

The City of Edinburgh Council

10am, Thursday, 30 June 2016

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

Item number	8.7
Report number	
Executive/routine	
Wards	All

Executive summary

Following the statement in the 2016 Budget from the Chancellor of the Exchequer on pursuing a City Region Deal for Edinburgh and South East Scotland, negotiations are underway on the scope, scale and timing of the City Region Deal.

City Region Leaders have agreed to establish a Joint Committee to oversee the City Region Programme. This will include representation from the local authorities, and from the university and business sectors.

Discussions are underway on the opportunity for a reformed approach to policy integration under a new cross-sector partnership model.

The City Region Deal proposals are being shaped around four interconnected programmes: innovation hubs; infrastructure investment; a regional housing programme; and culture and tourism investment. Regional skills and low carbon programmes will ensure that inclusive and sustainable growth is positioned at the heart of City Region Deal activity.

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 on a "Payment by Results" basis. Local authorities will be required to fund a proportion of the deal. In a £2bn Deal scenario, the City of Edinburgh's contribution could be approximately £100m, depending on the final projects approved for inclusion.

Links

Coalition Pledges	CP 8, CP9, CP15, CP24, CP28, CP30, CP31
Council Priorities	
Single Outcome Agreement	SO1

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

Recommendations

- 1.1 It is recommended that the Council:
 - 1.1.1 Notes the progress of the City Region Deal since the previous update in [May 2015](#);
 - 1.1.2 Approves the proposed formation of a Joint Committee for the City Region Deal programme;
 - 1.1.3 Notes ongoing discussions on the opportunity for a reformed approach to policy integration under a new cross-sector partnership model;
 - 1.1.4 Agrees the priorities for the City Region Deal that form the basis of negotiations with the UK and Scottish Governments; and
 - 1.1.5 To note that a contribution will be required from the City of Edinburgh Council of around £100m towards a City Region Deal (assuming a deal in the order of £2bn and confirmation of the final projects included).

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, more detailed iterations in December 2015 and April 2016.
- 2.2 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.
- 2.3 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.

- 2.4 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.
- 2.5 A number of freedoms and powers are also being sought in the proposition submitted to both governments as well as proposing delivery governance.

Main report

- 3.1 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 1.

Governance and strategic focus

- 3.2 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. Recognising the importance of robust governance arrangements, the City Region Leaders agreed at their meeting on 27 November 2015 to establish a Joint Committee for this purpose and to include representation from both the university and business sectors on that committee (see Appendix One – “Edinburgh and South East Scotland City Region Deal – Proposed Governance Structures”).
- 3.3 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.
- 3.4 There is a strong case for integrating the support and service arrangements for planning, transport, housing and economic development at a regional level – as referenced in the recently published independent review of the Scottish Planning system, [“Empowering Planning to Deliver Great Places”](#) (May 2016). 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 such a reform of the approach to city region governance and programmes are ongoing.

Investment programmes

- 3.5 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 from the private sector. This cohesive

programme of investment will create a step change in the regional economy, accelerating inclusive growth over the next 20 years.

3.7 Projects will be prioritised based on strategic fit, impact and deliverability.



Figure 1 – The ESESCR Deal Proposition

i) Innovation Hubs

3.8 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.

3.9 The dramatic growth of the tech sector around the University of Edinburgh's School of Informatics, feeding off the School's research programmes and the skills of its graduates and supported by the business development body Informatics Ventures, illustrates the possibilities that emerge from fluid university-business linkages.

3.10 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.

- 3.11 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.
- 3.12 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.
- 3.13 A project pipeline for the Innovation Hubs is under development.

ii) Infrastructure Investment

- 3.14 The Investment 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. These will ensure that major development areas are as sustainable as possible, with a focus on public transport and active travel.
- 3.15 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

- 3.16 There is an acute shortage of homes, affordable for people on low to moderate incomes, across the region. This, and the high cost of housing in many areas of the region, is a key factor in the cost of living faced by those households. House-building rates for both affordable and market homes fall well below that needed to address current and future demand. Reducing the cost of housing for those on low to moderate incomes would be one of the quickest ways to spread the positive economic benefits of growth and generate additional local economic uplift.
- 3.17 The Scottish Government has set a target of delivering 50,000 affordable homes, 35,000 of them to be for social rent, with the remainder being largely for mid market rent and some for low cost home ownership. Council officers and Scottish Government officials have been exploring ways to align the national target with regional and local delivery of new homes.
- 3.18 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 deliver a large number of affordable and market homes across major housing sites. It is anticipated that monies would be allocated to removing prohibitive infrastructure identified a number of strategic housing sites;
- **Additional affordable housing grant** funding for the region is sought over the next ten years;
- **Consent to on-lend** can enable the City of Edinburgh Council to invest and deliver up to 500 low cost homes to rent per annum;
- **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

- 3.19 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.
- 3.20 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 improved sustainability for the City's cultural programme and significant improvement in key tourism sectors and enhanced workspace provision for the creative sector.

Cross-Cutting Programmes

- 3.21 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 (a collaboration of the University of Edinburgh, Edinburgh Napier University and Heriot-Watt University) 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.
- 3.22 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 from within the region.

3.23 The IRES programme will reengineer 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.

3.24 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

3.25 These mutually reinforcing programmes of investment will be transformational for Edinburgh and the region. Detailed modelling of the programme of investment will follow 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.

3.26 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

3.27 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

4.1 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.

4.2 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.

Financial impact

5.1 Financial arrangements for agreeing a City Region Deal remain subject to negotiation. Based on other agreed City Deals with infrastructure funds, it can be assumed that local authorities will contribute at least 10 per cent of the capital funding. Investment is likely to be over an initial ten year period, with funding released over a twenty year timeframe, subject to gateway reviews. This timing

difference between the profile of capital investment and release of funding will result in borrowing costs being incurred by the Council.

- 5.2 Further work will need to be carried out to determine the actual contribution however, assuming a total infrastructure fund of approximately £2bn would mean local authority contributions of £200m. The share of this attributable to the City of Edinburgh Council could be around £100m (dependant on the scale of the Deal agreed and the final composition of the projects included). Further financial modelling will require to be undertaken as projects are finalised, and this will determine the contribution from the Council.
- 5.3 In line with our partner authorities, Edinburgh is currently dealing with significant financial pressures. The Council will therefore need to consider the revenue implications as part of its budget process and will include an update in the mid-term review report to Finance and Resources Committee in September 2016.

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 is detailed in the main report and recommended for this Council to approve.

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.

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 cross-cutting approach to sustainable growth is at the heart of the City Region Deal.

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 18 months with city region local authorities, the UK and Scottish Governments and agencies, and key regional stakeholders in the business and third sectors.

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

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Links

Coalition pledges	<p>CP 8 Make sure the city's people are well-housed, including encouraging developers to build residential communities, starting with brownfield sites</p> <p>CP 9 Work in partnership with Scottish Government to release more funds for council homes for rent</p> <p>CP15 Work with public organisations, private sector and social enterprise to promote Edinburgh to investors</p> <p>CP 17 Continue efforts to develop the city's gap sites and encourage regeneration</p> <p>CP 21 Consult further on the viability and legality of a transient visitor levy</p> <p>CP 24 Maintain and enhance support for our world famous festivals and events</p> <p>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</p> <p>CP 30 Continue to maintain a sound financial position including long term financial planning</p> <p>CP 31 Maintain our city's reputation as the cultural capital of the world by continuing to support and invest in our cultural</p>
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infrastructure

Council Priorities

**Single Outcome
Agreement**

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

Appendices

1 – Proposed Governance Structure

Edinburgh and South East Scotland City Region Deal

Proposed Governance Structures

Background

In preparing a City Deal bid which will be acceptable to UK and Scottish Governments, a number of building blocks have to date been seen to be essential. These include that the participating authorities' have developed a cohesive vision with sound objectives and clear outcomes; that resources have been identified to support the development of the Deal, to contribute to the overall fund and to cover the cost of financing requirements; and a demonstration of the financial commitment of the authorities involved.

A key building block has always been considered to be a strong, local and accountable governance structure. The purpose of this paper is to examine potential options for the principal decision making structure which the Authorities could employ both during the development phase of the deal and post approval. This paper does not seek to examine the detail of these governance models nor to identify all the individual components which will be necessary, rather it seeks to consider the potential principal models of organisation which could be followed. Any final decision on governance will be subject to feedback from the UK and Scottish Governments.

Pre Approval Stage from 1 December 2015

During the development stage of the City Deal Bid it is not considered necessary to have a formal decision making structure beyond the delivery structure set out in Appendix 1.

These arrangements are considered to be an appropriate structure to advance discussions with government and populate the financial and economic model. Regular meetings of the, Skills/Innovation (led by East Lothian), Housing (led by CEC), Infrastructure/ Economic modelling (led by Fife), and Regional Partnerships (led by Midlothian) groups will continue coordinated and supported by the programme office. Meetings required to address issues of finance and governance will also be co-ordinated by the programme office.

Post approval of the Bid.

The Edinburgh and South East Scotland City Region (ESESCR) have, very broadly, three options:

1. To work together as separate entities, under written memorandum of understanding or agreement;
2. To enter into a formal joint committee arrangement; and
3. To create a new corporate body with its own legal personality.

The Options

Option 1

Under option 1, the Authorities which form part of the ESESCR will continue to act as individual bodies. Therefore all decision making responsibility will continue to vest in the individual Local Authorities, but those Authorities will meet and work together to seek to achieve the joint goals under a memorandum of understanding or written agreement. This model, it is submitted, has significant failings.

A decision making process, where every decision has to be approved and confirmed by each of the six member authorities is likely to be cumbersome and ineffective. The potential for the authorities to fail to reach agreement, or to at least fail to reach an agreement timeously, is significant. For that reason it is suggested such an approach would not present as a strong governance structure, and it is unlikely therefore to meet the approval of the UK and Scottish Government.

Option 2

Section 57 of the Local Government Scotland Act 1973 permits Local Authorities to form Joint Committees of their Members. Such committees do not have a separate legal personality and remain a committee of those Authorities.

Such a committee would have delegated to it agreed spheres of decision making from each of the local authorities. It is likely that a significant proportion of the decision making matters would be delegated to this Joint Committee. However the approach also enables the participating Local Authorities to agree that certain matters be reserved to the individual Local Authorities to determine. The approach therefore creates a solid decision making process, but at the same time, allows individual member Authorities to retain control of specific identified spheres. A Joint Committee is a creation of the Local Authorities and therefore it is open to those participating Authorities to change the remit and delegated authorities of that Joint Committee should it be considered that to be prudent and necessary.

A Joint Committee would have its own Standing Orders. It would be open to the Authorities to agree and determine, through those Standing Orders, matters such as its makeup, quorum and procedures to be followed at such meetings. It could, for example, consist of one Member (probably the Leader) from each Local Authority, but that can be agreed in the fullness of time.

The 1973 Act permits non Councillors to be appointed as members of Council Committees (and so Joint Committees). The Act simply provides that at least two thirds of the Committee must be elected Members. In other words, if a Committee was to be formed whereby one elected Member were appointed from each of the Authorities, up to three additional (non elected) persons could also be appointed to that committee if that is desired.

Such a Joint Committee would require to be supported by other bodies, such as a Chief Executives Group, but this paper does not consider level of detail.

The model provides a significant degree of robust decision making process together with the flexibility afforded to those local authorities to make necessary changes as the project ensues.

It is relevant to note that this approach is the principal approach adopted by the Clyde Valley City Deal and clearly therefore is capable of being acceptable to both Governments as a structure.

Option 3

Combined Authorities

The English experience has often involved City Deals being pursued via the creation of Combined Authorities or through Local Enterprise Partnerships or indeed a combination of both. However, both the Combined Authority and the LEP are statutory bodies which are created via parts of the Localism Act and the Local Democracy Economic Development and Construction Act which do not apply in Scotland. These options are therefore discussed no further in this paper as there is currently no statutory *vires* to create them in Scotland.

Arm's Length Business Models

In addition the paper notes that many Local Authorities are now using Arm's Length Organisations for the provision of their functions and services. Those include corporate bodies such as limited companies, LLPs and charitable trusts. There is no evidence that such arm's length organisation have ever been used as an implementation vehicle for a City Deal. It is noted that the Governments are anxious to ensure that the City Deal governance is not only robust, but is vested very much in accountable local leaders. The creation of an arms length body such limited company, an LLP or a charitable trust, in creating a distance between that new decision making body and the local authorities, could be seen to weaken that local accountability.

Moreover each of the models has its own intricacies in terms of governance which further weaken the appropriateness of their use:

An LLP can only be formed, if it is to carry out business with a view to making a profit. It is advised that making profit is not an intended aim for the City Deal body. The LLP model can not therefore be employed.

With both a Charitable Trust and a Limited Company issues of Conflict of Interest would be significant and problematic. As a matter of law, the Directors of limited companies, and the Trustees of trusts must, (while acting in their capacity as Director or Trustee), act only in the interest of that body. In other words, any Councillor appointed to be a Director or Trustee, would require to put the interest of the new corporate body ahead of the interest of their own Authority. Given the particular nature of the City Deal project, with its mix of individual and combined projects, together with individual financial responsibilities of each of the Local Authorities, this duty to put the Corporate

bodies interest ahead of the a Councillor's own Authority is not considered appropriate.

As well as the issues around conflict of interest, a charitable trust structure would have two further complications. In Scotland, such a trust must not have in its constitution provisions which permit direction of its activities by a Minister of the Crown. This is potentially problematic. Secondly the Councillors Code of Conduct would prohibit the Councillor appointed as trustee to the new charitable trust from then participating in any debate or discussion on issue related to the City Deal at their own Authorities Council/Committee meetings. (While the Code of Conduct has a specific exclusion which applies to Councillor appointment to certain outside bodies, that exclusion does not apply where the body is charitable trust)

Joint Boards

The Local Government Scotland Act 1973 does however create a further possibility of a separate legal entity being formed by the member Local Authorities. Section 62A of that Act provides that where two or more relevant authorities form a Joint Committee to discharge any of their functions jointly, they may apply to Ministers to incorporate that Joint Committee (or proposed Joint Committee) as a Joint Board.

There is a statutory process which requires to be followed in order to seek such incorporation which includes advertising the proposal and providing opportunity for representations to be made. Should Ministers agree to grant the application then they shall, by Order, establish and incorporate the Joint Board. The Order shall delegate to the Joint Board its functions and authorities. It will also delegate the following matters:

- a. the constitution and proceedings of the Joint Board;
- b. matters relating to the membership of the Joint Board;
- c. the transfer to the Joint Board of any property rights and liabilities of the relevant authorities;
- d. the transfer to the Joint Board of any staff of the relevant authorities;
and
- e. the supply of services or facilities by the relevant authorities to the Joint Board.

The Joint Board is a Body Corporate. Once established the Order itself will have established its *vires* to act. The decision making authority is therefore clear and there is no requirement for the Joint Board to seek any further authorities from member councils for any matter in the sphere of its functions or authorities. Any changes to those functions and authorities require to be made via a further Order being made by Ministers.

A Joint Board therefore has autonomy and this creates a certainty in its decision making process. However, it is considered perhaps to have less flexibility than a Joint Committee as any changes to its authorities or functions require to be approved via an Order made by Ministers.

Conclusion

It is submitted that there are therefore three options open to the ESESCR, these are:

- The Local Authorities acting in a loose partnership arrangement, whereby the entire decision making remains vest within the constituent local authorities;
- A Joint Committee be established under Section 57 of the 1973 Act; and
- A joint board be created under Section 62A of the 1973 Act.

The first option, it is submitted should be discounted as it is likely to be cumbersome and prove an ineffective governance model.

While a Joint Board does offer a strong decision making option, its lack of flexibility is considered to be potentially problematic. That lack of flexibility in itself may even create difficulties in achieving political approval both of the concept of a Joint Board as an appropriate governance vehicle and also agreement as to what functions and *vires* should be delegated to it. That is, member Authorities might consider that, if changes to the delegations of functions of the joint board will be potentially difficult and cumbersome to achieve, they may not able to agree what the initial functions and *vires* of that Joint Board should be.

By contrast, when using the Joint Committee model, if any changes appear necessary or expedient during the evolution of the City Deal Project, they are reasonably easy to achieve. That will be a matter entirely for those member Authorities to agree amongst themselves and then to execute themselves.

It is therefore suggested that the Joint Committee, with its combination of certainty and flexibility, affords the most effective governance vehicle for the ESESCR proposal. The Members Authorities can be comforted in that it has been seen to be an acceptable model in the Clyde Valley City Deal, but any final decision on governance will be subject to feedback from the UK and Scottish governments.

The paper again notes that there will require to be a number of other groupings developed and created to support the City Deal to make its Governance Structure acceptable, however this report only deals with the appropriate vehicle for the principal decision making body.

Appendix One

Governance structure December 2015

