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To: All Members of the Council

Town House,
ABERDEEN, 9 March 2015

SPECIAL COUNCIL MEETING

The undernoted item is circulated in connection with the meeting of the **COUNCIL** to be held here in the Town House on **THURSDAY, 12 MARCH 2015 at 10.30am.**

JANE G. MACEACHRAN
HEAD OF LEGAL AND DEMOCRATIC SERVICES

B U S I N E S S

2 Aberdeen City Region Deal (Pages 1 - 50)

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ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	12 th March 2015
LEAD OFFICER	Angela Scott
TITLE OF REPORT	Aberdeen City Region Deal
REPORT NUMBER	CHI/15/131
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The purpose of the report is to seek approval from Elected Members for officers to conduct negotiations with officials of both the Scottish and UK Governments on an Aberdeen City Region Deal.

2. RECOMMENDATION(S)

(a) Authorise the Chief Executive of Aberdeen City Council, in partnership with her counterpart at Aberdeenshire Council, to conduct direct negotiations with both the UK Government and, in particular the Cabinet Office, and the Scottish Government over the submission and agreement of an Aberdeen City Region Deal bid.

3. FINANCIAL IMPLICATIONS

3.1 Elected Members of the Finance, Policy & Resources Committee of 20th February 2014 (Article 16 refers) approved funding of £250,000 towards the costs of securing external support to prepare a City Region Deal for Aberdeen and the North East. Further funding requirements may well be required in the future, and this will be addressed in subsequent progress reports.

4. OTHER IMPLICATIONS

4.1 The Council and other local partners will require to enter into legal agreements with the UK and Scottish Governments and other public bodies as required to implement the City Region Deal.

4.2 Agreement with both UK and Scottish Governments on a City Region Deal will also require a Governance structure to be agreed at a regional City and Shire level.

5. BACKGROUND

- 5.1 As previously reported to Elected Members of the Finance, Policy & Resources Committee on 20th February and 19th June 2014 respectively, City deals are bespoke packages of budgets and decision-making power, devolved on a discretionary basis to individual local authorities or groups of authorities in the form of a formal agreement or 'City Deal' with respective layers of government, as opposed to local joint working between public bodies.
- 5.2 The first wave of City Deals focused on the eight largest cities outside London and their wider economic areas. Each Deal is bespoke and reflects the different needs of individual cities but every Deal aims to achieve the following over-arching policy objectives:
- Give cities the powers and tools they need to drive local economic growth above a "do nothing" or "no intervention" scenario;
 - Unlock projects or initiatives that will boost their economies; and,
 - Strengthen the governance arrangements of each city.
- 5.3 A second wave of City Deals involving 20 English cities (the next 14 largest cities outside of London and their regions and the 6 cities with the highest population growth during 2001 to 2010) have been progressed during the course of 2013 and 2014. Glasgow was the first Scottish City Deal which was signed in August 2014.
- 5.4 At its meeting of 20th February 2014 the Finance, Policy and Resources committee agreed that the Council take forward a bid for a City Deal Fund and agreed funding of £250,000 to secure external consultancy support for this purpose. Subsequently, senior officers from both Aberdeen City and Aberdeenshire Councils have been jointly involved in extensive discussions with The Scottish Government, Cabinet Office, Infrastructure UK (part of HM Treasury) and the Secretary of State for Scotland to agree the strategic focus and nature of the Aberdeen City Region bid. These efforts culminated in November 2014 with the submission of strategic briefing documents to both the UK and Scottish Governments.
- 5.5 At the Oil & Gas Summit hosted at the invitation of the Council Leader, Councillor Jenny Laing, at the Aberdeen Exhibition and Conference Centre (AECC) on 2nd February 2015 both the First Minister, the Rt Hon Nicola Sturgeon MSP, and the Secretary of State for Scotland, the Rt Hon Alistair Carmichael MP, expressed their support for an Aberdeen City Region Deal and invited the submission of detailed proposals by both Councils acting jointly. The Summit concluded that action was required in three key areas: (1) fiscal review; (2) cost reduction; and, (3) infrastructure investment in the Aberdeen City Region.
- 5.6 Elected Member approval of this report's recommendations is sought so as to enable officers of both Councils to negotiate directly with both the UK and Scottish Governments on the detail of the City Region proposals prior to a formal submission to both governments in 2015.

6. MAIN ISSUES

- 6.1 Measured by GVA per head, the latest available data indicates Aberdeen City and 'Shire (£31,753) is the most productive region of the UK outside Inner London. It possible to argue that even this calculation significantly underestimates the region's productivity, as it excludes the contribution made to realising offshore (so called "extra regio") GVA which includes oil and gas production on the UKCS which totalled some £24bn in 2012/13. Indeed, the region is critical to the success of the UK Oil and Gas industry which makes a very significant direct and indirect economic and fiscal contribution to the UK, on some estimates contributing as much as 5% of all tax revenue.
- 6.2 Both Aberdeen City and Aberdeenshire have continued to grow throughout the recession and over the last 10 years GVA in the Region has increased by almost 59% compared to 35% for the rest of the UK. Whilst the oil and gas industry in Aberdeen City and Aberdeenshire has clear local significance, the benefits of this industry spread UK-wide. Our local industry partners have helped us to evidence the impact that Aberdeen City and Aberdeenshire companies have on the rest of the UK through a complex nationwide supply chain that includes substantial parts of the North of England and the Midlands where supporting economic recovery remains a UK government priority.
- 6.3 The Aberdeen region competes globally for the investment, skills and resources that sustain the oil and gas industry. Internationally, Aberdeen is seen as the only UK-based "Energy Capital" and it is often the case that investment lost to Aberdeen is investment lost to the UK. The region's skills and expertise in the energy sector, and in applied science and engineering more widely, are increasingly desirable the world over and local companies have received a high level of investment from foreign investors seeking to access this deep pool of talent (e.g. Statoil of Norway, China National Oil Corporation and Korea National Oil Corporation).
- 6.4 However, city regional economic growth is increasingly constrained by the physical, human and industrial capacity of the local economy. A range of indicators point to a stretched economy with close to full employment, a war for talent driving earnings growth, rapidly rising house prices and infrastructure at capacity (e.g. Aberdeen Harbour and record passenger numbers at Aberdeen International Airport). Locational attraction, perceptions of remoteness and poor connectivity (both physical and digital) are compounding the problem making it difficult for the region to attract and access the resources it needs.
- 6.5 The expertise that has developed here means the life of the United Kingdom Continental Shelf ("UKCS") has continued to exceed expectations. As the North Sea basin has matured, new technologies and enterprising business models have made new discoveries and incremental production possible. The Wood Review (February 2014) estimates between 16 and 24bn barrels of oil equivalent remain to be

recovered. It outlines a series of recommendations to boost currently anticipated recovery (within the range set out) by 3-4bn barrels - worth an additional £200bn to the UK economy over the next 20 years. Converting this opportunity, Wood says, is dependent on arresting cost inflation, better regulation, optimising the equitable shared use of existing production infrastructure, investing in skills and promoting innovation. The recent decline in the oil price adds emphasis to the importance of the Wood Review findings.

- 6.6 As highlighted by the Wood Review, underinvestment in infrastructure is one of the source causes of the cost pressures faced by the O&G industry operating in the North Sea and globally from Aberdeen. To the extent that significant investment in infrastructure contributes to easing these cost pressures, for example through reducing housing market pressures and improving accessibility, it will also generate further Corporation Tax and Petroleum Revenue Tax revenues both through improved industry profitability and helping sustain more marginal production activity. The international companies looking at Aberdeen as a location to invest increasingly demand the highest standards of infrastructure and compared to near rivals such as Stavanger in Norway the city is currently falling significantly short.
- 6.7 Regional growth has repeatedly exceeded expectations (particularly in the last 10 years). The ability of the Councils to respond to the urgent infrastructure demands from industry this growth creates is severely constrained by low levels of public funding. While the city generates very significant Exchequer benefit for the UK, as set out above, local public bodies do not participate directly in this wealth and only a very small proportion flows back to the city.
- 6.8 In fact, due to their relative prosperity Aberdeen City and Aberdeenshire receive the lowest share of local authority funding of any Scottish local authority. The Councils are currently using all available capacity to invest over £1.4bn in infrastructure through their 10 year capital plans including a joint capped £150m contribution towards the Aberdeen Western Peripheral Route (“AWPR”) and the City Council’s award winning Strategic Infrastructure Plan. But pressures to deliver against wider statutory duties, a Scottish Government Council Tax freeze and UK government austerity measures leave little scope to invest further from current and forecast resources to meet urgent industry demands.
- 6.9 There is evidence across the City and Shire of a lack of enabling public sector investment holding back multiples of private sector investment even in a seemingly booming economy. In particular, a lack of transport capacity is holding back the development of a range of housing and employment sites across the region, development of the airport is affected by congested infrastructure and a much needed £410m expansion of the harbour is seeking a public contribution towards supporting road infrastructure to catalyse it.

- 6.10 Trunk road networks north and south of the City face capacity constraints and the quality and resilience of the Rail network is doing little to improve connectivity and reduce perceptions of remoteness. Planned improvements are already too slow. Without a baseline improvement in infrastructure, other programmes to resolve skills challenges and support company growth will fail to make the industry impact required.
- 6.11 As detailed in the background to this report at Section 5, both Councils and local partners have been active in preparing an economic growth proposition to address some of these issues and are seeking additional support via a City Region Deal bid to the Scottish and UK Governments to accelerate delivery of key programmes. Attached to this report is an outline of the draft City Region Deal document “Aberdeen City Region Deal –Powering Tomorrow’s World”
- 6.12 The Councils are currently using all available capacity to invest over £1.4bn in infrastructure through their 10 year capital plans, yet even these significant resources are insufficient to address infrastructure investment with the urgency demanded by industry. Accordingly, the Councils consider there to be a strong strategic and fiscal case for a City Region Deal for Aberdeen and, in particular, around proposals for a contribution from both the Scottish and UK governments to a 20 year, £2bn infrastructure led plan for the City Region, together with initiatives to stimulate the regional economy in terms of innovation, skills development and internationalisation.
- 6.13 To achieve the outcomes and aspirations of the City Region Deal, both Councils aim to gain agreement for a 20 year Infrastructure Delivery Programme matching fiscal and non-fiscal commitments from local, national and UK Governments, local partners, public agencies and private industry to deliver the critical infrastructure requirements of the City Region.
- 6.14 Additionally, working closely with industry and education partners, create a Collaboration Programme, again matching fiscal and non-fiscal commitments, to embed the City Region’s world class innovation and research base allied to skills development and - most importantly - supporting the internationalisation of Aberdeen Region’s UKCS supply chain.
- 6.15 Within the Infrastructure Programme, the following priorities have been identified via a number of workshops with the business community as priority intervention areas:
- Housing
 - Aberdeen Harbour
 - Transport Connectivity
 - City Centre Regeneration

- Digital Connectivity
- 6.16 Complementing the Infrastructure Delivery Programme, the second strand of the proposed City Region Deal represents joint proposals from both Councils, the Universities in Aberdeen and the oil and gas industry itself to anchor the industry knowledge hub within the City Region. Developed in recognition of Aberdeen's Scottish, UK and international role, this element of the City Region Programme is centered on the following three elements:
- Internationalisation (To maintain and expand Aberdeen's global UKCS supply chain)
 - Innovation (with a particular focus on cost reduction technologies with global application)
 - Skills (A University Enterprise Zone incorporating both the University of Aberdeen and Robert Gordon University)
- 6.17 In conclusion, Aberdeen City region benefits from numerous economic and industry assets, yet as the recent dramatic fall in the price of oil has thrown into stark relief, Aberdeen City and Region also faces numerous challenges that have acted as barriers to continued economic growth. Without a transformational improvement in infrastructure as envisaged in the City Region Deal proposals, other programmes to resolve skills challenges and support innovation will fail to make the industry impact required to secure the economic future of the City and Region for forthcoming generations to come.

7. IMPACT

- 7.1 Corporate – The Smarter City vision is for Aberdeen to be an ambitious, achieving, smart city. This report makes a significant contribution towards the “Smarter Economy” priority by laying the foundations for investment in the city region where that investment demonstrates financial sustainability and the promotion of Aberdeen as a city to invest, live, work and export from.
- 7.2 It also meets the vision of the Community Plan in promoting a strong image of the City and a sense of civic pride and promotes the redevelopment of the City Centre, which is one of the main priorities for the Community Plan and Single Outcome Agreement and supports the Council's 5 year Business Plan in terms of protecting and enhancing the built environment, attracting visitors, young graduates, workers and investment to protect the economic future of the city, and, to facilitate new development projects to improve Aberdeen's living and working environment.
- 7.3 Public – Industry estimates state that the UKCS accounts for approximately 450,000 jobs throughout the UK, many of which are located or headquartered in the Aberdeen City Region. Similarly, the

constrained ability of both Councils to invest in enabling infrastructure at a level or timescale that industry and local residents expect are both significant factors in the public interest in the City Region Deal proposals.

8. MANAGEMENT OF RISK

8.1 As a part of the City Region Bid process, both Councils will be required to evidence a robust assurance framework to demonstrate and ensure that infrastructure schemes and other City Region Deal proposals are Best Value and are underpinned by robust business cases.

8.2 Both the assurance framework and associated governance arrangements to manage project risk and value for money will require to be approved and endorsed as part of the City Region bid process and will be reported to Elected Members for approval in advance of final agreement with local partners and both HM and Scottish Governments.

9. BACKGROUND PAPERS

Report no. OCE/14/030 City Deal Fund – Finance, Policy & Resources Committee, 19th June 2014.

Report no. CG/14/020 Request for Approval of Expenditure for External Support relating to the City Deal Fund, Finance, Policy & Resources Committee, 20th February 2014.

Sir Ian Wood UKCS Maximising Economic Recovery Review: Final Report February 2014.

PwC/Oil and Gas UK The total tax contribution of the UK Oil and Gas Industry, February 2012.

9. REPORT AUTHOR DETAILS

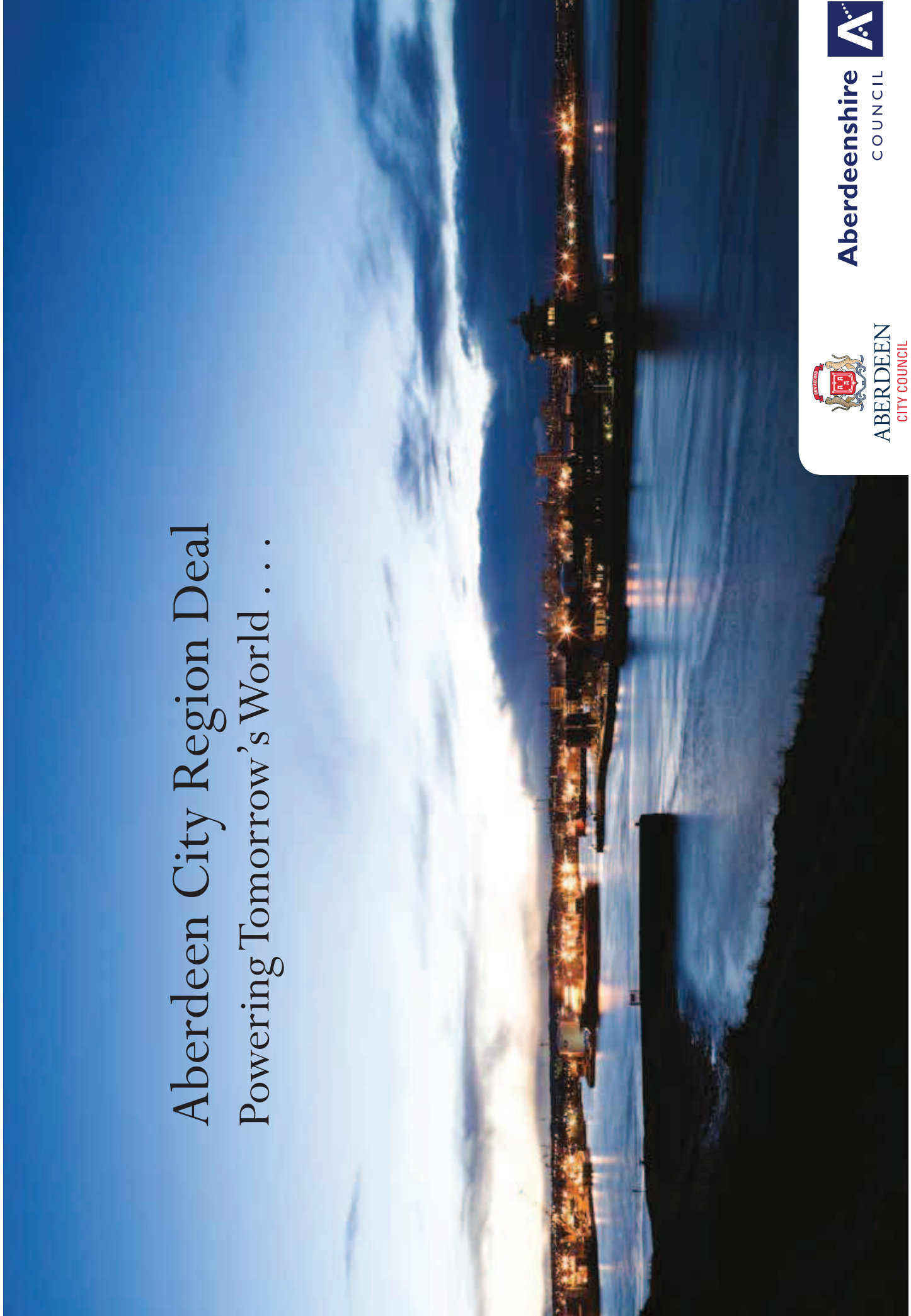
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Aberdeen City Region Deal

Powering Tomorrow's World . . .





Partners



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Foreword

The City Region Deal provides what is possibly the best opportunity in the UK to build further growth into an already successful regional economy.

Expertise in oil and gas has been exported globally for many decades and UK companies and nationals are now firmly embedded in key positions of influence in the global energy sector. Indeed, the expertise developed in the North Sea by subsea engineering contractors has allowed the UK to hold around 40% of a £20billion global market, further evidence of the ability of UK energy sector companies to excel in export markets.

The industry and the region are now at a threshold – whilst fossil fuels will be 60% to 70% of the global energy mix for at least another 30 years, there is a significant risk that the industry's presence in Aberdeen and Aberdeenshire could fragment prematurely and prejudice the extent to which remaining reserves in the North Sea are recovered. This is nationally significant as the energy sector recently accounted for 16.4% of UK Corporation Tax.

The City Region Deal draws together the challenges, the solutions and the asks being made – a combination of finance, enabling regulation and empowerment – and identifies the considerable benefits arising.



Councillor Jenny Laing
Leader Aberdeen City Council

The City Region Deal will have far reaching impacts, not just on the economy, but on regional competitiveness, connectivity, infrastructure, housing, employment and lifestyle, all of which are key elements in attracting and retaining the people we will continue to need to power and support the energy sector.

The bid identifies the quality and power of the linkages with partner organisations in the private, educational and public sectors as well as describing what is already being done to help address the challenges – work which the City Region Deal will significantly accelerate and simultaneously help anchor the success critical elements of the energy know how and supply chains in the North east for the benefit of the region, its people and the wider UK.

This is a successful region which plays a significant role in contributing to the financial well-being of Scotland, the UK and the rest of the world. By even greater collaboration across industry and all layers of government, we can protect the competitiveness of the industry and help to Power Tomorrow's World.

The ambition shown in this bid reflects the aspirations the partners have for the area – we are in global markets where only world class is good enough. The City Region Deal will ensure we deliver that.

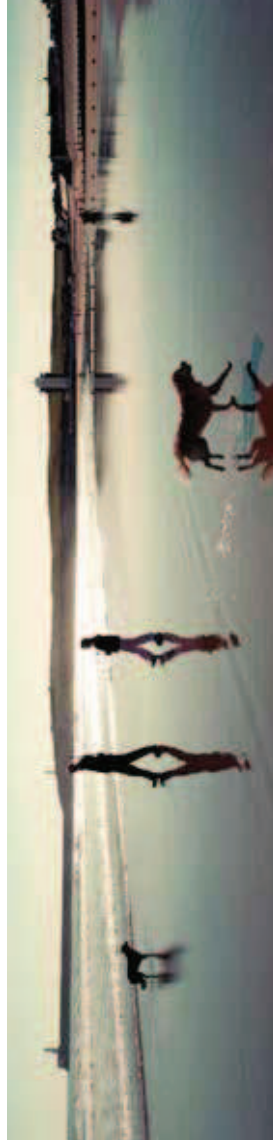


Councillor Jim Gifford
Leader Aberdeenshire Council

Executive Summary

Aberdeen City Region is a UK success story. It embraced oil and gas following its discovery in the North Sea in 1969 and, has since built around the industry, supporting growth through housing, transport infrastructure and education. It continues to make a significant exchequer contribution to Scotland and the UK and this is expected to continue into the future.

While the industry has the potential to generate as much as £141 billion for the Exchequer in coming years, the recent Wood Review sets out the significant challenges facing the industry if such benefits are to be realised and material economic and social decline avoided. The industry view is that the onshore public infrastructure is a critical factor in the competitiveness and duration of the sector in the North Sea and the Aberdeen region.



For every £1 in oilfield profitability, HM Treasury will directly yield an average of 62p in additional tax income, based on the current tax regime. This provides a strong fiscal context for additional investment in the Aberdeen City Region's local growth programme. Local partners have researched and developed an economic growth proposition to address many of these issues, and are seeking support via a City Region Deal to accelerate and secure the delivery of key programmes.

To assist us in the development of a City Region Deal, ACSEF, our local Economic Development Partnership, commissioned a study to provide

projections for economic growth for the Aberdeen City Region for 2014-2025. The study includes an economic model developed by Cambridge Econometrics (CE) with two growth scenarios, one with investment and one without added investment.

The Higher Growth scenario estimates that up to 2025:

- 39,400 new jobs would be created (an increase of 12%)
- £5.1 billion additional annual GVA in 2025 (an increase of 36%)

Without the necessary improvements to infrastructure, connectivity, promotion, skills and support for innovation, it will be increasingly difficult for businesses to continue to grow and the regional economy risks stagnation at best with a knock on impact for UK plc.

Through the City Region Deal, the Councils will seek the commitment of both Governments (and their agencies) to an Infrastructure Delivery Plan. This will support the region in resolving existing infrastructure constraints and provide the platform for growth that will help to realise the region's potential – economically, socially and as a research centre of excellence.

The proposal is estimated to be valued at £2.9 billion over 20 years yet when combined with the City Region's committed capital funds for infrastructure yields a combined investment pot of £4.3 billion. Taken together it would represent a significant and bold step to anchor a globally significant industry capital to the UK.

To support the industry in realising its growth potential, and sitting alongside the infrastructure delivery plan, is an Economic Development Model. This will focus on increasing the rate of internationalisation, innovation and skills development and will boost the export of innovation and technology developed and delivered in Aberdeen City Region for the benefit of generations to come.

¹ ACSEF (July 2014) 'Strategic Outcomes Framework Study'

Our Vision - Powering Tomorrow's World

Aberdeen City Region will continue to support a sector which is hugely important to the UK economy and also realise a unique opportunity to secure its position as a global leader in technology, innovation, skills development and energy production.

Outlined in this submission are a series of programmes, identified by local partners, that will support our economic future and we set out the critical role that a City Region Deal can play in enabling us to deliver them.

Working with the UK and Scottish Government, we will:

01

Build on the successes of the UKCS, and its contribution of £32bn to the economy, through development and export of energy expertise;

02

Deliver a radical new economic development model focused on internationalisation, skills and innovation and based on meaningful collaboration between industry, academia and all three layers of government;

03

Deliver a programme of essential and competitive infrastructure to help retain the energy sector in a globally competitive area and allow them to maximise recovery from UK territorial waters;

04

Deliver a programme of affordable and key worker housing as the city faces similar housing pressures as those experienced in London;

05

Support the energy sector to retain, anchor and manage talent and expertise in the North-East and ensuring that the region is a good place to live and work for that talent;

06

Realise the wider potential of our people and our businesses in key sectors such as renewable energy, food and drink and tourism; and,

07

Actively promote our offer and the transition to a low carbon economy.

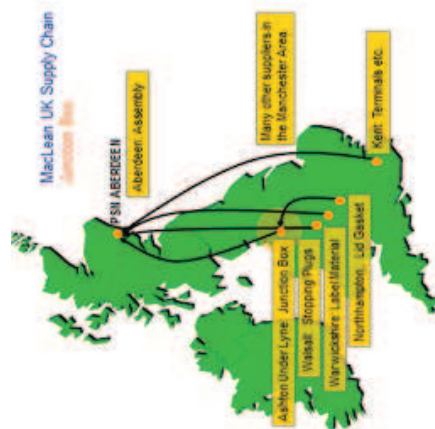


Local Economic Context

Aberdeen City Region is an economic powerhouse with the second most productive economy in the UK after inner London and the highest GVA, at 2012 prices, of £31,753 per head in Scotland. It is possible to argue that even this calculation significantly underestimates the region's productivity, as it excludes the contribution made to realising offshore GVA which includes oil and gas production on the United Kingdom Continental Shelf (UKCS) which totalled some £24billion in 2012/13.

A review undertaken by PricewaterhouseCoopers (PwC) in 2012 on behalf of Oil and Gas UK estimated that the oil and gas industry contributed around 16.4% of UK Corporation Tax with the wider total tax contribution of the industry and its supply chain (including employee taxes and production taxes) estimated at £30.1 billion a year, or 5.5% of the UK total. In addition the value of oil and gas sector goods and services exported in 2012 amounted to £15 billion which when combined with the balance of payments value of the oil and gas production estimated at £50 billion means an annual benefit of £65 billion to the UK's bottom line.

Around 10% of the City Region's workforce is directly employed in the energy sector compared to just 1.7% UK wide. The skills and expertise honed in the North Sea are in demand all over the world and many global projects are serviced from here. The Aberdeen City Region has one of the largest concentrations of offshore engineering expertise in the world and a strong supply chain that extends from Aberdeen City and Shire up to the Highlands & Islands, to the Central Belt of Glasgow and



Edinburgh and extending all the way to clusters in the North-East, North-West and South-East of England.

The oil and gas industry has huge local significance but the benefits of this industry spreads UK-wide and underpin significant export income from high added value goods and services.

The wider supply chain has strong regional representation in substantial parts of the North of England, the Midlands and in South East England. Oil and Gas UK estimate that the industry employs 450,000 UK wide directly and through the supply chain. Some 45% of whom are based in Scotland with 55% from England, Wales and Northern Ireland.

Aberdeen competes globally for the investment, skills and resources that sustain the oil and gas industry. As the UK's principal operational centre of oil and gas production, when Aberdeen loses out in international investment, it is generally lost to the UK as a whole. The City Region's skills and expertise in the energy sector, and in research, applied science and engineering, are increasingly desirable the world over and local companies have received a high level of investment from foreign investors seeking to access this deep pool of talent (e.g. Statoil of Norway, China National Oil Corporation and Korea National Oil Corporation).

However, the City Region's economy is increasingly constrained by the capacity of the region's infrastructure. As an example local traffic modelling for just one area – a one mile radius around the airport in Dyce – has shown that an hour long delay per person per day amounts to £96 million in lost productivity annually. In addition in the ten years to 2013 passenger numbers at Aberdeen International Airport has increased by 37%, which is the largest percentage increase in Scotland. This is combined with considerable pressure on the housing

2 ONS/Aberdeen City Council (2013), Briefing Paper - Aberdeen City & Shire Economic Output.
 3 PwC (February 2012) The Total Tax Contribution of the UK Oil & Gas Industry.
 4 Oil and Gas UK (2014) 'Economic Report 2014'
 5 UK Government (March 2013) 'UK Oil and Gas - Business and Government Action'
 6 ONS, Business Register and Employment Survey
 7 PwC and Oil and Gas UK (Feb 2012), "The total tax contribution of the UK Oil and Gas Industry"
 8 UK Government (March 2013) 'UK Oil and Gas - Business and Government Action'

market with average house prices in 2012 exceeding the Scottish average by over £30,000 – in effect pricing out many key workers from the area. For instance the starting salary for a beginning teacher (BT) is £21,000 meaning that a one bedroom flat at £700pcm is almost unaffordable. The combined impact is to place at risk further economic growth.

The Councils are currently using all available capacity to invest over £1.4billion in infrastructure through their 10 year capital plans which include a £150million contribution towards the Aberdeen Western Peripheral Route (AWPR), the City Council's Strategic Infrastructure Plan, and Aberdeenshire's Strategic Growth Corridors including Energetica which stretches from Aberdeen to Peterhead.

These resources are insufficient to address the infrastructure needs with the urgency required by industry. Our economy has grown beyond all expectations in the last decade and investment in infrastructure has lagged behind demand for a period of some 30 years. The scale of the offshore oil industry in the area is now at a threshold and failure to address its needs and help restore the region's competitiveness will result in the premature fragmentation of the sector, to the detriment of the nation's tax and exporting revenues, as well as the region's business base, research and development efforts and social structure.

The present reality is that the whole city region faces significant reliability and capacity issues on a day to day basis that makes doing business more difficult, more expensive and ultimately less attractive than is the case in competitor locations.

Accordingly, both Councils and their local partners believe there to be a strong strategic and fiscal case for a City Region Deal for the Aberdeen City Region and, in particular, around proposals for a

contribution from both the Scottish and UK Governments to secure a 20 year, circa £2.9billion delivery plan for the City Region, together with initiatives to stimulate the regional economy in terms of greater internationalisation, innovation, and skills.

A great deal of work has already been undertaken into the constituent elements of the programme which will form the basis of our discussions with the Cabinet Office and others once given the mandate to proceed.

ACSEF, the region's private/public sector partnership leading on the economic development of North East Scotland, recently commissioned SQW to carry out a scenario planning exercise on future economic model

Two scenarios were developed – high growth and low growth – using the Cambridge Economics modelling system.

The predicted growth in GVA is significant if proposed infrastructure investment can be delivered alongside an aggressive economic development strategy with a focus on innovation and internationalisation.

For Aberdeen City and Shire the high growth model indicates a GVA increase of £5.1 billion per annum over the 2012 base by 2023.



Figure 6.1 Higher Growth Scenario

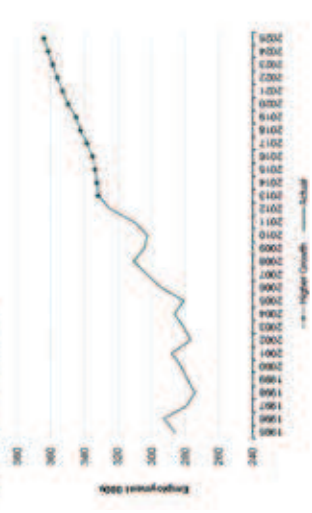
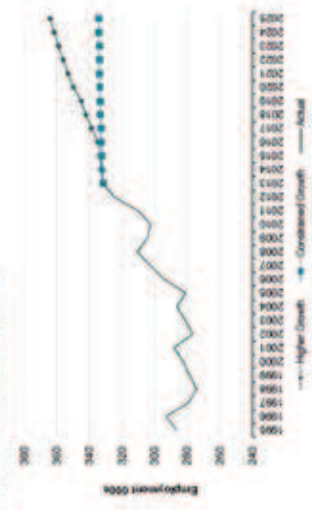
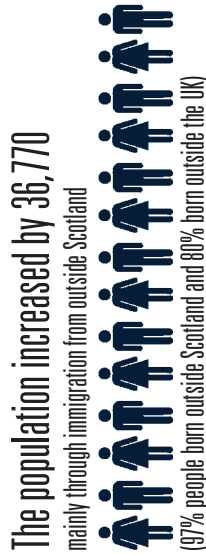
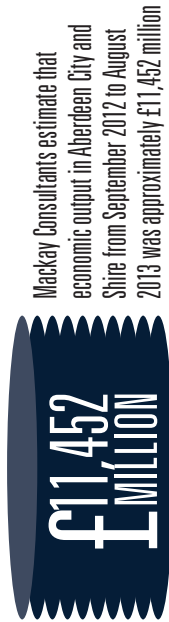


Figure 7 Actual and projected employment levels in the north east (2006 to 2025) under Higher Growth and Constant Growth scenarios

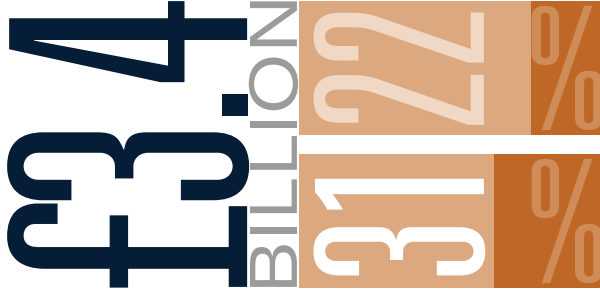


⁹ ACSEF (July 2014) 'Strategic Outcomes Framework Study'

¹⁰ Figures based on CAA data quoted in ACSEF Strategic Outcomes Framework Study by SQW (2014)



2005-2012 the BUSINESS BIRTH RATE in Aberdeen City and Shire increased by 35% compared to a 3% increase in Scotland



Between 2000 - 2012 GVA grew by 31% adding £3.4 billion to the North East economy, compared with growth in Scotland of 22%



HM GOVERNMENT UK OIL AND GAS INDUSTRIAL STRATEGY (MARCH 2013)

“While the strengths of the sector are UK wide, Aberdeen has established itself as a global hub for oil and gas expertise. This has happened in spite of, not because of its infrastructure. From a small airport through to traffic congestion and limited housing stock, Aberdeen has struggled to keep up with the demands of the oil and gas sector.”

Developing Our Plan: SWOT Analysis

Aberdeen is one of the most written about economic regions in the UK. As a result, we are fortunate in having a significant body of evidence about the needs and future potential of our region including research by both UK and Scottish governments, academics and industry. This analysis has been tested with stakeholders across public and private sectors to ensure it represents a fair consensus of the issues and priorities facing the region.

Strengths

- A prosperous and growing economy with low unemployment
- Global Excellence in energy including world-leading subsea expertise
- A dynamic, innovative and enterprising private sector with a strong export focus
- Agreement on the issues
- A strong voice for the private sector
- Globally minded and internationally attractive
- Significant investment in strategic infrastructure underway
- Excellent quality of life
- An above average contribution to the rest of the UK with high added value businesses and jobs
- A strong skill set in applied sciences, technology and engineering including two leading research universities

Weaknesses

- Level of local funding does not reflect the needs of the economy
- An historic deficit in infrastructure
- Poor Connectivity to markets and perceptions of remoteness
- Inadequate digital infrastructure and high cost of connections
- Prohibitively high cost of housing and lack of affordable housing
- A growing skills shortage and difficulty accessing labour
- High cost of doing business in the city
- Lack of awareness outside the area of the opportunities and quality of life on offer
- Economic dominance of the oil and gas sector

Opportunities

- Up to 24bn barrels of oil equivalent potentially recoverable
- Developing centres of excellence in oil & gas based on North Sea know how and experience (decommissioning, subsea offshore wind)
- A global centre of expertise in energy and energy-related disciplines (CCS, renewables, hydrogen)
- Further growing our exports
- AWPR used as the foundation for much-improved regional infrastructure and connectivity
- Realising the potential of Aberdeen City Centre
- Life Sciences
- Food and Drink
- Tourism – building upon existing growth to develop opportunities to access the Cairngorms, leisure activities and weekend breaks.

Threats

- No rapid improvement to existing infrastructure will lead to decline
- Failure to embrace and deliver Wood Review recommendations will curtail the life of North Sea production and weaken the contractors who rely on a strong home market to support export activity
- Inability to attract and retain skilled workers
- Cost and availability of housing contributes to labour shortages
- Skills, expertise & employment leave the region as UKCS production declines
- History of inadequate funding means city region has been unable to realise opportunities
- Intense Global competition from other Energy Cities
- Aberdeen unable to sustain existing economic contribution to Scotland and the UK and declines.

The SWOT analysis identifies a stretched economy with close to full employment, competition for talent and high house prices driving wage growth, and infrastructure beyond capacity. Perceptions of remoteness and poor physical and digital connectivity are compounding the problems making it difficult for the region to attract and access the resources it needs. Despite a strongly performing economy (even in the current climate) in recent years constrained capacity has led to some weaknesses becoming unsustainable trends that now threaten future economic stability.

In order to sustain the oil and gas industry and unlock future opportunities Aberdeen must act to ensure that it again becomes a competitive region which means anchoring the existing industry base which is the source of its economic strength. We will achieve this by:

- Working with government to provide the fiscal regime which maintains existing and stimulates new activity in UK territorial waters;
- Ensuring competitive infrastructure including an adequate supply of housing;
- Developing a skills strategy for the industry that ensures a future supply of talent;
- Driving innovation and research as a platform for increasing industry cost competitiveness and driving exports;
- Overcoming perceptions of remoteness and improve its credentials as a desirable place to live and work; and
- Ensuring the transport network in the region can support the delivery of the planned development and to improve connectivity between residential and employment areas. The delivery of cost competitive infrastructure will allow the movement of goods and people to be made in a more efficient and reliable manner both within the north east and nationally.

Expert led workshops at the recent Oil and Gas summit held in

Aberdeen identified three separate but related themes that required further work:-

1. **Cost reduction:** As well as the high cost of doing business in Aberdeen owing to infrastructure constraints the workshop identified standardisation, efficiencies in production and governance as key issues for the industry.
2. **Economic Impact:** The workshop identified cooperation, collaboration and partnership as the means by which supply chains and centre of excellence status could be maintained and enhanced as the UKCS basin matures.
3. **Fiscal regime:** Participants identified the key fiscal changes needed to support industry including the possibility of an exploration tax credit but changes needed to have a clear analysis of the knock on impact elsewhere in the industry. Factors for success included cross party support, change for the long term and clear communication of fiscal changes made.



¹⁰ As an example, the Dyce area is recognised as a key driver of the local economy with a wealth of energy related business and industry located close to the city as well as Aberdeen Airport. Improvements to transport connections and in particular the road network in this area will enhance journey times that are subject to a high level of existing traffic congestion. Evidence through recent study work suggests that the provision of appropriate infrastructure in this area could lead to significant reductions in average journey times from the present levels of typically over an hour in peak periods to around 10 minutes.

¹¹ Aberdeen Exhibition and Conference Centre, February 2nd 2015

On top of the opportunity represented by continued oil and gas production, the deep pool of applied science and engineering expertise in the region is well placed to capitalise on a number of emerging complementary opportunities, many of which have strategic value to both Scotland and the UK, including:

- **Renewable Energy** – £100billion investment in offshore wind with key role of oil and gas supply chain in reducing installation and deployment costs, with a high voltage distribution hub proposed for Peterhead;
- **Decommissioning** – North Sea opportunity estimated at £40billion ;
- **Carbon Capture and Storage** – Peterhead commercial project offers wider commercialisation opportunities through national supply chain and research centres;

- **Unconventional Oil and Gas** – Role of supply chain in realising the potential of unconventional oil and gas finds in the UK, Europe and further afield;

- **Global Export of Oilfield Services** – Building on our global reputation in areas such as subsea engineering to significantly increase our export potential; and,

- **Wider Knowledge Economy** – Building on the demands and skills of the energy sector, knowledge industries in life sciences, financial services and technology are clustering here.

- **Fiscal and Regulatory** regime to maintain production, stimulate exploration and encourage new developments in the UKCS and other territorial waters

12 Scottish Enterprise (2013), UK Offshore Wind – Investment Landscape Study
 13 Sir Ian Wood (February 2014), UKCS Maximising Recovery Review: Final Report
 14 According to the Oil & Gas UK Economic Report 2013 Aberdeen captures 45% of the global market for subsea engineering



Governance

Governance of the City Region Deal will be developed and implemented to ensure that there is strong and accountable leadership. There should be a Governance Board (City Region Deal Executive) led by the two Councils, with strong public and private sector representation to ensure robust and timely decision making. Decisions will be based on the principles of the agreed

City Region Deal and the priorities contained therein.

We also support the development of a City Region Deal Liaison Group which would comprise funding partners as well as national stakeholders.

“The City Deal builds on the close economic partnerships that have been developed in the region over the last decade. Relatively modest investment in key infrastructure and regional capacity will pay for itself many times over for the whole of Scotland and the UK by unlocking private sector investment.”

Robert Collier

Chief Executive, Aberdeen & Grampian Chamber of Commerce



Key elements of the City Region Deal

Outlined in this submission are a series of programmes that will support our economic future and the critical role that a City Region Deal can play in enabling us to deliver them.

The projects that have been identified as having the greatest impact in unlocking the region's potential sit within two key themes: **infrastructure** and **economic development**. To deliver on the outcomes set out in this document, the City Region Deal partners will seek to negotiate with government to:

- Establish a circa £2.9billion **Infrastructure Delivery Programme** and an associated 20 year **Investment Fund** matching fiscal and non-fiscal commitments from local, national and UK Governments, local partners, public agencies and private industry to deliver the critical infrastructure requirements of the City Region.
- Working with industry, academia and all three layers of government to underpin a radical **Economic Development Model** to enhance the City Region's world-class research base in the fields of innovation, skills and internationalisation, in addition to the establishment of an University Enterprise Zone.



“ Every penny invested in Aberdeen will make a direct return to the UK Treasury through increased oil revenues. There’s no safer place to invest. ”

Martin Gilbert (September 2014),
Chief Executive, Aberdeen Asset Management (FTSE 100)



Infrastructure Programme

Transport Connectivity

The population of the City Region is forecast to grow from 465,000 in 2011 to around 500,000 by 2035. Managing such a population increase will be a significant challenge for the North East, particularly in terms of transport.

There are a number of infrastructure projects that are nearing delivery over the next 5-6 years to address existing constraints on the transport network and a package of further measures to be delivered through the Strategic Transport Fund to support the delivery of the Strategic Development Plan and Local Development Plans of the two Councils over the period to 2035.

Traffic modelling indicates that the movements associated with each of the major developments form a relatively dispersed travel pattern, with around 25-30% of development related travel movements travelling

to central Aberdeen, 45-50% to the periphery of Aberdeen (including Bridge of Don, Dyce, Kingswells and Altens) and 20-25% to locations in Aberdeenshire.

The magnitude of new travel movements associated with new development areas outwith Aberdeen city centre and other current major employment centres suggests a significant change in travel patterns and an increase in demand on parts of the road and public transport system which are not currently associated with this level of activity.

Other developments, such as the relocation and expansion of the Aberdeen Exhibition and Conference Centre (AECC) and the continued growth of Aberdeen International Airport provide additional significant trip generators on the periphery of Aberdeen. A significant number of infrastructure improvements have been identified for delivery and funded by both local authorities to enable the development of the Strategic Development Plan to 2035 and to reduce congestion on the road network.

The existing rail network is also constrained and poses limited opportunities for a step-change in provision. Although services have seen significant patronage growth in recent years, the capacity of the

“Aberdeen Airport is the gateway to Europe’s energy capital, serving around 3.5 million travellers a year. It is the world’s busiest commercial heliport, transporting more than 500,000 passengers in support of the North Sea oil and gas industry. As the most connected regional airport in the UK, we need the best infrastructure in and around the airport.”

Carol Benzie, Aberdeen International Airport:

existing infrastructure is limited and trackside capacity and constraint issues are negatively impacting public transport use both North and South of Aberdeen. As rail patronage continues to grow and issues of overcrowding increase, it is clear that there is significant unmet demand in the corridors currently served by rail.

At a national level, the Scottish Government’s 2011 Infrastructure Investment Plan and Strategic Transport Projects Review reaffirm the need to improve rail infrastructure between Aberdeen and Inverness and between Aberdeen and the Central Belt, including a commitment

to upgrading the Aberdeen to Inverness line (allowing for faster and more frequent services) and reducing journey times between Aberdeen and the Central Belt by 20 minutes.

In March 2014, the Scottish Government announced a £170million package of improvements for the Aberdeen to Inverness rail corridor to be delivered between 2014 and 2019, with the aim of improving commuter opportunities and capacity into both Aberdeen and Inverness. A further phase will seek to make passenger journeys quicker, more frequent and more comfortable. Improvements include redoubling of the track between Aberdeen and Inverurie and local improvements around Aberdeenshire and Moray, including infrastructure to support the reopening of Kintore Station. Future phases of the scheme will support an hourly service between Aberdeen and Inverness with the average journey set to reduce to two hours.

A Strategic Transport Fund (STF) has been developed to contribute to strategic improvements to road, rail and public transport. The recent pace of development across the region has outstripped that previously anticipated and along with a need to keep the STF financial levy at a rate which doesn't deter development means that the total in the SFT will not meet all the region's strategic transport needs. It will, nonetheless, provide an £86million fund for these improvements over and above both Council's 10 year £1.4billion capital plan commitments.

The proposal for a cross-city rapid transport system (RPTS) first emerged in the development of the city council's Strategic Infrastructure Plan (SIP) in late 2013.

The proposal was in response to the challenges that there are in crossing the city on public transport principally inside the line of the Western Peripheral route. Aberdeen is characterised by a radial trunk road system emanating from the city centre out into Aberdeenshire with roads across



the city being poorly developed or non-existent. Public transport follows these radial routes into the city centre to the bus terminus.

This in effect means that anyone wishing to use public transport to enter or exit the city but who have a destination along or near an alternative radial from where they commenced their journey have to take a minimum of two buses which is a deterrent in both a time and a cost basis. The initial proposal was developed after looking at successful RPTS interventions in cities of a similar size across Europe.

The proposal has been warmly welcomed by the broader community and a project brief has been worked up between the two Councils and Nestrans and a project team set up to progress it. There are a number of key decisions to be made as part of the process to develop detailed proposals including developing the most effective route, the type of RPTS to be employed and of course the funding model.

It is proposed that we work with the UK and Scottish Governments to develop and deliver the project as well as investigate innovative delivery models and income-generating streams such as value capture along the route.

Proposals: transformational investment in transport infrastructure, recognising the pressures and constraints being placed on air, road and rail links.

- Commitment from the UK and Scottish Governments to a Cross City Rapid Passenger Transport System (RPTS) linking the new housing areas identified in the Local Development Plan, with new areas of business development, together with Park and Choose sites, the airport and the universities. The proposal will represent a step change in the use of public transport and provide interchange to the proposed suburban rail system with linkages into Westhill and Portlethen in Aberdeenshire.
- Commitment to a strategic transport improvement programme across the roads networks in the City Region. Priority areas for intervention include A96 Dyce Drive (Phase I & II), A90/B999 Junction, A90 Parkway, A90 Anderson Drive, Parkway to Riverview Drive, Locking in the Benefits of the AWRP programme, Bridge of Dee/Connection to A93, Soutarhead, West Tullos Widening and Junction Improvements, Rob Roy Bridge / Malcolm Road realignment, Northfield to Newhills bus corridor, Kintore to Westhill, Berryden Phase II (Great Northern Road), City Centre Transport Improvements, A96 Bankhead Avenue and various roads hierarchy adjustments.
- Acceleration of planned upgrades to the rail track infrastructure both north and south of Aberdeen to improve regional rail connectivity and for Transport Scotland and Network Rail to bring forward an implementation programme.
- Commitment to a Cross City Rapid Transport System linking the new housing areas identified in the Local Development Plan, with new areas of business development, together with park and Choose sites, the airport and the universities. This development is a central plank of our efforts to allow people to move quickly around a City that is characterised by centralised radial routes,

while seeking to reduce carbon emissions. The proposal will represent a step change in the use of public transport and provide interchange to the proposed suburban rail system with links into Westhill and Portlethen in Aberdeenshire.

- The creation of a suburban Rail Network and timetable incorporating five new rail stations at Bucksburn, Kittybrewster, Airport/Exhibition & Conference Centre, Cove and Newtonhill) for the Aberdeen wider travel to work area.
- Other interventions to encourage modal shift from the car to public transport, including cycling and walking options.

Outcomes & Impacts: Significant investment in public infrastructure contributes to reducing industry cost pressures, for example through reducing housing market costs and improving transport connectivity, it will also generate further Corporation Tax and Petroleum Revenue Tax revenues through improved industry profitability thus helping to sustain more marginal UKCS production.

Housing

Prohibitively high housing costs in both the private rented and owner occupied sectors are making it difficult to attract new workers to the Aberdeen City Region (in particular key workers such as nurses and teachers). A lack of affordable accommodation increases costs throughout the economy and compounds housing shortages further (e.g. high cost of accommodating construction workers pushes up build costs).

In addition to the 40,000 additional jobs in the period to 2025 in the high growth scenario outlined by the SQW research, the population of the city region is projected to grow by an additional 54,000 up to 2025. This will present significant pressures on housing across all market segments. In particular without further action to diversify the range of housing provision key workers will find it increasingly difficult to live and work in the city region.

Aberdeen's unemployment rate is just 2.3%, but 25% of the working age population earns under £15,000 a year.

Case Study

Aberdeen mum-of-two Gail (not her real name) has been on the housing waiting list since April last year. She rents a flat from a relative which she explains costs about 70% of her £18,500 wages. *'The cost of living is ridiculous in Aberdeen. Even public transport costs a bomb. Food is more expensive, and so are school meals and child care. I turn the heating off when the kids are not with me. It gets me very depressed,'* she says.



High land values in the area make it difficult for Registered Social Landlords (RSLs) to purchase sites making them overly reliant on delivery with developers under obligations from Section 75 agreements. This reliance on Section 75 obligations makes it difficult for RSLs to control development timeframes and costs.

Aberdeen City and Aberdeenshire Councils are currently taking forward the provision of dedicated key worker housing in its own stock through the National Housing Trust (Local Authority Variant).

Proposals: In order to unlock development capacity in the private sector, both local authorities are seeking a £350million ring fenced loan guarantee facility from Infrastructure UK, for housing in Aberdeen City and Aberdeenshire, first used at the Countesswells development site in 2014.

In addition it is proposed to allow Aberdeen City Council and Aberdeenshire Council either by themselves or in partnership to build and lease houses across the rental spectrum with a particular focus on key workers.

Outcomes & Impacts: Projects will enable the city region to improve the availability and cost of housing, contributing to alleviating labour shortages and reducing labour costs in key markets. Short-term accommodation for public sector key workers will increase the reach of housing investment capacity and provide a short term economic boost by assisting the delivery of housing projects with the associated affordable housing requirement.

The Aberdeen City and Shire Strategic Development Plan sets a target to move towards building at least 3,000 homes a year by 2020 which should ensure the delivery of 750 affordable homes per annum. Overall this package of measures seeks to deliver a minimum of 15,000 homes over the next 20 years.

“The past five years or so have been extremely challenging for all, particularly the construction and house building sectors. During the period the North East economy had performed much better than most other areas in the UK, now we are seeing a strong upturn in the North East with a growing demand for new housing and business space.

“We have ambitious growth plans over the next 5 years for the Group overall, with very specific plans for the North East where we will see substantial growth in the number of new homes we will be building. The North East will remain a core part of the Group’s activities.”

Stewart Milne, Stewart Milne Group

City Centre Regeneration

Evidence suggests that a thriving urban core plays an important part in any successful city. Much is already happening as can be evidenced by the success of Union Square and the number of planning applications for both hotel and office space. A number of the new developments underway are returning or creating office based jobs into the city centre. This additional traffic runs contrary to the desire to improve the city centre walking and cycling environment by re-allocating existing road space from car traffic.

Aberdeen city centre will experience both major growth opportunities and significant challenges to its development over the next 20 years, as the city continues to compete and strive for economic growth and a higher quality of life, as the energy sector continues to develop, other business sectors grow, and the city centre reasserts itself as a major economic asset to the benefit of residents, businesses and visitors.

Proposal: Aberdeen City Council has commissioned a masterplan and delivery programme for Aberdeen city centre. The masterplan

will provide a visionary, integrated, coherent and compelling template for the sustainable development of the city centre, informed by a robust appraisal of the city centre's economy and its main property and development markets to form the basis of an assessment of Aberdeen's economic growth prospects and targets over 20 years.

To provide the necessary funding for this vital regeneration the Council has set aside £20million towards City Centre regeneration. Support from the City Region Deal will enable the associated infrastructure requirements necessary to realise the regeneration and economic growth of the City Centre.

Outcomes & Impacts: The city centre masterplan and delivery programme provides the framework for managing and directing change in the city centre, to support economic growth and also to secure more benefits and opportunities for the communities of the City and Shire. It is anticipated that GVA in the order of £290million and 11,000 jobs will be generated as a result of the developments within the masterplan.



Digital Connectivity

UK Government estimates that £20 of economic value is delivered from every £1 investment in digital infrastructure making digital investment an efficient use of funding for economic stimulus.

High quality mobile and broadband communications are now considered a given in any area considered attractive to live and work in. Demand for communications infrastructure is continuing to grow and this is particularly relevant in the Aberdeen City Region where industry requirements for universally available, reliable and high quality electronic communications infrastructure is an essential component of economic growth given the presence of the global oil & gas industry in the region.

Both Councils are fully supportive of the expansion of the region's communications infrastructure and acknowledge that this can enhance accessibility to services and contribute to reducing the need to travel, reduce carbon emissions, and allow for more flexible working arrangements.

Proposals:

- Deliver a core digital network infrastructure – facilitated by an enabling public sector - to support channel shift in internal and cross organisation communications and service delivery improvements. Utilise the demand for capacity and data use from the public sector to leverage additional private sector investment into areas with poor connectivity/uptake. Spare capacity within ducting infrastructures should be made available, at market rate, to speed up private sector roll out and minimise environmental disruption.

“I would like my people to be able to work from home which could provide a real contribution to reducing our costs but we cannot do that as long as our digital infrastructure remains so weak”

Bob Keillor, Chief Executive, Wood Group

- Digital infrastructure to be a default consideration at the beginning of programme planning.
- Establish a regional internet exchange to provide direct access to core internet and support data science/industrial innovation.
- To allow Aberdeen City Council and Aberdeenshire Council to become pilot authorities through the planning system to require all developers to install fibre to individual new build houses and business premises and to buildings being renovated.

Outcomes & Impacts: The provision of ultrafast broadband will accelerate economic growth, stimulate innovation and retain and create employment. Establishing Aberdeen as a key location for the research and development of industrial, commercial and creative use of digital product and services will build on the region's strength as a global exporter of knowledge and services and support the diversification, built on existing skills, of an already robust industrial sector.

The region will be supported in more efficient and effective delivery of public services, freeing up additional resources for alternative uses. Working closely with the private sector the region can become a centre for excellence in developing next generation public service models and the creation of new business opportunities from this.

Enhanced mobile phone coverage and services will address lifestyle and competitive place issues in attracting young people to the area.

Aberdeen Harbour

Aberdeen Harbour is the principal commercial port serving the North East of Scotland and is one of Europe's leading maritime support centres for offshore energy. The Harbour plays a key role in the economies of both Aberdeen and Scotland currently generating around £1.5billion GVA and 12,000 jobs for the Scottish economy. At present it is estimated that two-thirds of the economic impact associated with Aberdeen Harbour is linked to the key role the Harbour plays in supporting the oil and gas sector.

In recent years the Harbour has experienced significant growth in demand for its services but despite investing significantly in upgrading facilities, the existing site is now operating at or near full capacity. It is clear additional capacity is required to retain activity in the oil and gas sector in Scotland. If this capacity is not developed, then there is a risk that new and existing demand will be lost to Norway. Capacity constraints at the Harbour are also likely to hinder existing and potential users from developing new market opportunities in areas such as renewable energy, decommissioning, passenger ferries and cruise liners.

Proposals: In order to accommodate existing and future demands from harbour users, the Harbour Board is considering options for expanding the Harbour into Nigg Bay to the south of the existing harbour, clear of the city centre at a cost of around £410million. The client base of the harbour will be largely financing the expansion through increased charges in the region of £390million. In order to ensure the commercial viability of the new harbour it will also be necessary to upgrade the roads infrastructure in the surrounding area.

Outcomes & Impacts: The upgrading of the local roads infrastructure would not only remove a constraint upon the Harbour Board's expansion, but also help to make industrial land surrounding the new Harbour more attractive to potential investors and could result in a significant increase in employment in this area alongside an uplift in Land & Buildings Transaction Tax (LBTT) and reoccurring Non-Domestic Rates (NDR) revenues.

If the new Harbour is developed as planned then it is estimated that in 20 years' time it will be contributing £2billion GVA to the Scottish economy each year and supporting around 15,510 jobs, around 30% more than its current impact. With the planned development, the Harbour would be able to maintain its competitive position within the oil and gas sector and would be able to take advantage of new markets.



“Aberdeen Harbour Board was established in 1136, making us Britain’s oldest business and key to the success of the region. We are part of the city’s history and are very much at the heart of the future.”

Chris Lloyd, Aberdeen Harbour Board.

“Aberdeen City Region’s success is down to our entrepreneurial spirit and global outlook. Investing in the region will underpin global company development from SMEs up.”

Gary McEwan,
Enterprise North East Trust



Economic Development Strategy

To drive forward the development of world class industry in the city region we will deliver a radical and refocused economic development model with an overarching theme of collaboration between industry, academia and the public sector at all three levels of government.

Infrastructure investment will help unlock higher levels of growth – as set out in the SOW report - but when this is combined with harnessing the culture of innovation and development present in industry and the city region’s universities, a strong case can be made to create world centres of excellence in a number of areas related to the energy industry. Aberdeen currently ranks fourth in the UK in the number of patents granted per 100,000 of population.

This knowledge, innovation and expertise can then be exported – thereby significantly enhancing the tax revenues already identified at an additional £1billion through the creation of 30,000 new jobs .

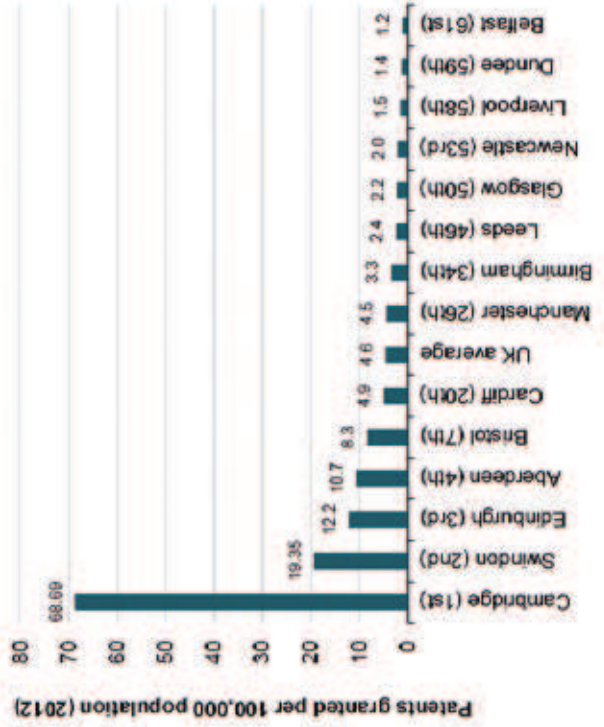
Our proposal to deliver the additional £8.8billion in GVA up to 2025, representing the cumulative total between the higher and constrained growth scenarios, is thus based on a combination of infrastructure and economic development interventions.

The three main aspects of this element of the City Region Deal are centred around the following:

1. **Innovation** with a particular focus on cost reduction technologies with global application.
2. **Skills strategy** to maintain and develop a skilled workforce.
3. **Internationalisation** by focusing efforts on trade development and combining government resources and expertise.



Figure 2-4: Patents granted per 100,000 of population (2012)



18 ACSEF (July 2014) 'Strategic Outcomes Framework Study': 30,000 is the difference in the number of jobs between the high growth scenario and constrained growth scenario.

1 Innovation

Aberdeen City Region has experience of leading innovation with world class research centres such as the James Hutton Research Institute, the Rowett Institute of Nutrition and Health, the Torry Marine Laboratory, the Torry Research Station as well as the city's two Universities which have five science based Nobel Laureates between them.

The success of the North Sea over the past 50 years has been built on the development of technologies to recover oil and gas from extremely challenging environmental conditions. Our vision is to build upon this to achieve a world-class service industry based upon innovative technology fit for the next 50 years, which is then exported from a city region centre of excellence. Success is dependent on increasing the levels of innovation to access worldwide export markets that will utilise much of the existing UK supply chain developed over the last 50 years.

We want to expand our existing culture of innovation and research and development not only to encourage indigenous businesses but also to attract businesses from around the world.

An example of a similar model can be found in Brazil where a single piece of legislation coupled with a proactive approach to stimulating innovation has led to global companies radiating out around Petrobras' own research centre (CENPES) in Rio de Janeiro to form a significant oil and gas research and development cluster.

However, the oil and gas technology and innovation landscape is still too fragmented, with a wide range of organisations offering to support innovation, including ITF (the Industry Technology Facilitator); OGIC (the Oil and Gas Innovation Centre); NSRI (the National Subsea Research Initiative); Scottish Enterprise with a range of financial products and many other. In addition there are a wide range of university and industry technology developers often competing to do similar things with limited funds.

A range of industry and government funding models are needed to help universities and companies collaborate effectively. In particular we propose a government backed university enterprise zone (UEZ), in a similar way to that being piloted for English cities. The UEZ would most probably be located in the Energetica corridor with a range of support including the establishment of incubator space and reinvestment of Non Domestic Rates in innovation programmes. The overarching aim being to foster greater business interaction with universities to create a high value economy that uses existing skills and expertise as a foundation for a worldwide export programme.

Businesses and other organisations in our city region understand what is required to innovate across a number of sectors including oil and gas, renewable energy, big data, food security and biopharmaceuticals.

¹⁵ The **Centro de Pesquisas Leopoldo Américo Miguez de Mello** known as **Cenpes** is the Research Centre for Petrobras. Cenpes carries out research and technological development in energy, in particular: exploration, production and refining of oil and natural gas, in addition to research on renewable energy and sustainable development.

Diversification

In addition to the energy sector Aberdeen already has the biggest critical mass in the UK in terms of its breadth of 'food' expertise, as a centre of research in underpinning production (fish and crops), environmental considerations, diet/nutrition, and health – clustered around the University, Marine Science Scotland and the University of Aberdeen Rowett Institute.

There is also extensive potential to build in other areas such as geosciences, natural to managed systems, and 'Darwinian agriculture'. The UK's aquaculture is predominantly in Scotland and in order to encompass all food groups, there is a compelling argument for locating a UK centre in food security in the North-East of Scotland, which has the UK's major ports for wild fish landings.

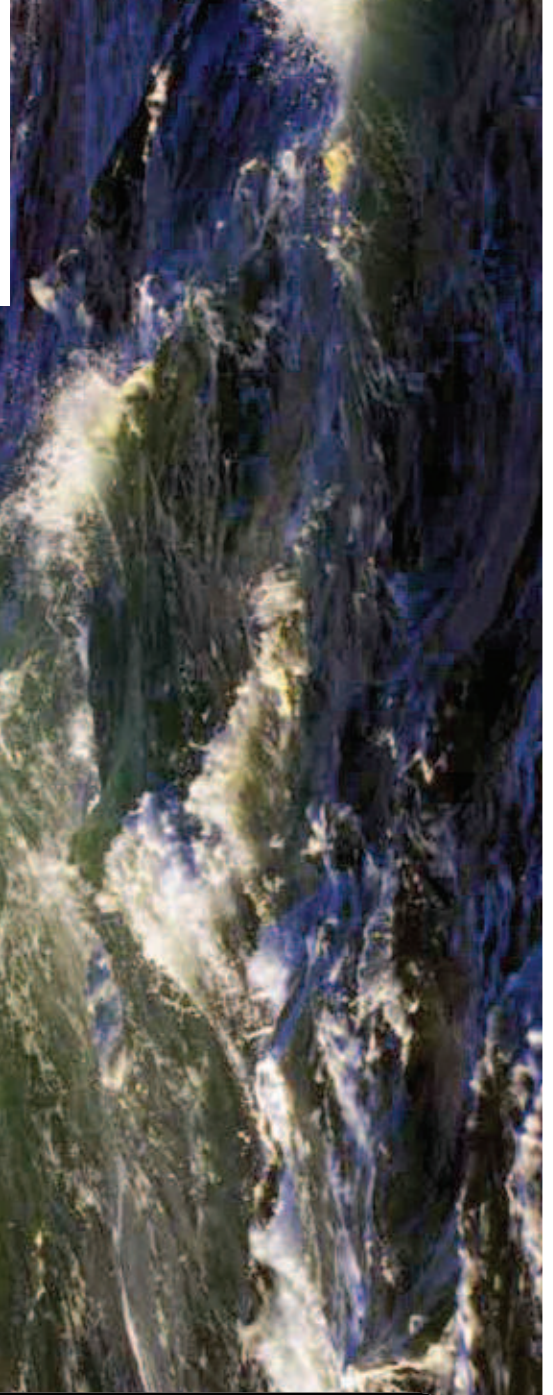
Proposals: Explore key areas for diversification but in particular establish a Centre in Food Security.

Outcomes & impacts: A research centre in Food Security offers the opportunity to bring the different components of food security together opening up new research, education and translational opportunities.

“BP has been operating in the North Sea for 50 years this year and opened its first office in Aberdeen in 1969. Along with our partners, we are in the middle of a £10 billion North Sea investment programme to extend the life our existing fields and facilities, and to bring new field developments into production. In order to continue to secure investment capital to the North Sea, and to maintain a competitive business here in the northeast for the long term, the oil and gas industry needs a significant improvement and upgrade to the infrastructure of Aberdeen city and shire.

“Aberdeen’s competitors in the global oil and gas industry include cities such as Houston, Calgary, Dubai, and Perth Australia. Just across the North Sea, there is clear evidence of significant infrastructure investment in Stavanger. Without investment, Aberdeen and the wider Aberdeenshire region, runs the risk of being left behind as other oil and gas provinces progress.”

Trevor Garlick, BP



a. Oil and Gas Technology Institute

In mid-2014 a new Oil and Technology Leadership Board (TLB) was created, backed by both PILoT and the Industry Council. The TLB's purpose is to provide coherence, clarity and direction to the collective technology development efforts of the entire industry. From this is emerging the concept of an Oil and Gas Technology Institute, which would develop and evolve strategy for technology in the oil and gas sector; maintain and develop a capability map, and influence a range of industry and government funding. Practically such an Institute would channel funding to Universities for fundamental research, and through companies to new and existing facilities (e.g. Innovate UK Catapults) to undertake more commercial near-to-market innovation work.

Work is now underway to take a coordinated approach to the establishment of a new body that will lift the level of activity in line with our aspirations to be a world centre of excellence for innovation.

Areas of opportunity include:

- Enhanced oil recovery;
- Sea floor drilling;
- Decommissioning; and
- Flow assurance.

The conceptual framework for the Oil and Gas Institute has been endorsed by ACSEF and the TLB, and a small delivery team is beginning the initial technology landscaping study to identify what facilities already exist, which companies might be willing to contribute to the initiative, what new facilities might be useful and where they might be located.

Our consultation process has also identified digital connectivity as a priority owing to the vast quantities of data being generated by offshore industries. With the support of DCMS we are making progress towards the delivery of ultra-fast broadband which will allow our world class energy cluster access to global markets.

Big Data arises in every field, from medicine to politics, from science to economics, from geology to finance and beyond.

It is thought that the UK Oil and Gas industry produces more actionable data (that from which additional value and efficiencies can be extracted) than any other industry sector.

The effective functioning of the public sector will also be increasingly reliant on the efficient sharing of big datasets across a range of functions and organisations and service improvements and cost efficiencies can be driven through similar processes.

Proposals:

- Our City Deal team work with government to further develop proposals to establish a world class centre of innovation and excellence in the city supporting innovation in the oil and gas sectors.
- Establish a partnership with government to develop a Big Data Internet Hub and Innovation Centre in Aberdeen and contribute to the funding of the Centre.

Outcomes & impacts: Innovation in these areas could lead to significant cost reduction advantages as well as the opportunity to expand on a growing number of export services and technology based products.

Maximising the return on investment in the extraction of hydrocarbons and delivery of renewable energy and their role in future energy security and tax revenues is dependent on the management of data being streamed from off and onshore installations.

In terms of big data analysis these datastreams (seismic mapping, weather forecasts and numerous other resources) can deliver significant financial, operational and safety benefits if methodologies can be developed for the secure sharing, analysis and meaningful reporting of the data to the correct stakeholders in a timely manner.

The facilitation of knowledge exchange and enterprise support will secure the emergence of high-growth start-ups in this field in the North East of Scotland and across the UK.



b. Aberdeen Renewable Energy Research and Innovation Demonstration Centre

Aberdeen has been at the centre of the renewable energy industry since 1997 when there was recognition that much of the technology and skills relevant to the oil and gas supply chain was readily transferable to the emerging renewables industry in the north of Scotland – where a significant proportion of Europe’s wind and tidal resource is located.

In Scotland renewable energy from wind farms, hydro power plants and other clean technologies provided the single largest source of electricity to Scotland for the first time, in the first half of 2014. It generated a record 10.4 terawatt hours (TWh) from renewable sources - nearly one third more power than nuclear, coal or gas in the same six-month period .

The Aberdeen Renewable Energy Group (AREG) was set up in the city region and today has over 160 members. AREG was instrumental in establishing the UK’s largest renewable energy exhibition and conference. This was followed by proposals for the £240million European Offshore Wind Deployment Centre including £40million of European funding.

The city has also been working closely with the European Union and the Scottish and UK governments to develop and test hydrogen technologies particularly as they relate to car and bus transport. A new project has been launched in Aberdeen with Europe’s biggest hydrogen bus fleet. Europe’s first hydrogen refuelling station to service them is in the final stages of construction.

With McKinsey estimating that 8% of the world’s energy might come from hydrogen by 2060 there is great interest in producing green

hydrogen using renewable energy and in particular onshore and offshore wind. This has resulted in Aberdeen being approached by UNIDO to establish a global centre for hydrogen research in the city – the aim being to then supply the technology to developing countries.

The University of Aberdeen’s Centre for Transport Research (CTR) has world class expertise in all aspects of transportation so is well placed to study both the entry barriers to its use and the long-term benefits of early investment in what will be a global “sunrise” industry. CTR is already working with the city region deal team to set up a new centre of excellence to progress this.


Proposals: For Aberdeen City and Shire to be supported in their joint effort to bid to the DECC’s £20million innovation budget to support development and deployment of innovative renewables projects and initiatives.

For Scottish and UK governments to support Aberdeen’s bid to be one of four exemplar sites for hydrogen development being created across Europe. This will build on the work carried out in the city on Hydrogen fuel cells.

We are further asking for support in developing the ECNCC research centre for offshore wind – with the possibility of combining both centres into a single world class facility.

Outcomes & impacts: Establish the city region as a global centre of excellence in the field of renewables research. Utilising the existing oil and gas supply chains will help support new industries promoting renewables technology to access the market place.





“Aberdeen’s public/private sector economic partnership, ACSEF, is determined to deliver the very best for Aberdeen City and Shire. The strength of our partnership is the glue that holds us all together.”

Colin Crosby, ACSEF chair

“Aberdeen City Region believes and invests in Higher Education and delivers a world-class learning experience for students. This underpins our reputation for learning that is exported across the globe through the international energy industry. It clearly demonstrates our commitment to supporting the on-going growth and prosperity of the Aberdeen City Region for the benefit of Scotland and the UK.”

Professor Sir Ian Diamond,
Principal of the University of Aberdeen

c. University Enterprise Zones

University Enterprise Zones (UEZs) are specific geographical areas where universities and businesses work together to increase local growth and innovation. Each UEZ is supported through a partnership between a University, Local Enterprise Partnership and others.

The aim of the Enterprise Zone, to be situated within the Energetica Development Corridor and/or the City Centre, is to encourage Aberdeen University and The Robert Gordon University to strengthen their roles as strategic partners in local growth to engage with and building on existing capabilities and partnerships.

It will also stimulate development of incubator or “growth” space for small to medium businesses supporting the world-wide oil and gas industry from an Aberdeen base.

This will encourage businesses to interact with Universities and to innovate creating a high value economy using existing skills and know how that can be exported worldwide.

In December 2013, the Department for Business Innovation and Skills (BIS) announced a UK Treasury funded £15million pilot scheme to create three to four University Enterprise Zones (UEZs). UEZs are designed to encourage clusters of high-tech firms to locate near and engage with universities, as well as encouraging universities to cooperate with local businesses and Local Enterprise Partnerships in England to foster innovation and local economic growth.

The pilot schemes, of which four have been established in Bradford, Bristol, Nottingham and Liverpool, are also designed to address the lack of incentives for the private sector to fund office, laboratory and

workshop space for innovative firms in science parks, as well as offering affordable business space to students to start businesses after graduation. UK Trade & Investment (UKTI) also plays a key supporting role to attract overseas investment to the pilot UEZs.

Whilst University Enterprise Zones are a specific England only policy, Scotland has established four Enterprise Areas, focusing on life sciences, renewable energy, and general manufacturing and growth industries, spread across 15 sites throughout central Scotland and Highland & Islands.

Incentives offered to businesses seeking to locate in Enterprise Areas in Scotland are similar to those available in England, including business rates discounts, enhanced capital allowances for the premises or machinery, a streamlined planning process, international promotion and marketing of Enterprise Areas by Scottish Development International, access to superfast broadband and skills and training support.

Proposals: it is proposed to establish an Energetica University Enterprise Zone (Energetica UEZ) to be situated within the Energetica Development Corridor and/or the city centre, to act as a catalyst for the University of Aberdeen and The Robert Gordon University to jointly strengthen their roles as strategic partners in local growth to engage with businesses and stimulate development of incubator or “growth” space for small to medium businesses supporting the world-wide oil and gas industry from an Aberdeen base.

Energetica is a world class development corridor between Aberdeen and Peterhead which offers unique investment and growth opportunities to energy, engineering and technology organisations of all sizes.



“Aberdeen is a city of learning and innovation – where graduates know they’ll receive an excellent education and secure high value employment, and where skilled experts facilitate world leading research and development. The time is right to invest in Aberdeen City to create a vibrant city centre that meets the needs and aspirations of students, residents and businesses.”

Professor Ferdinand von Prondzynski,
Principal and Vice-Chancellor, Robert Gordon University:

A capital contribution of £4million over a 3 year period is sought to build incubator and/or growth space within the UEZ.

In addition to the existing business support measures provided by Scottish Enterprise, the Business Gateway and specific Scottish Government programmes such as the Small Business Bonus Scheme available irrespective of Enterprise Area/Zone boundaries, Aberdeen City and Shire are seeking the extension of the following financial incentives:

- Business rate discount for 100% for the first five years
- Enhanced Capital Allowances for investment in plant and machinery

As well as the financial incentives above, Aberdeen City and Shire local partners are also seeking agreement from Scottish Development International (SDI) will promote the Energetica UEZ within its on-going sector-specific marketing activity to attract inward investment to Scotland. Specific measures to include:

- Reflect the Energetica UEZ in sales and marketing materials including, where appropriate, in presentations to potential investors;
- To profile the Energetica UEZ at international trade shows; and,
- Use sdi.co.uk to promote the Energetica UEZ opportunities and to highlight successes in attracting inward investors.

Outcomes & impacts: This proposal will encourage businesses to interact with Universities and to innovate creating a high value economy using existing skills and know how that can be exported worldwide.

¹⁷ BIS £15 million boost for local business growth at universities, 13 December 2013

¹⁸ BIS Ibid, 13 December 2013

¹⁹ <http://www.scotland.gov.uk/Topics/Economy/EconomicStrategy/Enterprise-Areas/Locations>

d. Scottish Centre for Biopharmaceuticals

Life sciences is already making a significant contribution to the economy of Aberdeen City and Shire, employing more than 2,500 in companies and in the academic research base and contributing more than £160million in GVA .

However, the case for investing in life sciences in Aberdeen City Region is based upon growth potential.

In particular, there is significant expertise in commercialising therapeutics (human healthcare treatments), in particular biologics (therapies based on biological sources including human, animal, plant and microorganisms). It is the growth potential of therapeutics that has led to life sciences being identified as a priority economic sector in Scotland and in many other countries.

Aberdeen City Region has important assets on which further growth in the life sciences sector can grow. These include:

- A high growth potential company base, commercialising products with significant market potential;
- A significant academic research base, including the University of Aberdeen, ranked in the world in the world top 100 for life sciences; and,
- The “triple helix” of healthcare provision, academic teaching and research and commercial activity at Foresterhill in Aberdeen, one of the largest healthcare campuses in Europe.

Proposals: Support the development of a combined research centre to commercialise therapeutics by encouraging collaboration between industry and academia.

Outcomes & impacts: The proposed Centre will deliver the following initiatives:

- Accelerating Commercialisation Programme – operating in the space between academic research and business could accelerate the commercialisation of new activities and attract additional investment to the region;
- Leveraging the Research Base – ensuring the pipeline of future commercial opportunities is strong and that the further commercialisation growth potential from spin-out companies and technology licensing from the research base is realised;
- Company Growth – supporting the growth of companies in Aberdeen City and Shire, particularly in areas of strengths such as biologics companies; and,
- Natural actives – increasing commercialisation and supporting companies to diversify into this area.



2 Skills

Skills development and skills shortages have been an ongoing concern for the city region and is mirrored in other world energy cities. The challenge for our city region is not only the direct impact on the oil and gas industry but the indirect impact of a vibrant energy economy (and its relatively high wages) on the ability to recruit and retain a skilled workforce in areas ranging from teaching to catering.

In 2013-14 the North East of Scotland College was identified as an early adopter of the recommendations of the Commission for Developing Scotland's Young Workforce.

The Developing Scotland's Young Workforce Steering Group, which comprises senior officials from the College, both local Universities, the two Local Authorities and Aberdeen and Grampian Chamber of Commerce, was established to oversee the development of the 'early adopter projects' funded by SFC. This Group has now extended its remit to form a regional partnership group for the planning and delivery of vocational pathways from school to College (e.g. new technology, new legislation, government initiatives).

There is a particular challenge in relation to the lack of availability of affordable housing for residents and for workers moving to the area.

Despite recent workforce reductions there is still a significant need for new entrants into the oil and gas industry given the age profile of those who have grown with the industry. It has become known as the 'great crew change'. Aberdeen has become an ad hoc world training centre for the oil and gas sector but it is also a place where countries who are developing their own markets come to recruit people with the skills they need. In some respects it is the people who have worked in the North Sea over the past 50 years who are our biggest exports.

As a result it is vital that a pipeline of skilled staff is maintained to ensure that an industry focused on innovation and internationalisation is able to maximise the opportunities of the next phase in its growth and development. Some good progress has been made recently but not enough is being done in terms of skills planning and delivery.

The North East of Scotland College offers bespoke training programmes for the sector in Aberdeen and Fraserburgh.

Sponsorship and other forms of support from the oil and gas sector also help the College to deliver energy related training programmes and competitions in local schools. Further discussion will be had with Skills Development Scotland.



A recent development is the establishment of The Oil and Gas Academy for Scotland (OGAS) to support Scottish Government objectives for the oil and gas sector and to meet the demand-led needs of oil and gas employers. This Academy has been created through a partnership of five institutions - North East Scotland College will continue to work in partnership with Robert Gordon University, The University of Aberdeen, Forth Valley College and Heriot Watt University.

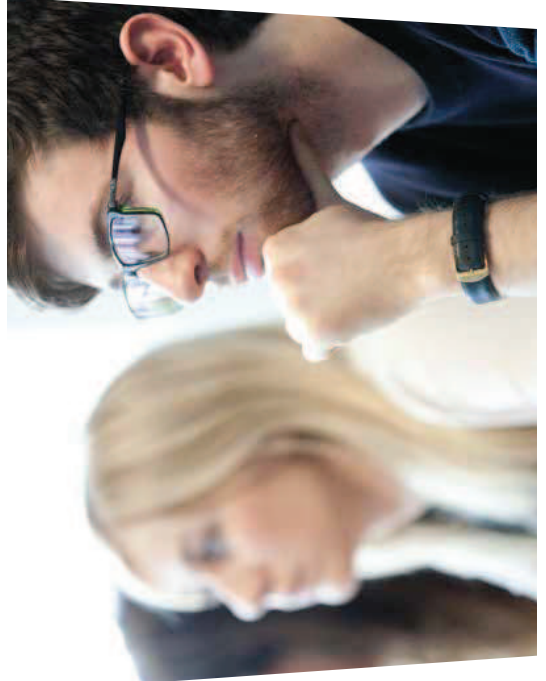
The oil and gas sector is of crucial importance in the regions where the OGAS partners are based. Collectively, the OGAS partners deliver a wide range of training for the industry, from craft level technician training through to postgraduate degrees and postdoctoral research.

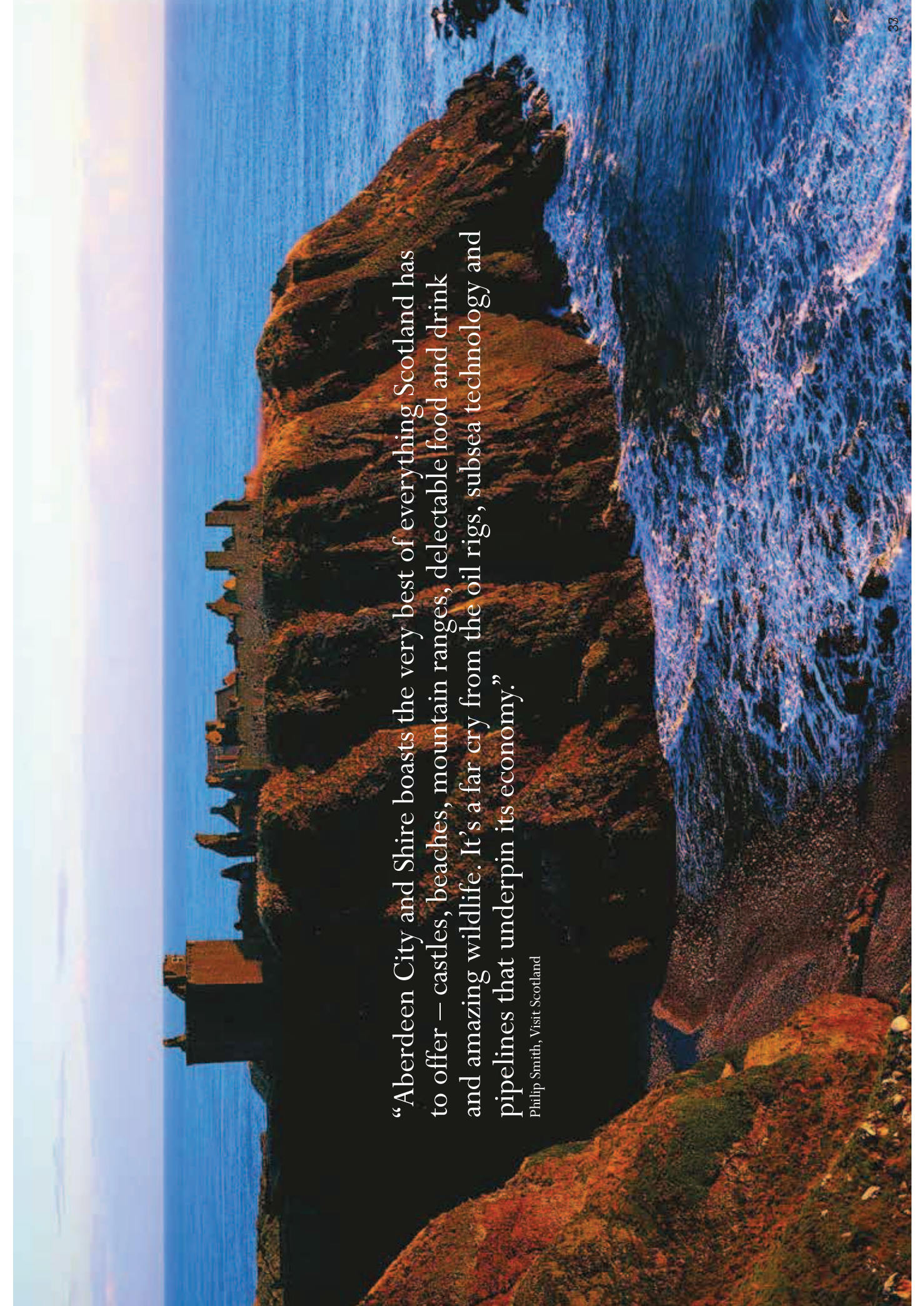
The opportunities for the OGAS partners, both individually and collectively, to make a significant and developing contribution to the local and national and international economy cannot be overestimated

Proposals: Establish a formal World Energy City Centre for learning, skills and training. The Centre will provide a focus in one place to coordinate our approach to the various skills challenges.

In addition it is proposed to connect all UK and Scottish Government skills teams to participate in a new public sector wide joint venture to carry out skills audits across the city region and to work with higher and further education and industry to deliver both a 5 year and 15 year plan to ensure that the correct mix, quantity, and level of skills are available at both a city region and supply chain level.

Outcomes & impacts: Alignment of skills planning and training with the housing and infrastructure needs of a new workforce. The outcome of such planning will ensure a continued supply of core skills – and the social and health infrastructure to support it – to ensure the industry is able to remain in the city region for the next 50 years.





“Aberdeen City and Shire boasts the very best of everything Scotland has to offer – castles, beaches, mountain ranges, delectable food and drink and amazing wildlife. It’s a far cry from the oil rigs, subsea technology and pipelines that underpin its economy.”

Philip Smith, Visit Scotland

3 Internationalisation

The North East of Scotland has a long and successful history of exporting goods, expertise and talented people.

- The formation of the Mitsubishi Shipbuilding Company in Japan;
- Coffee and tea planting, harvesting and processing equipment;
- Aberdeen Angus cattle to all the big beef rearing countries;
- From its early base in Aberdeen Chivas Regal has been shipped to every corner of the globe.

It was not until the post 1986 price crash that real efforts were made to promote the technology developed in the harsh conditions of the North Sea to other oil and gas provinces. In the late 1980s NESDA started to carry out its annual export survey to establish which markets companies were active in, which markets they were targeting for the future and what problems they had most commonly encountered in specific markets.

This allowed a programme of support to be developed using seminars and trade missions which gradually saw an increase in the numbers of North East based companies enter world export markets.

Scottish Enterprise now estimate that Scottish oil and gas companies achieve 51% of their total turnover from overseas business and that international trade is a key focus for all layers of government.

A comparison with our competitors from other sub-sea oil provinces does however highlight a number of issues as follows:

- i. The number of staff involved means that at most only the top 40 of over 100 identified markets can receive active support;
- ii. The level of financial support available is lower than that provided by many of our competitors;
- iii. The support is not integrated across the three levels of government.

We wish to maximise the return of investing in infrastructure and innovation in Aberdeen City region as well as the wider supply chain.

Relocating Oil and Gas UK and a joint UKTI/STI energy office to Aberdeen would provide a clear focus for regulatory and export activity respectively.





Proposals: The proposal is to review how we supply support for our companies to internationalise and to establish an amalgamated highly focused oil and gas team in the City Region from all three levels of government. This would have the advantage of having access to the UK government's global networks of embassies, high commissions and consulates, the Scottish government's network of approximately 20 offices and Aberdeen City Council's partners in 21 cities around the world as part of the World Energy Cities Partnership.

- It is proposed that the teams mentioned above from all levels of government be co-located in the City Region at the new Exhibition and Conference Centre complex adjacent to Aberdeen International Airport in the Energetica Corridor.

Outcomes & impacts: An increased and more cost effective focus on the internationalisation of our oil and gas supply chain leading to deeper market penetration and, as a target, by 2025 that 75% of company turnover is attributable to exports.

Next steps

We believe that this document sets out a compelling case for investment in the Aberdeen City Region, supported by strong evidence, careful planning and extensive engagement with key private industry partners. This is our joint vision to protect the competitiveness of the oil and gas industry whilst supporting significant growth opportunities in the broader energy sector. We look forward to engaging with all key stakeholders in making this City Region Deal a reality.

We propose the following next steps:

1. To secure formal agreement to enter into negotiations with UK Cabinet Office regarding these proposals;
2. To secure formal agreement to enter into dialogue with officials of both the UK and Scottish Governments, including their agencies, to develop these proposals further, when invited to do so.
3. To establish a Governance Board (City Region Deal Executive) led by the two councils, with strong public and private sector representation to ensure robust and timely decision making. In addition we would also support the development of a City Region Deal Liaison Group which would comprise funding partners as well as national stakeholders.



Councillor Jenny Laing
Leader Aberdeen City Council



Councillor Jim Gifford
Leader Aberdeenshire Council



