

## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	City Growth and Resources
<b>DATE</b>	5 December 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Economic Policy Panel Annual Report 2019
<b>REPORT NUMBER</b>	PLA/19/457
<b>DIRECTOR</b>	N/A
<b>CHIEF OFFICER</b>	Richard Sweetnam
<b>REPORT AUTHOR</b>	Jamie Coventry
<b>TERMS OF REFERENCE</b>	2.1 consider the annual report from the Economic Policy Panel set up to support the annual re-assessment of the Council's credit rating; 2.3 consider reports on key actions by the Council towards the delivery of the Regional Strategy and the Inward Investment Plan and take such appropriate action as it sees fit.

### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform Committee of the publication and the main findings of the second annual report by the Economic Policy Panel, an independent panel formed to advise on the city region's economic performance.

### 2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Notes the policy panel's second annual report;
- 2.2 Instructs the Chief Officer - City Growth, following consultation with the Panel, to undertake a review of the second annual report with a view to identifying scope for the future development of the report; and
- 2.3 Notes the recommendations of the policy panel and to approve the officers proposed response to each recommendation in 3.6 below.

### **3. BACKGROUND**

- 3.1 In November 2016, Aberdeen City Council became the first Scottish local authority to issue index-linked bonds through the debt capital markets, raising £370 million to drive forward an ambitious capital programme supporting vital infrastructure throughout the city. This report provides an independent analysis of the Aberdeen City Region economy to support the Council's annual credit rating assessment by Moody's Investor Services.
- 3.2 The annual credit rating assessment involves an analysis of the Council's financial and institutional framework, as well as a detailed assessment of the current and future economic performance of Aberdeen and the North East of Scotland. In terms of the economic analysis, independent economic commentary in this report will be used to support the Moody's annual review, but also provide the city with assurance on the medium-to-long-term economic outlook of Aberdeen and the region to existing and future investors.
- 3.3 In its first report, published last year, the Panel found that, despite the increased risks around the global economic outlook, the overall picture showed a region emerging from a difficult economic period caused by the fall in, and fluctuating, global oil prices. In their second report this year, the Panel found that, despite the global political and economic turbulence, the Aberdeen City Region's economy remains resilient and continues the recovery signalled in last year's report.
- 3.4 In producing this report and in making its recommendations, the Panel has monitored and considered all developments in the Aberdeen City Region, Scottish and international economies. The Panel undertook its own analysis and considered any other research relevant to its work. The Panel also provided a forum for discussion of emerging issues in relation to the wellbeing of the Aberdeen and Aberdeenshire economies. Panel members met with city and regional stakeholders including: Aberdeen and Grampian Chamber of Commerce (AGCC); Aberdeen City Council officers and political leaders; Opportunity North East (ONE); Federation of Small Businesses (FSB); Skills Development Scotland (SDS); VisitScotland; VisitAberdeenshire; Aberdeen City and Shire Hotels Association; Aberdeen International Airport; Aberdeen Harbour Board; University of Aberdeen; Knight Frank; RBS; CBRE; Shepherd Chartered Surveyors; Savills; Pinsent Masons; and Oil and Gas UK. These consultations informed the data analysis by discussing current thinking on the state of the local economy, the outlook for the sectors they represent and views on future opportunities and challenges.
- 3.5 A copy of the whole report can be found at:  
<https://investaberdeen.co.uk/images/uploads/Economic%20Policy%20Panel%202019%20FINAL.pdf>
- 3.6 The policy panel's recommendations are shown in the table below. This includes a proposed response to each recommendation that officers have produced.

Panel Recommendation	Response
<p>1 <b>Policy needs to move faster and identify regional strategy for net zero.</b> The Panel remains supportive of the overall strategic direction set out in the Regional Economic Strategy (RES). However, the pace of economic and political developments since the last report require the need to move further and faster given the scale of structural change facing the Aberdeen economy and the new policy context of the climate emergency and net zero emission targets. The recent economic improvements highlighted in this report should not mask the need or urgency for change. The city needs to develop its own strategy for the net zero transition, which distinguishes itself from other Scottish cities and is supported by a clear plan of action.</p>	<p>There are three aspects to the energy transition: 1) transition within the key sectors of the economy and its shift to net zero; 2) The Council as an institution, and its contribution e.g. its fleet; and 3) the transition of the city and the net zero strategy for the 'place'.</p> <p>In response to the first area, the Council will continue to work with partners such as Opportunity North East (ONE), O&amp;GUK or Scottish Enterprise (SE), and the regional industry strategy response.</p> <p>Operationally, the Council will continue to look at its carbon footprint from an organisation perspective and report its progress through the statutory duties to report placed on council.</p> <p>In terms of the 'place-based transition', officers will need to consider the response to the city's strategy for net zero transition that distinguishes the city and a subsequent action plan. This will be reported back to City Growth and Resources committee.</p>
<p>2 <b>Greater focus on implementation and monitoring.</b> The overall approach in the RES mirrors that of the national economic strategy with the focus on the 4 i's of investment in infrastructure, innovation, inclusive economic growth and internationalisation. They should not overshadow a 5th i of implementation which requires equal attention and needs to be supported by clear SMART (Specific, Measurable, Achievable, Realistic and Time Bounded) objectives across all elements of the RES and supporting strategies. More public information on milestones – including detailing progress toward such milestones – is needed. The RES Operational Group</p>	<p>The RES Operational Group will monitor progress towards the implementation of the RES actions. This will be discussed at its next meeting on 5<sup>th</sup> December 2019, with relevant KPIs/ timescales assigned.</p>

Panel Recommendation	Response
<p>is best placed to do this, and detail on progress towards implementation should be provided to relevant local or regional strategic groups.</p>	
<p>3 <b>Opportunity to take lead by defining the North East’s approach to Wellbeing.</b> Aberdeen needs to be clearer about what its version of sustainable, inclusive growth looks like and how it differentiates itself from the other cities in Scotland and elsewhere. This is vital in terms of attracting the people, skills and investment that will be needed to drive the change across the economy in the challenging years ahead. The transition away from oil and gas and the policy drive to deliver new emissions targets require Aberdeen to be clear how it will address these challenges and distinguish itself. There is growing recognition that traditional economic metrics such as GDP and GVA need to be supplemented with wider measures that indicate overall Wellbeing in the economy. Aberdeen should look to take the lead in Scotland of how this could be achieved at the regional level and in particular during the transition to net zero.</p>	<p>Officers, working closely with city stakeholders across public sector and industry, will work in partnership to identify its vision and develop, using the Scottish Centre for Regional Inclusive Growth’s diagnostic tool, city appropriate monitoring metrics.</p> <p>This will also benefit from and be informed by officer input by the Council’s economic advisor to the Sub-Scotland Economic Statistics Group led by the Scottish Government.</p>
<p>4 <b>Co-creation of regional economic priorities is a strength to build on.</b> Collaboration between political, business, academic institutions and policy makers is a strength in Aberdeen. But there remains a strong belief that the policy landscape is ‘cluttered’ and not as coordinated as it should be. This can lead to unnecessary delay and lost opportunities. This is not simply a local issue, but also a recognition that national institutions and agencies must take a keen interest in helping to deliver local priorities even if this requires moving away from a ‘one-</p>	<p>The ‘economic leadership’ of the city, currently, is delivered through existing governance arrangements around implementation of activity, and tends to be at the regional level – through the City Region Deal Joint Committee, ONE Board, VisitAberdeenshire, or, as officers, the Regional Economic Strategy (RES) Operational Group.</p> <p>ACC also participates in a number of national structures that should be used to help facilitate a strategic approach. For example, Scottish Cities Alliance (SCA) is a collaboration between the Scottish cities and the Scottish</p>

Panel Recommendation	Response
<p>size-fits-all' approach. Addressing this will be important, particularly with regard to the policies needed to facilitate the transition ahead within the city. The Panel encourages the continued fostering of a co-creation approach to governance across city region strategic economic priorities.</p>	<p>Government, and its agencies including SE and Skills Development Scotland (SDS).</p> <p>Responding to the recent work on the Economic Contribution of the cities, the Scottish Cities Alliance provides a forum for co-creation around a number of strategic issues at the Scottish level. Aberdeen has been asked to lead on the city approach to energy transition and to report back to the Scottish Government and its agencies via SCA.</p>
<p>5 <b>Develop new strategic approach to infrastructure with clearer prioritisation.</b> The establishment of the Multi-Agency Transformation Management Group (MATMG) and the more strategic approach to infrastructure investment that this brings is welcome. The Group is focused on the transformation of service delivery across multi-agency and city centre regeneration. This should be supported by a clear process for identifying priorities, evaluating projects and measuring their impacts, and the Council should rethink the governance and leadership needed around delivery strategic infrastructure in the city.</p>	<p>The MATMG brings together the Chief Executives of a number of public sector organisations in the city and has a focus on transformation of service delivery across the organisational boundaries. It does not have a specific remit for infrastructure per se, although there is a City Centre Sub-Group with a remit around the Queens Square development.</p> <p>The 2012 Council's strategic infrastructure plan has seen the delivery of a number of projects in 2018 and 2019. In anticipation of increase expectation of the Council to respond to the opportunity of climate change, officers may need to consider its next iteration, reflecting priorities identified within both the <i>Aberdeen Adapts</i> framework (adopted on 5<sup>th</sup> December) and <i>Powering Aberdeen</i>, Aberdeen's Sustainable Energy Action Plan which will be refreshed in response to these new challenges. The strategic approach will also consider potential infrastructure implications of the Local Transport Strategy and the Local Development Plan process. This should be considered by the Director of Resources.</p>
<p>6 <b>National infrastructure plans must support region's transition to net</b></p>	<p>In January 2020, the Infrastructure Commission for Scotland will publish</p>

Panel Recommendation	Response
<p><b>zero.</b> Infrastructure investment at the national and regional level is recognised as a key driver of economic growth and must be coordinated across both levels. The Infrastructure Commission for Scotland will publish its advice on priorities by the end of this year and further advice next year on what should be in the next Infrastructure Plan. It is critical that this advice recognises the different nature of the challenges facing the regions in Scotland and prioritises infrastructure investment that can help address them. For Aberdeen this means recognising the challenges it faces from its geographic position, the transition away from oil and gas and the move to a low carbon economy. National infrastructure plans need to support the new direction of policy and assist regions with the transition to net zero.</p>	<p>its interim findings of its work on the future vision for infrastructure. For Aberdeen, it will be important that it reflects the priorities that the North East faces from its geographic position, the transition away from oil and gas and the move to a low carbon economy.</p> <p>ACC will utilise professional and political associations in order to ensure that the ultimate delivery plan by the Infrastructure Commission reflects the city's infrastructure needs to maintain its disproportionate positive contribution to Scottish productivity.</p>
<p>7 <b>Regional support must be based on more than just economic performance.</b> Other regional support such as the proposed UK Shared Prosperity Fund also need to be tailored to the new challenges local economies face from the changing policy context. Funding decisions cannot be made solely on past or expected future economic performance or deprivation, and all 3 tiers of government will need to work together to deliver the transition to net zero.</p>	<p>The Council will seek to influence how the proposed UK Shared Prosperity Fund is allocated on criteria beyond deprivation alone, but also reflecting the economic performance and contribution of the city and regional hinterland, by responding to the current consultation being undertaken by the Scottish Government</p> <p>Elected Members and officers will utilise all professional and political associations that they represent the Council on in order to influence the criteria and distribution of shared prosperity funding.</p>
<p>8 <b>Aberdeen can take regional lead on managing natural assets in the transition to net zero.</b> The RES recognises that the region's natural assets and clean environment must be safeguarded to support key sectors but more must be done to</p>	<p>From Recommendation 1 above, in terms of the 'place-based transition', officers will need to consider the response to the city's strategy for net zero transition (e.g. renewables, circular economy etc) that distinguishes the city and a</p>

Panel Recommendation	Response
<p>ensure that Aberdeen leads on applying these principles at the regional level and developing a strong response to the transition to net zero. This will be a key part of ensuring that Aberdeen can build on its reputation as a good place to live, work, invest and do business, continue to develop its offering and keep ahead of the competition. The Borderlands Growth Deal for example, includes consideration of a Natural Capital Innovation Zone across the region.</p>	<p>subsequent action plan. This will be reported back to City Growth and Resources committee.</p> <p><i>Powering Aberdeen</i>, Aberdeen's Sustainable Energy Action Plan, focusses on low carbon energy and emissions reduction. It is due to be refreshed and to be in line with the Climate Change (Scotland) Act 2019 and <i>Aberdeen Adapts</i>.</p>
<p>9 <b>Wider discussion needed on how more autonomy can be devolved to the regional level.</b> In last year's report the Panel emphasised the need for greater flexibility to allow local authorities and other stakeholders to adjust policy at the local level to meet different economic trends, priorities and challenges. This is critical to achieve both national and local economic objectives. There has been some progress with plans for the transient visitor levy, the congestion charge, workplace parking levy and the potential of infrastructure levy. However, the inflexibility of business rates as economic trends diverge at the local level highlights there is still a lack of flexibility and autonomy. The Panel continues to encourage a wider discussion of how more autonomy can be devolved to the regional level in both a UK and Scottish context. This will be essential to support the transition ahead and address its different implications for different cities and regions.</p>	<p>The Council only has the power to collect levies in the form of Council Tax and Non-Domestic Rates. A change in legislation would be required before a local authority can collect other levies.</p> <p>In 2018, the Aberdeen Economic Policy Panel emphasised the need for greater flexibility to allow Councils to adjust policy at a local level, in response to the specific needs and trends in their areas.</p> <p>The Scottish Government has proposed to allow Councils to introduce a number of levies, including Transient Visitor Levy; Workplace Parking Levy; and Infrastructure Levy.</p> <p>Officers will continue to work with colleagues at CoSLA and the Scottish Government on the implications on the Council and the city of the devolution of such powers.</p> <p>In terms of the financial implications of devolution, the Council should continue its engagement with the Cabinet Secretary for Finance, Economy and Fair Work on the development of a rules-based framework for the forthcoming local government funding settlement in 2020-21.</p>

Panel Recommendation		Response
10	<p><b>Annual fiscal risks report would strengthen strategic planning.</b></p> <p>There has been significant pressure on local government finances in the post-financial crisis period, as UK government spending has been squeezed to address the budget deficit and high levels of public debt. Whilst the short-term fiscal outlook looks more positive than it has for some time, the long-term pressure on budgets – most notably through increased pressures on health and social care budgets – means that there are considerable pressures in the years ahead. Under such circumstances the Panel recommends that the Council build on the long-term financial analysis already undertaken. An annual fiscal risks report should be produced that undertakes further long run sensitivity analysis of how the Council’s financial position varies under different assumptions about trends in both revenue and expenditure. This will be important, not just for future planning, but ensuring that there is widespread public buy-in for the tough choices that will be required in the future.</p>	<p>Aberdeen City Council will produce an annual fiscal risks report that undertakes further long run sensitivity analysis of how the Council’s financial position varies under different assumptions about trends in both revenue and expenditure. This report will be presented to Committee in 2020/ 21. Assigned to Chief Officers of Finance and City Growth.</p>

#### **4. FINANCIAL IMPLICATIONS**

- 4.1 In March 2017, the Council approved estimated costs of £60-80,000 per annum. This includes allowances to policy panel members and travel expenses. Officers anticipate that actual expenditure for 2019/20 will be £51,000.

#### **5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.



## 6. MANAGEMENT OF RISK

	<b>Risk</b>	<b>Low (L), Medium (M), High (H)</b>	<b>Mitigation</b>
<b>Financial</b>	Implementing the recommendations could require additional cost (for example any purchasing of new regional data for data monitoring).	L	Close monitoring of spending commitments against project budget, and within existing City Growth budgets
<b>Legal</b>	None, any legal risks identified as a result of implementing the recommendations will be dealt with in future reports	n/a	
<b>Employee</b>	Implementing the recommendations requires a significant increase in human resources.	M	Monitor the demands on staff throughout the year. Ensure flexible deployment of human resources across ACC is available to help assist with work demands across the year.
<b>Reputational</b>	Not adequately responding to the recommendations of the Economic Policy Panel could damage the reputation of Aberdeen City Council.	M	Develop a plan to respond to the recommendations with named individuals and timescales.

## 7. OUTCOMES

<b>Local Outcome Improvement Plan Themes</b>	
	<b>Impact of Report</b>
<b>Prosperous Economy</b>	Successful implementation of the recommendations will impact on all 4 primary drivers of Prosperous Economy, Investment in Infrastructure, Inclusive Economic Growth, Innovation and Internationalisation.

<b>Design Principles of Target Operating Model</b>	
	<b>Impact of Report</b>
<b>Technology</b>	<p>The successful implementation of the North East Economy Performs framework will assist ACC in becoming a data and intelligence led organisation better able to predict and understand the economy of the North East as well as indicate solutions to any underlying economic problems.</p> <p>The data in the framework is sitting on the Invest Aberdeen publicly available for use from colleagues in ACC and partners externally to be better inform and monitor economic policy. For more in-depth analysis partners are encouraged to have a conversation with our Economics Team in City Growth.</p>
<b>Partnerships and Alliances</b>	Closer working with partners and the strengthening of existing relationships should support the delivery of the LOIP priority outcome of a Prosperous North East Economy. The proposed officer response includes a number of instances of partnership working across organisations to deliver these recommendations.

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Equality &amp; Human Rights Impact Assessment</b>	The recommendations arising from this report do not require that a full Equality and Human Rights Impact Assessment is completed.
<b>Data Protection Impact Assessment</b>	Not required.
<b>Duty of Due Regard / Fairer Scotland Duty</b>	This report meets the Fairer Scotland Duty.

## 9. BACKGROUND PAPERS

1. Report CHI/17/052 Bond Financing Strategy – Economic Policy Panel
2. Aberdeen Economic Policy Panel Report 2 November 2018
3. Aberdeen Economic Policy Panel Report 5 November 2019

## 10. REPORT AUTHOR CONTACT DETAILS

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