

**REPORT TO: POLICY & RESOURCES COMMITTEE – 9 MARCH 2015**

**REPORT ON: CITY DEAL FUNDING**

**REPORT BY: DIRECTOR OF CITY DEVELOPMENT**

**REPORT NO: 125-2015**

## **1 PURPOSE OF REPORT**

- 1.1 This report seeks to advise the Committee of a proposed approach to the Council's participation in a City Deal as a means to contribute to the funding of future economic infrastructure in the Tayside area.

## **2 RECOMMENDATIONS**

- 2.1 That officers are remitted to liaise with the neighbouring authorities of Angus, Perth & Kinross and Fife to prepare a bid for a City Deal that will assist in bringing forward key economic infrastructure projects in the Tayside area.
- 2.2 That the Council allocates £25,000 towards the initial cost of external advisors to work on the City Deal proposal and to facilitate negotiations with Government.
- 2.3 That an interim Governance structure is established with Dundee's neighbouring Authorities and that the Convener of Policy & Resources and Convener of City Development are nominated to participate in emerging governance arrangements on behalf of the Council.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 The Council's contribution of £25,000 will be funded from the General Contingencies provision within the 2014/15 Revenue Budget.

## **4 BACKGROUND**

- 4.1 The "City Deal" process was initiated in late 2011 as part of the UK Government's "localism" agenda. City Deals seek to empower cities to drive economic growth by putting greater resources and financial freedoms in the hands of local authorities.
- 4.2 Initially eight deals were agreed with the English Core Cities. Whilst each City Deal is unique, the key features of these deals were:
- Local authorities developing a clear programme of infrastructure investment prioritised to deliver Gross Value Added (GVA is essentially a local measure of jobs and productivity growth);
  - An Infrastructure Fund established for the programme with funding from a variety of sources (including Prudential Borrowing by the local authority);
  - In return, central government allows the fund to earn back locally funded contributions under a formula linked to economic growth and the increase in total tax revenues (not just non-domestic rates as in Tax Increment Finance schemes); and
  - Robust local governance and delivery arrangements established across the geographical area over which the investment will be targeted.
- 4.3 A further 20 second-tier English cities have since secured their own deals and on 4 July 2014 the UK Government announced a City Deal worth £1.13 billion for the Glasgow City Region.

### The Glasgow City Deal

- 4.4 The Glasgow City Deal provides for a £1.13 billion Glasgow and Clyde Valley Infrastructure Fund. The UK Government have committed to providing £500 million of this funding, a further £500 million will be provided by the Scottish Government and a minimum of £130 million will come from local authorities across Glasgow and Clyde Valley. The funding will be used to
- improve the transport network across Glasgow and the Clyde Valley
  - unlock key development and regeneration sites
  - Improve public transport.
  - support further growth in the life sciences sector
  - provide additional business incubator space
  - target youth unemployment and
  - test new ways to boost the incomes of people on low wages.
- 4.5 This City Deal is one of the largest ever agreed. It is an agreement between the UK Government, the Scottish Government and the eight local authorities across Glasgow and Clyde Valley. Over its lifetime local leaders in Glasgow and the Clyde Valley estimate this City Deal will:
- Support an overall increase in the economy of around 29,000 jobs in the city region;
  - Work with 19,000 unemployed residents and support over 5,500 back into sustained employment;
  - Lever in an estimated £3.3 billion of private sector investment into the proposed infrastructure investment programme; and
  - Spread the benefits of economic growth across Glasgow and Clyde Valley, ensuring deprived areas benefit from this growth.
- 4.6 The terms of the City Deal Agreement for Glasgow confirm that;
- The UK Government and Scottish Government will each contribute £500 million of capital funding over 20 years (2015/16 - 2034/35) to the Glasgow Infrastructure Fund;
  - In the first five years, the UK and Scottish Governments will each provide a total capital grant of £75 million (2015/16 to 2019/20), totalling investment of £150 million. This will consist of five annual payments of £30 million (£15 million from the UK Government and £15 million from Scottish Government). The remaining £850 million of funding will be conditional on local partners demonstrating robust governance of the Deal, a clear record of infrastructure project delivery and evidence that projects provide good value for money at the local and national levels as determined by criteria set out in an assurance framework.
  - The formal process for agreeing the release of future grant will be a series of 5-yearly Gateway Reviews, commencing in 2019. These reviews will be conducted by an independent Commission. If Glasgow and Clyde Valley meet agreed outputs and outcomes at each review they will unlock the full £1 billion of funding from the UK and Scottish Governments. This funding will be supported by the further £130 million of capital funding from local authorities across Glasgow and the Clyde Valley from 2015/16 - 2034/35.

### Latest Position

- 4.7 Following the referendum and the setting up of the Smith Commission the Treasury has made it clear that no further bids from Scotland for City Deals will be considered at present whilst constitutional matters are decided. This is so that there is clarity over which government local authorities should relate over this issue. The constitutional position on the further transfer of powers is not currently expected to clarify until late 2015.

### Scottish Cities Alliance (SCA)

- 4.8 The SCA has set as one of its most important objectives the development of new ways to fund infrastructure development. This is being driven by the need to achieve economic growth and unlock opportunities for all. In April last year the SCA Leadership Group agreed to earmark a percentage of overall revenue spend to economic investment.
- 4.9 At its meeting on 17 June 2014, the city leaders considered a report from technical advisors which outlined the applicability of a Strategic Infrastructure Fund model for the Scottish Cities. Having considered this the group agreed to pursue, with their regions, the appropriateness of creating such funds for longer term investment in economic infrastructure. It was also agreed that economic impact (GVA return for each £ of public sector investment) at the regional level should be used as the primary method for prioritising the use of such funds, with the city regions identifying appropriate secondary prioritisation metrics to ensure that further outcomes are delivered, such as reduced carbon emissions or a broader spread of employment opportunities, where appropriate.
- 4.10 The geographical area over which a fund might be applied is central to City Deal questions regarding the scale and size of interventions, the way in which economic outcomes are measured, the population across which costs will be shared and the level of displacement. A larger geography implies a better measure of success since the economic impacts of investment are closer in size to those at a national level, allowing Treasury / Scottish Government to see local and national objective alignment. There is also less scope for displacement of economic activity from one local area to another.
- 4.11 Dundee on its own is unlikely to be able to secure a City Deal due to the likely scale of the fund to be created. The consultancy work undertaken for the SCA examined whether a City Deal for Dundee and Perth together might be feasible and even that was likely to be of insufficient scale. Subsequently there have been early discussions with Angus and Fife about a wider joint approach and interest has been expressed from all parties in exploring the potential for this.

### A Tayside City Deal

- 4.12 The analysis undertaken by the SCA indicates that the potential for a City Deal between Dundee, Angus, Perth & Kinross and Fife would be a fund of around £400million. As with Glasgow's City Deal there would be a clear ambition to invest for growth and for Dundee it would be a case of what comes after the current Waterfront Project works and how it can be funded. The overall aims would be to
- Improve the regional transport network including public transport
  - Unlock strategic development areas and sites
  - Support key growth sectors
  - Support a significant overall increase in the number of jobs in the area
  - Work with the long term unemployed and support them back into sustained employment;
  - Spread the benefits of economic growth across Tayside ensuring deprived areas and low wage earners benefit from this growth

#### Next Steps for a City Deal

- 4.13 Dundee can only benefit from a City Deal by collaborating with other authorities. The key issue is to get agreement on the extent of the partnership and whilst informal discussions have taken place, formal engagement is necessary at political as well as officer level.
- 4.14 Once such engagement is achieved, much technical work will be necessary to arrive at a long list of projects that will then need to be tested against agreed criteria for project selection to ensure that GVA increases can be achieved.
- 4.15 Early discussion has indicated that the initial cost for external advisors could be £100,000, although if the project proceeds to a detailed stage, this could increase up to £500,000 to be funded by participating authorities in proportion to their populations. This will mean an initial Dundee contribution of approximately £25,000 for the development of a proposal. Clearly this is only indicative until such time as such services are procured. In addition, it is considered that Dundee should secure a dedicated resource to handle its interests in the negotiations to be achieved either by secondment or by additional limited term external help.

### **5 POLICY IMPLICATIONS**

- 5.1 This Report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

### **6 CONSULTATIONS**

- 6.1 The Chief Executive, the Director of Corporate Services and Head of Democratic and Legal Services have been consulted and are in agreement with the contents of this report.

### **7 BACKGROUND PAPERS**

- 7.1 None

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MPG//MS

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