

Local Government and Communities Committee

City Region Deals

Submission from the Federation of Small Businesses

Introduction

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the Committee's inquiry into City Region Deals ('City Deals'). The inquiry is timely given the growth of City Deals in Scotland.

FSB offers expert support and advice to over 18,000 smaller businesses, many of whom operate in areas covered by a City Deal and are both directly and indirectly affected by new arrangements. We also have a long-standing interest in economic development, skills and regeneration issues and regularly comment on the development and implementation of national and local economic strategies.¹

Questions

1. What is your understanding of the purpose of City Region Deals?

The UK Government introduced the City Deals model in 2011, via its 'Unlocking Growth in Cities' White Paper, to boost regional and local economic growth and devolve more power to a sub-national level.² It is central to the UK Government's drive to create a 'Northern Powerhouse' and is a high-profile intervention co-funded by the Scottish Government, albeit the latter has a stronger focus on inclusive growth and regional cohesion.³

Each deal aims to encourage local authorities to work together more effectively to identify local economic development opportunities. Overall, they aim to:

- Give powers and tools to drive growth
- Unlock projects and initiatives to boost economies
- Strengthen governance arrangements
- Lever private sector finance

Unlike traditional funding between national and local governments, City Deals are transactional in nature and based around government investment being conditional upon specific outcomes from the region. For example, Stirling may want finance to build a new digital hub but governments will want to see tangible improvements in productivity, employment or innovation.

City Deals initially focused on the eight largest English cities (and associated wider city region area) outside London. The model was extended across the UK in 2014

¹ A list of publications can be accessed via the link - <http://www.fsb.org.uk/standing-up-for-you/national-offices/scotland/scotland-publications>

² See: <https://www.gov.uk/government/publications/unlocking-growth-in-cities--5>

³ See: <http://www.gov.scot/Topics/Economy/EconomicStrategy>

when the Glasgow and Clyde Valley deal was secured. More recently, deals have been agreed with Inverness and Highland city region and the Aberdeen city region. The total amount set to be invested in these deals is over £2bn. In addition, the Edinburgh and South-East Scotland City Region has been in negotiation with governments for over a year; the Tay cities have submitted a plan; and a Stirling and Clackmannanshire City Deal is in development. It is expected that the majority of Scotland will be covered by a City Deal in the near future, with total investment of around £5bn.

We welcome the capital investment provided by the City Deal approach and recognise the potential opportunities created by many of the projects, particularly in the medium to longer term. However, it is unclear whether the planned investment represents any significant policy shift towards boosting the wider city region. Further, it is worth emphasising that the purpose and rationale of City Deals is often lost on smaller businesses who question how the investment will boost their local economies:

“City deals aren’t just about big businesses and sectors such as creative industries, life sciences and digital media. If they are going to make a difference to local communities and economies, they need to involve the existing business base, rural businesses, the self-employed and home-based businesses. If not, it will be the same old economic strategies that we’ve seen before.” **FSB member, Perth**

2. Are City Region Deals on track to deliver local growth, innovation and infrastructure schemes which would not have otherwise been delivered?

Although no one deal is the same, the three agreed in Scotland aim to create new jobs and boost economic growth and productivity. The operational deals expect to generate an additional 35,455 jobs and unlock billions of private sector investment – the Glasgow and Clyde Valley deal alone is set to deliver £2.2bn in additional Gross Value Added (GVA) per annum. Principally, this will be delivered through large capital infrastructure projects and the creation of new innovation centres, employability programmes and improving digital connectivity. A plethora of projects are currently underway including:

- A new direct link between Glasgow central station and Glasgow airport
- Science Skills Academy
- A Northern Innovation Hub
- Oil and Gas Technology Centre
- Expansion of Aberdeen Harbour

City Deals are substantial investments which are intended to deliver returns in the medium to longer term. With the model operating in Scotland for just over two years, it is almost certainly too early to assess whether the deals will, in the words of one developing bid, represent a “once-in-a-generation opportunity”⁴ or a failed attempt to boost Scotland’s economy. The lack of policy evidence relating to City Deals provides an additional barrier to making evidence-based judgements.

⁴ See: <http://www.investinstirling.com/news/stirling-celebrates-city-deal-success/>

Nonetheless, it is worth considering the feedback provided by the review of the first wave City Deals by the National Audit Office.⁵ The review highlighted a number of challenges in evaluating the deals and their impact on local growth. This ranged from difficulties in assessing what would have happened without the deals in place, to the lack of capacity and expertise to appraise, monitor and evaluate programmes. It also noted that different deals use different methodologies to evaluate, impact and monitor progress (for example, key measures such as jobs are defined differently by different deals) and the difficulties in identifying or discounting displacement between cities to gauge the net national impact.

This last point is worth emphasising. City Deals will find it challenging to prove additionality – progress in one city (e.g. Glasgow) may be to the detriment of another (e.g. Edinburgh) – and as such local authorities and governments will be unable to rigorously state that the deals have generated x growth or y jobs. These problems are compounded by the deal-making nature of these arrangements, as the Centre for Urban and Regional Development Studies at Newcastle University⁶ point out in their submission:

“The nature of [City Deals]...lends itself to the over-claiming on potential benefits by local actors as part of attempting to leverage higher levels of central government support.”

Ultimately, City Deals may be successful in Scotland and deliver additional economic growth. Certainly, the scale of public investment warrants a transformational impact. However, at this stage and in the absence of evidence, FSB believes that adopting the model without careful scrutiny and analysis will make it difficult to pinpoint the difference made by the City Deal process.

3. What is your understanding of the governance arrangements for City Region Deals, and how well are these arrangements working in practice?

It is our understanding that Scottish City Deals all have similar governance arrangements and are overseen by Cabinets or Joint Committees of representatives from local authorities and local partners. A Programme Management Office (PMO) undertakes the operational functions of the Cabinet, in which councils are assigned lead status on different aspects of the deal. For instance, the enterprise portfolio in the Glasgow and Clyde Valley deal is led by Renfrewshire Council.

While there is an element of private sector representation in some deals, the governance arrangements are complex and largely driven by local authorities. This is unsurprising given the arrangements have been established under the Local Government (Scotland) Act 1973, with a central focus on facilitating intra-local authority partnership working and delivery. An unintended consequence, however, is that the governance arrangements of City Deals are opaque, officious and public sector dominated. As we outline in the next question, this has resulted in poor attempts to engage with businesses in the development and implementation of the deals.

⁵ “[Devolution Responsibilities to Cities in England: Wave 1 City Deals](#)”, National Audit Office, July 2015.

⁶ See: http://www.parliament.scot/S5_Local_Gov/Inquiries/20170427_CRD_CURDS.pdf

Although there are positive signs that some City Deals, such as Inverness and Highland, are adopting a more open and participative approach, overall we believe that greater external transparency is required to monitor progress across Scotland's City Deals. Specific suggestions for improving transparency are set out below.

Firstly, FSB believes that appointing an independent Small Business Champion for each City Deal, embedded within the Joint Committee, would provide greater transparency and achieve additional positive outcomes, including boosting supply chain opportunities to maximise return on investment and bringing forward additional ideas to make it easier to do business across the city region.

Secondly, given the long term nature and scale of the investment, the Scottish Parliament should have an ongoing role to provide additional scrutiny on City Deals. Notwithstanding the outcome of the Committee's inquiry, we believe there may be a case for a one-off, multi-committee investigation to examine the cross-cutting nature of City Deals – supported by the expertise of Audit Scotland. In addition, or alternatively, given the long-term nature of the deals, such an inquiry should be followed up by recurring scrutiny by committees (such as an annual evidence session) where operational City Deals are reviewed and contributions sought from the Scottish Government, the UK Government and external stakeholders. This could also include consideration of evidence from elsewhere in the UK on progress of City Deals.⁷

4. Have local residents and businesses been kept informed and involved in the development and activities of City Region Deals?

There is certainly some evidence of good practice within operational City Deals (as highlighted by SURF).⁸ For example, the website for the Glasgow and Clyde Valley deal⁹ is a useful resource to keep up to date with developments, albeit it was launched almost two years after the deal was established. However, overall, FSB has been underwhelmed by the efforts made by City Deals to communicate with their small business community. This is exceptionally disappointing given that these businesses are a significant part of regional and local economies. Communication has also generally been poor, both in relation to the development of deals as well as implementation. In particular, local firms and citizens appeared to have few opportunities, if any, to lend their input and expertise at the crucial project identification stage. As one FSB member in Glasgow said:

“As both a resident and a business, I have had no information, no consultation and no knowledge of the City Deal despite it impacting massively on an area that is but a few hundred yards away from where I live and where my business is based.”

Efforts made by local authorities to pool budgets, resources and priorities to focus on long-term economic improvements beyond their own boundaries are certainly welcome. However, given the scale, scope and duration of City Deals, we have not

⁷ Such as the current inquiry by the Welsh Assembly Committee on Economy, Infrastructure and Skills: <http://senedd.assembly.wales/mglssueHistoryHome.aspx?IId=18468>

⁸ See: http://www.parliament.scot/S5_Local_Gov/Inquiries/20170421_CRD_SURF.pdf

⁹ See: <http://www.glasgowcityregion.co.uk/>

seen the standard of open and transparent consultation and engagement we would expect.

5. Are regions not covered by City Region Deals able to access equivalent funding and support for growth, innovation and infrastructure schemes?

In local economic development, the scale of City Deals means they have clearly become the focus for many areas in Scotland. The nature of the deals and the resources required to service these arrangements is likely to leave little spare capacity for other economic and infrastructure projects. Unsurprisingly, a number of the local authorities outwith City Deals are exploring regional partnership models to leverage additional public sector investment from Scottish and UK Governments – for instance, the Ayrshire Growth Deal is requesting over £350m of public investment – as well as seeking investment from the private sector.

Although City Deals and Growth Deals represent a departure in how councils and governments intervene in the economy, it is worth recognising that Scotland continues to be supported by a vast enterprise and skills network.¹⁰ How this pre-existing network of support, as well as Community Planning Partnerships, align with new arrangements like City Deals, is unclear, albeit exploring regional partnerships is part of the ongoing Enterprise and Skills Review.¹¹ Likewise, it is unclear how much of the investment associated with City Deals will achieve the Scottish Government's inclusive growth ambitions, including improving local economies across the wider city region. If Inverness grows as a result of investment from the City Deal, for example, how will this benefit firms and citizens in Fort William?

6. Are City Regions Deals supporting a shift towards local decision-making on major investment projects?

City Deals are complex arrangements between central and local governments and occasionally private sector partners. As such, brokering agreement between all parties takes considerable time and effort. Undeniably, they have been successful at fostering a more collaborative culture in local government, which we welcome.

Whether they represent a true shift in power to local levels in Scotland is difficult to answer at this stage. Certainly they provide a greater role for councils in large-scale investment projects, but ultimately the proposals must align with the priorities and agendas of the governments who fund the projects. In addition, and in contrast to deals in England, devolving power to a local level through mayors or combined authorities have not featured in the Scottish model.

A further complicating factor is the nature of the deals themselves, where in essence a payment by results model operates. The Scottish and UK Governments provide funding over a set time-period in five year blocks subject to the deals delivering agreed outputs and outcomes. Considering the Glasgow and Clyde Valley Infrastructure Fund as an example, despite publicly stating that over £1bn will be invested in the economy, the UK and Scottish Government have only committed to

¹⁰ For example: Business Gateway, Scottish Enterprise, Highlands and Islands Enterprise, Scottish Development International, Skills Development Scotland and VisitScotland.

¹¹ See: <http://www.gov.scot/Resource/0050/00508466.pdf>

providing £150m for the first five years. The remaining £850m is conditional upon local authorities demonstrating sound governance, a record of project delivery and good value for money to an Independent Commission on Urban Economic Growth.

7. Any other issues relating to City Region Deals which you wish to bring to the attention of the Committee?

FSB broadly welcomes the significant capital investment City Deals contribute to our city regions. As this submission has outlined, however, we are concerned about the lack of transparency inherent within the deals, the inaccessible governance arrangements and the lack of engagement with smaller businesses. This latter point is worth emphasising given nearly one in two of *all* small Scottish firms are covered by the three operational City Deals and contribute billions to these regional economies.

In our recent manifesto for the local government elections, we made a number of recommendations to improve developing and operational City Deals for smaller businesses and local economies.¹² As outlined above, a central idea was the creation of an independent small business champion for each deal. This individual would be charged with promoting supply chain opportunities, tackling late payment, increasing regulatory consistencies and ensuring local firms have their voice heard on key spending decisions.

Barry McCulloch
Senior Policy Adviser

¹² "[FSB Manifesto 2017 Local Government Elections](#)", FSB, April 2017.