

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.

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