

The Highland Council

Planning, Development and Infrastructure Committee 25 January 2017

Agenda Item	9
Report No	PDI/ 06/17

Inverness and Highland City - Region Deal - Governance Arrangements

Report by Director of Development and Infrastructure

Summary

The purpose of this report is to provide an update on the proposed City-Region Deal governance arrangements and in particular agree to the request by the UK and Scottish Governments that all funding is routed through the Highland Council.

1 Introduction

- 1.1 On 22 March, 2016 agreement on the Inverness and Highland City-Region Deal (CRD) was reached with the Heads of Terms being signed by the Scottish Government, United Kingdom Government and The Highland Council.
- 1.2 The Heads of Terms agreement sets out the broad areas where Government will commit investment of up to £188m together with £127m of further investment by the Council, Highlands and Islands Enterprise, the University of the Highlands and Islands and Albyn Housing Association Ltd.
- 1.3 It is a requirement of the CRD that governance arrangements are agreed and in place prior to the Deal Document being signed and this in turn is a pre-requisite of the money being released.
- 1.4 In December the Council agreed, in principle, that the Council will be the accountable organisation for the CRD; and that final governance arrangements should be presented to the Planning, Development and Infrastructure (PDI) Committee on 25 January, 2017 for approval.
- 1.5 This paper recommends updated governance arrangements for the CRD. This framework is made up of components, each of which is necessary to support the delivery of the programme and satisfy the requirements of the Scottish and UK Governments as funders.

2 Principles and Elements of the Framework

- 2.1 The principles that apply across the governance framework are as follows:
 - the framework will provide clear information on the progress on the programme and the component projects in a timeous and accurate manner to all relevant stakeholders;
 - the level of reporting and scrutiny will be proportionate and fit for purpose;
 - the framework will enable the escalation of issues or risks to support resolution;

- the risk of overspend on any project is owned by the lead organisation for that project; and
- plans, including budget profiles and timescales, may be subject to change and any material change must be agreed with the Scottish City Region Deal Delivery Group (see paragraph 5).

2.2 The governance framework comprises the following (all of which need to be in place for funding to be available for projects):

- the deal document narrative;
- governance structures and responsibilities;
- individual business cases;
- letter of grant;
- implementation plan; and
- financial management plan.

3 Deal Document Narrative

This will set out the intent and strategic context of the CRD. It will be based on the signed Heads of Terms document attached at **Appendix 1**.

4 Governance Structures and Responsibilities

4.1 The governance structures and responsibilities have been put in place to ensure accountability, transparency and focus on delivery of the expected outcomes of the CRD. The groups and individuals and their responsibilities are included below (4.2-4.7). A diagram setting out the groups and individuals is attached at **Appendix 2**.

4.2 Planning, Development and Infrastructure Committee

4.2.1 It has been agreed that the Council's PDI Committee, with delegated responsibilities from the Council, will ensure compliance with the CRD and in doing so will:

- monitor and scrutinise programme progress; and
- ensure the tasks associated with being the accountable organisation are carried out effectively.

4.2.2 Monitor and Scrutinise Programme Progress:

The PDI Committee has delegated operational activities to the CRD Programme Board and Programme Manager but will have overall responsibility in terms of:

- ensuring mechanisms are in place to monitor the progress of all CRD projects and programmes against agreed milestones;
- ensuring mechanisms are in place to allow for the effective scrutiny of the delivery of benefits and outcomes of projects;
- ensuring mechanisms are in place to enable the effective management of risks and issues;
- authorising mandatory and other reports to Government;
- receiving reports on: progress against milestones; performance against budgets; the management of risks/issue and the delivery of benefits and expected outcomes;

- instructing changes to working practices based on performance of the programme as evidenced in reporting above; and
- making recommendations to the recipients of funding and other relevant organisations and groups, regarding CRD Strategies and Policy plans.

4.2.3 Accountable Body:

As the accountable body for the CRD Highland Council will:

- agree the terms and conditions for the award of grants with partner organisations;
- issue offers of grant in respect of projects which have been approved
- process and approve claims for eligible expenditure;
- receive and disburse the funds forming the CRD;
- provide a bank account;
- collect necessary financial monitoring and evaluation information and provide this to the relevant stakeholders; and
- make recovery, where possible, of any funds improperly paid out or otherwise repayable under the CRD.

4.3 Programme Board

4.3.1 It has been agreed that the PDI Committee be supported by a Programme Board chaired by the Council's Director of Development and Infrastructure, and be made up of:

- the leads for each of the CRD projects;
- the Programme Manager for the CRD;
- a senior officer from the Council's Finance Service;
- a representative from the business community;
- a representative from the Scottish Government; and
- a representative from the UK Government.

4.3.2 The Programme Board will meet quarterly in advance of each scheduled meeting of the PDI Committee and report there quarterly. It will undertake the following functions:

- co-ordinate and monitor the delivery of projects put forward by the agreement of the two governments and the CRD stakeholders;
- recommend for approval the CRD's finances, budget approvals and overall financial management;
- ensure project outcomes are delivered to plan/ budget and that all mandatory protocols are met, both at a programme level and at theme and project level;
- ensure that the overall programme is making progress and likely to succeed within the key milestones and all relevant information is produced for the PDI Committee;
- create, where appropriate, mandatory and other reports to government; and
- assist the Programme Manager in delivery by removing any constraints and addressing other issues escalated by the Programme Manager.

4.4 **CRD Scrutiny Panel**

A CRD Scrutiny Board has been established comprising of the respective Highland Council Group Leaders. The Scrutiny Board reviews and monitors progress of the CRD and associated documentation prior to reports being submitted to the PDI Committee.

4.5 **Audit and Scrutiny Committee**

Scrutiny of the approach to governance and adherence to that approach is an important element of the governance framework and this if required will be the responsibility of the Audit and Scrutiny Committee. Of specific relevance will be the following functions taken from the Council's scheme of delegation:

- to advise the Council on matters relating to the programme of internal and external audit work and findings and recommendations arising from audit reports;
- to identify any special investigations required in relation to matters of particular concern relating to internal controls and value for money;
- to oversee the Council's risk management policies and strategies and receive reports, including an update on the Corporate Risks on a six monthly basis; and
- to prepare and undertake a scrutiny work plan, for the Council's approval, in relation to monitoring the performance of the Council, and funded third party organisations, against service delivery and to make recommendations to the Council on proposed action.

4.6 **Programme Manager**

A Programme Manager has been appointed to oversee the day-to-day delivery of the programme. The key responsibilities of the Programme Manager are to provide assurance over implementation plans and benefit delivery across all themes and projects and at a programme level. Specific tasks of the Programme Manager will be to:

- be the primary point of contact for UK and Scottish Governments.
- prepare reports for the UK and Scottish Governments on delivery programmes and outcomes of the CRD;
- working with project leads to assist the implementation of projects;
- analyse and report on: progress; impact; and wider benefits realisation;
- liaise and co-ordinate programmes with other regional partners and with each of the Workstream Groups;
- monitor the programme budget and reporting it regularly to the PDI Committee;
- set and lead the communications strategy and promotion through media and online resources; and
- work across the themes of the CRD to ensure synergies are achieved.

4.6 Project Boards

4.6.1 Project Boards will be established for each project under the Inverness and Highland CRD. These boards will deliver the business cases for their projects, identify and arrange relevant resources, initiate the projects and, in partnership with the Programme Manager, monitor and report progress.

4.6.2 Those projects being led by organisations other than the Highland Council will be subject to their own internal governance arrangements. However they will all sit under the framework laid out in this paper with the Highland Council as the accountable body. In addition grant agreement letters (see section 7) will be assigned between the Highland Council and partners setting out the terms of the award of grants under the CRD.

5 Scottish City Deal Delivery Group

5.1 The joint UK Government and Scottish Government Scottish City Deal Delivery Group will have responsibility for oversight, monitoring and delivery of the Inverness and Highland CRD.

5.2 The Scottish City-Region Deal Delivery Group will receive reports from The Council on a quarterly basis or as and when it requests. The joint Government Delivery Group will receive regular financial reports from the Council to an agreed process and timescale.

5.3 The Scottish City Region Deal Delivery Group will provide approval or otherwise to requests for significant change to business cases in terms of project delivery, benefits delivery or spend profiles.

6 Individual Business cases

6.1 The Individual business cases will be the responsibility of the the project board for that project. They will be used as a basis for measuring progress against the delivery of the project and the benefits that are delivered thereafter. They will be used as the baseline information for the programme time line and financial planning.

6.2 The individual business cases are also required to be approved for the funding to flow to organisations and must satisfy The HMT Standards as set out in the green book. Funding will only be awarded once the requirements below have been met:

- the completion of a strategic case;
- the completion of an economic case;
- the completion of a financial case;
- the completion of a commercial case; and
- the completion of a management case.

NB. These conditions must continue to be met.

6.3 Relevant Projects

The projects with Government funding, the organisation responsible for the business case, the maximum funding and funding source are shown in the table below:

Project	Responsibility for business case	Max. Gov. Funding	Funding Source
CRD Digital programme	HIE	£20m	UK Gov
Science Skills Academy (STEMD)	HIE	£3m	Scot Gov
UHI School of Health and Life Science	UHI	£9m	UK Gov
Inverness Castle	THC	£15m	Scot Gov
Affordable Housing	THC	£5m	Scot Gov
Longman Land Remediation	THC	£10m	UK Gov
Northern Innovation Hub	HIE	£11m	UK Gov
Innovative Assisted Living Scheme	Albyn Housing	£3m	Scot Gov
Longman Interchange/ Eastlink	Transport Scot.	£109m	Scot Gov

7 Letter of Grant

As stated, the Council will act as the accountable body for the City-Region deal. This means that the money will flow to the Council and from the Council to the partner organisations who are receiving government funding. In order to protect the Council's interests, the conditions of the Council awarding the grants to the organisations will be laid out in a grant award letter. This letter will cover:

- the duration of obligations under the agreement;
- the amount of grant;
- grant terms;
- changes to the project;
- state aid and procurement law;
- limits on the use of the grant;
- accounts, audit and retention of records including accounts;
- monitoring and reporting;
- intellectual property rights; and
- insurance and the limitation of liability.

8 Implementation Plan

The implementation plan is drawn from the individual business cases that will provide a single view to the funders of the progress of the City Region Deal. It contains information on key deliverables for the projects, and when it is expected they will be delivered. It is a document in that it is likely to be subject to change. Significant changes to the dates of deliverables, dates when benefits will start to be delivered, and levels of benefits must be agreed with the Scottish City Region Delivery Group.

9 Financial Management Plan

The financial plan is drawn from the individual business cases, and will provide a single view to the funders of the financial profiles for the programme. Whilst the total amount of money provided from the Governments cannot be exceeded, significant changes to the financial profiles must be agreed with the Scottish City Region Delivery Group.

10 Implications

10.1 Legal

The Parties to the Inverness and Highland City Region Deal must acknowledge that information, including confidential information and personal data, may be shared as a consequence of their participation in the Inverness and Highland CRD, and therefore they will all have responsibilities as data controllers under the Data Protection Act 1998. The Parties agree to comply with Confidentiality, Freedom of Information and Data Protection obligations set out in **Appendix 2**.

10.2 Risk

Through agreeing the governance arrangements with the Scottish and UK Government the Council will ensure that there is no financial liability accruing to the Council as the result of actions, such as a project overspend, incurred by a partner organisation responsible for specific project delivery.

10.3 Resource

The role of accountable organisation places a range of additional responsibilities on Highland Council that will have to be managed and resourced adequately. Any additional work will be monitored and, if necessary, remedial action taken.

10.4 Equality

No issues relating to equality arise out of this report.

10.5 Rural

The CRD will benefit rural areas of the Highlands.

10.6 Climate Change/CARBON CLEVER

No issues relating to climate change arise out of this report.

10.7 Gaelic

No issues relating to gaelic arise out of this report.

Recommendations

Members are asked to agree the updated governance framework as set out above

Designation: Director of Development and Infrastructure

Date: 9th January 2016

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Appendix 1	Heads of terms Agreement
Appendix 2	CRD Local Governance Framework Scheme

**INVERNESS
& HIGHLAND
CITY - REGION
DEAL**

Our signing of this document confirms our joint commitment to ensure full implementation of the Inverness and Highland City - Region Deal proposed by The Highland Council.

Keith Brown MSP

Cabinet Secretary for Infrastructure, Investment and Cities
Scottish Government

Lord Dunlop

Parliamentary Under Secretary of State for Scotland
UK Government

Cllr Margaret Davidson

Leader of The Highland Council



Executive Summary

1. The Inverness and Highland City - Region Deal provides a transformative opportunity to position the area as a region of digital opportunity and strength, thereby enabling the Highlands to be the best digitally connected rural region in Europe.
2. The city of Inverness and the wider Highlands offers a unique environment to live, work, study and visit and is a globally recognised location. This deal will make a step change contribution to the long term productivity and economic growth of the region by investing in vital infrastructure, fostering innovation, supporting regional skills development and promoting tourism.
3. Inverness City and the surrounding hinterland have experienced substantial growth in population and economic activity over the past 30 years. The area has benefitted from the creation and growth of the University of the Highlands and Islands and the development and growth of a range of sectors, including life sciences, energy, tourism, and food & drink.
4. At the same time, the city and wider region faces challenges that have acted as barriers to economic growth, such as retention of higher levels of skilled of young people, the need for improved rural connectivity and an over-reliance on a small number of major employers.
5. Recognising these challenges and opportunities local leaders, the Scottish Government and United Kingdom Government are working together to capitalise on underlying opportunities in a number of areas: digital connectivity, infrastructure, skills and tourism.
6. **The Inverness and Highland City - Region Deal therefore sets out a transformative change for the Region. Central to this will be a significant funding package which invests up to £315m into the regional economy.** As part of this funding package, the Scottish Government will commit up to £135m. The United Kingdom Government will commit up to £53m. The Highland Council along with regional partners will commit up to £127m. Collectively, this funding package will be provided over a 10 year period subject to detailed business cases, statutory processes and implementation plans.
7. The City - Region Deal is a tripartite agreement between the United Kingdom Government, the Scottish Government and The Highland Council. This joint deal demonstrates our strong support to the Inverness and Highland Region. All parties support bringing projects forward as quickly as possible.
8. The Deal will deliver a step change in terms of providing opportunities to enhance and accelerate the delivery of long-term aspirations for Inverness and the wider Highland region. The impact of this deal on the city and the wider region will be significant in realising the full growth potential of the local rural economy. Over its lifetime, The Highland Council estimate that this City - Region Deal will:
 - help to rebalance the population with the aim of retaining and/or attracting 1,500 young people in the 18-29 age group over the initial 10 year deal period;

- create 1,125 direct jobs as a result of City - Region Deal projects with a further 2,200 additional jobs in the construction sector;
 - help to up-skill the labour market and contribute to moving towards a high skilled high wage economy. It also establishes a centre of excellence in rural healthcare with sufficient mass to attract research and investment to the region;
 - improve productivity and real wages, which are estimated to increase by 1.3 per cent and bring £100m per annum to the regional economy;
 - create 6,000 new houses over 20 years of which 1,800 will be affordable homes; and
 - deliver private sector leverage from housing building and, through opening up land for commercial development, would see a return over a 20 year period of around £800m being invested in the economy of the city and region.
9. This document represents a "Heads of Terms" agreement building on the already significant investment in the region. Both governments are committed to continuing their support for the region. Further detail on the implementation of specific interventions of the deal will follow. This document has been produced for the purposes of outlining the principles of this broad agreement and does not form a legally binding contract.
10. The following commitments form part of an overarching Inverness and Highland City - Region Deal Funding Package. Both Governments will work together to implement the commitments in this Deal and make them a reality.

The Commitments

Digital Connectivity

11. Improving the region's digital infrastructure is key to the long term future of the local economy. It will drive innovation through the better use of our physical and digital assets to enhance public and private service delivery. The Highland Council has the ambition to be the best digitally connected rural region in Europe. This means extending the roll out of superfast broadband to key areas across the region where it has not been possible thus far and expanding 4G coverage to those areas where there is expected to be market failure.
12. **Commitment – Both Governments will work together to identify and explore ways to extend digital coverage, including Superfast Broadband and Mobile 4G connectivity, across the Highland and Islands region to support our ambition for the Highlands to be the most digitally connected rural region in Europe.**

Innovation

13. Innovation is a vital driver of long-term sustainable economic growth. The very considerable investment in the regional university and the government

commitment to world class digital infrastructure, provide an opportunity to accelerate further development and commercialisation within the life sciences sector and to support the competitiveness of other key business sectors in Inverness. A **package of new innovation measures** will build on existing academic and industry expertise in Inverness as well as business support networks across the Highlands.

14. Due to its remote and rural communities, Inverness and the Highlands face particular difficulties in delivering health and care provision. Innovation is required by both the public and private sector in order to address these challenges. There is a strong and growing expertise and excellence in the health and life science research and industry base in Inverness and this provides a unique opportunity to accelerate the development, deployment and commercialisation of new medical products and technologies.
15. The University of the Highlands and Islands has committed to make significant investment in a multi-disciplinary centre for clinical research and teaching. There will be a major focus on the application of digital health and medical technology to remote and rural health and social care. This new centre will help build the capability required to address the challenges of the region.
16. The Deal will provide additional investment to ensure that the multi-disciplinary centre can also focus on the commercialisation of new medical products and technologies. It will also provide incubator space for start-ups and SMEs that are clustered around major local businesses and supply chains.
17. In addition to the life sciences sector, the city region also has strengths in the tourism, food and drink, and creative industries. These businesses need to ensure they are attracting talent, are able to reach new markets and have access to the finance they require to grow. The region's unique circumstances makes the approach to cluster building different: agglomeration is not possible in this dispersed city region and there is currently limited competition at local market level, which usually drives growth and ambition. An alternative approach is required, drawing on university knowledge, where relevant, from across the UK and beyond where there is demand from businesses for innovation, not based on proximity.
18. Therefore the Deal will support the creation of a **Northern Scotland Innovation Hub**. This model will be developed in partnership with existing bodies including the Scottish Edge and Business Gateway.
19. Complementing the commercialisation work, the deal will support the development of clusters of **innovative assisted living schemes** throughout the region. These new homes will be designed with full IT health and movement sensors linked to remote health and care providers, building on the existing tele health capability and supporting future developments in tele health. As appropriate, they will monitor the individual and provide bespoke, responsive care and health packages as required, thereby enabling **elderly** people to live in their communities and avoiding the need for them to be sent to hospitals and/or care homes. A further cluster of properties within the City will be developed to suit the

needs of **veterans**, using the latest technology to monitor their health in their new homes.

20. **Commitment - Both Governments support Inverness's ambition to grow its life science industry to meet the key health and care challenges of the region. This Deal will provide additional funding for the commercialisation of life sciences at the new multi-disciplinary centre at the University of the Highlands and Islands School of Health.**
21. **Commitment - Both Governments recognise the importance of innovative and productive businesses to the future growth and sustainability of the economy of Inverness and the Highlands and Islands. This deal will increase investment in the Northern Innovation Hub that will provide tailored support for high growth small and medium sized businesses.**
22. **Commitment – Both Governments recognise the importance of healthcare for elderly residents and for veterans. This deal will support the development of clusters of innovative assisted living schemes that will support the future development of tele health and that will deliver independence both for elderly residents and for veterans.**

Skills

23. Investment in human capital – the education, skills and health – of the people of Scotland is a central focus of Scotland's Economic Strategy and working together, partners will look at developing innovative approaches to delivering employability programmes across the Highlands.
24. The Highlands and Islands Science Skills Academy (HISSA) has been established to transform science, technology, engineering, mathematics and digital creativity (STEM/D) education across the entire region. It will provide a **network of STEM/D learning centres** that are modelled on the Norwegian Newton Room concept and that provide a pipeline of skilled young people. To maximise the impact of this network, the Scottish Government will ensure that it is linked with the new Manufacturing Centre of Excellence and Skills Academy.
25. **Commitment - Both Governments recognise the need to find different ways to delivering STEM/D subjects in schools. This deal will support the delivery of a network of STEM/D learning centres.**

Air Access

26. Local partners have identified the importance of ensuring continued air access for the economic development of the region, in particular business-friendly daily links to international hubs and adequate interlining connections. Local partners have been working to secure a daily rotation to Amsterdam Schiphol as a short term solution, but ensuring and improving the level of air access to London remains a top priority for local partners over the longer term.
27. **Commitment - Both Governments recognise the importance of effective regional air access to the Highland economy and will work with the Highland Council to consider mechanisms for promoting improved regional access.**

Infrastructure

28. Lack of **affordable housing for young people** has been identified by employers as a major constraint in their efforts to grow their business. As part of this deal, The Highland Council, in partnership with the Scottish Government, private sector and housing associations, will create a recyclable loan fund to invest in the enabling infrastructure required to open up large key strategic sites. In parallel, The Highland Council will participate in the National Housing Trust initiative to create more new homes, targeted specifically to young people and available at a mid-market rent.
29. The **A9/A96 Link Road** is a key strategic road improvement to link the A9 with the A96 between Inshes and Smithton providing relief to the A96 and Raigmore Interchange, while the **Longman Interchange** will deliver a new grade separated junction to replace the existing roundabout at the junction between the A9 and A82.
30. This investment will improve access to and within the local communities and at the same time improve accessibility to jobs, education and healthcare including the University of the Highlands and Islands and development along the A96 corridor. When completed these schemes will offer significant benefits to motorists in the Inverness area including road safety and journey time improvements to those travelling on the key strategic routes of the A82, A9 and A96.
31. The **Longman Interchange** is a major road improvement which will deliver a new grade separated junction to replace the existing roundabout at the foot of the Kessock Bridge. The new interchange will unlock significant areas of land which, once remediated, will provide much needed capacity for industrial and office developments.
32. The **West Link** forms the final section of the Southern Distributor Road linking the A9 and providing an alternative route avoiding the city centre. The road is being constructed by the Highland Council and opens up land for housing, commercial and leisure development to the west of the city.
33. **Commitment – Both Governments accept the important of infrastructure investment and this deal sets out a commitment to delivering the strategic A9/A96 Link Road improvement and grade separation of the Longman Interchange.**
34. **Commitment – Both Governments are committed to ensuring an adequate supply of economic development land and this deal sets out a commitment to support land remediation at the new Longman Interchange.**
35. **Commitment – As part of this deal, The Highland Council commits to delivering the improvements to the local road network at Inshes to provide the infrastructure needed to support development in the local area.**
36. **Commitment – As part of this deal, The Highland Council commits to preparing a Developer Contribution Framework with Transport Scotland as set out in the Highland Wide Development Plan and Moray Firth Local Development Plan to secure private sector contributions towards the significant infrastructure investment being made to the trunk road network.**

37. **Commitment – As part of this deal, The Highland Council commits to delivering the West Link road improvements to provide the infrastructure need to support development in the local area.**
38. **Commitment – Both Governments recognise the importance of affordable housing. This deal commits to working with The Highland Council to develop a package of support to increase the availability of affordable housing for young people.**

Tourism

39. **Inverness Castle** is an iconic feature of the cityscape. Investing in turning this into a world class visitor attraction of national significance will deliver a significant boost to tourism in the area, furthering economic growth in an important sector for the region and attracting increased visitor numbers.
40. **Commitment** – Both Governments recognise the importance of tourism to the city and the regional economy. This deal commits to supporting The Highland Council deliver significant investment in Inverness Castle.

Leadership and Governance

41. Strong and effective leadership from the Inverness City and Highland region has been a feature of the development of the proposals. The Highland Council will work with both Governments and other public sector agencies to ensure delivery of this deal, with governance being provided by a strengthened Highland Community Planning Partnership. In addition, the Highland Economic Forum made up of representatives from across the private sector is expected to provide an advisory forum on the implementation of the deal.

Next Steps

42. Both Governments look forward to working with The Highland Council and its regional partners to implement the proposals in this document and agree a detailed implementation plan. The value for money case will need to be made before funding is available and commitments are subject to the approval of final business cases. Both Governments will work with the region to develop an evaluation framework.

Appendix 2 Governance Diagram

