



REPORT TO: MORAY COUNCIL ON 8 MAY 2019

SUBJECT: MORAY GROWTH DEAL – PROGRESS UPDATE

**BY: CORPORATE DIRECTOR (ECONOMIC DEVELOPMENT,
PLANNING & INFRASTRUCTURE)**

1. REASON FOR REPORT

- 1.1 This report provides an update on the development of a growth funding proposal for Moray since the previous update was provided on 28th June 2018, and seeks endorsement by the Council of the work completed to date as well as agreement to the next steps proposed.
- 1.2 This report is submitted to Council in terms of Section (I) (11) of the Council's Scheme of Administration relating to a report which is of a corporate nature.

2. RECOMMENDATION

2.1 It is recommended that the Council:

- (i) consider and note the following:
- a. the progress made on the Moray Growth Deal since June 2018;
 - b. that the next stage of the process is agreement on the quantum of funding from each government followed by Heads of Terms;
 - c. that the target date for a funding quantum announcement is May/June 2019, with Heads of Terms being concluded within the following 4-12 weeks;
 - d. that Heads of Terms may therefore require to be signed by the Council Leader on behalf of the Moray Growth Deal partners outwith the normal cycle of Council meetings;
 - e. That a negotiating team is being created as described in paragraph 8.4 to ensure that the fast paced negotiations are well informed and representative of the various key stakeholders interests;
- (ii) delegate authority to draw down up to £40,000 previously identified as a budget pressure for 2019/20 to enable further development of the deal programme as detailed in paragraph 10 of the report to the Corporate Director (Economic Development, Planning and Infrastructure) in consultation with Group Leaders and the Head of Financial Services.

3. BACKGROUND

- 3.1 A report to council on 28th June 2018 provided an update on the Moray Region Growth Deal progress and obtained approval to move on to the next stage (paragraph 22 of the minute refers).
- 3.2 During this meeting the Council:
- (i) noted the progress made on the Moray Growth Deal and that the next stage in the process is agreeing Heads of Terms;
 - (ii) agreed that the projects detailed in the Strategic Outline Programme in **Appendix 1** will form the basis for ongoing discussion and negotiation with both governments;
 - (iii) delegated authority to the Corporate Director (Economic Development, Planning and Infrastructure) in consultation with the Moray Growth Deal Board, the Council Leader and Group Leaders to make such changes to the Strategic Outline Programme and the projects within it as are necessary to enable negotiations on Heads of Terms to progress effectively;
 - (iv) noted that a further update report will be submitted before Heads of Terms are finalised; and
 - (v) approved expenditure of up to £20,000 during the remainder of 2018/19 to enable further development of the deal programme as detailed in paragraph 10 of the report, to be drawn down by the Corporate Director (Economic Development, Planning and Infrastructure) in consultation with the Council Leader, Group Leaders and the Head of Financial Services only if and to the extent required.

4. BUSINESS CASE DEVELOPMENT

- 4.1 As referenced in the previous report, a workshop was held in Edinburgh in June 2018 to consider the initial submission of business cases. Feedback was received from policy advisors on how the business cases should be strengthened and the Moray Growth Deal Programme Board met on 21st June 2018 to consider the best way forward for each project.
- 4.2 Some of the business cases were revised and further discussions took place in December 2018.
- 4.3 Following this meeting a final version of the Strategic Outline Programme v1.4 overview was submitted at the beginning of February 2019, as Moray Council's final submission for consideration ahead of Heads of Terms. The total value of the bid is in excess of £220m split across 13 projects.
- 4.4 Experience in earlier City Region Deals makes it clear that the funding ultimately provided by the UK and Scottish Governments will be less than the sum bid for. In light of this, there has from the outset been a risk of raising public expectations unreasonably if all projects are shared in the public domain when only some will receive funding. Given the Council's financial situation, alternative funding for projects not included in the Heads of Terms agreement is highly uncertain. In light of this, a decision was taken early on to

release information only on 5 projects within the programme proposed, these projects being seen as key to achieving the deal objectives:

- 4.4.1 **Moray College Hubs** – a project to create two new hubs within Moray College:
- A **Business Enterprise and Innovation Hub** focussing on education, research and co-location of business support functions in Moray to support new business start ups and the upscaling of existing micro businesses
 - An **Aerospace and Advanced Technologies Academy** that will meet the immediate training and technology needs of existing Moray based industries including skills needs arising relative to the expansion at RAF Lossiemouth, providing skilled workforce for the emerging aerospace sector. This project is being developed in partnership with Boeing Defence UK.
- 4.4.2 **Cultural Quarter** – a tripartite offering combining a visitor orientation facility for Moray focussed on food and drink including a Speyside Whisky Experience in a renovated Grant Lodge in Elgin; a refurbished Town Hall incorporating a multi purpose theatre and performance space, rehearsal rooms and gallery space, a privately financed high quality hotel and enhanced public space around Lossie Green and Cooper Park.
- 4.4.3 **Gas Pipeline Expansion** – an upgrade of the gas pipeline to support longer term growth; with the ability to utilise this infrastructure for hydrogen transfer in the future.
- 4.4.4 **Manufacturing and Innovation Centre** – a focal point for process and production efficiencies and private sector investment in manufacturing processes across the Highlands and Islands and the north of Scotland, located in Moray
- 4.4.5 **Early Years STEM (Science, Technology, Engineering, Maths)** - a pilot scheme to deliver flexible indoor and outdoor spaces and tool kits to work with young children aged 3-8 and their parents, supporting STEM learning in an age appropriate way at a point when gender stereotypes and future ambitions are often formed
- 4.5 The remaining projects within the bid focus on major socio-economic issues like housing, transport and local access to services and together help to create a rounded programme. Clearly the negotiating team will work hard to include as many of these projects as possible in the Heads of Terms agreement, and to ensure that the deal ultimately agreed will deliver for the whole of Moray including our more rural areas. As funding ultimately agreed will not be sufficient to deliver all projects however, local prioritisation and economic appraisal are two ways in which projects will be identified within the funding available. Meantime, alternative delivery methods are being investigated for all projects.

5. POLITICAL ENGAGEMENT

- 5.1 In parallel to development of the business cases there has also been a lot of political activity during the last year.
- 5.2 A number of prominent ministers from both Governments have visited the area and expressed their support for the deal including Derek Mackay MSP, Scottish Government Finance Secretary, in July 2018 and in March 2019, Michael Matheson MSP, the Cabinet Secretary for Transport, Infrastructure and Connectivity which includes the City Region and Regional Growth Deal portfolio.
- 5.3 In September 2018, during a visit to the area, Liz Truss MP, Chief Secretary to the Treasury, invited Moray to bid for a growth deal. This was the “green light” we had been waiting for and allowed UK Government policy advisors to begin discussions with Moray Council regarding the development of the business cases.
- 5.4 In addition to this activity there was mention of the Moray Growth Deal in the Chancellor’s Autumn 2018 and Spring Budget 2019 Statements, and in December 2018 Stewart Stevenson MSP hosted an event in the Scottish Parliament to support the deal, supported by local MSP and Minister, Richard Lochhead. A similar event was hosted in Westminster on 24th April 2019 by the Secretary of State for Scotland promoted and supported by Douglas Ross, local MP. The deal team also took the opportunity while in Westminster to hold a number of meetings arranged by Moray’s MP, including a meeting with Robert Jenrick, Exchequer Secretary to the Treasury and Gavin Williamson, Secretary of State for Defence.

6. BUSINESS ENGAGEMENT

- 6.1 An important part of the deal from both governments’ perspectives is the involvement and support of the private sector. In the previous update plans were outlined to create a Business Assembly to help take the deal forward.
- 6.2 The Business Assembly was established in June 2018 and has since met a number of times. There are currently 14 members from businesses of various scales and from a spread of sectors representative of the Moray economy.
- 6.3 The Business Assembly is now an integral part of the development of the deal and has been particularly helpful in engaging with government officials and politicians to demonstrate the support of the private sector.
- 6.4 Regular meetings are also held with representatives from business agencies and other interested sectors to ensure that everyone is kept apprised of progress.

7. DEAL COMPOSITION

- 7.1 UK Government has indicated interest in funding a number of projects, although at present we do not know to what extent.
- 7.2 The quantum announced by the UK Government is important because the Scottish Government have a standing commitment to at least match this figure

and have on occasions exceeded this. However, whilst the UK government indicate their interest in specific projects, the Scottish Government have indicated that they will not be specific regarding the projects they wish to fund but will instead look to the partners to indicate priorities, funding then being allocated where advisers are satisfied that the high level business case is robust.

- 7.3 With this in mind the Growth Deal Programme Board and the Business Assembly have both separately undertaken prioritisation exercises to give guidance to the negotiating team on the projects deemed most important to the Moray economy. Officers have also commissioned a study by BiGGAR Economics – a company with expertise on city and growth deals - to give a high level view of the potential economic benefit for each project.

8. THE DEAL PROCESS

- 8.1 The process for City/Growth deals is still evolving and changing, but following recent announcements for Ayrshire, and Borderlands, it is clear that Moray is now in line for discussions on a Heads of Terms agreement.
- 8.2 One recent change to the process is that the governments are now announcing the level of funding they are committing to each deal, before final discussions progress regarding the projects involved and the funding to be sourced from local partners.
- 8.3 This change makes local governance processes challenging, and may require additional meetings to be scheduled, but discussions with government officials on this process are still ongoing.
- 8.4 To ensure that negotiations are as well informed and representative of key stakeholder interests as possible, a negotiating team is being formed comprising the following:
- Councillor Graham Leadbitter as Council Leader and chair of the Community Planning Board
 - The Corporate Director (Economic Development, Planning and Infrastructure Services)
 - Michael Urquhart, Business Assembly Chair
 - Jim Grant, Head of Development Services
 - Donna Chisholm, Area Manager, HIE
 - A representative of the local rural community to provide community insight, particularly as regards ensuring that as far as possible, the deal produces economic benefits across Moray

9. DEVELOPMENT FUNDING

- 9.1 At present two projects are already being taken forward to Outline Business Case stage, which requires an independent economic impact assessment to be undertaken by external consultants. These projects are the Cultural Quarter and the Manufacturing and Innovation Centre for Moray. Delegated authority was given in 2018/19 to the Corporate Director (Economic Planning, Development and Infrastructure) to enable up to £20,000 to be drawn down in 2018/19 to fund this consultancy work in partnership with HIE who also contributed.

- 9.2 It is anticipated that, following a Heads of Terms announcement, further funding would be required to advance at least 4 other projects being led by the council to Outline Business Case stage during the financial year 2019/20. Delegated authority is therefore sought for the Corporate Director (Economic Planning, Development and Infrastructure) to enable up to £40,000 to be drawn down from reserves if and when required in order to fund analysis, research and similar costs to develop economic cases, in consultation with Group Leaders and the Head of Financial Services. This was identified as a budget pressure when the budget for 2019/20 was set in February.

10. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The growth funding bid provides a unique opportunity to work in partnership with key stakeholders in the Moray economy to review the supports and stimuli in place already, the gaps and how best to fill these. If this process is completed in a robust and collaborative way, Moray will be able to leverage in significant funding from across the public and private sectors including funding from the UK and Scottish Governments. Sustainable economic development is a priority in both the LOIP and Corporate Plans.

(b) Policy and Legal

The Project Management Governance Policy and support mechanisms will be invaluable in driving this programme forward.

(c) Financial implications

Funding will shortly be required to cover the research and the evidence base needed to support further development. A programme which is likely to comprise works with a value in the tens of millions of pounds cannot be resourced adequately based on existing in house resources alone. Significant investment will be required by the Council both to prepare projects and ultimately to provide supporting funding for those with the closest links to council services, but this will be with a view to leveraging in funding many times more than the sum initially invested.

An indicative sum of £5m per annum has been included in the capital plan for 10 years from 2020/21 as the council's contribution to projects on which it would lead but until those projects are agreed, capital funding required by the council cannot be determined. It is anticipated that spending can be contained within this level of capital funding, albeit draw down may not be at an even rate of £5m per annum. Revenue costs have been strictly controlled and for the projects led by the council will only be committed at Heads of Terms level following consultation with Group Leaders and the Head of Financial Services. Based on the high level assessments undertaken by BiGGAR economics however, each of the projects on which the council would lead would generate a significant return on investment.

(d) Risk Implications

The risk of not approving the proposals in this report is that the means to attract the capital investment needed in terms of the emerging themes of place, connections, employability and skills will remain elusive and the local economy may stagnate, especially in the light of deals being progressed in other regions which would lead to an element of displacement.

(e) Staffing Implications

There are no further staffing implications at present. The authority to recruit additional staff once Heads of Terms have been agreed was agreed by the council on 12 December 2018 (Para 10 of the minute refers).

(f) Property

There are no property implications at this time.

(g) Equalities/Socio Economic Impact

Inclusive growth is a key concept in growth funding development and in terms of the overarching policies. One of the key objectives of the proposals is to reduce the gender pay gap in Moray. This reflects one of the main themes of the Moray Council's Equality Outcomes which were approved by Council on 29 March 2017 (para 16 of the minute refers).

(h) Consultations

An equivalent to this report has been considered and approved by the Community Planning Board following consultation with partner agencies. Consultation with key business representatives and the public has also been an integral part of developing the deal to date. This report has been circulated for comment to CMT, the Head of Legal and Democratic Services, the Head of Financial Services, the Equal Opportunities Officer, and Committee Services; any comments received have been considered in writing the report.

11. CONCLUSION

11.1 The deal process is now entering the final phase moving towards a Heads of Terms agreement.

11.2 It is anticipated that the Heads of Terms agreement will be preceded by a funding quantum announcement from both governments.

11.3 Additional funding is likely to be needed to ensure that Outline Business Cases can be developed swiftly following a Heads of Terms announcement. Given the scale of funding which it is expected will be leveraged into Moray, the level of funding sought is reasonable.

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Background Papers:
Ref: