



Glasgow City Region - City Deal

Cabinet

Report by Director of Regional Economic Growth

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Item 8

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GLASGOW CITY REGION CITY DEAL STRATEGIC OUTLINE PROGRAMME BUSINESS CASE 2019

Purpose of the Report:

This paper provides Cabinet with an overview of both the approach used to develop, and the content of, the refreshed City Deal Programme Business Case (PBC).

The full PBC is available on request from the Committee Clerk and on the Cabinet's online Committee papers.

Recommendations:

The Cabinet is invited to:

- (1) approve the Programme Business Case; and
- (2) note that it will be submitted to the UK and Scottish governments as part of the Gateway Review documentation.

1. Introduction

- 1.1 The Strategic Outline Programme Business Case for the Glasgow City Region City Deal Programme provides an overview of the progress of the Glasgow City Deal Programme since its establishment in 2014 to the end of March 2019 along with a prospective assessment of the Programme's likely performance going forward.

2. Purpose

- 2.1 This paper provides Cabinet with an overview of both the approach used to develop, and the content of, the Programme Business Case (PBC).
- 2.2 The full PBC is available on request from the Committee Clerk and on the Cabinet's online Committee papers.

3. Background

- 3.1 Part 1 Section 6.1.3 of the Assurance Framework 2019 requires the PMO to produce, monitor and update the PBC. It advises that:
 - The PBC will comply with the Green Book. The PBC includes the same key elements as required for individual Project Strategic Business Cases but at a Programme level e.g. the combined economic, transport and environmental impacts; delivery timescales for all Projects; Programme risks; and Programme finances.
 - The City Deal will be deemed to be succeeding when the evidence emerges that the economic impacts projected by the Programme Business Case are being realised in the Glasgow City Region, and that there are net additional impacts at Scottish level.
 - The strategic objectives stated within the PBC are a key component of the Programme Prioritisation Framework which will be used to help prioritise proposed new Projects should City Deal Investment Funds become available.

4. Approach to Developing the Programme Business Case

- 4.1 It was agreed that in order to align with other key documents, including the annual financial accounts and Annual Report, the PBC should set out progress with the delivery of the Programme to year end (i.e. 31st March 2019).
- 4.2 As required by the Green Book, the PBC is structured around the five-case model with each case developed as follows:
 - The **Strategic Case** was developed with the assistance of a group of economic analysts from across government, partner agencies and academia (the Economic Intelligence Working Group). The Group completed an extensive review of the Regional economy known as the Regional Strategic Assessment (RSA). The RSA highlights the Region's

strengths, weaknesses, opportunities, threats/risks and areas of inequality. This information was used to develop the strategic need for the Programme, the refreshed Programme Objectives and to identify five Inclusive Growth priorities. Information was also gathered on the progress of projects which were on the 'medium-list' but were not included within the Programme. This information has assisted in demonstrating both the ongoing market failure in infrastructure project investment and the counterfactual case.

- The **Socio-Economic Case** was developed through the aggregation of Project-level Outline Business Cases' (OBC) economic data, providing a 'running-total' of the combined economic impact of the approved OBCs to 31st March 2019. The PBC advises that this 'bottom-up' running total will continue to be updated as the remaining OBCs are approved, with this aggregated information then being run through the Regional Economic Modelling Framework
- The **Financial Case** was developed to show Programme expenditure to date, a forecasted expenditure profile and the estimated costs of borrowing which are expected to be incurred by Member Authorities should spending be in line with this profile.
- The **Commercial Case** takes account of the Community Benefits realised to 31st March 2019 and the private sector investment leveraged by the 14 projects with approved OBCs.
- The **Management Case** outlines the Programme management arrangements, all Projects' key milestone dates, and the audit and assurance work which has been undertaken across the lifetime of the Programme.

5. Programme Business Case Overview

5.1 The Executive Summary of the PBC is attached at Appendix 1. Overall, it concludes that:

- As at March 2019, the Strategic Case shows there **continues to be strong support and a clear, ongoing need for the City Deal Programme's targeted investment in the Region's people, businesses, physical and environmental assets**, helping to support economic convergence across the Region and to protect and improve the Region's economic competitiveness on a national and global stage.
- The Socio-Economic Case shows that, despite challenging economic conditions the Programme **remains on target to achieve the original aspirational outcomes with regards to job creation and GVA growth set out within the City Deal Agreement while maintaining an overall positive value for money** profile.
- The Commercial Case shows the Programme is **on target to achieve the private sector leverage outcome set out within the City Deal Agreement**. Community Benefit Clauses within contracts are helping to

secure and deliver additional benefits for businesses and communities throughout the construction phase of the Programme.

- The Financial Case shows that, with a number of projects already complete, **the Programme remains within budget**. While the forecasted rate of expenditure has been slower than initially estimated, **spend to date is significantly higher than grant receipts**. Data also shows, there is a **potential opportunity to reduce the significant cost of borrowing faced by the Member Authorities** by changing the profile of annual grant payments to more closely match forecasted spend.
- The Management Case shows that sound Programme and Project-level governance and management arrangements are in place and **Programme monitoring shows delivery remains on track with no major slippage reported**. Evaluations Plans are being developed to **ensure project and Programme outcomes can be determined and subsequent impacts estimated**.

6. Recommendations

6.1 The Cabinet is invited to:

- (1) approve the Programme Business Case; and
- (2) note that it will be submitted to the UK and Scottish governments as part of the Gateway Review documentation.

PROGRAMME BUSINESS CASE - EXECUTIVE SUMMARY

This Strategic Outline Programme Business Case provides an overview of the progress of the Glasgow City Deal Programme since its establishment in 2014 to the end of March 2019 along with a prospective assessment of the Programme's likely performance going forward.

Strategic Case for the Glasgow City Region City Deal Programme

- a) Despite many economic and place-based strengths (one of the largest travel to work areas in the UK with a high proportion of working-age population, high proportion of working-age with high skill levels), and key economic assets (including world-class universities and three emerging Innovation Districts), Glasgow City Region continues to face inter-generational challenges related to the transition from its industrial heritage, including for example the highest levels of deprivation, economic activity due to ill health, and vacant and derelict land in Scotland. In spite of the obvious need for investment and a national policy focus on achieving Inclusive Growth, the Region continues to suffer from underinvestment, with many projects identified as being capable of boosting the Regional economy failing to attract much-needed public and private sector funding.
- b) The Glasgow City Region City Deal, agreed in 2014, provides much needed investment from the UK and Scottish governments and the eight Local Authorities across three thematic programmes: an £18.8 million Innovation Programme; a £24.6 million Skills and Employment Programme; and a £1.13bn Infrastructure Fund Programme – collectively the City Deal Programme. While the first two Programme workstreams are funded through grants (from the Department of Business, Energy and Industrial Strategy and the Department for Work and Pensions respectively), the UK and Scottish governments' contributions of £500 million each to the Infrastructure Programme Fund are on a 'Payment-by-Results' basis.
- c) While the public sector agencies across the Glasgow City Region had existing arrangements in place for, and a strong track record of, joint working on infrastructure, regeneration and economic development activities prior to the establishment of the City Deal Programme, the structures which have been established to govern the Deal have provided a framework for strengthening this partnership. Indeed, the Deal's focus on regional partnership working and Inclusive Growth is strongly aligned with the current national, regional and local strategic and policy context.
- d) The Programme continues to benefit from the highest level of political and officer leadership and support, with the eight Leaders of the Region's Member Authorities overseeing the Programme's delivery through the Glasgow City Region Cabinet (established 2014) and the senior officers via the Chief Executives' Group. While these bespoke Regional bodies were established

primarily to oversee the delivery of the Programme, their remits now cover wider regional economic policy and strategy development.

- e) Cabinet and Chief Executives' Group members have recently been consulted regarding their views on achieving Regional Inclusive Growth, with this information, alongside recent economic analysis, informing an update to the Programmes' Objectives.
- f) The diversity of activities funded by the City Deal Programme means it has a wide range of stakeholders who have an interest in, or who make a contribution towards, achieving the Programme's objectives. The Programme faces a number of risks, with four of the top five being financial risks, some of which are related to the Deal's Payment by Results model.

Socio-Economic Case for the Glasgow City Region City Deal Programme

- g) The selection of projects within each of the three Programme workstreams was completed in 2013 prior to the signing of the Deal in August 2014. The Infrastructure Fund Programme assembly exercise began with the agreement of Critical Success Factors (CSFs) [also known as Programme Minima] related to maximising GVA growth and spreading the benefits of that growth across the Region, with a focus on areas of multiple deprivation. A long-list of 82 projects (options) were then appraised against the CSFs, leading to a medium-list of 43 project options. Finally these options were prioritised using economic modelling, a value for money assessment and sensitivity analysis to arrive at the Initial List of 21 projects, with this package of projects constituting the 'Preferred Way Forward' for the Infrastructure Programme. The Programme Logic Model shows the 'theory of change' for how the outputs which will be delivered by the Programme funds will lead to a range of outcomes and eventual economic impacts.
- h) The original estimated benefits for the 21 infrastructure projects, which were generated in 2013, included a variety of employment and economic impacts to be achieved by 2035. Owing to the early stage of Programme delivery, with most projects still in their initial operations phase or at business case development stage, it is too soon to determine whether the original aspirational outcomes will be realised. However, analysis of the 'rolling total' of the economic data from 14 Green Book compliant Project-level Outline Business Case, most of which were approved in 2018/19, indicates that the original aspirational outcomes remain valid and attainable with a positive value for money assessment (6.4:1 Benefit Cost Ratio), despite potentially challenging economic conditions resulting from Brexit.

	Economic Indicator	Estimates from 14 OBCs	Relevant Target 2035
Employment	Total Net Additional Construction PYE by 2035	17,571	short-term construction impact of 15,000 jobs

	Gross Operational FTEs by 2035	21,983	an estimated 28,000 new jobs
	Net Additional Operational FTEs by 2035	12,132	
GVA at GCR	Net Additional GVA by 2035 (£bn)	£3.649	an annual increase in regional GVA of £2.2bn by 2035
GVA at Scotland	Net Additional GVA by 2035 (£bn)	£3.993	
Other Funding Leveraged	Direct Project Private Sector Investment by 2035 (£m)	£59.4	£3.3bn of private sector investment
	Net Additional Private Sector Investment (Follow-on developments) by 2035 (£bn)	£1.976	
	Total Combined Follow-on and direct project Private Sector Investment (£bn)	£2.032	
Benefits Cost Ratio	Value of Benefits (£m) (Net additional GVA at GCR over 25 years)	£5,512.7	
	Value of costs (Total public sector costs) (£m) at GCR over 25 years	£867.2	
	BCR at GCR over 25 years	6.4:1	

- i) A full, updated estimate of the Infrastructure Programme's expected outcomes will be available in 2022/23 upon the completion of all project-level OBCs. It will also be possible at this stage to evaluate the extent to which projects which have been complete and operational for several years are achieving their intended outcomes and impacts and spreading the benefits of economic growth across the Region, including to those at risk of poverty and in areas of deprivation.
- j) While the Infrastructure Programme is at a relatively early stage, the projects within the Skills and Employment Programme have concluded. The project evaluations show the Programme targets have been surpassed with: Youth Gateway engaging with 18,644 young people (target 15,000), with 8,085 (5,000 target) of which progressed into employment; In Work Progression engaging with and improving the skills/earning potential of 573 staff (440 target); and Working Matters Project engaging with 3,385 clients (3,217 target) and assisting 460 (target 483) into employment.
- k) The capital works for the three new facilities funded via the Innovation Programme were completed on schedule and within budget, with the facilities all now operational. All three projects saw revisions to their initial business case targets during their initial operations period, reflecting changes to their operating plans. The PMO is facilitating the projects through the completion of an Office of Government Commerce Gateway 5 Review and a lessons learned review process to assist with knowledge exchange in support of ongoing benefits realisation.

Commercial Case for the Glasgow City Region City Deal Programme

- l) Private sector follow-on investment in housing and commercial space for example, is key to achieving the Programme's intended economic impacts. The 14 project-level OBCs which have been approved to date have an estimated £2.032bn of follow-on investment contained within them, equating to a 2.3 private sector leverage ratio. In addition to the private sector investment secured through the City Deal Infrastructure Fund, the Medicity project, within the Innovation strand of the City Deal, has also evidenced £7,295,400 of private sector investment in the companies based in the project by the end of March 2019.
- m) The new Regional Partnership and the Economic Leadership Board are now scaling up their activity to promote, via the production of a Regional Investment Prospectus, the facilities and economic assets which have, and will be, enabled by the Programme (e.g. business and housing land, commercial, retail and business incubation space) ensuring the private sector target of £3.3bn is achieved.
- n) Bespoke arrangements have been developed to ensure contracts contain Community Benefit Clauses aimed at supporting Region-based Small and Medium Sized Enterprises (SMEs) to access contract opportunities and to encourage contractors to provide employment, skills and social benefits for communities across the Region.
- o) Of the 334 Tier 1 contracts, with a value of £152 million, awarded by the end of March 2019: £39.5 million (26% of total) worth of contracts were awarded to (SMEs); £31.5 million (21% of total) was awarded to Region-based businesses.
- p) At end of March 2019, a total of 816 community benefit opportunities had been delivered by contractors, including: 417 targeted skills and training opportunities; 183 targeted recruitment and employment opportunities; and £50.8k of financial support for community projects.

Financial Case for the Glasgow City Region City Deal Programme

- q) The Financial Case shows the three Innovation Projects were all completed by 31 March 2018, with total spend of £18.8m. In relation to the three Skills and Employment Projects the Youth Gateway project completed on 31 March 2018 and utilised the full £15m budget. The In-Work Progression Pilot Project completed on the 31st December 2018 with spend of £0.3m. The Working Matters Programme completed on 31 March 2019 with spend of approximately £8m. A programme is being developed to utilise the remaining funding of up to £1m during financial year 2019/20.
- r) The Financial Case shows the total net expenditure to be funded via City Deal Infrastructure Fund is £1.130 billion (in nominal terms) and that this is contained within the overall funding of £1.361 billion including £1bn from UK and Scottish governments, £270m from Member Authorities and an additional £91m of external contributions.

- s) In terms of expenditure, there has been a re-phasing of the Infrastructure Programme's initial estimate that £582m would be spent in the first 5 years of the Programme to March 2020. This has now been revised to £238m to March 2020 followed by a corresponding projected increase in spend during 2020-25, from an initial estimate of £546m to £750m. Projections show all capital expenditure is expected to be complete by 2027/28.
- t) The Financial Case shows, despite the forecasted completion of all capital expenditure by 2027/28, capital grant will not be received for all incurred expenditure until 2034/35, resulting in an estimated interest cost to the public purse of £51 million in the years 2028/29 to 2034/35 while grant payments are awaited.

Management Case for the Glasgow City Region City Deal Programme

- u) The Programme has clear roles and responsibilities with role profiles for the Senior Responsible Officer and all staff within the PMO. The Programme has well developed governance structures as set out within the recently updated Assurance Framework. These structures have been developed to be in line with those agreed within the Scottish Government's Grant Award Letter. Programme monitoring and management arrangements are well developed and are set out within the Assurance Framework.
- v) In addition to the completion of the Skills and Employment Programme and the capital works for the Innovation Programme, the Programme Plan shows a number of the Infrastructure Programme project elements have been successfully delivered including:
- the completion in July 2016 of ten new commercial units at Crossmill Business Park in Barrhead, East Renfrewshire and an adjacent 17-acre former factory site being prepared for private sector investment, supporting business growth and providing employment opportunities;
 - the opening in February 2017 of the Cathkin Relief Road, South Lanarkshire, the first major City Deal transport project;
 - the completion of Newton Farm Primary School in August 2017;
 - completion in December 2017 of the Newton Park and Ride facility; and
 - opening of the Gartcosh Glenboig Link Road in June 2018.
- w) The Plan also shows that, in terms of the project-level business case developments, as at the 31st March 2019, 22 Strategic Business Cases (SBCs) have been approved and 14 Outline Business Cases have been approved.
- x) For Projects still under construction, at the end of March 2019, Programme monitoring showed that, while no Projects were reporting at Red, 13 were reporting at Amber, indicating that while they may have experienced a delay in their planned schedule, this should not result in an overrun to their key Project milestone dates. The construction phase for the majority of the Programme's projects will take place between Gateway 1 (May 19) and Gateway 2 (May 24) with the vast majority of project outputs completed by October 2025, in line with the timescales upon which the economic benefits were modelled (although this

does not take account of the contract period for the SPT Business Improvement Regional Project where dates have to be agreed). Construction of related 'follow on investment' is expected to continue until the end of 2035.

- y) There are arrangements in place for the project and Programme-level lessons learned activities. Three City Deal supported Skills and Employment projects have concluded and the findings of their lessons learned workshops and independent evaluations have been reported back to the Cabinet with findings shared with the Glasgow City Region Skills and Employment Portfolio Group to consider the lessons learned from the projects and to develop practical recommendations that can be applied in relation to the planning and delivery of services across the City Region.
- z) A high-level programme of project-level evaluation activity has been developed setting out the notional evaluation activities that each City Deal Infrastructure Fund project will be expected to undertake for Gateway Reviews 2 and 3 and beyond.