**Item 3**

**2nd June 2020**

**Glasgow City Region - City Deal**

**Cabinet**

**Report by Kevin Rush, Director of Regional Economic Growth**

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# Proposal for City Deal Flexibility and Partnership Actions to Mitigate COVID-19 Impacts

## Purpose of Report:

This paper sets out a proposed joint response from the Glasgow City Region to the UK and Scottish governments for consideration at their Scottish City Growth and Deal Delivery Board meetings outlining:

a) the challenges we are facing in the delivery of the City Deal projects as a result of COVID-19;

b) what flexibility we may require to our usual arrangements/practices;

c) what changes may be required to our existing plans; and

d) what actions we can take together in partnership with both governments.

## Recommendations

The Cabinet is invited to:

a) note the PMO's participation in the call with the UK and Scottish government representatives on the 21st May;

b) note Appendix 1 has been submitted to the UK and Scottish governments as a draft response ahead of their Scottish City Deals Delivery Board on the 28th May 2020;

c) advise of any additions/amendments which should be made to the response at Appendix 1 for re-submission and consideration at future meetings of the Scottish City Deals Delivery Board.

## 1. Introduction

1.1 On 30th April 2020 the Scottish and UK governments wrote to the Glasgow City Region Programme Management Office (GCRPMO) recognising that COVID-19 has created unprecedented pressures and was impacting on our priorities as this time. They communicated their ongoing support for the GCR City Deal and to working in partnership with the Region to ensure our Deal funding delivers maximum economic impact, both in the immediate future and as we move into the recovery phase of this crisis.

2 **Purpose** This paper sets out a proposed joint response from the Glasgow City Region to the UK and Scottish governments for consideration at their Scottish City Region Deal Delivery Board meetings outlining:

a) the challenges we are facing in the delivery of the City Deal projects,

b) what flexibility we may require to our usual arrangements/practices;

c) what changes may be required to our existing plans; and

d) what actions we can take together in partnership with both governments.

3 **Background**In order to develop the joint response, the Director for Regional Economic Growth wrote to the Chief Executives' Group inviting them to provide their views on the above four elements (a-d). Responses were submitted from all eight Member Authorities on the 14th/15th May. The PMO consolidated these responses into the proposed joint response set out in Appendix 1. This response was then reviewed by the Lead Officers Group members.

3.2 The governments hosted a teleconference with officers from a selection of Scotland's City Deal and Growth Deal PMOs on the morning of Thursday 21st May to engage collectively on the potential impact of COVID-19 on the development and delivery of Deals. The PMO outlined the challenges which were being faced in delivering City Deal projects as set out in the draft response at Appendix 1. During the call, the governments outlined three key messages:

I. there was an expectation that across Scotland most projects which had already been approved would still progress, although they may require to be tailored to fit with any changes resulting from COVID-19 impacts;

II. there was no plan to expand Deal funding at this stage; and

III. there was recognition from both governments that in many cases Deals would require priority input from government agencies (e.g. Transport Scotland, Scottish Enterprise etc) to address slippage which had occurred.

3.3 The PMO provided the Chief Executives' Group meeting on the afternoon of the 21st May 2020 with an update on that morning's call. The Chief Executives agreed that the response at Appendix 1 should be submitted to the governments for consideration at the Scottish City Region Deal Delivery Board meeting on 28th May 2020, noting that the response was draft and would be subject to further amendment/addition following discussion at Cabinet on 2nd June 2020.

4 **Recommendations** The Cabinet is invited to:

a) note the PMO's participation in the call with the UK and Scottish government representatives on the 21st May;

b) note Appendix 1 has been submitted to the UK and Scottish governments as a draft response ahead of their Scottish City Deals Delivery Board on the 28th May 2020;

c) advise of any additions/amendments which should be made to the response at Appendix 1 for re-submission and consideration at future meetings of the Scottish City Deals Delivery Board.

**Appendix 1:**

## A. Challenges (Issues/Risks) in the Delivery of City Projects

The issues which have already arisen, and potential future issues (i.e. risks) are likely to have a significant impact on projects' planned Scope, Timelines, Finance and Benefits Realisation. The issues which are currently being addressed are outlined below.

**1. Issues in relation to public engagement/consultation**

- one Member Authority (MA) has cancelled scheduled public exhibitions, reducing consultation approaches to online methods only.

Going forward, while under C-19 restrictions it is anticipated that:

- one MA reports consultation and engagement is still required and new ways of engagement with greater reliance on virtual meetings, e-communication and social media is required. Timescales for statutory consultation may require to increase.
- One MA reports there will be a need for greater stakeholder and public consultation and general communication on both design and implementation post restrictions to clarify new procedures, changes to scope or design and programme.

**2. Delays to Project Design**

- four MAs have reported that changed working practices, altered workloads, enforced annual leave and furloughing of technical staff is affecting their external design consultants' capacity to complete design projects.
- one MA reports communication on design matters due to working remotely and virtual meetings between project teams, partners and their consultants is more challenging.
- one MA has reported that some designs are being reappraised to reflect emerging active travel policy issues related to public transport/cycling. Scope changes may lead to additional design and construction costs.

**3. Difficulties gathering required field data for funding/planning applications and project design**

- one MA reports inability to progress traffic surveys as information gathering for traffic and travel at this time will provide an inaccurate picture of traffic demand.
- two MAs report lack of clarity of current guidance on essential/non-essential activities has impacted on their ability to access private land and property to progress site walkovers, ecological studies and geotechnical site investigations. These delays are impacting on their ability to meet funding application deadlines (e.g. Sustrans Category 4 project panel only meets once a year - if window missed, decision delayed by a year).

4. **Delays due to slippage in third parties' work programmes where there is a project dependency on them (e.g. utilities work, gaining approvals/licenses)**

- one MA is reporting delays in Transport Scotland's own work programme (owing to their staff being redeployed to COVID-19) will have a negative impact on the timescale for STAG completion and hence overall project timescale
- one MA reports the hold on land transactions is causing project delay and that a potential spike in demand for land transactions post lockdown will cause ongoing delay.

Going forward, it is anticipated there will be:

- increased challenges of partnership working and impact of third party programme delays causing time delays and pressures on budget.

5. **Delays to procurement process and difficulties securing competitive bids**

- two MAs report requirement to further test consultant/contractor availability to respond to procurement needs (e.g. changes in timescale for project delivery and potential new cost thresholds) is delaying project timescales.
- two MAs report reviews and updates to existing contract documentation (terms and conditions, award letters etc) to accommodate new ways of working/risks of similar restrictions in future is delaying procurement process.
- two MAs report that capacity constraints within consultants caused by furloughing is impacting on the securing of bidders for contracts.

Going forward, MAs anticipate the following risks/ongoing challenges to the procurement process:

- business failures will negatively impact on the number of active consultants/contractors able to respond to future procurement activity.
- risk of the market being flooded with new procurements post COVID-19 and resultant higher risk of not securing fairly priced contracts, attracting appropriate consultants/contractors.
- while PMOs are working to ensure that a pipeline of City Deal projects are progressing through procurement so that construction and services contracts can be let once lockdown measures have been lifted (e.g. there are currently 14 City Deal procurements which are being managed in the period up to the end of the current calendar year (2020) within GCC), procurement officers advise there will be delays to procurement timelines as they require additional time prior to publication to assess the capabilities and capacity of suppliers / contractors to submit tenders and to review financial positions in terms of turnover and financial ratios for contracts.
- a number of MAs state that there will be significant added financial pressures on construction contracts (existing and planned) going forward as contractors / sub-contractors / public utility companies seek to pass on the additional costs they face due to lower productivity levels from social distancing and other altered site working practices, the risk of future lockdowns and the cost of materials (as supply chains are also impacted by additional costs). These costs have not been built in to project cost estimates.
- Insurance policy premiums at a high risk of increase, review of requirements on all projects for the future.

6. **Delays and increased costs due to current closure of construction sites and lower productivity once reopened**

- one MA reports that community benefits work placements, site visits and career events are being put on hold due to school and site closures. Alternatives to be considered where appropriate/deliverable

- COVID-19 has led to construction site closures resulting in significant additional costs to projects and delays to completion dates, which at this stage can still not be quantified as there is no certainty as to when sites can re-open. This has placed significant pressure on the ability to deliver projects within the available City Deal budget and timeline.
- the main contractor for one project has gone into administration resulting in (yet to be quantified) additional costs and slippage to project timescales to source new contractor.
- while work is still ongoing to understand the legal position and quantify the additional costs, two MAs report that for projects which were on site, a key issue will be additional financial pressures from contractor claims associated with keeping sites safe and secure during lock down, extension of time claims and any direct and consequential losses resulting from the delay.
- a number of MAs report that facilitating and coordinating discussions / negotiations with contractors to assist them to respond to the COVID-19 situation, including appropriate types of financial support to protect against contractor administration, has proved to be challenging. The provision of clear and consistent advice to contractors has been difficult, particularly in view of: the constantly evolving situation and the way that this affected the Scottish and UK governments' policy and legal responses; and the differing positions between UK and Scottish Governments regarding construction work. Larger contractors serving Scotland and England are working to different sets of rules.

Going forward, MAs anticipate the following risks/ongoing challenges to construction activity:

- one MA anticipates managing and coordinating the return-to-work arrangements on construction sites will prove challenging, with for example construction contractors re-starting site activities prior to internal council Project Managers / Site Inspectors, or externally appointed equivalents with a risk that they resume their 'normal' working practices.
- four MAs anticipate when construction sites reopen, changes in working practices to ensure social distancing are likely to impact on productivity, and in turn add significant extra costs and time.
- delays in construction completion will have knock-on impacts requiring existing Temporary Traffic Regulation Orders, site licences etc. to be extended in order to complete construction work, resulting in additional workload for project teams and other public sector bodies and disruption for public.

**7. Member Authority capacity issues due to redeployment/home working limitations**

- four MAs report that resourcing pressures on project teams and supporting service (e.g. surveying, design, cartography) staff due to staff illness, redeployment to COVID-19 response activity and limitations/constraints of homeworking (childcare, lack of access to specialised software etc) is presenting challenges in maintaining momentum in project delivery and will lead to delays in projects.
- one MA reports that officers' capacity to support reviews of other projects' business cases and involvement in Regional Portfolio Group may be reduced with focus on recovery planning.

**8. Managing programme finances**

- one MA is reporting lost income from rentals / leases at their business centre as tenant occupancy has been delayed.

Going forward, it is anticipated that:

- delays in design and procurement will add costs through construction inflation.
- under current City Deal arrangements, all additional costs will fall to the Councils at a time when Councils will be under significant financial pressures to deal with the recovery from the pandemic.
- there will be financial challenges for Councils following the post pandemic priorities related to a priority on health and education capital.
- the ongoing delays and lower productivity levels are expected to impact on the level of spend which can be achieved in the current financial year and the profile of spend beyond.
- there will be a reduction in the amount of external grant funding that will be secured for City Deal projects.

**9. Delivering planned project/programme scope**

- with the likely increase in project costs and the funding constraints, there will be challenges in delivering the full scope of the projects and project outputs as currently set out in the business cases. Projects may require to be de-scoped.

**10. Achieving/realising planned programme outcomes and economic benefits**

Going forward, it is anticipated by a number of MAs that:

- COVID-19 repercussions will include an economic recession affecting many sectors of our economy including construction, housing development and town centre activity.
- both the ongoing delays to the delivery of the Deal projects' enabling infrastructure and the wider economic recession could have a significant impact on the financial status of private sector organisations which could lead to difficulties in leveraging the targeted £3.3bn of private sector follow-on investment, achieving the GVA and jobs targets, particularly if the key sectors that drive the City Region are badly affected.
- delays will create pressure to meet the current programme completion date (2025) and will increase the outturn cost of the programme impacting on the Benefit Cost Ratio.

## B. Flexibility Required to City Deal Arrangements/Practices

**1. Extension to overall City Deal Programme construction completion timescale**

- delays to project delivery arising from the current shutdown of construction and the anticipated reduction in productivity going forward will all have an impact on the timescales for delivery of project outputs, outcomes and benefit realisation with original planned timescales for completing projects requiring to be revisited once there is more certainty on the recovery stage. An extension to timescales for delivery of City Deal Programme beyond current 2025 target may be required

**2. Flexible approach to future Gateways to take account of COVID-19 impacts**

- recognising that the economic challenges that the City Region will face in emerging from the pandemic will have an impact on the delivery of the City Deal Programme outcomes (GVA and jobs) will require a pragmatic and flexible approach at Gateway 2 and 3 to the assessment of both the level of benefits and the realisation schedules

**3. Flexibility in application of governance arrangements (e.g. Conditions within the 2020/21 Grant Letter, applications of Assurance Framework)**

- a pragmatic approach to the status of the 2020/21 financial forecasts which will be provided as required by the Grant Award Letter, recognising that spend may be significantly reduced in 2020/21
- a pragmatic approach to the application of the planned actions and milestones set out within the Annual Implementation Plan 2020/21, recognising that projects' milestone dates will be subject to change
- a pragmatic approach to the reporting requirements set out within the Assurance Framework e.g. providing time for projects to revise financial milestones and programme.

## C. Changes Required to Existing Project Plans

Changes to economic conditions, consumer behavior and market demand may require re-shaping of planned projects to support longer term recovery. Member Authorities will need to undertake work to fully assess and understand the impact that COVID-19 has had on each of their respective projects and programmes. Emerging thinking on required actions is set out below.

**1. Review likely demand for planned projects**

- the demand for commercial office space may require to be reviewed in light of potential longer-term changes which may result from the increase in home working due to COVID-19.
- the COVID-19 recovery plan for GCR will need to align with both UK and Scottish Governments proposals which may have ambitious targets to retreat from fossil fuels and create an economy that is more resilient to future changes. While building new and/or expanding capacity of existing roads may be viewed, by some, as unnecessary at this time (owing to the reduction in traffic caused by COVID-19 impacts), the ongoing requirement for business and industry to transport goods and the need for people to travel safely to and from the workplace, education and leisure will continue/return. The current restrictions on public transport capacity due to social distancing measures, demonstrates that road infrastructure must remain a key part of a strong and robust transport network, ensuring that those who cannot work from home are able to travel.

**2. Undertake project-level redesign where required**

- A review of the suitability of a number of transport related projects in light of potential significant changes in travel patterns may be required, with for example, planned road enhancements seeing reallocation of more road space to more sustainable travel modes, ensuring that freight services can operate efficiently and recognising that the continued growth in online goods and services generates trips by smaller commercial vehicles.

**3. Review and adapt projects to ensure they are flexible and resilient to future economic/environmental needs and risks**

- review projects to ensure they promote flexibility and sustainability with investment in both physical projects and people to support redeployment, encourage reskilling, reduce inequality, thereby increasing the competitiveness, resilience and stability of our economy and labour markets.

Glasgow City Council has drafted a Programme-level Recovery Plan which:

- considers impacts on budget, time, resources and anticipated economic benefits for City Deal projects and interventions;
- considers (as far as is possible) the delays / reorganisation of major events that had been planned to take place within Glasgow during 2020, specifically COP 26 and the Euro 2020 football championships; and
- takes account of the impact that the COVID-19 situation has had on external stakeholders – particularly on businesses that are located near to planned infrastructure works. The Council has been notified of concerns raised by businesses regarding the timing of construction activities and the knock-on effects that this might have on their recovery following the lifting of lockdown measures.
- consideration of staffing / resources will also need to be factored into this exercise, as it is likely that these type of costs will also contribute to budgetary pressures due to potential prolongation of the Programme.

## D. Actions to be taken in Partnership with Both Governments.

The current and future pressures and challenges for Member Authorities and partners arising from the pandemic will make responding to the recovery phase and rebuilding the economy particularly challenging. This will require close collaboration over an extended period of time between the City Region Member Authorities, governments and other public sector partners/agencies with a clear focus on promoting the necessary measures to support the economy, businesses and residents of the City Region. Emerging ideas on the actions which should be taken in partnership are set out below.

**1. Supporting the safe and timeous recommencement of construction activity**

- development by Scottish government of guidance for the construction sector should be prioritised to allow construction activity in Scotland to re-start promptly. Relevant construction body and Local Government input to this guidance would assist in its usage.

**2. Refreshing the Regional Economic Strategy and co-designing regional responses**

- reconvening the Economic Delivery Group, Portfolio Groups, Chief Executive Group and Regional Partnership meetings and continuing to co-design the refreshed Regional Economic Strategy (RES) with a focus COVID-19 recovery.
- reviewing existing structures, funding and governance of the Portfolio Groups to ensure they fit with the emerging refreshed Regional Economic Strategy and re-focusing activity to deal with the challenges that the economy and the population of the City Region will face in the recovery phase.
- providing assistance to Member Authorities with the provision of employability support, skills development, transport and economic development activities including for example co-designing regional projects such as Integrated Regional Employment and Skills Programme with funding support from Government and its agencies

- using national policy levers to encourage large public sector organisations to adjust procurement priorities to use local suppliers to provide economic stimulus at a local and regional level.

**3. Additional funding from UK and Scottish governments to address additional COVID-19 related City Deal project costs**

- the significant additional costs resulting from compliance with COVID-19 advice, guidance and legislation, including from the shut-down of construction sites following government advice, will be very difficult to absorb within existing City Deal project budgets. As a result, most MAs have suggested the creation of a COVID-19 City Deal top-up-fund to assist all projects with covering extra costs/loss of income resulting from the need to comply with government COVID-19 guidance.

**4. Additional funding for new projects to support COVID-19 response**

- given the significant economic challenges the City Region will face in responding to, and recovering from COVID-19, governments should be open to providing additional funding for new projects and to add value to existing projects which complement the governments' planned responses to COVID-19 (e.g. investment in active travel and social distancing measures).
- the length and severity of the recession caused by COVID-19 may exacerbate existing/lead to new forms of market failure. Larger interventions and a greater variety of interventions may be required to stimulate the economy in addition to those already planned/in the process of being implemented. Interventions could include investments in training and employment which impacts local authorities and the further education sectors, funding for strategic transport projects such as the Glasgow Metro, a new Regional Green Infrastructure Fund and a Regional Housing Investment Fund to support housing delivery and affordability for our communities post pandemic as house builders may not be in a position to build to the level required.

**5. Support from governments to ensure national agencies and funders support City Deal project delivery**

- ensuring agencies such as Scottish Enterprise, Transport Scotland, Scottish Environmental Protection Agency and Scottish Natural Heritage prioritise activities related to supporting City Deal projects (e.g. STAG approval process, support to attract inward investment)
- greater alignment of government funding with City Deal and council projects/initiatives, particularly around sustainable and active travel and measures to reduce carbon including the allocation of Sustrans funding to aid in the delivery of sustainable travel of people and goods and creation of sustainable communities, places and centres rather than narrow focus tied to expansion of provision of cycling measure (often outwith the scope of the City Deal project).