Inverclyde council

AGENDA ITEM NO: 12

Report To:	**Policy and Resources Committee**	**Date:**	**12th August 2014**
Report By:	**Corporate Director Environment, Regeneration & Resources**	**Report No:**	**PR/115/14/AF**
Contact Officer:	**Aubrey Fawcett**	**Contact No:**	**712764**
Subject:	**Glasgow City Region City Deal**		

1.0 PURPOSE

1.1 The purpose of this report is to advise Members of the response from the UK and Scottish Governments to the City Deal Proposals put forward by the Local Authorities in the Glasgow City Region and to seek approval to accept the offer of the City Deal and the associated financial implications as set out in the report.

2.0 SUMMARY

2.1 The Clyde Valley Councils which together cover the 'City Region' of Glasgow have collectively pursued a bid to the UK Government to establish a City Deal Agreement, similar to those established in England, with a view to bringing forward a major investment programme to stimulate economic growth for the benefit of residents and businesses in the Glasgow City Region.

2.2 The City Deal Agreement comprises three elements: an Infrastructure Fund supported by parallel streams of activity in relation to Labour Market and Innovation measures. The UK and Scottish Governments have now agreed to fund £1billion towards the overall £1.13billion Infrastructure Fund and further funding is being provided to enable the Innovation element to be developed. Discussions are ongoing regarding refocusing labour market initiative funding already being provided by public partners with additional grant being allocated by the UK Government.

2.3 A new Clyde Valley Economic Partnership together with appropriate sub groups and a Project Management Office are proposed to be established to manage and oversee the implementation of projects with individual Councils taking on responsibility to procure and manage projects located within their own authority area.

2.4 Following confirmation of acceptance of the offer by the 8 Councils involved, a tripartite agreement between the UK Government , Scottish Government and Glasgow City Council, on behalf of all 8 Councils , is due to be signed on the 21st August.

2.5 There has been significant work carried out in recent months around the financial modelling and associated financial risks/implications. This is covered in detail in section 10 of the report.

3.0 RECOMMENDATIONS

3.1 Members are asked to note the response from the UK and Scottish Governments to the City Deal Proposals, in summary:

- A Grant mechanism worth up to **£1billion** over twenty years funded by the UK and Scottish Governments, on the basis of agreed milestones including increased economic activity being achieved.

- Grant Support from the UK Government for Life Sciences projects of **£18.87m** over three years.
- Grant Support from the UK Government for Region wide Labour Market Programmes of circa **£4.8m** over 3 years**.**

3.2 It is recommended that the Committee accepts the offer of a City Deal as detailed in the 'Glasgow and Clyde Valley City Deal' document and outlined in the report; and, delegates authority to the Corporate Director Environment, Regeneration and Resource to:

a. Work with the other Councils in the Clyde Valley to seek their approval to participate in the City Deal Initiative and develop all necessary agreements in this regard.
b. Develop the Governance model and set up the Programme Management Office to begin the implementation of the City Deal Agreement.
c. In collaboration with the other Councils in the Clyde area, conclude detailed negotiations with the UK and Scottish Governments on the operation of the Gateway Review mechanism.
d. Develop and implement Operating Plan for the first three years of the City Deal, from 1st April 2015 to 31st March 2018.
e. Engage Riverside Inverclyde to assist with the implementation of Inverclyde's City Deal Projects.
f. Submit regular reports to the Environment and Regeneration Committee on progress.

3.3 It is recommended that the Committee approve the funding strategy as set out in section 10 of the report and that officers factor this into the development of the 2015/18 budget.

Aubrey Fawcett
Corporate Director Environment, Regeneration & Resources

4.0 BACKGROUND

4.1 The Committee will recall that in December 2013, approval was given to continue to participate in developing an economically focused Infrastructure Fund bid with the other Authorities in the Clyde Valley area. This was a direct response to the City Deals which had been agreed for the English Core Cities, and which were at the time being developed by a further twenty urban areas across England.

4.2 The City Deal Agreement in England allowed City Regions to put together programmes of work, often including Infrastructure, Skills and Enterprise activity to accelerate growth and create jobs in the region. The Clyde Valley Authorities undertook to pursue a City Deal for the Glasgow City Region, directly with the UK Government.

5.0 THE CASE FOR A GLASGOW CITY REGION CITY DEAL

5.1 Glasgow City Region is critical to the UK economy as it is in the heart of the economy of Scotland. The Region has:

- A population of 1.8m (34% of Scotland), clustered round a vibrant urban core with world class educational, recreational and business facilities;
- 35% of Scottish jobs and 40% of the jobs in some of the key sectors such as Finance, Aerospace, Defence and Marine;
- 36% of GVA (£36bn in 2011);
- The only conurbation of scale in Scotland with the diversity of people and talent to compete on an international stage;
- A strong track record of joint work and the ability to deliver investments of scale; and
- A clear vision for action – and the partnership with business and academia to make it happen.

5.2 Now is the right time for a major step up in the economic development effort. As growth is starting to return to the UK economy, there is an opportunity to exploit it and to capitalise on the emerging opportunities from recovery.

5.3 The Local Authorities in the City Region have a track record of collaboration on strategic issues through the Clyde Valley Community Planning Partnership, which has its vision:

> "We want the Glasgow City Region to be one of the fasting growing City Regions in the UK – a City Region that is characterised by a strong growing core in Glasgow, yet exploits growth opportunities across the City Region. In pursuing growth we will also look to reduce economic inequality and disparities, between people and between places"

5.4 Over the last year Glasgow City Council on behalf of the Clyde Valley Local Authorities has led the development of a credible set of proposals which would deliver over £2bn of additional economic activity and thousands of new jobs over the next 20 years. These proposals are centred around an Infrastructure Fund and have parallel streams of activity to support Labour Market and Innovation measures. Details of the projects are included Section 8 below. All eight Clyde Valley Councils participate, however East Dunbartonshire is not involved in the Infrastructure Fund element.

6.0 THE DEAL PROPOSED BY THE UK AND SCOTTISH GOVERNMENTS

<u>UK Government</u>

6.1 The UK Government have responded to our proposals and are offering a City Deal for the City region with the following components:

- An award of £500 million for the Infrastructure Fund which will be subject to Gateway Reviews at years 5, 10 and 15 with consideration given to extent of implementation initially and gross value added performance in the latter two assessments,.
- Award of grant throughout the period of 20 years, subject to performance, with the first

five years provision of £15 million per year.

- Grant support for Life Sciences of £18.87 million over three years
- Grant support for labour market programmes of £4.8 million over three years.

6.2 Scottish Government

The Scottish Government's award follows similar lines to the UK Government as follows:

- An award of £500 million for the Infrastructure Fund which will be subject to Gateway Reviews at years 5, 10 and 15 with consideration given to extent of implementation initially and gross value added performance in the latter two assessments,.
- Award of grant throughout the period of 20 years, subject to performance, with the first five years provision amounting to £15 million per year.

7.0 PROJECTED IMPACT ON THE REGIONAL ECONOMY

7.1 Details of the projected benefits across the City Region have been prepared by the consultants KPMG and its assessment is approximately the Glasgow City Region is forecast to increase by 40,993 jobs between 2011 and 2035, which includes delivery of the Clyde Gateway projects. The package is expected to increase jobs in the region over and above this by an additional 28,400 jobs - a 69% increase. In relation to Inverclyde's projected performance, KPMG advises that there should be net additional 1522 jobs by 2035.

8.0 PROPOSALS

8.1 There are three elements to the City Deal, namely:

- **Innovation Projects** - Projects, which will serve the wider Clyde Valley area, include: Initiative to develop tailored treatments for individuals and create high quality jobs through the newly established Stratified Imaging Centre for Excellence at Southern General Hospital, receiving approximately £16million in funding from UK Government with separate funding envisaged to be provided through European Regional Development Fund and Scottish Government; Development of business incubation centre (Medi City) in North Lanarkshire for emerging SMEs/Companies involved in the medical sector, receiving approximately £1.2 million funding from UK Government; and Integrated Grow Initiative, a new business incubation centre in Glasgow City Centre providing space for up to 50 businesses to set up and develop with £1.67m funding from UK Government support from Business Gateway.
- **Labour Market Initiatives** – 3 projects proposed to be developed: Reducing unemployment for those on Employment Support Allowance (ESA) receiving £4.5m UK Government funding; Reducing Youth Unemployment funded from partners (£15m); and Boosting earnings for those on low incomes (£300k UK Government funding).
- **Infrastructure Fund** - This is the major element of the City Deal and consists currently of 20 projects across the City Region. The projects range from road infrastructure projects to tourism and business infrastructure woks with a total programme value of £1.13bn. As a result of the funding of £1billion awarded by the UK and Scottish Governments the seven participating authorities in the Infrastructure Fund element, are required to contribute the remaining £130m. It is proposed that two strategic projects, Glasgow Airport Rail Link and SPT's Bus Programme, which are deemed to generate pan City Region benefits, will be fully funded by grant funding. Glasgow and Renfrewshire will be responsible for cash flowing and delivering the rail project and covering/receiving any overspends/savings. In relation to the Bus Programme, this will also be fully funded, however all Councils will be responsible for cash flowing the project and covering/receiving any overspends/savings on a pro-rata basis.

8.2 In relation to Inverclyde's projects there were originally eight projects submitted for consideration for inclusion within the Infrastructure Fund Programme and 3 have been successful i.e. Inverkip, Ocean Terminal and Inchgreen. The details of the projects are as follows:

Project	Activity	Programme Costs	Indicative Timescales
Inchgreen	Formation of West of Scotland Hub for Renewables – works to pier and access including site remediation. This project requires a joint venture with Peel Ports, which requires to be state aid compliant.	£9.4m*	Start Jan 2021 Completion Oct 2022
Ocean Terminal	Clyde International Cruise Liner Facility - Ocean Terminal: Extend/new pier, access improvements and improved tourist facilities. This project requires a joint venture with Peel Ports, which requires to be state aid compliant.	£14.2m*	Start Jan 2017 Completion Oct 2018
Inverkip Power Station Development	Provision of road infrastructure works at Inverkip Village on the A78 to enable redevelopment of former power station to progress.	£3.8m*	Start Oct 2016 Completion Oct 2017
Total		**£27.4m**	

*Project proformas are available for Members through Member Services, please note that costings above include an element of optimisation bias which has been included by the consultants developing the bid document.

9.0 FRAMEWORK FOR A CLYDE VALLEY CITY DEAL

9.1 Outline details of how the City Deal is to be managed, its governance structure and the financing of the projects are included in 'Framework For A Clyde Valley City Deal', see Appendix 1 to this report.

9.2 It is proposed that the Framework For A Clyde Valley City Deal is adopted by Inverclyde Council and the Corporate Director Environment, Regeneration and Resources in consultation with the Acting Corporate Director Environment, Regeneration and Resources and Head of Legal and Property Services develop and conclude necessary agreements with other Councils and UK/Scottish Governments to establish and engage with the Clyde Valley Economic Partnership, Project Management Office, appropriate sub groups and participating organisations.

9.3 The City Deal Agreement document is being finalised by the Scottish/UK Governments and the participating Councils and is due to be completed by 8th August. The finalised version will be sent to all Councillors no later than 11th August, prior to the Committee.

9.4 It is envisaged, following the signing of the City Deal Agreement by all parties, that the Economic Partnership will be formally established and the Project Management Office will progress with the approval process for individual projects in line with the pre-established timescales, Inverclyde's project dates are identified in the table above.

9.5 It is proposed that Riverside Inverclyde is engaged in order to assist with the implementation of projects.

10.0 FUNDING AND FINANCING

10.1 Whilst the agreement by the Governments to contribute to the City Deal by way of a Capital Grant greatly simplifies the funding from that originally envisaged, the Financial implications are relatively complex and, as negotiations are on-going, they will be subject to change. Based on the latest information the funding and financial implications are as follows:

A)The maximum net capital cost to the Council is £3.75million which represents approximately

14% of the project cost. On the assumption that the joint ventures proceed, then the loan charges on the estimated net capital spend would ultimately be £114,000 per year.

B)The Capital Grant from the UK & Scottish Governments is due to be paid over 20 years whilst the projects are planned to be delivered over 10 years. As such there will be a cash flow cost to be met by the Council. Based on estimated phasings, over the 20 year period 2015/16 – 2034/35, the estimated interest and loan charges cost is £6.45million.

C)If following one of the 5 yearly gateway reviews , the Capital Grant award is withdrawn then the Council will require to fund any future Grant shortfall. Clearly at this point the Council may opt not to proceed with any project which it has not yet made a legal commitment to. The maximum exposure to the Council occurs if the Grant is withdrawn at Year 10. In these circumstances the 20 year cost is estimated to be £11.44 million with Loan Charges from years 21-30 being approximately £925,000 compared to £114,000 in A) above.

D)The movement in future interest rates will impact on the above figures. If interest rates end up being 1% higher than estimated then the cost in 10.2 increases by £88,000 per year for every 1% increase.

E)The above figures assume that the Council will be able to accrue Capital Grants earned but not received from the two Governments; this matter is being clarified with CIPFA. In the event this cannot happen then the Council will require to fund both the interest and principal costs of loan debt and this is estimated to add up to £250,000 per year onto the costs.

10.2 It is proposed that the annual cost over 18 years of £359,000 on the basis of 10.1 (A&B) above be met from the unallocated Regeneration allocation (currently allocated to ri) from 2017/18 and that this be factored into the 2015/18 budget preparation.

10.3 It is also proposed that in the event the Council cannot accrue the earned but not received Capital Grant then a further report be brought back to Committee as part of the 2015/18 budget process indicating how this could be funded.

10.4 The Council will also be required to part fund a small Programme Management Office which will be based in Glasgow. It is estimated that the Council's share of the costs will not exceed £16,000 per year and it is proposed that this is also funded from the unallocated Regeneration budget.

11.0 RISKS

11.1 Members should be fully aware of the inherent risks associated with developing physical regeneration projects; particularly those of the nature identified within Inverclyde due to the location of projects, with a level of unknowns associated with built up dockland, establishing state compliant joint venture agreements with the private sector and cash flowing projects where funding can be made subject to economic performance. Details of the associated risks for the City Deal Initiative are included in Appendix 2 to this report.

12.0 IMPLICATIONS

12.1 **Finance**: This is covered in section 10 above

Financial Implications:
One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From (If Applicable)	Other Comments
Regeneration	Development Fund	2017/18	359 16		Annual allowance by 2017/18 would be £900,000 before this decision. To part fund the PMO

Legal

12.2 Members are asked to note that development of agreements associated with the City Deal and the implementation thereof will be subject to review by the Head of Legal and Property Services.

Human Resources

12.3 There may be a requirement to second staff to the Project Management Office.

Equalities

12.4 There are no anticipated equality issues envisaged and an Equalities Impact Assessment will be prepared.

Repopulation

12.5 The overall economic development programme will assist in generating local employment opportunities and should have a positive resultant impact in stimulating repopulation of Inverclyde.

13.0 CONSULTATIONS

11.1 The seven Clyde Valley Councils, Riverside Inverclyde and through Glasgow City Council the UK and Scottish Governments.

13.2 The report has been agreed by the Corporate Management Team

14.0 CONCLUSION

14.1 Overall the City Deal Agreement provides Inverclyde Council with a significant opportunity to develop projects which not only have the potential to generate significant job opportunities and lever in private sector investment but also contribute to the wider economic growth within the wider Glasgow City Region. In addition, the Fund enables the Council to benefit from grant of circa 86% and possibly up to 100% depending on any joint venture established to bring forward the projects as referred to above.

15.0 LIST OF BACKGROUND PAPERS

15.1 Project Pro-formas will be available through Members Services.

Appendix 1

FRAMEWORK FOR A CLYDE VALLEY CITY DEAL

1 Capital Investment Programme is set at £1.13B consisting of 20 discrete projects.

2 Individual Councils are responsible for funding and delivering their own projects. The Bus programme is sponsored by all Councils and the Airport Link by Renfrewshire and Glasgow. Individual Councils are responsible for any ongoing revenue costs associated with their projects. Funding of operating costs for Bus Programme and Airport Link still to be decided.

3 Funding for Bus Programme and Airport Link will be 100% from Capital Grant based on estimated costs included in £1.13B. All other capital projects will be funded 86% capital grant, 14% Council funding on basis of estimated capital costs included in £1.13B.

4 Any cost increases (eg inflation) to be funded by Councils. Any cost savings to be retained by Councils subject to capital grant being no more than 100% of actual costs. In the event that third party contributions are received and project costs reduce, grant levels will be capped at 100% of net cost to the Council. As regards the Bus Programme any cost increases/savings will be met by all Councils. As regards the Airport Link any cost increases/savings will be met jointly by Renfrewshire and Glasgow.

5 Where a project cannot proceed (eg fails to receive planning permission) then that Council has 6 months to identify a replacement project. Capital Grant is fixed at 86%, of cost of original project. The GVA of the new project must be at least equal to the lowest GVA of the 20 projects.

6 Where a Council decides not to proceed with a project then any other Council can submit a proposal on the same basis as 5 above. Where more than one Council submits a proposal then the project with the highest incremental GVA will proceed. In this regard two or more Councils may proceed with a joint proposal for a replacement project, eg 2X£10M projects to replace a £20M project.

7 All Councils are collectively responsible for the delivery of the capital investment programme and meeting agreed outcomes. As such consideration will have to be given to the implications of targets not being met, eg GVA Targets or project completion dates.

8 A new Governance Board will be established (Clyde Valley Cabinet) chaired by the Leader of Glasgow City Council and consisting of the Leaders of each Council. Each Council will have one vote. On the basis of 8 Councils a decision must have the support of 5 Councils. The Chair will not have a casting vote. On the basis of 7 Councils a decision must have the support of 4 Councils.

9 A number of Leaders will hold a portfolio for the whole of the Clyde Valley, eg Skills Development, Enterprise, Connectivity etc. Each portfolio holder will be supported by a nominated Chief Executive from another Council.

10 A central Project Management Office (PMO) will be established to support the Partnership Board and Portfolio Holders, co-ordinate and monitor capital projects, and work with individual Councils to ensure agreed outcomes are delivered. The costs of the PMO will be funded by participating Councils on an annual basis. The PMO will mainly consist of staff seconded from participating Councils.

11 The PMO will act as a commissioner for the delivery of projects by individual Councils and SPT etc. It will develop standard conditions for payment of capital grant.

12 The PMO will be responsible for assessing requests for Outline Approval and Final Detailed Approval of projects. It will also assess any requests for virement of grant between projects within the one Council. The PMO will also develop "Step-In Rights" for the Cabinet where a project gets into severe difficulty. These arrangements will also include the treatment of aborted costs (ie where expenditure is incurred on a project that does not fully proceed).

Annex on Financial Issues

1. Cost Modelling Assumptions

- Clyde Valley authorities deliver £1.13Bn Investment Programme over 10 years.
- Treasury (£500m) and SG (£500m) possible capital grant towards the programme over 20 years.
- In years 1 to 5 the total grant received is assumed to be £32m per annum (£16m from SG and Treasury each). Thereafter, assumption is that balance will be received evenly over the remainder of years (£56m per annum)
- £174m of the grant income will be required to fund strategic projects (£144m GARL and £30m SPTE). This means that in total £826m will be available directly to the Clyde Valley authorities
- Grants received will be allocated to Councils on the basis of the overall share of the investment programme being delivered by Councils, but will only be paid out on the basis of actual spend with Glasgow holding any positive balances in a central account.
- The funding of the strategic projects from the govt grant means that in a number of the earlier years there is nil grant available to the Clyde Valley authorities.
- Over the 20 year period the total cost of projects is £1.13bn being £956m Clyde Valley directly delivered projects and £174m Strategic. The net cost to Clyde Valley authorities at year 20 is £130m being £956m Clyde Valley capital investment less £826m capital grant.
- The timing of grant income however, means that authorities require to fund a significant part of the programme upfront.

2. Milestones

- The proposal allows for milestone reviews
- First review 2019 (after 5 years). A review of the progress of project/programme delivery.
- Second review 2024 (10 years). A review of increase in GVA within Clyde Valley area.
- Third review 2029 (15 years). A review of GVA increase within Clyde Valley area
- There is a risk at milestone that the programme will have deemed to have failed and balance of grant is not paid. Particularly relevant to second milestone.

3. Financial Model – Illustrative Purposes

- The 2 spreadsheets attached have three financial tables **to illustrate the potential** impact of the City Deal proposal.
- Table 1 – Phasing of grant availability based on principles above and calculations of overall grant availability to LAs.
- Table 2 – Allocation of grant between authorities based on percentage of authority spend against the programme.
- Table 3 – Calculation of "worst case" borrowing costs for years 1 to 20.

4. Potential to Accrue Future Grant

- Accounting Regulations would appear to allow for the accrual of future grant in certain circumstances. If future income could be accrued then this would reduce capital repayment to revenue account. Interest charged however, would reflect actual interest charged to an authority in that year. The ability to accrue is linked to the certainty of receipt of future income.

5. Other Issues for Consideration

- Model requires to be refined/updated for changed/refined assumptions.
- Clarity should be sought as to the ability to accrue Clyde Valley future grants.
- Treasury/SG should be requested to share milestone risks. (ie where programme is ceased Clyde Valley authorities still receive outstanding capital grant up to a minimum level).
- Each Clyde Valley authority requires to review the potential financial impact on its own authority.
- Additionality to be evidenced from SG and view taken as to whether Ministerial approval still required for non LA spend
- Further discussion required on the use of borrowing to finance assets which will not be the property of Councils

To be added –

1. Rules on virement between projects within the one Council.

2. Two stage approval process – (1) Outline Approval, (2) Final Detailed Approval.

3. Treatment of aborted costs where a project cannot fully proceed.

4. Arrangements for "Step-In Rights" where a project gets into severe difficulty.

Appendix 2

City Deal – Risk Register

	Risk	**Mitigation**
1.	The projects may cost more than has been allowed for in the City Deal.	Whilst the Council would need to fully fund any cost increases, the project costs include significant optimism bias and are viewed as generous.
2.	The Governments' 20 year grant commitment may not be met in full for a number of reasons including City Deal not achieving the outputs specified in the agreement.	Were this to happen the Council would need to: a) Decide if it wished to proceed with any project not yet started; b) Reprioritise future investment plans to accommodate the financial implications.
3.	It may not be possible to agree a Joint Venture in the 2 projects where this will be required in order to meet State Aid rules.	Were this to happen the Council would have the option of: a) Submitting an alternative project which met the criteria within the available funding, or b) Foregoing the grant funding and allowing other City Deal Partners to apply for the freed up grant. It should be noted that if this were to happen it is likely the Council would be liable for 100% of pre-contract costs of the cancelled project.
4.	There is a risk that a project may not achieve the economic outputs set and that the envisaged level of grant may not be received.	a) The. economic targets, which have been identified by the appointed Consultants, KPMG, are based on economic modelling and grant funding is based upon overall Gross Value Added (GVA) performance – there will be a requirement to seek outline and detailed approval from the Programme Management Office which will assess this measure. b) Whilst the financial impact of economic targets not being met has yet to be agreed by Partners, any grant shortfall would require a review of capital spend plans.
5.	There is a risk that the overall programme does not achieve the collective outputs which are overseen by the Partnership Board	Implement robust governance arrangements for the Partnership Board and the Programme Management Office to define structures, roles and responsibilities.

6.	Her Majesty's Treasury (HMT) may not allow funding for years 11-20 to be used to reduce debt as outlined in the financial implications.	The Scottish Government are discussing this matter with HMT. If this cannot be resolved then it could fundamentally change the timing and/or overall affordability of the project.
7.	Councils are awaiting confirmation that it is possible to accrue the Governments' Capital Grants in advance of receipt. If this is not achieved then overall costs over 20 years will increase by approximately 70%.	In the event that the Council could not accrue the Capital Grants earned but not received then the extra annual cost of approximately £250,000 would need to be addressed as part of the 2015/18 budget process.