

## The Highland Council

12 March 2015

Agenda Item	15
Report No	HC/3/15

### Major Infrastructure Investment, Inverness

#### Report by Director of Development and Infrastructure

##### Summary

The report outlines for Members information work which has been progressed with the Scottish Futures Trust and Scottish Cities Alliance, to investigate new methods of funding which would enable major infrastructure investment to take place in Inverness.

The report recommends that Members note progress to date and authorise officers to continue to progress this work.

#### 1. Background

- 1.1 Scotland cities are recognised as drivers of economic growth. If cities are to do this and are to be a catalyst to improved economic performance, infrastructure investment in their physical assets is required. In the short-term, the activity supported by new investment provides a boost to economic growth, construction output and employment, while over the long-term the assets provided by the capital investment are key drivers of productivity, competitiveness and long-term economic growth.
- 1.2 With access to privately funded up-front investment now compromised by the global recession and stricter lending criteria on property development, infrastructure investment increasingly requires to be funded from the public purse. To do so however, is equally challenging as public sector capital funding is also constrained and is subject to competing demands.
- 1.3 Accordingly in response to this, new methods of funding major infrastructure have been developed. These schemes work on the principle of capturing a future uplift in public sector revenues from economic development activities. Essentially if there is a compelling case for public sector intervention to accelerate or unlock a site's development, anticipated future revenues are calculated, capitalised and used to finance the infrastructure investment required. The capital investment is then repaid from the increased tax revenues secured overtime.
- 1.4 Members will be pleased to note that the challenges of funding infrastructure investment in Inverness have been recognised by different levels of government. Keith Brown MSP, on behalf of the Scottish Government, has stated a willingness to work with the Council to explore how this may be best achieved and Danny Alexander in his capacity as a constituent MP has

encouraged the Council to bring forward proposals to the UK Government for a City Deal.

## **2. Investigations**

- 2.1 Working in partnership with the Scottish Cities Alliance and the Scottish Futures Trust, Ernst and Young were engaged to explore potential opportunities for the Council to adopt innovative public sector funding models to unlock economic development and economic growth in the Inverness area. Looking at 5 broad areas of development incorporating in total £182m infrastructural investment (Longman Interchange; West Link; East Link; City centre and Muirtown), the consultants produced a high level financial and economic analysis of these development opportunities to help demonstrate the potential financial returns that could be captured to fund or repay infrastructure investment. In addition, the analysis provided an outline of potential wider economic benefits that may flow from investment in enabling infrastructure.
- 2.2 Whilst the findings are high level and need further detailed work, potentially the economic benefit return could be significant, for example:
- Short term 2000 construction jobs contributing £100m to the Scottish economy.
  - As development sites build out, over 1300 construction jobs could be created contributing £600m to the Scottish economy.
  - The new developments could create 3,400 jobs over the longer term.
  - The effect of job creation could generate an additional £80m to the Scottish economy every year over the life of the project.
  - Increased tourism could provide an additional £33m to the local economy every year over the life of the project.
- 2.3 Allied to this return to the Scottish economy, there are also potential financial and economic impacts at a UK level. Current benchmarks suggest that for every £1 received by the Scottish Government, the UK Government can receive between £3 and £5 (from Corporation tax, VAT, Income tax, social dividends, Welfare savings and National Insurance). These proportions will change following the planned devolution of new powers to the Scottish Government.
- 2.4 Although high level and illustrative, this initial economic analysis demonstrates that there are a number of positive measurable economic outputs against which a City Deal or a Growth Accelerator Model or variant could be based and justified.

## **3. Next Steps**

- 3.1 It is for the Council to make the case to the UK and Scottish Governments about the level of capital investment it needs and the returns that will be generated for the local, Scottish and UK economies. To do so the following actions are needed:
- Further investigation and costings of the identified projects and refinement of the financial outcomes from each project and the financial

modelling of incomes, including risk management.

- Further investigation and refinement of the economic outputs.
- Developing a strong case to inform discussions with the UK and Scottish Governments.
- Consideration as to what additional powers and responsibilities the Council would wish to take control of as part of the City Deal.

3.2 The Scottish Futures Trust is keen to continue working with the Council to progress this work. External technical advisers will also be required to assist the Council and Scottish Futures Trust to undertake this work. At the current time it is estimated that such contracted external advice could cost up to £100k however, this depends on discussions with the Scottish Futures Trust and also potential partner funding from HIE for example.

3.3 Given the stated support from the Scottish Government to progress this work, discussions are ongoing with officials from both Governments to ensure any issues or requirements that they might have are correctly being addressed. Also given the forthcoming UK Government election, a meeting has been requested with Greg Clark, Minister of State for Universities, Science and Skills whose portfolio includes cities, setting out the Council's ambition and asking for an early meeting before the 31 March 2015, with the aim of securing political level support for continuing to work towards developing a City Deal for Inverness. A verbal update will be given at Council.

3.4 Once the above work is complete, a further report will be prepared and presented to Members.

#### **4. Implications**

##### **4.1 Resource**

New methods of funding major infrastructure are required. A preliminary study commissioned by the Scottish Futures Fund, demonstrates that across five development sites in Inverness, there are a number of positive measurable economic outputs against which a City Deal or a Growth Accelerator Model or variant could be based and justified.

To assist it progress this work the Council will need to contract specialist technical advisers. This work can be funded from the Council's Strategic Change and Development Fund.

##### **4.2 Risk/Legal**

The funding models identified require the capital investment to be repaid from the increased tax revenues secured overtime. Therefore there is an inherent risk that growth will not be as anticipated and the revenues will not be forthcoming. Accordingly a key aspect of work in going forward and in any legal agreements reached, is the need to identify and address the risks involved and ensure they are factored in to any decision making.

##### **4.3 Equalities; Climate Change/Carbon Clever and Gaelic and Rural**

There are no equalities, gaelic or rural implications directly arising this work at

this time. Active travel and low carbon options will be incorporated into new transport infrastructure for the city.

**Recommendation**

The Members are asked to note the work underway to identify and progress new innovative funding models for major infrastructure investment in Inverness and approve a budget of up to £100k from the Strategic Change and Development Fund to progress this work. Members are requested to grant delegated authority to the Chief Executive and Director of Finance in consultation with the Convener, Leader, Deputy Leader, and Leader of the Opposition to enter into any agreement to progress a city deal or similar infrastructure agreement, should the opportunity arise, prior to the next Council meeting.

Designation: Director of Development and Infrastructure

Date: 23 February 2015

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Background Papers: