical co-location and new co-investment models. But the system will also focus on: public sector innovation and service reform; engagement with the skills system from schools to technical education to advanced study; and the importance of Place and sustainable Place Making as a core factor in attracting and retaining talent. Complementary investment in infrastructure will ensure access to and within our innovation centres.

Inclusion

3.8 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 on inclusive growth is a key measure that is being considered in the prioritisation of proposals.

Skills and employability

- 3.9 The City Region Deal will help invest in skills amongst the current and future labour force to drive up productivity of labour and ensure that the region's residents are equipped with the skills to meet emerging labour market demand and opportunity. Skills are a critical area with demand outstripping supply in some sectors, and bold new approaches are required. Propositions are targeted at addressing this issue.
- 3.10 A regional skills plan will be agreed to support the City Region Deal and link to the Innovation propositions. The aim is to create an integrated multi-agency regional employability and skills 'escalator', with devolved funding arrangements. This will help people facing labour market exclusion into entry level employment; put in place in work up-skilling incentives at scale; and support a pipeline of indigenous and global talent ensuring we can meet growing demand for high-level graduate skills that the region's high-technology industries need.

Affordable housing programme

- 3.11 Central to the inclusion agenda is the issue of housing. Edinburgh has one of the most expensive regional housing markets in the UK and 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.
- 3.12 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.
- 3.13 The proposal also looks to on-lend to Council backed housing companies delivering low cost market rented homes. Expanding the supply of good quality low cost market rent housing across the region is an essential requirement for meeting the housing needs of key workers and those on low to middle incomes who cannot access home ownership and are not a priority for social rent.
- 3.14 The ambition to establish a Regional Land Commission has already been reported. This would accelerate the pipeline of deliverable sites for housing across the region. Partners would include: all regional local authorities The Scottish Government; public bodies such as the Scottish Fire and Rescue

Service, NHS, Police Scotland; universities and colleges; and UK Government departments and executive agencies.

Infrastructure

- 3.15 Infrastructure 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 and enhancing public transport and active travel provision.
- 3.16 For Edinburgh, the investment to ensure the infrastructure at the International Business Gateway can be forward funded and set the highest standards of sustainability is a key priority.

Creative / cultural proposition

- 3.17 Edinburgh is one of the most desirable tourist destinations in Europe. Around 4 million visitors a year inject £1.3bn in to the economy each year, which in turn creates a significant number of jobs and economic output. Edinburgh acts as the gateway to Scotland, with around 60% of visitors spending time in the capital before seeing other parts of the country. The world-class cultural offer is also a vital stimulus for the region's wider creative and service industries and its attractiveness to knowledge-based workers, businesses and students.
- 3.18 The offer centres on Edinburgh's 12 major festivals, which have unrivalled international appeal, and the year-round cultural infrastructure (providers and venues) which enable the festivals to thrive. This requires significant ongoing investment to retain Edinburgh's pre-eminent Festival City status. Without it, the Capital risks being left behind by other competitor cities and failing to capitalise on the skills, innovation and inclusive growth potential of this key asset.
- 3.19 The City Region Deal creative / cultural proposition has been shaped around three areas: funding to further develop a creative industries hub linked to the redevelopment of University of Edinburgh facilities at Lauriston Place; a proposal to create a new world-class arts centre in the heart of Edinburgh; and enhanced investment in destination marketing, festivals and cultural infrastructure, potentially through a Transient Visitor Levy or a suitable alternative fiscal mechanism.

Low carbon

- 3.20 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.

- 3.21 Furthermore, by developing the potential to export to rapidly growing global markets, the sector can contribute to accelerating economic growth at a national level.

Impact

- 3.22 The City Region Deal programme represents an ambitious approach to accelerating and future-proofing inclusive growth across the region. 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. The UK Government has announced the development of an Industrial Strategy which is likely to focus on clear sector strengths and highlight the importance of investing in the areas which have most potential to grow.

Next steps

- 3.23 Negotiations continue with the UK and Scottish Governments on each of the investment programmes. A second 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 by spring 2017.

4. Measures of success

- 4.1 The success of projects will be measured and assessed by an agreed approach between the UK and Scottish governments and the partners. This is likely to include indicators to determine the increase in productivity and decrease in inequalities arising from the investments.

5. Financial impact

- 5.1 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.
- 5.2 Further work will need to be carried out to determine the actual contribution required from the Council as this will depend on the projects approved and associated funding models. A report will be presented to a future Council meeting, setting out the financial implications of the deal, prior to the agreement of Heads of Terms.

6. Risk, policy, compliance and governance impact

- 6.1 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.
- 6.2 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.
- 6.3 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 has been approved by Council but further work is required to develop this.

7. Equalities impact

- 7.1 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

8. Sustainability impact

- 8.1 A City Region Deal would provide a mechanism to help drive forward investment in sustainable place making. It will be developed in line with the city's stated ambition to advance a sustainable economy. A holistic approach to sustainable growth is at the heart of the City Region Deal.

9. Consultation and engagement

- 9.1 A stakeholder engagement strategy has been developed within the PMO function of the City Region Deal partnership.
- 9.2 Ongoing discussions on the composition and scope of City Region Deal have been held over the past two years with city region local authorities, the UK and Scottish Governments and agencies, and key regional stakeholders in the business and third sectors.

10. Background reading / external references

- 1 "[City Growth and Infrastructure Investment](#)" – report to the Economy Committee on 18 December 2014
- 2 "[Edinburgh and South East Scotland City Region City Deal](#)" – report to the Economy Committee on 28 April 2015
- 3 "[Edinburgh and South East Scotland City Region City Deal](#)" – report to Corporate Policy and Strategy Committee on 12 May 2015
- 4 "[The Edinburgh and South East Scotland City Region \(ESESCR\) Deal](#)" – report to The City of Edinburgh Council on 30 June 2016

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11. Links

Coalition pledges

CP 8 Make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites

CP 9 Work in partnership with Scottish Government to release more funds for council homes for rent

CP15 Work with public organisations, private sector and social enterprise to promote Edinburgh to investors

CP 17 Continue efforts to develop the city's gap sites and encourage regeneration

CP 21 Consult further on the viability and legality of a transient visitor levy

CP 24 Maintain and enhance support for our world famous festivals and events

CP 28 Further strengthen our links with the business community by developing and implementing strategies to promote and protect the economic well being of the City

CP 30 Continue to maintain a sound financial position including long term financial planning

CP 31 Maintain our city's reputation as the cultural capital of the world by continuing to support and invest in our cultural infrastructure

Council Priorities

- [reducing poverty, inequality and deprivation](#)
- [providing for Edinburgh 's prosperity](#)

Single Outcome Agreement

SO1 Edinburgh's economy delivers increased investment, jobs, and opportunities for all