

Corporate Policy and Strategy Committee

10:00, Tuesday, 8 August 2017

The Edinburgh and South East Scotland City Region Deal – Implications for the City of Edinburgh Council

Item number	7.1
Report number	
Executive/routine	
Wards	All

Executive Summary

On Wednesday 19 July 2017, Heads of Terms for the Edinburgh and South East Scotland City Region Deal were received from both Governments. Subject to partner contribution and outline business case approval, the Governments agreed to fund £600m worth of investment over the next 15 years across the programme.

On the same day, the City of Edinburgh Council's Leadership Advisory Panel approved the principles of the Heads of Terms. As part of the deal, subject to the approval of "Green Book" accredited business cases, the Council committed in principle, to £5m to support new cultural venue and home to the Scottish Chamber Orchestra in St Andrew Square and up to £18m to support the implementation of the West Edinburgh Transport Appraisal from the City of Edinburgh Council's budget.

On Thursday 20 July, the Heads of Terms. were signed by: The First Secretary of State Damian Green MP; The Cabinet Secretary for the Economy, Jobs and Fair Work, Keith Brown MSP; the seven council Leaders in the region (or their deputies); the Convenor of the region's Further and Higher Education consortium, Charlie Jeffery; and the Convenor of the region's business consortium, Sir John Elvidge. The Heads of Terms is included in Annex 1.

This report summarises the offer from both Governments and known financial contribution required by the City of Edinburgh Council. It also sets out the next steps that the region will take, including the plan for ongoing negotiation with both Government and future governance arrangements.

The Edinburgh and South East Scotland City Region Deal – Implications for the City of Edinburgh Council

1. Recommendations

- 1.1 It is recommended that Committee:
 - 1.1.1 Notes the content of the Edinburgh and South East Scotland City Region Deal Heads of Terms Agreement that was signed by UK Government, Scottish Government, and regional partners on 20 July 2017 (Annex 1).
 - 1.1.2 Notes that funding will only be released subject to Green-Book accredited outline business case approval.
 - 1.1.3 Notes the £23m capital funding requirement for the match funding allocation to IMPACT and infrastructure in West Edinburgh and that this will be considered as part of the Council's budget framework.
 - 1.1.4 Notes that a final City Region Deal document, including a detailed implementation plan with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding from the UK and/or Scottish Governments will be submitted to Full Council to be agreed and published.
 - 1.1.5 Notes that the governance structure, agreed in principle in [June 2016](#), will be subject to formal approval by Council once agreed in principle by partners and Government.
 - 1.1.6 Notes the potential need for additional resource to enhance the Project Management Office as partners enter the delivery phase to meet the capacity demands required to deliver Green Book-compliant business cases and to manage the new governance structure.

2. Background

- 2.1 The Edinburgh and South-East Scotland City Region Deal aims to accelerate the region's rate of economic performance by a twin focus on innovation and inclusive economic growth.
- 2.2 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. Since then, negotiations have taken

place with both Governments, and progress reports have been submitted to Council regularly.

- 2.3 In [June 2016](#) City of Edinburgh Council approved Joint Committee, made up of representation from the six local authorities, and university and business sectors, for the City Region Deal programme, to agree the priorities for the 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. The Joint Committee has been meeting on a monthly basis since then.
- 2.4 In 2016, the then Chancellor of the Exchequer, announced that Government will be pursuing a City Region Deal for Edinburgh and South East Scotland. Terms of Reference for a Deal were agreed in March 2016.
- 2.5 Heads of Terms were received on Wednesday 19 July 2017 and were signed by UK and Scottish Government ministers, alongside the regional Leaders on Thursday 20 July.

3. Main report

- 3.1 This report summarises the projects listed in the Heads of Terms and the known financial contribution required by the City of Edinburgh Council. It also sets out the next steps that the region will take, including the plan for ongoing negotiation with both Government, future governance arrangements and resources required for the project management office in the delivery stage.

Summary of Programme

- 3.2 The offer is summarised in the table below:

Theme / Project Name	UK Govt contribution (£m)	Scot Govt contribution (£m)	Total
Innovation <ul style="list-style-type: none"> - Data-driven innovation projects and Queen Margaret University Food and Drink Innovation Campus - Enabling infrastructure - Economic infrastructure programme for Fife and Scottish Borders 		350 (between both Governments)	350
Integrated Regional Skills Programme	-	25 (over 8 years)	25

Infrastructure	-	140	140
- A720 Bypass improvements at Sheriffhall	-	120	
- West Edinburgh Transport	-	20	
Culture	10	10	20
- IMPACT	10	10	
Housing		65	65
- Regional infrastructure fund	-	50	
- Establishment of a new housing company		15	
TOTAL			600

3.3 The following projects directly affect the City of Edinburgh:

- **Innovation:** Over £200m to be spent on data-driven innovation and its enabling infrastructure across the city.
- **Infrastructure:** £120m to support improvements to the A720 (city bypass) for the grade separation of Sheriffhall roundabout; and £20m investment to support infrastructure improvements identified by the West Edinburgh Transport Appraisal.
- **Culture:** £20m for IMPACT, a new cultural venue and home to the Scottish Chamber Orchestra in St Andrew Square.
- **Housing:** a £15m capital grant to enable the Council to establish a new regional housing company (Edinburgh Homes) to deliver a minimum of 1,500 homes at mid-market rent and competitive market rent levels, plus a financing and funding package comprising consent to on-lend up to £248m.

3.4 The following programmes are cross-regional and will affect the city of Edinburgh:

- **Integrated Regional Skills Programme:** £25m revenue funding over eight years to reduce skills shortages and gaps, and deliver incremental system-wide improvements to boost the flow of individuals from disadvantaged groups into good career opportunities that will be generated through the city region deal investment.
- **Housing infrastructure fund:** £50m of predominately private sector loans, to be spent on projects that will unlock housing in strategic development sites across the region and which will build upon the regional strengths in off-site construction creating new economic and export opportunities.

Governance

3.5 In June 2016, the City of Edinburgh Council approved a Joint Committee Governance structure from an options paper. This would include local authority leaders, and representatives from the university and business sector. This group has been meeting monthly since this was approved. Carrying the Joint Committee

forward into the delivery phase will require further approval by all regional councils.

3.6 The role of the committee is fourfold:

- 1) to determine strategic focus;
- 2) to agree investment priorities;
- 3) to oversee planning and implementation activity; and
- 4) to monitor impact.

3.7 In the Heads of Terms, it was agreed that partners will establish a new model of regional governance that will encompass the best practice approaches identified within the regional partnerships work stream of Phase 2 of the Enterprise and Skills Review. Following the recommendations of the Enterprise and Skills Review the model will focus on the needs of the area and will include an integral role for the private and third sectors. The new regional governance will include effective engagement with Scottish Enterprise, Skills Development Scotland and incorporate senior business and industry leadership.

Next Steps

3.8 Following the agreement of Heads of terms agreement discussions have begun with both governments and partners on the next steps of the process. The City of Edinburgh Council with regional partners will now work with both the UK the Scottish Government to develop a final City Region Deal document, detailed implementation plan with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding from the UK and/or Scottish Governments.

3.9 It is intended that a clear timeline and work programme to deliver this will be agreed over the summer. We will report back to Council when this is in place.

3.10 A new governance structure will be subject to formal approval by Council once agreed in principle by partners and Government.

4. Measures of Success

4.1 The Heads of Terms also state the final City Region Deal document will include a detailed implementation plan with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding from the UK and/or Scottish Governments.

4.2 It has also been noted that the Scottish Government is developing an Inclusive Growth monitoring framework which will incorporate clear indicators to measure progress towards the five high-level inclusive growth outcomes (Economic Performance and Productivity, Labour Market Access, Fair Work, People, and

Place) and that they would expect the City Region Deal evaluation and monitoring reports to align with this.

5. Financial impact

- 5.1 The Heads of Terms agreement requires the Council to contribute £5m to support a new cultural venue and home to the Scottish Chamber Orchestra in St Andrew Square and up to £18m to support the implementation of the West Edinburgh Transport Appraisal. These projects will be subject to government approval of business cases produced in accordance with the HM Treasury's "Green Book". The capital funding requirement of £23m will be considered as part of the Council's budget framework over the next three years.
- 5.2 The next step is to now develop a full deal document, implementation plan and business cases for individual projects. Through that process we will confirm whether there are any wider financial implications for the Council particularly around the housing elements of the deal. This will be reported to Council as part of the ongoing implementation process.
- 5.3 The City of Edinburgh Council currently manages the Programme Management Office on behalf of partners. Since May 2015, no budget has been requested from Council. The commitment has been staff time from senior officers, and one dedicated programme officer. Discussions have started as to how implementation will be managed and funded moving forward across the region but members are asked to note the potential need for additional resource as this work develops into detailed implementation and delivery.

6. Risk, policy, compliance and governance impact

- 6.1 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 residents in the region will continue to lack the opportunity to share in the region's economic prosperity.
- 6.2 All City Region 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 through the Joint Committee, once Heads of Terms have been approved.

7. Equalities impact

- 7.1 Inclusive Growth is one of the Scottish Government's four priority areas in its Economic Strategy, and in submissions to Government, all projects included in the programme have demonstrated how they will reduce inequalities. This will be further refined in the Green-Book compliant business cases. The integrated regional skills programme in particular 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.

9. Consultation and engagement

- 9.1 Over the past two years, discussions on the scale and scope of City Region Deal have been held with city region local authorities, the UK and Scottish Governments and agencies, and key regional stakeholders in the business and third sectors.
- 9.2 Going forward into the delivery stage, the Heads of Terms state that local partners will work with both the UK Government and Scottish Government to agree a communications strategy and an operating protocol. Both documents will set out how communications about the City Region Deal and its associated activities are taken forward, in a way that meet the needs of the regional partners as well as the UK and Scottish Governments.

10. Background reading/external references

- 10.1 "[City Growth and Infrastructure Investment](#)" – report to the Economy Committee on 18 December 2014
- 10.2 "[Edinburgh and South East Scotland City Region City Deal](#)" – report to the Economy Committee on 28 April 2015
- 10.3 "[Edinburgh and South East Scotland City Region City Deal](#)" – report to Corporate Policy and Strategy Committee on 12 May 2015
- 10.4 "[The Edinburgh and South East Scotland City Region \(ESESCR\) Deal](#)" – report to The City of Edinburgh Council on 30 June 2016
- 10.5 "[The Edinburgh and South East Scotland City Region \(ESESCR\) Deal](#)" – report to The City of Edinburgh Council on 26 January 2017.

Andrew Kerr

Chief Executive, City of Edinburgh Council

Contact: Laurence Rockey, Head of Strategy and Insight

E-mail: laurence.rockey@edinburgh.gov.uk | Tel: 0131 469 3493

11. Links

Coalition Pledges

Council Priorities

Single Outcome Agreement

Appendices

Appendix 1 Edinburgh and South East Scotland City Region Deal Heads of Terms

EDINBURGH AND SOUTH EAST SCOTLAND CITY REGION DEAL

Heads of Terms



Our signing of this document confirms our joint commitment to achieve full implementation of the Edinburgh and South East Scotland City Region Deal.

.....
Keith Brown MSP
Cabinet Secretary for Economy, Jobs and Fair
Work
Scottish Government

.....
Damian Green MP
First Secretary of State
UK Government

.....
Cllr Willie Innes

Leader of East Lothian Council

.....
Cllr Adam McVey

Leader of The City of Edinburgh Council

.....
Cllr David Alexander

Co-Leader of Fife Council

.....
Cllr David Ross

Co-Leader of Fife Council

.....
Cllr Derek Milligan

Leader of Midlothian Council

.....
Cllr Shona Haslam

Leader of Scottish Borders Council

.....
Cllr Kirsteen Sullivan

Depute Leader of West Lothian Council

.....
Prof Charlie Jeffery

Convener, ESES FE&HE Consortium
University of Edinburgh

.....
Sir John Elvidge

Convener, ESES Business Consortium

EXECUTIVE SUMMARY

1. The Edinburgh and South East Scotland City Region comprises the six local authorities of City of Edinburgh, Fife, East Lothian, Midlothian, Scottish Borders and West Lothian. It is one of the most prosperous and productive UK regions and includes Scotland's iconic capital city, recognised worldwide for its culture, history and architecture.
2. The city region has a population of approximately 1.4 million people, more than a quarter of the Scottish population. Regional partners calculate that it contributes over £33 billion per year to the Scottish and UK economies.
3. A key driver for the investment in this deal is the opportunity to address inclusion across the region. Prosperity and success is not universal across the region: 21% of children are living in poverty; there is a lack of mid-market and affordable housing; and too many people are unable to move on from low wage/low skill jobs. The deal will address these issues, create new economic opportunities, and is expected to provide up to 21,000 new jobs. The region's new skills programme, alongside improved transport and housing provision, will ensure that businesses and communities across the region will benefit and will be given the chance to take advantage of these exciting new opportunities.
4. Since Spring 2016, the Scottish and UK Governments have been working with local partners to develop a transformational and inclusive city deal for the region that will:
 - Build on the region's strengths such as its high growth sectors that will provide the jobs of the future, its world class universities that are working with businesses on ground breaking R&D and innovation and Edinburgh's world class cultural offer.
 - Address key economic barriers with significant new investment in housing and transport.
 - Address issues which are constraining the region's economic potential and which match the strategic priorities for growth as outlined in the Scottish Government's Economic Strategy and the UK Government's emerging Industrial Strategy.
5. This heads of terms is a tripartite agreement between the Scottish Government, the UK Government and regional partners. **Both Governments are committed to jointly investing up to £600m over the next 15 years subject to:**
 - approval of final business cases for all projects and programmes;
 - development of a final city deal document and implementation plan;
 - establishment of clear and robust governance arrangements; and
 - the consent of all constituent local authorities and partners.
6. Regional partners have committed to contributing up to £501m to match fund the joint commitment from both governments. Overall this represents a deal worth over £1.1bn of investment.
7. This document represents a heads of terms agreement. Further detail on the implementation of specific commitments will follow in a finalised City Region Deal

document. This heads of terms document has been produced for the purposes of outlining the principles of the deal and does not form a legally binding contract.

THE COMMITMENTS

RESEARCH, DEVELOPMENT, AND INNOVATION PROGRAMME

8. Innovation is the lifeblood of the region's economy. The region is already home to world class research and development activity, much of which acts as an anchor for the development of new products and services through innovation in the private sector.
9. In Edinburgh city centre, approximately 2,400 people are employed in 570 technology led businesses, in close proximity to the University of Edinburgh. Growth has been impressive, with an increase of 58% and 48% in GVA and turnover respectively between 2010-14. Both Governments and local partners recognise the potential to further accelerate the development of key sectors (e.g. data science, robotics, financial services, fintech, agritech, creative and digital sectors) and to ensure the benefits of this growth are spread across the region.
10. As such the UK Government, Scottish Government and local partners have agreed a transformational Research, Development and Innovation programme (RD&I) for the region. This will drive further growth in the above sectors of the city region's economy and will support wider reform and improvement in public service provision.

Key commitments include

11. The UK Government and the Scottish Government will provide up to £350m of capital funding over a fifteen-year period to support the development of:
 - **Data storage and analysis technology that will allow large datasets to be brought together, in a secure environment, from public and private sector organisations.** This data analysis repository will allow the development of new products and services within key sectors. It will be based at the UK's National Supercomputer Centre at Easter Bush and will be connected to a region-wide Internet of Things (IoT) network.
 - **Five RD&I sectoral hubs** that will draw on the data repository and support RD&I activity in key sectors.
 - **The Bayes Centre for data**, a facility adjacent to the existing School of Informatics, which will provide shared working spaces for world-leading applied researchers, students, existing data science institutes and industry to drive data-driven Innovation.
 - **The Quatermile Old Royal Infirmary** will bring together researchers, businesses and key public sector organisations to drive RD&I in financial services, fintech, creative and media technology, tourism and public service provision

- **The Usher Institute** building within Edinburgh’s BioQuarter will house a centre for utilising data at scale to support data-driven health research, medical informatics and population health sciences.
- **The National Robotarium** will be co-located on the Heriot-Watt University campus. It will offer access to leading-edge applied research in autonomous systems, sensor technologies, existing micro-assembly equipment. The Robotarium will also have access to the resources of both Heriot-Watt University and the University of Edinburgh.
- Scaled-up incubation space for bioscience businesses and specialist facilities at **Easter Bush**, delivering alignment with the Roslin Institute’s research excellence in agritech and extensive industry partnerships.
- A **Food and Drink Innovation Campus located at Queen Margaret University** which will enhance and grow the nation’s food and drink sector. This will stimulate economic growth based on both national and international markets.
- **An Edinburgh and South East Scotland programme of investment in economic infrastructure** to ensure that businesses and communities across the region are fully able to engage in the data-driven innovation opportunities, **including industrial and business premises, to ensure maximum impact from the innovation investment.** Local partners and the private sector will invest significant additional funding to deliver key regional economic priorities including new industrial and business premises at Tweedbank, in the Scottish Borders, and across Fife.

12. Complementing the Government investment, the private sector and local partners will invest £52m of capital funding to support the development of the RD&I hubs and a further £201m over a 10-year period, to provide a university-led innovation support programme that will:

- support companies to undertake RD&I activities in the RD&I sectoral hubs;
- support research and commercialisation of new products and services;
- create and deliver new Higher Education courses; and
- support the development of a new generation of entrepreneurs – working in key sectors.

EMPLOYABILITY AND SKILLS

13. The Scottish Government’s recent Enterprise and Skills Review identified opportunities to strengthen regional delivery to achieve better outcomes.

14. **Key commitments include:**

- The Scottish Government will support the regional partners to stimulate active collaboration to deliver better outcomes for all of the region and particularly those people facing significant disadvantages to securing and sustaining meaningful, high quality employment.

- The Scottish Government will invest up to £25m (over eight years) in the regional partnership to deliver an Integrated Regional Employability and Skills Programme. This will reduce skills shortages and gaps, and deliver incremental system-wide improvements to boost the flow of individuals from disadvantaged groups (e.g. young care leavers, workless, and those in low paid or insecure jobs) into the good career opportunities that will be generated through the city region deal investment. This will deliver better impact from existing public, private and third sector investments.

TRANSPORT

15. This deal will deliver major investments to ensure that Scotland's capital and its region is served by world class transport infrastructure. The recently published SESplan cross-boundary study of the region has helped to show where transport investment will be most effectively targeted.
16. Partners will put in place a regional developer contributions framework which takes account of work being led by SESplan and the emerging findings of the jointly-produced cross-boundary study. These interventions and commitments, taken with the additional transport investment to enable the innovation and housing projects, will help ensure the region continues to grow and flourish.

17. Key commitments include:

- The Scottish Government will invest up to £120m to support improvements to the A720 City Bypass for the grade separation of Sheriffhall Roundabout.
- The Scottish Government will provide £20m investment to support public transport infrastructure improvements identified by the West Edinburgh Transport Appraisal, alongside investment from partners and the private sector.
- The Scottish Government commits to continuing to work collaboratively with the regional partners on identified regionally-led local transport investment priorities through the establishment of a Transport Appraisal Working group, with an agreed and mutually shared remit and proposed outcomes. Partners will have the opportunity to be involved in and influence the second Strategic Transport Projects Review.

CULTURE

18. Scotland's capital city has a world-class cultural offer which is vital in attracting around four million visitors a year who inject £1.3 billion to the region's economy. The new concert hall unlocked through this city deal will deliver £40m private sector investment and make a significant contribution to the ongoing success of Edinburgh's cultural offer.

19. Key commitments include:

- Both Governments will provide up to £10m each (a maximum of £20m) of capital funding to support the delivery of a new IMPACT concert hall that will reinforce Edinburgh's position as a pre-eminent Festival City.

HOUSING

20. As part of this deal, a regional housing programme recognises the very significant housing pressures across the region and the need to provide suitable housing to support sustainable economic growth.
21. The regional partners have committed, supported by the Scottish Government to deliver a 10-year ambitious programme of new housing across the region, delivering certainty to SMEs and maximising the economic benefit from the construction process through a substantial increase in off-site construction methods. This will be supported by existing training programmes through the Construction Scotland Innovation Centre.
22. This joint approach between local partners and Scottish Government will support the delivery of significant numbers of new homes across the region. Key to this scale of delivery is the unlocking of seven strategic sites. These are Winchburgh, Blindwells, Edinburgh's Waterfront, Calderwood, Shawfair, Tweedbank and Dunfermline.
23. The Scottish Government will support this delivery with the following key commitments:
 - Build on the recently committed additional £125 million between 2018/19-2020/21 to support the regional partners' 10-year affordable housing programme, subject to successful progress on this initial phase. Work on the next phase of the programme and the associated funding profile beyond 2020/21 to achieve agreed outcomes will begin in 2018.
 - Guarantee on a risk-sharing basis alongside West Lothian Council, up to £150m of infrastructure investment that will unlock up to 5,000 new homes in Winchburgh, West Lothian.
 - Prioritise and work with local authorities on a site-by-site basis to support local authority borrowing and share the financing risk of infrastructure delivery required across these sites, learning from the Winchburgh approach.
 - Provide housing infrastructure funding of up to £50m, of predominantly private sector loans, to be spent on projects that will unlock housing in strategic development sites across the region and which will build upon the regional strengths in off-site construction creating new economic and export opportunities.
 - Provide a financing and funding package comprised of consent to on-lend up to £248m and an additional one-off £15m capital grant to enable the City of Edinburgh Council to establish a new regional housing company to deliver a minimum of 1,500 homes at mid-market rent and competitive market rent levels.
24. Both Governments will also work with regional partners to maximise the potential contribution of public sector land and property in the region to help unlock further new housing.
25. These interventions will be linked to inclusive growth objectives through the creation of new jobs in deprived areas with investment linked to training opportunities.

GOVERNANCE AND ASSURANCE

26. Strong and effective leadership and governance is paramount to both successful implementation and in providing assurance to governments, local authorities and wider regional partners. To date, the city region deal has been developed through joint working by the region's local authorities and two consortiums, one for the business community and one for Higher and Further Education establishments, led by the University of Edinburgh.

Key commitments include:

27. Local partners will demonstrate the value for money case for each project and programme before funding is made available. As such, all commitments in this document are subject to the approval of final business cases from the relevant Government, or from both Governments in the case of jointly funded projects.

28. Partners will establish a new model of regional governance that will encompass the best practice approaches identified within the regional partnerships work stream of Phase 2 of the Enterprise and Skills Review. Following the recommendations of the Enterprise and Skills Review the model will focus on the needs of the area and will include an integral role for the private and third sectors. The new regional governance will include effective engagement with Scottish Enterprise, Skills Development Scotland and incorporate senior business and industry leadership. In respect of the Scottish Borders, the announcement of the South of Scotland Enterprise Agency will require Scottish Borders Council, all agencies and Government to take an approach that ensures an effective fit between the governance for the City Region Deal and the statutory nature of the new Agency.

29. The Scottish Government is developing an Inclusive Growth monitoring framework which will incorporate clear indicators to measure progress towards the five high-level inclusive growth outcomes (Economic Performance and Productivity, Labour Market Access, Fair Work, People, and Place) and will expect the City Region Deal evaluation and monitoring reports to align with this.

30. Local partners will work with both the UK Government and the Scottish Government to develop a final City Region Deal document, detailed implementation plan with monitoring and evaluation frameworks and associated business cases for all projects and/or programmes receiving funding from the UK and/or Scottish Governments.

31. Local partners will work with both the UK Government and Scottish Government to agree a communications strategy and an operating protocol. Both documents will set out how communications about the City Region Deal and its associated activities are taken forward, in a way that meet the needs of the regional partners as well as the UK and Scottish Governments.

ENDS