

A stylized map of Scotland is formed by a grid of small squares. Most squares are dark grey, while some are a lighter grey, creating a pixelated effect. Several squares are colored orange, scattered across the map. The title text is overlaid on the left side of the map.

Empowering Scotland's Cities

**Empowering
City Government**

June 2016

Empowering Scotland's Cities:

Statement from the Scottish Cities Leaders



Cllr. Jenny Laing

Aberdeen

Cllr. Ken Guild

Dundee

Cllr. Andrew Burns

Edinburgh

Cllr. Frank McAveety

Glasgow

Cllr. Margaret Davidson

Inverness

Cllr. Ian Miller

Perth

Cllr. Johanna Boyd

Stirling

Scotland's cities are committed to working together in the interest both of their citizens and the nation as a whole. Consequently, we have commissioned important new research¹ that suggests we can only achieve the economic potential for our places and people if we have the levers and the collaborative working arrangements that would allow us to compete with other cities close to home and globally.

Our cities now contribute more than half of Scotland's GVA and more than 60% of employment. They remain the key driver of the national economy. However, they face significant challenges if they are to remain competitive globally. In particular, English cities are gaining a competitive advantage as a result both of their City Region Deals and Devolution Deals and their ability to benefit from new working arrangements with key partners.

Scottish cities require a new relationship with the Scottish and UK Governments, a new way of working that will enable them to compete, innovate and support the inclusive growth outcome at the centre of the Government's economic vision for Scotland. A new partnership requires local government, central government, national agencies and key business stakeholders to work collaboratively to maximize the benefits from both local decision-making and joint working on prioritized national outcomes if Scottish cities are to reach their economic potential and meet the big challenges that lie ahead.

This is not important just because of the inclusive economic growth case for Scotland. It is essential for our cities if we are to act effectively in the best interests of our own people and communities. We have a civic responsibility to enable the economic environment that will allow our people to flourish and for local investment to build sustainable economic futures for succeeding generations. The new powers we outline below, discussed in detail in the new Empowering Scotland's Cities report, combine to provide a template that can make a significant difference to the capacity and tools at our disposal to make a step change to our city, regional and national economies.

The agreed report contains a series of 'asks' that we wish to enter into negotiation with the Scottish Government (and the U.K. Government). They represent a step change in the commitment of Scotland's seven cities to work collaboratively together with the two governments to drive the positive change needed to ensure our cities remain globally attractive to the investment and talent for growth.

The Scottish Cities Alliance was identified as a key component of the recent cities strategy produced by the Scottish government (Scotland's Agenda for Cities). We would seek to use this collaborative mechanism as a facilitator and delivery mechanism for these discussions given the existing commitment at a city and Scottish Government level to this partnership.

What are the key elements of this fundamentally collaborative new relationship we seek?

First, **a shared approach to improving connectivity and infrastructure** for Scotland's cities. This will entail new working as a cross-city collective with Transport Scotland with cities sharing in decision-making on transport policy and the prioritisation and delivery of transport investment spending. Cities also wish to work more closely with other national infrastructure bodies (e.g. Scottish Futures Trust, Scottish Water and Zero Waste Scotland) and share in their policy decision-making wherein cities are given a clear strategic role in directing investments to cities and city-regions. Cities also wish to have a clear shared role with government, agencies and business partners in setting policy, roll out and uptake of digital infrastructure.

Second, **a radical change in the approach to economic development** within Scotland's cities. We want to work more effectively with Enterprise and Skills agencies to both enhance conditions and to foster opportunities for local business to grow. This requires the cities leading in policy and investment decision-making about enterprise and skills in our cities and city-regions. Acting collectively, the cities also want a stronger influencing voice over inward migration policy in order, for instance, to support our higher and further education sectors.

Third, **a shared approach to improving our communities.**

Cities can act collectively to support the challenging roll-out of the new welfare powers in Scotland by taking a shared role in the policy development, implementation and delivery of new agencies and functions for this critical economic and social task. Cities want a greater shared policy role in the priority task of delivering and constructing future policies within devolved health and social care integrated provision. At the same time, cities seek greater power to deliver the Scottish Government's affordable housing target, involving consultation on new policies set nationally, the local administration of new regional housing infrastructure funds (in addition to the new national housing infrastructure fund), a five year certainty over affordable grant levels and first refusal over all surplus public sector land for affordable housing.

Fourth, **a shared approach to setting a diverse tax system across Scotland.** The cities wish to redefine the relationship between the cities, Scottish and UK Governments over setting and using fiscal levers. The cities request greater consultation and representation over the setting of local taxes. They also want the power to adopt appropriate local taxes and levers (including new levers) to help drive their local economies.

We commend this approach and look forward to early discussions with the Scottish and UK Governments.

Abbreviations

| Abbreviation | Definition |
|----------------|--|
| EU | European Union |
| EY | Ernst & Young LLP |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| GVA | Gross Value Add |
| MOD | Ministry of Defence |
| NHS | National Health Service |
| R&D | Research & Development |
| SCA | Scottish Cities Alliance |
| SCDI | Scottish Council for Development in Industry |
| SDI | Scottish Development International |
| SDS | Skills Development Scotland |
| SE | Scottish Enterprise |
| SEPA | Scottish Environment Protection Agency |
| SES | Scottish Economic Strategy |
| STAG | Scottish Transport Appraisal Guidance |
| TFN | Transport for the North |
| UKTI | United Kingdom Trade & Investment |

Contents

- 6** Executive summary
- 13** Scale of the opportunity
- 24** A comparison of empowering cities
- 34** A New Deal for Scotland's cities
- 43** An Agenda for Change
- 76** Next Steps
- 79** Appendix A
- 81** Appendix B Fiscal powers analysis





Executive summary

The aim of this report, entitled Empowering Scottish Cities is to set out the agreed collective view of Scotland's seven cities on the need for a New Deal between the cities and the Scottish and UK Governments.

This New Deal will define how the Scottish cities, local authorities and the Scottish and UK Government can work more effectively together to ensure that Scotland's cities continue to thrive economically. The seven cities are firmly committed to exploring radical change to the current working practices between local and central governments.

The case for change focuses on a number of factors. Global trends indicate a growing strength and identity for cities in the world economy with cities of all sizes seeking to develop distinct offers to attract talent and create innovative solutions to long term challenges.

Current economic trends indicate that although Scotland's cities remain drivers of the national economy, they risk falling behind UK counterparts in this highly competitive environment. UK cities are currently buoyed by greater local autonomy through City Deals and Devolution Deals and are enjoying first mover advantage in setting conditions for success based on local circumstances and clearer joint working between local government, national government, agencies and the private sector.

Scotland's cities are forecast to be broadly outperformed by UK counterparts across a range of economic indicators. This gap could widen further once the full impact of devolved powers is realised.

This acceleration of confidence and projected growth in England is catalysed by a clear policy for devolving powers to regions. Localised decision making based on local circumstances and the incentive to retain the benefits of growth locally through devolved local taxes and ring-fencing mechanisms is creating a momentum for stronger and more dynamic cities and regions. In Scotland, in comparison, there is uncertainty at a strategic level on the decentralisation agenda that threatens to exacerbate the emerging gap between Scotland's cities and UK counterparts.

How will cities, Scottish Government and UK Government benefit from a new way of working?

The overarching view of the cities is that it will require local government, central government, government agencies and the key stakeholders in communities and business to work collaboratively if Scotland's cities are to meet the big future challenges that lie ahead and compete effectively on the global stage. At present, a lack of cohesion is leading to inefficiencies and missed opportunities.

There are clear benefits for all parties that can be drawn from a renewed approach to working together:

- A New Deal can encompass a distinct and unique message for each city but also define a collective purpose for Scotland's seven cities and central governments
- A multiplier effect can be driven by cohesive working, economies of scale and sharing of best practice. This could grow to incorporate a whole public sector approach
- A clearly defined relationship between central and local government with clear roles and responsibilities can draw on the individual strengths of each party
- A New Deal can enable the benefits of local decision making to flourish enabling city councils to maximise their strengths of local knowledge and civic leadership to deliver community empowerment and greater local accountability
- It can lead to a clear benefits realisation strategy that can link resources, levers and outputs to national outcomes. A collective and strategic approach to measuring success across all stakeholders could drive real advancements in achieving and monitoring key outcomes, in particular that of inclusive growth
- It can lead to development of robust and long term governance arrangements to drive city growth including the involvement of key stakeholders from business and communities
- A New Deal will create greater chances of success from further devolved fiscal and non-fiscal levers as they will be delivered within a framework that ensures consideration of risks and rewards
- A New Deal can act as a pathfinder for all local authorities in Scotland.

Through consultation the cities have identified a range of non-fiscal and fiscal levers that could be discussed as priority first steps within a New Deal. These proposals are set out below.

A shared approach to improving connectivity and infrastructure for Scotland's cities

| We want.... | We will... | Stakeholders | Impact |
|--|--|--|--|
| To work with Transport Scotland Cities to have greater transparency and provision of information on transport policy and investment plans Cities to share in decision making on the prioritisation and delivery of transport spend Cities to have a role in the process for transport appraisals | Work as a cross-city collective to build a new way of working with Transport Scotland Commit to sharing information and resources to create efficiencies in transport delivery | Transport Scotland Scottish Government | Working together will deliver economies of scale, more efficient planning and can target reduced disruption Decision making will be brought closer to business and communities Aligning of local government policies to major infrastructure will offer opportunities to enhance the economic impact of projects |
| To work with other national agencies in Scotland and at a UK level to improve city infrastructure Cities to share in decision making with national agencies at a policy level, in particular in relation to infrastructure Cities to be given a clear strategic role in directing national agency investment into cities and city regions Cities to have a clear role in the Scottish Government's announced review of national agencies | Work as a cross city collective to establish a clearer process for engagement between cities and all Government agencies Commit to finding more efficient ways of working and de-cluttering overlapping agendas | Scottish Government in its review of national agencies Scottish Futures Trust, Scottish Water, Zero Waste Scotland Appropriate UK Government agencies | Opportunities for efficiencies and economies of scale through a more coordinated approach Market confidence over the pipeline of public sector investment and support |
| To work with Scottish Government to ensure cities are capable of supporting a digital future Cities to have a shared role in setting policy on digital infrastructure roll out at a city and city region level Cities to have a clear role in setting policies to support digital up-take | Take a lead role to ensure Cities, Government and National Agencies collaborate to work effectively with the private sector to deliver a digital future | Scottish Government and Scottish Futures Trust Business Innovation and Skills and BDUK BT, other providers and the business community Communities | Efficiencies and economies of scale through joint working A stronger collective bargaining position with key stakeholders The opportunity to create big, bold and long term solutions to the challenges presented by a digital future |

A radical change in the approach to Economic Development within Scotland's cities

| We want.... | We will... | Stakeholders | Impact |
|--|---|--|---|
| <p>To work more effectively with Enterprise and Skills agencies to create better conditions and opportunities for businesses to grow</p> <p>Cities to share in decision making with national agencies at a policy level in relation to enterprise and skills</p> <p>Cities to be given a clear strategic role in directing national agency investment into cities and regions</p> <p>Cities to have a clear role in the Scottish Government's announced review of national agencies</p> | <p>Work as a cross city collective to establish a clearer process for engagement between cities and all Government agencies</p> <p>Commit to finding more efficient ways of working and de-cluttering overlapping agendas</p> | <p>Scottish Government in its review of national agencies</p> <p>Scottish Enterprise, Highlands & Islands Enterprise and Department for Business Innovation and Skills</p> <p>UK Trade and Investment and Scottish Development International</p> <p>Scottish Funding Council and Skills Development Scotland</p> | <p>Opportunities to work collectively to develop solutions to the big challenges facing Scotland's cities such as inequalities, the attainment gap, the productivity gap and equipping the labour force of the future</p> <p>All parties play to their relative strengths to drive enterprise and business growth</p> |
| <p>A stronger voice for Scotland's cities on inward migration policy</p> <p>Influence over inward migration and immigration policy at a UK Government level including post study work visa policy</p> | <p>Work as a cross city collective to provide a single point of view to influence this agenda</p> | <p>Universities and Colleges</p> <p>Scottish Government</p> <p>UK Government</p> | <p>Opportunity to boost productivity and economic growth through attracting talent and skilled labour</p> <p>Ability to attract and retain international university students to support Scottish Workforce</p> |

A shared approach to improving our communities

| We want.... | We will... | Stakeholders | Impact |
|---|--|---|--|
| <p>To develop shared policy on devolved welfare powers</p> <p>Cities to have a shared role in the development of new policies and the establishment of new agencies and functions to deliver welfare in Scotland</p> <p>A clear role for cities in the delivery of the radical changes to welfare reform about to be introduced in Scotland</p> | <p>Work as a cross city collective to support UK Government and Scottish Government in delivering a renewed welfare system in Scotland</p> | <p>Scottish Government and UK Government</p> <p>Department for Work and Pensions</p> <p>Skills Development Scotland</p> | <p>Opportunities to work collectively to develop solutions to the big challenges facing Scotland's cities such as inequalities, the attainment gap, the productivity gap and equipping the labour force of the future</p> <p>All parties play to their relative strengths to drive enterprise and business growth</p> |
| <p>To develop shared policy on devolved health and social care powers</p> <p>Cities to have a greater role in the current delivery of health and social care reforms</p> <p>Cities to have a shared role in setting future policies on health and social care</p> | <p>Work as a cross city collective to provide a single point of contact to Scottish Government and key stakeholders to explore and deliver the full benefits available from the change to more localised delivery</p> | <p>Scottish Government</p> <p>UK Government</p> <p>NHS Scotland and regional NHS partners</p> <p>Communities</p> | <p>A greater opportunity to deliver the Scottish Governments' desired outcomes from the integration of health and social care including higher quality and better delivered services</p> |
| <p>Greater power for Scotland's cities to deliver Scottish Government's affordable housing targets</p> <p>The cities want to be consulted on new housing policies set at a national level</p> <p>The cities want new regional housing infrastructure funds to be administered locally, in addition to the national housing infrastructure fund</p> <p>Cities to have first refusal on all surplus public sector land for affordable housing.</p> <p>The cities want five year certainty over affordable housing grant.</p> | <p>Work as a cross city collective to accelerate the use of newly available tools and powers to increase affordable homes supply</p> <p>Work as the hubs of city regions to deliver solutions to unlock regional housing supply at scale</p> | <p>Planning authorities</p> <p>Scottish Government</p> <p>Registered Social Landlords</p> <p>Housing developers</p> <p>Communities</p> <p>Business (including financiers)</p> | <p>A better opportunity to achieve Scottish Government's target of 50,000 new affordable homes</p> <p>Acceleration of housebuilding across the cities which will attract and retain key talent and skills.</p> <p>A cohesive housebuilding strategy has the potential to create local skills in the construction market</p> <p>Better use of surplus public sector land could have a range of inclusive growth benefits, e.g. creation of affordable housing for veterans, elderly, etc.</p> |



A shared approach to setting a diverse tax system across Scotland

| We want.... | We will... | Stakeholders | Impact |
|---|--|--|---|
| <p>To redefine the relationship between cities and Scottish Government in setting fiscal policy</p> <p>Scotland’s cities request greater consultation and representation in the setting of local taxes</p> <p>An ability for cities to adopt appropriate local taxes and levies to drive their local economies</p> | <p>Continue to work with leading figures to build robust cases to support the devolvment of taxes and levies to cities</p> | <p>Scottish Government</p> <p>UK Government</p> <p>Business</p> <p>Communities</p> | <p>Ability for cities to deliver sustainable public finances in the short and long term</p> <p>Ability for cities to share in the benefits of a more diverse and sustainable tax base</p> |

The suggestions above do not cover all the various levers that are required to make cities great places to live, work and invest. They represent a set of primary next steps that could be explored by the cities collectively to better define the relationship between central and local government. The cities will continue to pursue a range of fiscal and non-fiscal levers at an individual level through various channels in parallel to this focus on joint working and collaboration.



Next steps

The proposals set out above and in detail in this document represent a step change in the commitment of Scotland's seven cities to work collaboratively together and with the Scottish and UK Governments to drive positive change. In a fast changing and highly competitive global economy, the cities recognise that if Scotland and its cities are to meet the big and complex challenges of the future, all stakeholders across government need to work more collaboratively and more efficiently.

The cities encourage a number of clear next steps to advance proposals. The cities also advocate utilising the Scottish Cities Alliance as a facilitator and delivery vehicle for this work given the existing commitment at a city and Scottish Government level to its aims and objectives.

The key proposed next steps are:

- The development of discussions to advance the proposed New Deal between cities, Scottish Government and UK Government
- A seat at the table for the cities in the review of national agencies that was announced by the Scottish Government Economy Secretary, Keith Brown, in May 2016
- The development of delivery structures that could underpin the New Deal between cities and government
- The development of a robust performance framework that builds on the four Agenda for Cities metrics of; number of businesses, private sector jobs, GVA and foreign owned businesses, to encompass criteria linked to inclusive growth. The cities would also suggest a wider base for comparison that includes UK and international cities.

The Scottish cities welcome the opportunity to embark on these next steps with Scottish Government and UK Government at the earliest opportunity.

1 Scale of the opportunity

1.1 Introduction

Scotland's seven cities (Aberdeen, Dundee, Edinburgh, Glasgow, Inverness, Perth and Stirling) ("the cities", "the seven cities") are committed to working collectively together and with the Scottish Government and UK Government to pursue a shared vision for Scotland's success.

Maximising the potential of Scotland's cities in an increasingly competitive and complex world is a huge challenge. Cities must create the right environment to attract the resources required to maximise economic growth. Each city requires its own unique offer built on distinct characteristics and a vision for the future. Equally the cities can maximise the added value that collaboration can offer in terms of attracting investment and skilled labour.

How and who is best placed to build the right conditions to maximise economic growth is therefore a critical challenge.

The cities are seeking to address the challenge of how and who is best placed to drive city success at both an individual and collective level. The cities already collaborate at a variety of levels, most notably through The Scottish Cities Alliance ("the SCA") where working together alongside the Scottish Government, the aim is to attract external investment, stimulate economic activity, and create new jobs and business opportunities that are vital to future growth and success.

In November 2015 the seven cities published the Empowering Scotland's Cities¹ discussion document seeking to add to the debate of how to best support the economic development of Scotland's cities, to the benefit of all its citizens. The publication was outside the remit of the SCA and was led by the seven cities themselves.

Empowering Scotland's Cities confirmed that the cities recognise that, in pursuing a shared vision for Scotland's success, all parties must be willing to give and take in the spirit of a renewed partnership approach. To that end, the document set out proposals for

Scottish Government action but also a series of commitments from the cities themselves.

In January 2016, the seven cities commissioned EY to build on the framework above and to identify which fiscal and non-fiscal levers could be most effectively devolved to the cities to foster growth, create employment and make Scotland's cities more attractive places to live and do business.

EY's primary role has been to act as a facilitator for discussions between the representatives of the city councils. Discussions have been structured to identify a broad range of potential fiscal and non-fiscal powers that could be devolved in support of achieving improved economic performance.

In this section, an economic analysis of Scotland's cities including comparisons against UK counterparts presents a picture of an increasingly competitive environment for cities and city regions. The analysis also draws on a review of Foreign Direct Investment as a barometer for city and regional investment attractiveness.

¹ Scottish Cities Alliance, *Empowering Scotland's Cities: Delivering Prosperity and Equality for Scotland's Seven Cities*



1.2 The potential economic impact of empowering cities

Scotland's seven cities produce 54% of GVA in Scotland. This equates to £65 billion of the total £120 billion economic output of the economy. The comparative contribution of each of the seven cities is set out in Table 1:

Table 1: 2015 GVA in £ millions

| Aberdeen | Dundee | Edinburgh | Glasgow | Inverness | Perth | Stirling | Combined Cities |
|----------|--------|-----------|---------|-----------|-------|----------|-----------------|
| 14,396 | 3,358 | 17,628* | 19,349* | 1,393 | 2,767 | 1,984 | 60,875 |

Source: EY ITEM Club and Oxford Economics

Source*: ONS 2014 data at City level

By far the three largest cities in Scotland, measured both by population and economy, are Aberdeen, Edinburgh and Glasgow.

To understand the relative economic performance of these cities we have compared them with the UK's core cities network representing the largest cities outside of London. These are cities of comparable size in terms of their economic output as set out in the Table 2:

Table 2: 2015 GVA in £ millions

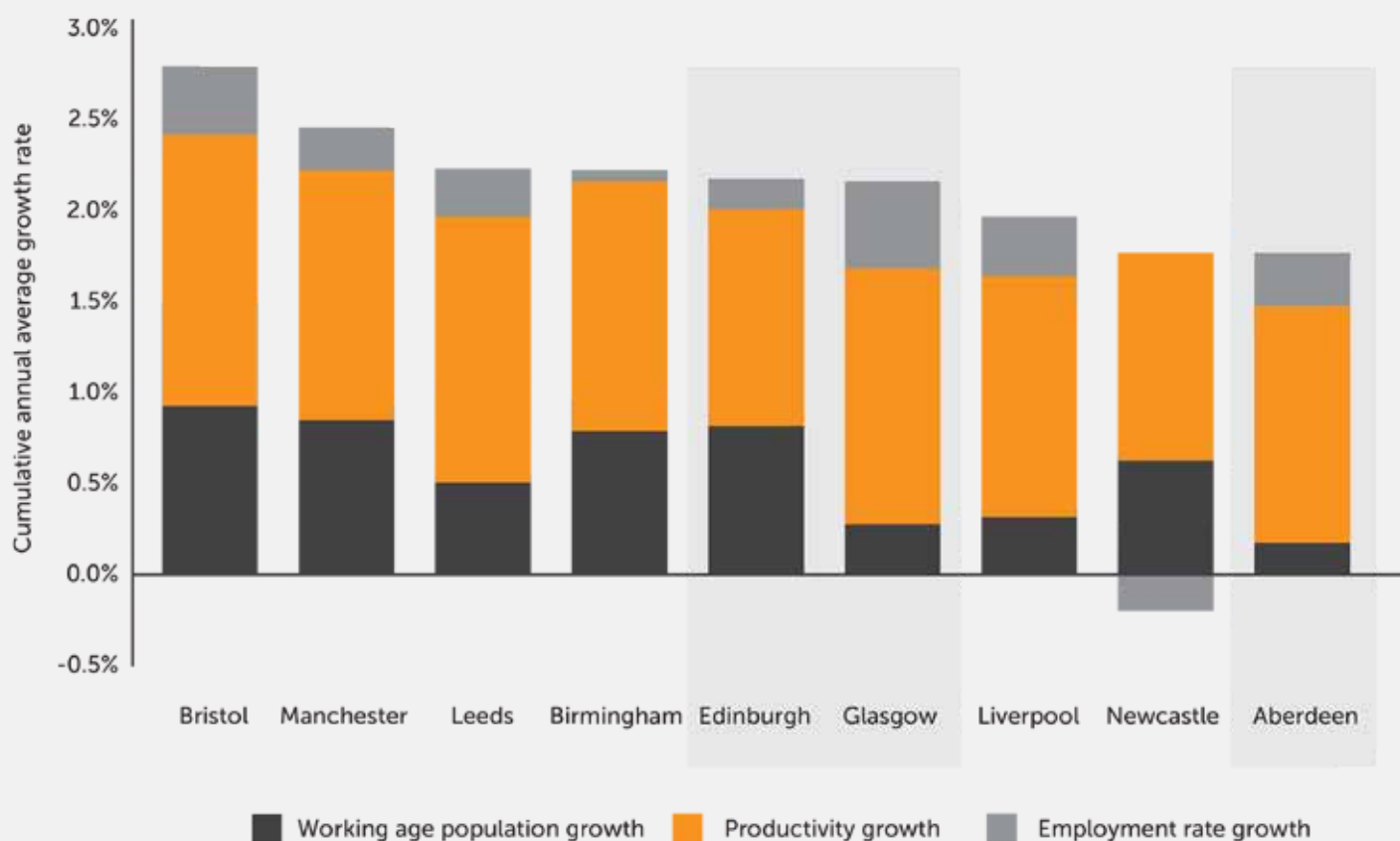
| Birmingham | Bristol | Leeds | Liverpool | Manchester | Newcastle |
|------------|---------|--------|-----------|------------|-----------|
| 24,199 | 13,451 | 20,617 | 11,169 | 17,599 | 7,894 |

Source: EY ITEM Club and Oxford Economics



The forecast economic performance of the cities over the next five years to 2020 is compared in Figure 1.

Figure 1: Annual average GVA growth and decomposition, 2015-2020



Source: EY ITEM Club and Oxford Economics



The analysis indicates that Scotland's largest cities are projected to be largely outperformed by their English counterparts including Bristol, Manchester, Leeds and Birmingham, and sit fifth, sixth and last out of nine cities. This is far from a leading position, and although the forecast differences in annual growth rates may look minor, the cumulative impact is noticeable. For example, GVA in Bristol is forecast to grow at 2.8% per annum compared with 1.8% for Aberdeen. This means that Bristol GVA is forecast to grow by 18% by 2020, seven percentage points more than Aberdeen GVA.

The main difference in GVA growth appears to be in growth rates for the working age population, which are much higher in cities like Bristol and Manchester than in Glasgow and Aberdeen, which are expected to see only marginal growth in working age population. This illustrates the need to create an environment that attracts a larger working population including skills and talent in order to stimulate growth in these cities.

The growth story being projected for major urban hubs like Manchester, Leeds and Birmingham cannot be attributed to devolution of new powers at this stage as the impact of newly devolved powers through 2014 and 2015 are yet to be fully realised. However, a confidence and sense of ambition is evident within these cities and is crucially being projected to the wider world. England's core cities are presenting a story of future growth fuelled by new powers and investment and greater autonomy and decision making spearheaded by new mayoral powers.

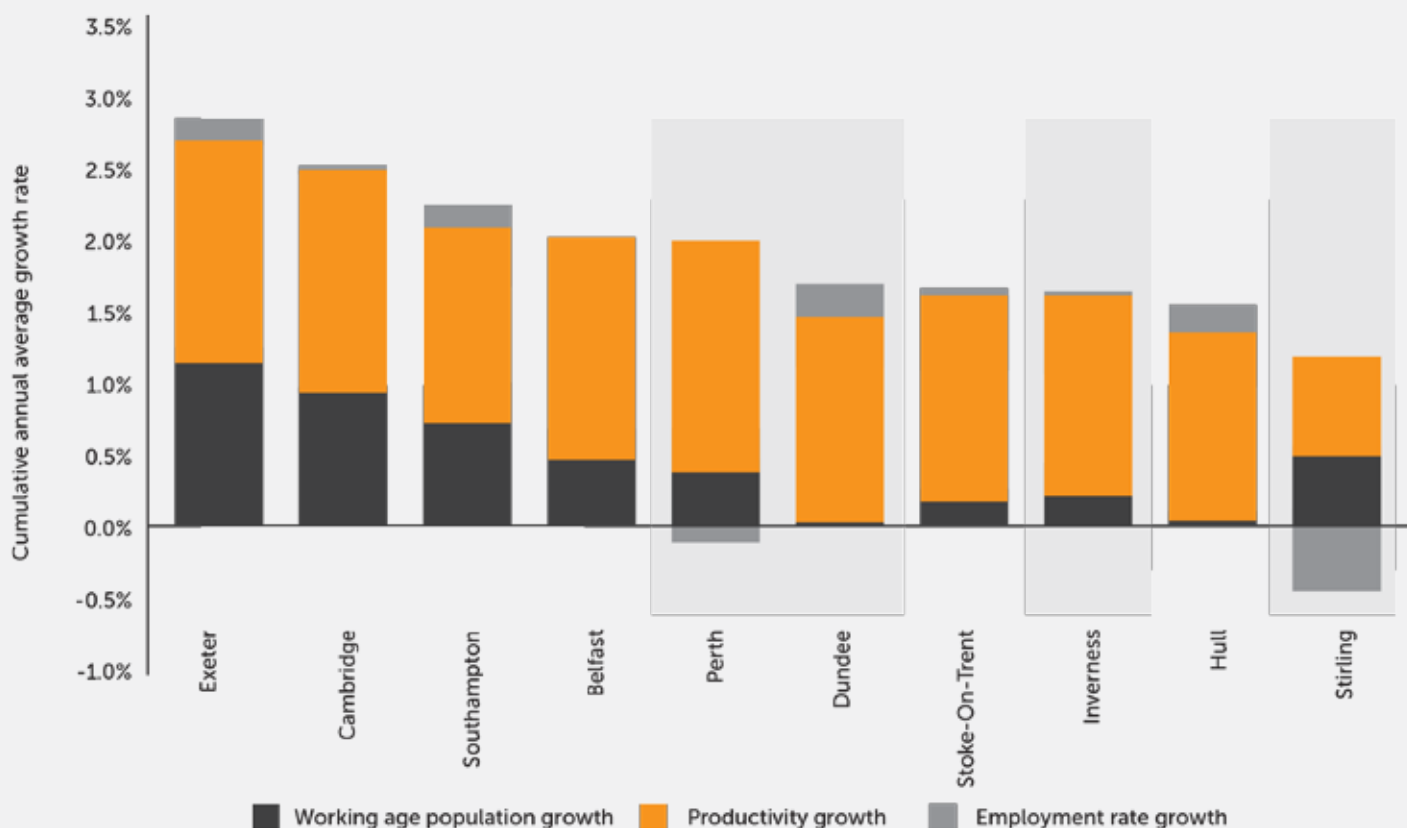
Manchester has stated its ambition to generate an £18 billion real terms increase in the North West economy by 2030. Leeds is striving to achieve GVA growth of 2.6% a year by 2030.

These ambitions have been catalysed by City Deals and subsequent devolution deals and the growing confidence amongst England's core cities is evident in their projected performance. Devolved powers are enabling them to better integrate transport networks, streamline planning, make localised decisions on skills and support for small businesses and promote an attractive image and identity.

The agreement of recent City Region Deals for some Scottish cities will have positive impacts but the level of devolution afforded to English cities and regions is continuing to increase, for example the devolution of all business rates in 2017 and the significant advances being made by Manchester. In addition, the interconnectivity between Northern cities is being bolstered through the commitments to the Northern Powerhouse and High Speed Rail. Scottish Cities do not have comparable tangible commitments from Scottish Government in the current pipeline.

This picture holds true at the next level of cities below the core network as set out in Figure 2.

Figure 2: Annual average GVA growth and decomposition, 2015-2020
[EY ITEM Club and Oxford Economics]



Scotland's smaller cities make an important contribution to its economy. Perth, Inverness, Dundee and Stirling are cities with diverse economies and provide a home to tens of thousands of citizens and businesses with the potential to drive forward regional growth. They are, however, lagging behind comparably sized cities in the rest of the UK. The analysis above indicates that cities including Cambridge, Exeter and Southampton are outpacing the economic growth of Scotland's smaller cities. All are well-established university cities, and appear to be taking advantage of the skilled talent available locally to create a hub for skilled talent and innovation.

Much like in the core cities, productivity growth is forecast to be relatively homogeneous across the sample of smaller cities. But Scottish cities are forecast to lag behind smaller English cities in population growth, which is especially important for Perth, Dundee and Inverness; and in growth in the employment rate, which Oxford Economics expects to be negative in Perth and Stirling, in line with the slower recovery in employment in these cities relative to the UK as a whole, as highlighted in the 2015 Local Authority Skills Assessments³.

This underlines the need to make small Scottish cities more attractive to a broader population in order to create jobs and employment growth. Like English counterparts, Scottish cities believe that local decision making based on greater local insight and knowledge can help create better conditions to attract the resources required for growth.



1.2.1 The economic analysis forecasts that Scotland's cities will be broadly outperformed by English counterparts between 2015-2020

The economic forecasts of GVA growth indicate that Scotland's cities will be broadly outperformed by English counterparts. While forecast economic growth in English cities cannot be directly attributed to devolved powers, particularly as the forecasts do not capture the full impact of all devolution deals at this stage, greater autonomy is breeding greater confidence amongst English cities. The GVA growth provides a current baseline that forecasts already strong performance in England relative to Scottish cities. The full impact of new autonomy could see the gap between Scotland's cities and their English counterparts widen.

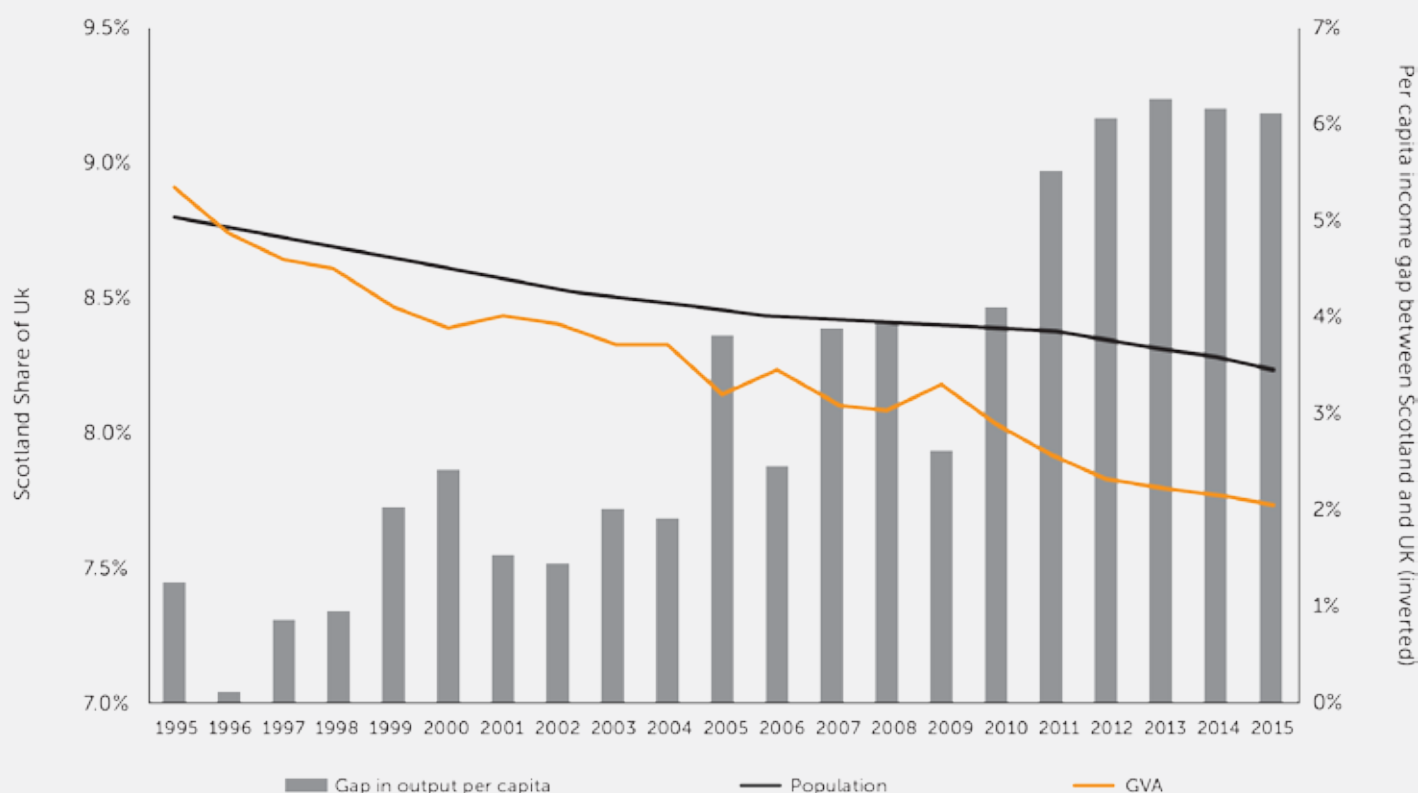
The additional devolution of tax and spending powers and provision of major infrastructure funding to English cities via City Deals and Devolution Deals is enabling them to direct investment towards areas such as infrastructure and skills, which are the basis of future improvements in productivity and therefore the drivers of long term economic success. These investments and prospects could make English cities more attractive locations for skilled workers, which in turn creates a virtuous circle for job creation and business growth. This is reflected in the forecasts for stronger population and employment growth in English cities than in Scottish cities.

Scotland's cities risk being left behind by their counterparts under this new UK model of devolution and autonomy to cities and regions. The prospect of this outcome requires clear policy and collaborative working between Scottish Government and Scotland's cities. In the next section Scotland's overall economic performance is assessed with a view to assessing some of the underlying factors that are impacting Scottish city performance.

1.3 Scotland's cities economic landscape

The Scottish economy accounted for 7.7% of UK output in 2015. The share of UK output originating in Scotland has decreased since 1995, as has the Scottish share of the UK population. This is reflected in Figure 3:

Figure 3: GVA, population and gap in output per capita between Scotland and the rest of the UK [Source: Oxford Economics]

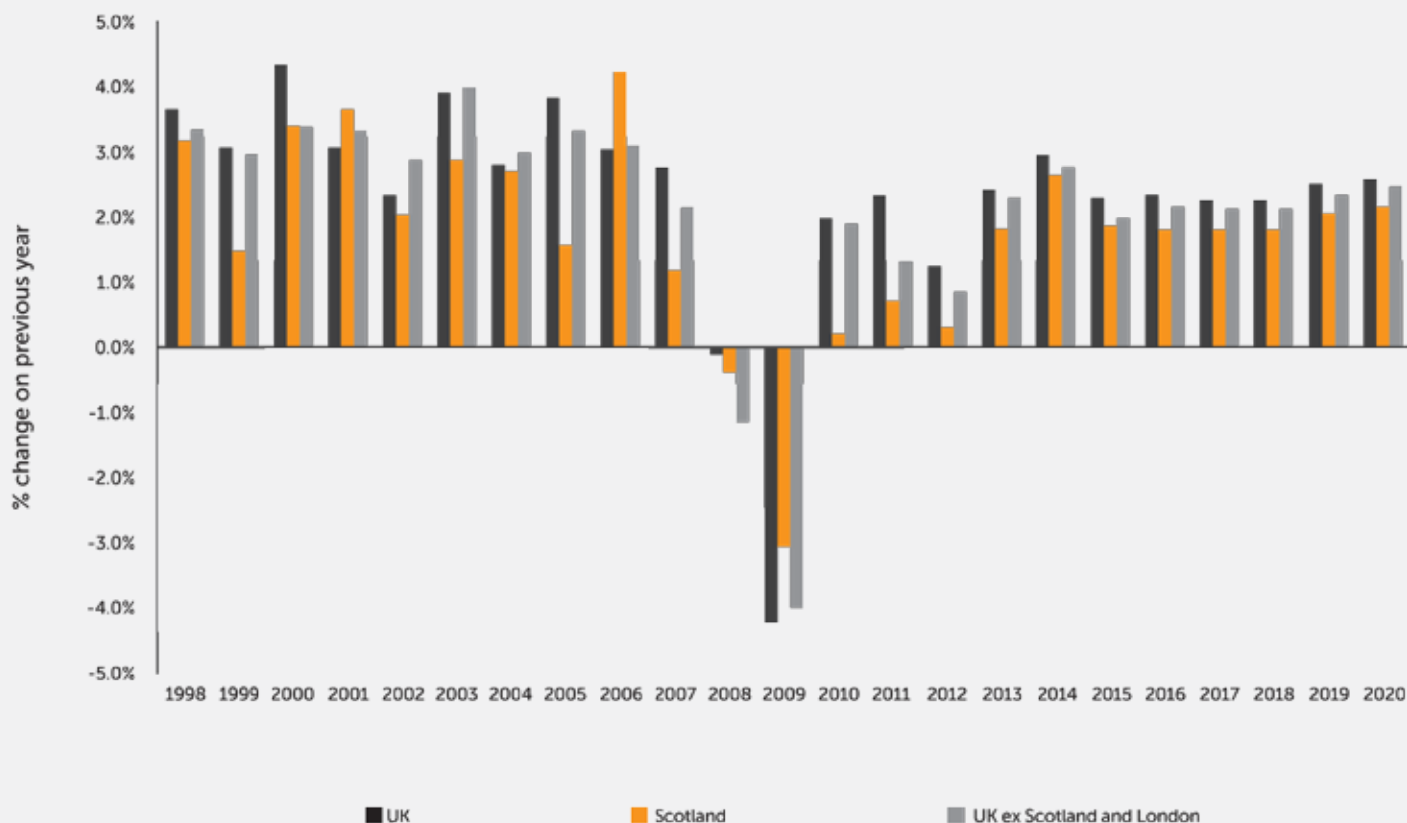


The graph highlights that the Scottish share of UK output has fallen faster since 2009, reflecting slower growth in Scotland after the recession. As of 2015, annual Scottish per capita output was around £22,700, 6% lower than the average for the UK (£24,170), with the gap widening from the 2.5% in 2009 which reflected a shallower recession in Scotland.

London's strength plays a large part in the level of the gap in output per capita. If London is excluded, Scotland's output per capita is 6% higher than the average for the rest of the UK (£21,370), but this gap has been falling too from a level of over 10% in 1995.

This analysis highlights that the economic backdrop for Scotland's cities is one of a Scottish National economy being outperformed by the rest of the UK in terms of growth in per capita output. Figure 4 highlights the differences in observed and forecast economic growth.

Figure 4: GVA annual growth in the UK and Scotland including 2016-2020 forecasts
 [Source: Oxford Economics]



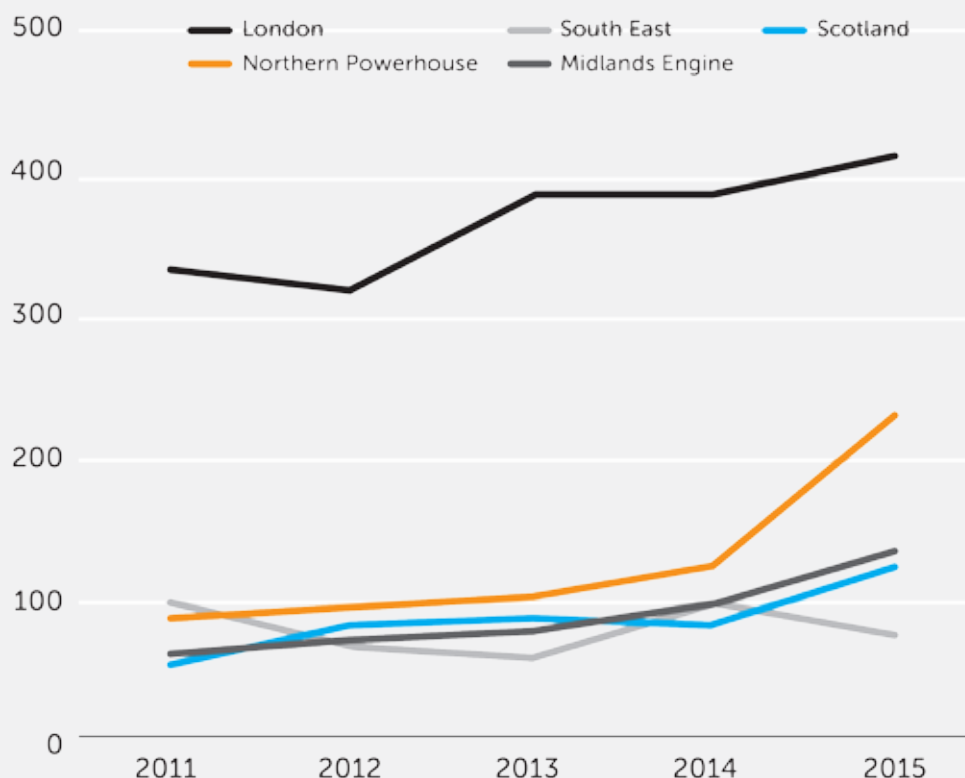
The Oxford Economics data shows a similar picture in terms of productivity. Productivity in Scotland has been lower than the UK average since 1996, and the gap has widened since then to 6.1%. Scotland's started diverging significantly from the UK average around 2000, reducing the gap slightly in 2009 due to a smaller recession but resembling the disappointing UK-wide performance since then. If London is excluded, Scotland's productivity remains above the average for the rest of the UK, but only by 1.7% in 2015 compared to 7.4% in 1995.

The fall in relative productivity in Scotland is not just due to the sector mix of the Scottish economy relative to the rest of the UK; it is mostly due to lower productivity in Scotland within important sectors. For example, Scottish productivity in financial services, an important sector in Scotland, is around 15% lower than the UK average, although this is mostly driven by London's high productivity and importance in the sector.

Excluding London, other sectors driving the fall in relative productivity in Scotland are information and communications services, wholesale and retail trade, transportation services, the public sector, health and social work, and administrative and support services. These are important sectors in Scotland, accounting for over a third of its economy.

The comparative stronger performance of the English cities and regions relative to Scotland is also borne out by data from the EY 2016 Attractiveness Survey, which breaks down Foreign Direct Investment into the UK by region.

Figure 5: Share of inward UK foreign direct investment by region
[EY 2016 UK and Scotland attractiveness surveys]



Source: EY's Global Investment Monitor 2016

Scotland achieved its highest number of FDI projects in 2015, signalling a 51% increase since 2014. In isolation this is an excellent result for Scotland, with the majority of the 119 projects in Edinburgh, Glasgow and Aberdeen (41, 22 and 9 respectively). However, the results show significant growth in English regions. The Northern Powerhouse has seen 127% of growth in the past 2 years and the North West, North East and Yorkshire regions of England all outperforming Scotland in 2015 in growth terms.

The English regions had seen their share of FDI in the UK decline from 2005 onwards, as London pulled in more investment away from other regional centres. Since 2011, however, the share of investment going into the regions has increased. Scotland's share fell by 2.4% in 2014 to 9% potentially as a result of uncertainty around the referendum with a bounce back to 11% in 2015. Scotland remains the biggest region for FDI outside of London according to the data and remains an attractive destination in the eyes of investors but it faces fierce competition for projects from locations not just across the UK, but also worldwide.

The growth in English regional FDI and fall in Scottish FDI against the backdrop of a more competitive global environment presents a clear threat to the attractiveness of Scotland as an investment hub. Scottish cities in particular depend on investment to generate the required employment growth that drives economic growth.

The FDI survey sets out the key criteria considered by foreign investors for investing in the UK which provides a clear insight into the areas that cities and regions should focus investment on in order to compete more successfully.



Table 3: What are your investment criteria when considering investing in the regional locations in the UK?

| Factor | % |
|---|----|
| Availability and skills of workforce | 27 |
| Transport infrastructure | 26 |
| Local labour costs | 17 |
| Availability of business partners and suppliers | 18 |
| Telecommunications and technology infrastructure | 15 |
| Cost and availability of real estate | 13 |
| Strength of local education, both trade and academic | 13 |
| Strength of business networks locally | 11 |
| Access to regional grants and incentives for investment | 9 |
| Local quality of life such as schools, housing, culture and sporting events | 9 |
| Support from regional economic advisory bodies | 5 |

Source: EY Attractiveness Survey 2016

Regional connectivity, skills and business environment are core themes running through the analysis. But it is clear a range of factors influence investment decisions.

Local decision makers will again argue that they are best placed to make the decisions on where to invest in order to set the right conditions for growing FDI attractiveness.

The additional control afforded to English cities and regions via City Deals and Devolution Deals and the targeted investment towards infrastructure, skills and innovation could enable further growth in FDI at the expense of Scotland.



1.3.1 The economic analysis, across certain indicators, highlights a Scottish Economy that requires action to drive productivity and attractiveness

A range of indicators point to a need for collective action to ensure Scotland's economy can continue to thrive. Population growth and output per capita remain sluggish when compared to the UK level. Naturally, London remains a key driver of the UK economy drawing high proportions of FDI and having a ripple effect on the English economy.

Scottish Government, UK Government, Scotland's cities and regional government need to work collectively to develop unique and compelling offers for individual locations and an overarching narrative for Scotland as a whole. As drivers of the economy and hubs of innovation and skills, the cities will rightly play a vital role in the delivery of this plan.

In the next section the emergence of more empowered cities at a global and UK level is explored further.



2 A comparison of empowering cities

2.1 Introduction

This section focuses on:

- Analysing global trends and city attractiveness indices that set the benchmark for Scotland's cities including the move towards a European Urban Agenda
- Reviewing the emerging impact of UK city progress through City Deals and Devolution Agreements

2.2 Cities at the heart of City Regions

Scotland's seven cities are the driving force of the national economy. They account for 54% of GVA and 61% of employment. They are home to the majority of Scotland's businesses, the majority of its Universities and Colleges making them the hubs of industry, skills, knowledge and innovation. 86% of people in Scotland live within commuting distance of a city. Our cities also act as the gateways to the rest of the country via road, rail and air travel. Strong Scottish Cities driven by empowered and active local and central governments will be the bedrock of a successful and modern Scottish economy.

Critically, the cities also act as the catalysts for economic activity at a regional level. This central role in driving wider regional productivity has been evident in the approach taken to City Region Deals in Scotland where a clear focus has been placed on the city as the epicentre of an economic ripple effect for the wider region. The Glasgow & Clyde Valley Deal has incorporated the seven neighbouring local authorities stretching from Inverclyde to Lanark. Equally, the Edinburgh City Region Deal incorporates the five neighbouring authorities and stretches from Fife to the Scottish Borders. These deals have been built on the foundation of the city as the driver of regional growth and the bellwether for the regional economy.

In total the seven proposed City Region Deals in Scotland will directly involve 21 local authorities. For City Deal proposals that have focussed on growth of the City economy, for example Stirling and the Tay Cities (Dundee and Perth), the wider regional impact of proposals has remained a major part of the story presented to Governments. The seven proposed City Region Deals will directly impact 29 of Scotland's 32 local authorities.

In this section the case for further empowering cities is explored in further detail. As demonstrated in the analysis above, by virtue of the commitment to City Region Deals and greater collaboration between regional authorities, empowering Scotland's cities means further empowering Scotland's regions.

2.3 Empowered global cities

Scotland’s cities are already operating within a fast changing landscape. Global trends point towards a more urban world with 66% of global citizens projected to live in cities by 2050⁴. This is magnified at a European level with 80% of people projected to live in cities by 2050⁵.

For Scotland’s cities, global megatrends such as demand for digital connectivity, sustainable energy sources and an increasingly global marketplace inform the decisions that need to be made now to create the right environment and conditions for future growth. Global trends represent opportunities for growth and innovation but also present significant threats to cities that prove unable to react to events.

Many cities around the world are already adapting to these new trends. A high level review of literature around the world’s cities and their economies reveals a range of factors influencing city attractiveness and demonstrates how successful cities are reacting to the range of global challenges. London features frequently as the benchmark for success. No other UK cities feature as top performers in the indices reviewed within Table 4, suggesting that global competitors are grasping the opportunities available more quickly.

The evidence also suggests that the cities adapting to change successfully do not always require population mass to do so. Smaller cities such as Helsinki and Stockholm, more comparative to Scotland’s cities size and character, are also achieving success in adapting to change. Helsinki has achieved this global profile by adopting a collaborative approach to its infrastructure planning, both physical and digital, choosing to engage with entrepreneurs and local business to deliver efficient solutions for citizens. Stockholm was lauded as a global city for its adoption of green policies. This included preserving green spaces within the city for use by citizens, as well as the high proportion of the energy the city uses coming from renewable sources.

Table 4: Comparison of global city indices

| Study | What makes great cities? |
|--------------------------------|--|
| Institute for Urban Strategies | Economy, R&D, Cultural Interaction, Liveability, Environment and Accessibility |
| Knight Frank | Real Estate Market |
| AT Kearney | Business Activity, Human Capital , Information Exchange, Cultural Experience, Political Engagement |
| Savills | Real Estate Market |
| CITIE | Openness, Infrastructure, Leadership |
| MasterCard | International Connectivity |
| EY FDI Attractiveness | International Business Culture, Local Labour Force, Quality of Universities |

Source: EY

4 EY, Megatrends 2015: Making sense of a world in motion
5 EU Amsterdam PACT



2.4 Empowered European cities

The EU's Urban Agenda⁶ is set to be agreed through the Pact of Amsterdam in May 2016. It acknowledges Europe's trajectory towards a forecasted 80% of EU citizens living in urban areas by 2050, and that urban areas, including cities, are the "engines of the economy that boost growth, create jobs for their citizens and enhance competitiveness".

In order to fully harness the power of urban areas, and get to grips with the huge cultural and socioeconomic changes brought about by global trends, the EU, alongside national governments, believes it is necessary to develop a framework within which cities and their stakeholders can thrive. This has led to the development of the Urban Agenda.

The objectives of the EU Urban Agenda are:

- To realise the full potential and contribution of urban areas towards the objectives of the European Union, in line with subsidiarity and proportionality
- To establish a more integrated approach to EU and national policies which impact upon urban areas
- To involve urban areas in the design of policy and its implementation across the EU in order to strengthen the urban dimension to this policy.

The Pact also lays out twelve themes that characterise the priorities of the Urban Agenda.

⁶ EU Urban Agenda,
A brief introduction to the EU Urban Agenda

Table 5: Priority Themes of the EU Urban Agenda

| | |
|--------------------------------------|---|
| Inclusion of migrants and refugees | Climate adaptation |
| Jobs and skills in the local economy | Energy transition |
| Alleviating urban poverty | Sustainable use of land |
| Housing | Urban mobility |
| Circular economy | Digital transition |
| Air quality | Innovative and responsible public procurement |

Source: EU’s Pact of Amsterdam

In response to this emerging EU Urban Agenda, Scotland’s seven cities, coming together through the SCA, are already seeking to increase their engagement with European policy and the decision making process.

The clear commonality in priorities, including jobs and skills, climate change and housing points to opportunities for Scotland’s cities to benefit from potential investment opportunities and financing through European channels and also to learn from European partners.

The direction of travel at a European level highlights that through this new proposed policy framework European cities of all sizes are set to gain support from the EU to develop their attractiveness and competitiveness. For UK cities, this will add further momentum to an already rapidly changing landscape for greater local autonomy. This is explored further in the next section.



2.5 Empowered UK cities

Globally and at a European level there is a clear trend towards a stronger identity for cities. This is being reflected at a UK level where the relationship between central and local government is changing at pace.

The continued growth of London as a super city has driven policies to rebalance the UK economy through a focus on the broader Core Cities base and beyond. This has led to a significant shift in power from central government to local government.

The Localism Agenda⁷ has been a cornerstone policy that has spawned Local Enterprise Partnerships, Growth Deals, City Deals and latterly Devolution Deals. A brief overview of progress to date is set out next.

2.5.1 City deals and devolution deals

Wave One City Deals in England rolled out in 2012, focused on the eight core cities outside of London. Wave Two Deals in 2014 focussed on the next 14 largest cities and six fastest growing cities. Wave Three included Glasgow and Cardiff representing a shift beyond England.

In July 2015, HM Treasury invited bids for “fiscally neutral” devolution deals from cities and regions. 38 bids were received worth around £60 billion in devolved responsibilities. As of March 2016, eleven Devolution Deals have been announced including Liverpool, Leeds, Greater Manchester and regional deals for Cornwall and East Anglia.

The over-riding picture across all deals at both a UK and Scottish level is that each one is unique both in its focus and in terms of financial mechanisms. However, there are clear shared themes across the board and opportunities for collaboration.

Manchester remains at the vanguard of the devolution debate with their latest deal delivering a range of powers including full autonomy over a £6 billion health budget. The governance model underpinning their further autonomy has relied on Combined Authorities and directly elected mayors. The momentum towards stronger and more autonomous cities and regions is clear and looks set to continue as evidenced by key policy drivers below:

- Northern Powerhouse: The Chancellor, George Osborne, is personally backing the drive towards a Northern Powerhouse. The Spending Review announced a £400m Northern Powerhouse Investment Fund and £150m for smart and integrated ticketing for transport across the North⁸. The agenda is focussed on strengthening Northern cities through investment and further devolved powers and encouraging them to work both individually and collectively to create a hub that can draw economic activity away from London and the South East.
- The establishment of Transport for the North (“TFN”) is another indication of UK Government strengthening the Northern Powerhouse agenda and recognising the importance of engaging with local partners in order to achieve their shared objective of rebalancing the UK’s economy. TFN’s agenda is set to look beyond connecting the Northern Powerhouse to include connections with Scotland as demonstrated by the recent signing of a Memorandum of Understanding with Transport Scotland.
- High Speed 2 remains a key Government commitment and a cornerstone of the agenda for rebalancing the UK. The economic case for the £40 billion project hinges on the ability to accelerate growth outside of the London economy.
- The Core Cities group representing the ten largest cities in the UK outside London and including Cardiff and Glasgow have added to the momentum for further city and regional devolution. Collectively, they represent 26.5% of the UK’s economic output⁹ and their united voice has strongly advocated for further powers to enable greater local decision making to drive local economies.

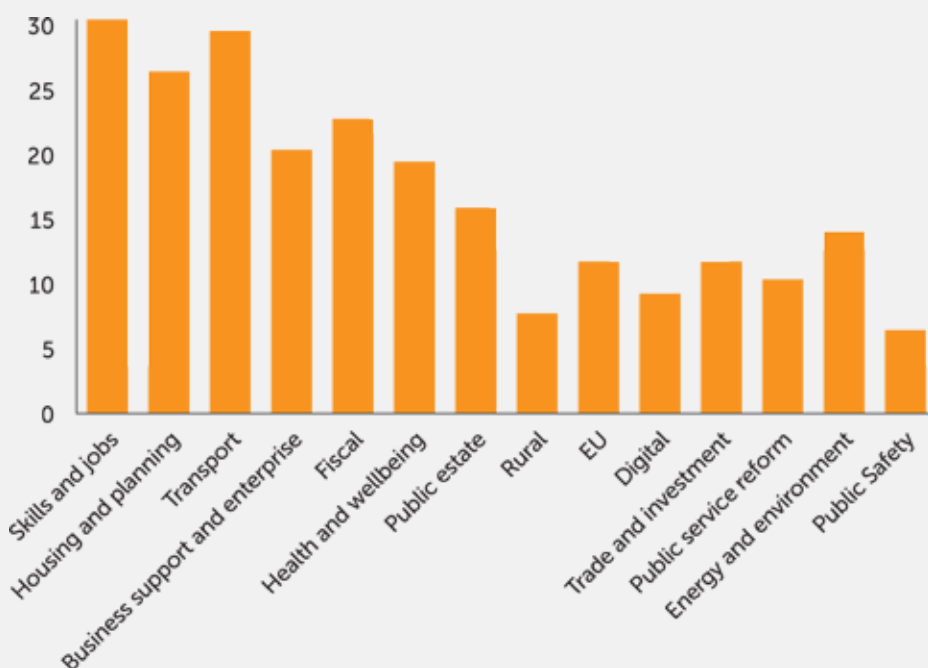
At a wider UK level the commitment to rebalance the economy and give greater power and incentives to cities and regions is clear. The scope and extent of these powers and incentives is explored in the next section.



2.5.2 The broad content of city and devolution deals

The policy to transfer powers and responsibilities has been clear at a UK level. However, the scope and scale of powers has been wide ranging which has led to a great variety in the shape and content of City Deals and Devolution Deals. Figure 6 highlights the range of power sought at a UK level from October 2015 Devolution Deal proposals.

Figure 6: Devolution Deal proposals October 2015



Source: Local Government Associated analysis, October 2015



The analysis highlights a broad range of asks for devolution of powers reflecting the distinct features of regional economies and their respective challenges and opportunities. Wider analysis undertaken as part of this exercise highlighted over 100 separate proposals of Government from Scotland's existing City Deal proposals alone (referred to in Appendix A). A range of motivations sit behind the dispersal of power away from central government to local authorities. These factors focus around four core areas:

- **Sustainability of public finances:** This has been further advanced in England by the commitment from Government for all authorities to retain business rates from 2017 with a view to retained taxes effectively replacing block grant from UK Government over time
- **Economic Growth and Renewal:** The empowerment of cities and regions and increasingly Local Enterprise Partnerships has enabled much greater local decision making in the setting of conditions for economic growth and renewal. In addition, many City Deals and Devolution Deals have been based around significant additional infrastructure funds that have the ability to prioritise local investment decisions and provide greater certainty to the private sector on the pipeline of projects. These funds have provided real certainty on infrastructure funding at a time of reducing council budgets for economic development and renewal.
- **More effective public service delivery:** A key focus at the city and regional level has been the demand for greater influence and control over central government and government agency budgets with a view to driving greater efficiencies and local decision making. Cities and regions will continue to advocate that they are best placed to play a central role in whole public sector delivery given their local knowledge, links to communities and links to the business base.
- **More democratic local governance:** A central theme of the agenda has been the ability to make decision making more localised, leading to greater public and local involvement and investment in local priorities. Cities and regions will continue to advocate their role at the heart of communities.

These broad categories echo strongly with the Empowering Scotland's Cities discussion document and provide a useful reference point for considering the potential impact of redefining the relationship between central and local government.



2.5.3 UK cities have been empowered by a clear policy commitment to local decision making

The commitment to localism at Westminster over the past six years has resulted in rapid and radical change. It has spawned Local Enterprise Partnerships, Growth Deals, City Deals and latterly a series of Devolution Deals, all designed to shift greater power and responsibility to cities and regions.

The key argument for transferring control from central to local government is that decisions made locally are likely to be better suited to address the issues of the local community. Being closer to the community that will be affected by decisions, local authorities have better access to local knowledge and can make decisions with more input from the interested parties. Devolution also strengthens and better aligns the incentives of local decision-makers with the local population. When allowed to keep more of the proceeds generated by economic growth, local authorities have stronger incentives to enact policies that directly encourage growth.

It is also important to note that the breadth and scale of responsibilities transferred could also be counter-productive in the long run if devolved powers are not delivered successfully. As a result, local and central government must continue to work together effectively to ensure the transfer of budgets and power leads to successful outcomes.

For Scottish cities, the devolution agenda has created opportunities in the form of City Region Deals, supported by both UK and Scottish Government but it has also created potential risks with English cities gathering greater control over local decision making. In the next section the empowerment of Scotland's cities is explained further.

3 A New Deal for Scotland's cities

3.1 Introduction

This section outlines the key strategic findings from the interviews and workshops conducted with city Chief Executives, Officers and Leaders.

It reflects on the Empowering Scotland's Cities report and the Agenda for Cities report and highlights the need for a New Deal to guide the future partnership between Scottish Government and UK Government and Scotland's cities. The section also suggests an outline dynamic model that seeks to capture the variety of inter-dependencies that influence the powers sought by cities and local governments.

3.2 Empowering Scotland's cities

The Empowering Scotland's Cities discussion document identified the following factors as distinctive priorities and challenges for Scotland's cities:

- Economic growth, innovation and international competitiveness
- Social equality
- Environmental sustainability
- Democracy and community and empowerment
- Culture and liveability.

The question of how to meet these priorities and challenges is important in the context of how Scotland's cities shape themselves for the future and critically, who is best placed to undertake that task.

3.2.1 Scotland's cities advocate greater local decision making in order to better deliver successful outcomes

Empowering Scotland's Cities advocates that achieving these priorities and meeting these challenges is better served through local decision making. It proposed that the cities can respond quicker to opportunities and become more competitive regionally, nationally and internationally if they have greater freedom and control over resources required to deliver co-ordinated, place-based development. This rationale continues to underpin the view of Scotland's cities in developing the case for greater powers.



3.3 Scotland's Agenda for Cities

The Scotland's Agenda for Cities report, published in March 2016, refreshed the 2011 Agenda for Cities report and proved a timely reminder of the critical role Scotland's cities play in driving forward the national economy.

The report reaffirmed Scottish Government's commitment to local decision making and highlighted the position of the SCA as a significant and ground-breaking collaboration, with the Scottish Government providing strategic leadership for the cities to drive economic growth.

The benefits of closer collaboration between various levels of government are clearly laid out, setting the scene for the joint pursuit of economic growth by Scottish Government and Scotland's cities, delivering resulting benefits for all citizens across the core strategy themes.

Increasing internationalisation

Scotland's Agenda for Cities describes the Scottish Government's ambition to enhance international trade and investment in the cities. The Scottish Government favours a strategic and joined up 'single door' approach for attracting foreign investment and trade into Scotland.

Boosting investment

The Scottish Government takes a strategic approach to cities, recognising that they are the engines of the Scottish economy. It commits to explicitly consider the needs of the cities and their regions in its strategic thinking, providing opportunities to include city representatives in discussing and testing policy propositions in city contexts.

Amongst other commitments, the Scottish Government emphasises that it will also explore innovative funding approaches to support the delivery of suitable infrastructure opportunities, improve cross-border connectivity, support cities in securing cost effective digital infrastructure. This will include work on individual City Region Deals.

Boosting innovation

Scottish Government will focus on seeking opportunities for cities to be Smart City early-adopters, working with the cities to lead public service innovation with businesses and citizens, and ensuring that all its decisions are informed by making the best use of data.

Among a range of commitments, Scotland's Agenda for Cities states that the Scottish Government will continue to find ways to support the cities to engage at the most strategic level with the Scottish Government and its agencies.

Supporting inclusive growth

Scotland's Agenda for Cities identifies City Region Deals as an opportunity to develop a clear strategic vision for regional economies, which will have, at their heart, a path to inclusive growth. The document reaffirms Scottish Government's ongoing commitment to the process. The paper also sets out Scottish Government's support for the role the cities can offer in allowing each region to play to its economic strengths, allowing diversification and more inclusive economic development across Scotland.



3.4 Building on the Agenda for Cities

To build on the Agenda for Cities, a series of one-to-one interviews and workshops has been conducted with Chief Executives, Officers and Leaders of the cities since January 2016.

The objective of these interviews and workshops has been to:

- Reflect on and build the evidence base for empowering Scotland's cities with reference to global trends, the UK and Scottish policy context and economic analysis
- Identify the current barriers to economic growth in the cities from a city perspective
- Consider the potential fiscal and non-fiscal levers that cities could seek to develop that could meet those barriers and drive greater success
- Identify opportunities for local and central government (and other stakeholders) to work more collaboratively to create the right conditions for success
- Define clearer roles and responsibilities across stakeholders
- Narrow the list of potential fiscal and non-fiscal levers to a set of proposals that the seven cities can pursue as a collective.

The approach and methodology for interviews is set out further in Appendix A.

3.4.1 The collective view of the cities is that the relationship between Scottish Government and the cities needs to be redefined under a 'New Deal', if shared ambitions are to be realised

The outcome of the interviews and workshops is a set of clear proposals from the cities to Scottish Government and UK Government that seek to build on existing progress and the clear movement at a global and national level to empower cities and regions further.

At the heart of the proposals is a clear request from the cities for all parties to commit to redefining the relationship between Scotland's cities, the Scottish Government and the UK Government. This New Deal will set the future direction of travel for joint working across the public sector.

The view of the collective cities is that the New Deal will include a series of priority non-fiscal and fiscal powers that the cities wish to pursue as a collective group. These policy proposals would form the first steps of an agreed New Deal for delivering long term success.

The cities therefore want the following actions:

A commitment from Scottish Government and UK Government to enter into discussions to form a New Deal between cities and central governments that will set the framework for the devolution of future new non-fiscal and fiscal powers.

A New Deal would bring the clarity of roles and responsibilities that is required in order that Scotland's cities can thrive. This is further explored below.

3.5 The need for a policy framework

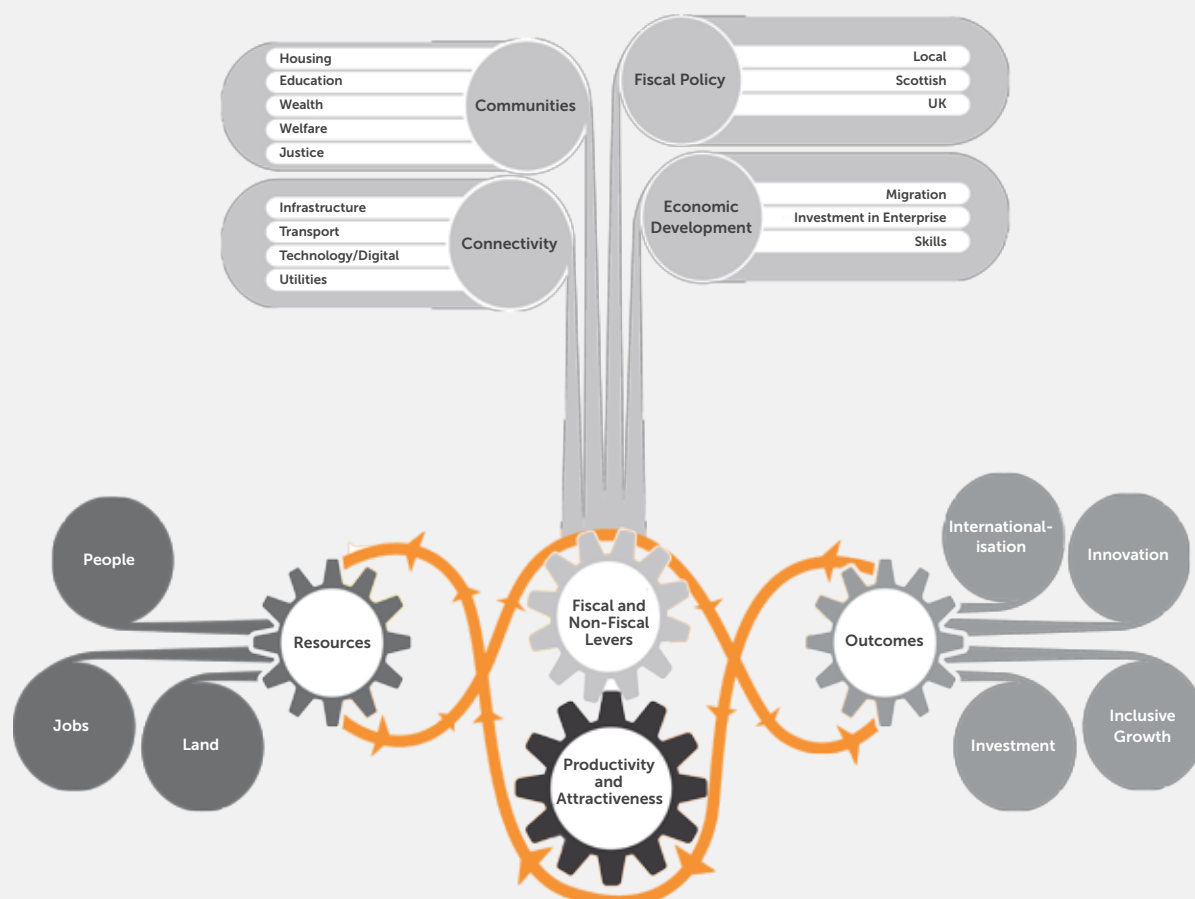
The earlier analysis conducted on global city attractiveness and the changing UK landscape highlights the complex interdependencies that make cities and regions unique and successful. Great city economies of the world, both large and small face the same complex priorities and challenges and system of interdependent moving parts that city leaders grapple with here in Scotland.

The interviews and workshops conducted with Scotland's seven cities confirmed the complex nature of cities and the need to affect a whole range of fiscal and non-fiscal levers simultaneously. This discussion highlighted the need to avoid a silo approach to interventions and requirement for a dynamic and fluid system to depict the relationship between resources, drivers and levers and outcomes. The cities also concluded that central government and local government have different strengths and need to play to those if success is to be achieved.

A clear opportunity for the cities and Scottish Government is to utilise the SCA as the delivery vehicle to develop the New Deal and the supporting framework.

Figure 7 represents an example of a dynamic system that could be developed to act as a policy framework for a New Deal. It builds upon the evidence of what makes a great city and incorporates the required inputs and drivers.

Figure 7: A dynamic policy framework



3.6 Description of an outline policy framework for cities

The components of the policy framework are described in Table 6:

Table 6: Policy framework components

| | |
|--|---|
| Resources | Cities bring together the three key resources of people, land and jobs. Cities allow people to specialise, developing industry and businesses that drive job creation. This in turn attracts people and investment in a cyclical effect. As the city grows it draws on its land and, as urban land is used more intensively, land value increases. A key focus of land use is housing and social infrastructure. These act as pull factors for an increasingly mobile and global workforce. |
| Fiscal and Non-Fiscal Levers | Cities bring together the three key resources of people, land and jobs. Cities allow people to specialise, developing industry and businesses that drive job creation. This in turn attracts people and investment in a cyclical effect. As the city grows it draws on its land and, as urban land is used more intensively, land value increases. A key focus of land use is housing and social infrastructure. These act as pull factors for an increasingly mobile and global workforce. |
| Productivity and attractiveness | The productivity of a city is the output of its resources working together. The higher the productivity the more attractive a place becomes to live, work and do business. FDI acts as a barometer for attractiveness, pulling additional external investment into a city and impacting the conditions that are required to enhance investment. Attractiveness also works in non-financial ways with liveability, environment and culture attracting skilled labour and talent from across the globe. |
| Outcomes | The working mechanics of a city produce a range of outcomes from quality of life to economic growth. The national outcomes of internationalisation, innovation, investment and inclusive growth neatly capture the broad scope of aspirations shared by many cities. |

The outline framework recognises the complexity of the challenge facing Scotland's cities. It advocates a collaborative strategic approach between cities and Scottish Government and UK Government to set the conditions for cities and city regions to succeed.

Meeting the many global challenges facing cities will require all parties across Government, communities and business pulling in the same direction, using resources efficiently and creating big solutions. Setting this against a clear policy framework could produce significant benefits for all parties.



3.6.1 The desired impact of a 'New Deal' between the cities and Government

There are clear benefits for all parties that can be drawn from a clear policy framework:

- A New Deal can encompass a distinct and unique message for each city but also define a collective purpose for Scotland's seven cities and Scottish Government
- A multiplier effect can be driven by cohesive working, economies of scale and sharing of best practice. This could grow to incorporate a whole public sector approach
- A clearly defined relationship between central and local government with clear roles and responsibilities that draws on the individual strengths of each party
- A framework that enables the benefits of local decision making to flourish enabling city councils to maximise their strengths of local knowledge and civic leadership to deliver community empowerment and greater local accountability
- Development of a clear benefits realisation strategy that can link resources, levers and outputs to national outcomes. A collective and strategic approach to measuring success across all stakeholders could drive real advancements in achieving and monitoring key outcomes, in particular that of inclusive growth
- The development of robust and long term governance arrangements to drive city growth including the involvement of key stakeholders from business and communities
- A New Deal will create greater chances of success from further devolved fiscal and non-fiscal levers as they will be delivered within a framework that ensures consideration of risks and rewards
- A model that can act as a pathfinder for all local authorities in Scotland

Further benefits could be targeted through a collective process.

3.7 An Agenda for Change

The interviews and workshops with city representatives have confirmed the desire for a clear redefinition of existing relationships. This is a priority first step that will guide the ongoing process towards greater fiscal and non-fiscal levers for cities and regions. This should be prioritised by all parties and could be facilitated by the SCA as an existing partnership mechanism.

To build on the New Deal, the evidence drawn from cities to date has established a number of priority non-fiscal and fiscal levers. These proposed levers represent significant opportunities for cities, Scottish Government and UK Government to work more effectively and more collaboratively to deliver success. These proposed changes to existing ways of working could form the first pillars of a newly established policy framework between the cities and both Governments.

As outlined in the methodology, these proposals have been informed through assessing the relevance and commonality of a long list of potential new powers to the collective cities. They represent the priority areas that the cities wish to pursue under a collective seven cities banner.

These priority proposals, termed An Agenda for Change, are set out in detail in the next section.



4 An Agenda for Change

In the previous section, the cities advocated the need to create a dynamic policy framework that captures the range of levers that require to be influenced by cities themselves, Scottish Government, agencies and key stakeholders such as communities and businesses to ensure that Scotland's cities can thrive and achieve the national outcomes all parties desire.

In developing the New Deal and policy framework, the cities have identified a number of priority policy proposals that could accelerate positive outcomes.

In this section these policy proposals are explored in more depth. It defines the need for change, the proposed solution and outlines potential benefits for all parties. The section first defines a series of non-fiscal levers and then discusses the approach to potential fiscal levers that could be devolved to cities.



4.1 The approach to identifying priority non-fiscal and fiscal powers for all cities

Viewing the cities agenda both in Scotland, the UK and wider afield, it is clear that cities and city regions could seek the transfer of a wide range of powers from central government. As evidenced in the dynamic city framework, cities must actively influence a range of levers simultaneously in order to create vibrant, attractive places to live and work.

At an international level, comparisons of UK cities to international counterparts highlight a clear disparity in the range of powers available between cities that operate in federal structures and those that reside in unitary countries (Scotland and the UK). At a UK level, the range of available levers was evidenced in the analysis carried out on Devolution Deal submissions in October 2015 which showed broad categories of proposals stretching from skills to EU reform. For Scotland's cities, this was magnified with over 100 separate asks making up the early drafts of City Region Deal proposals to Governments. Fiscal powers alone could cover a multitude of potential levers from retention of business rates to retention of income tax raised as suggested by the Scottish Government in the December 2015 budget.

Summarising this long list of potential powers presents a broad menu of opportunities that could be explored by Scotland's cities.

Scotland's cities recognise that not all powers are necessarily relevant or best delivered by cities themselves. Cities will have different views on the benefits and deliverability of certain powers depending on individual city needs and challenges. Equally, a strong factor in this particular analysis has been the relevance of cities pursuing powers under a collective banner.

4.2 Non-fiscal levers for all cities

The collective view of Scotland's cities is that a New Deal should include as a priority the following actions in relation to non-fiscal levers:

- A shared approach to improving connectivity and infrastructure for Scotland's cities
- A radical change in the approach to Economic Development within Scotland's cities
- A shared approach to improving our communities

These proposals represent immediate steps that could be pursued collectively by the cities in collaboration with Scottish Government.

The content of each action is developed further below.

4.3 A shared approach to improving connectivity and infrastructure for Scotland's cities

The view of the cities is that the current relationship between Scotland's cities and its national agencies could be more productive. There are positive cases of successful collaboration but too often the relationship is ineffective as a result of poor communication, over-lapping roles and a lack of shared information. The recently announced review of national agencies by the Scottish Government in May 2016 indicates that all parties recognise a need for positive change. A clear redefining of the roles and responsibilities could be encapsulated in the New Deal proposed by the seven cities.

The views of the cities in relation to key agencies covering transport, infrastructure, enterprise and skills are set out below. The cities set out the need for change, a proposed solution for discussion and the range of benefits all parties could seek to realise.



4.3.1 The relationship with Transport Scotland

The proposal

Cities want a more equal role with Transport Scotland and Scottish Government to define policies, prioritise investment and deliver major new transport projects.

The need for change

In a global and European context the transport connections within and between Scotland's major urban centres remains of varied quality. This has a significant impact on our cities as places to live, work and invest.

Transport infrastructure is the number one criteria for FDI investors with 25% of potential investors and 29% of existing investors placing it as the top priority when considering investing. Road, rail, airports and connections to London all feature as key factors for investors when considering investing in the UK. Equally, citizens place transport infrastructure as one of the leading contributors to city attractiveness.

The cities recognise the strides that have been made by Transport Scotland in delivering significant investment in major projects, for example the recent upgrades to the A9, the Aberdeen Western Peripheral Route, the Queensferry Crossing and the commitment to the Edinburgh Glasgow Improvement Programme. These significant investments are garnering acclaim from UK counterparts due to the efficiency and timeliness of their delivery.

However, although progress is being made at a national level, the overarching view of the cities is that the delivery of major infrastructure for cities is often done in a closed shop environment without sufficient city involvement. This has significant impacts:

- The key impact of this approach is that major transport investment in Scotland is being delivered without proper cohesion with local government potentially limiting the positive and transformative economic impact these investments could deliver to local communities. The cities believe they are not being given the opportunity to make the most of transformative new transport infrastructure.
- By way of contrast, the approval of significant transport autonomy and transport funding to UK Core Cities through City and Devolution Deals has provided profile, market confidence and market interest in cities. Investment in integrated transport modes and networks such as Liverpool's Merseyrail and the recently announced High Speed 3 linking Manchester to Sheffield means these cities have been able to point to better future mobility for the workforce and a more competitive environment for businesses to transport goods and services. England's Northern Cities have collectively been able to make this case through the likes of HS2 and the recently signed Memorandum of Understanding with Transport Scotland committing to clearer co-working and collaboration in relation to connecting Scotland with the Northern Powerhouse. Scotland's cities have not been able to make similarly bold statements to influence greater connectivity between cities to harness a Scottish Powerhouse effect.
- The cities recognise that City Deals in Glasgow, Aberdeen and Inverness have accelerated major transport investment through Transport Scotland but this progress has been at an individual city level and has required extensive negotiation with both Governments. The transport projects delivered through the City Deals to date have not involved a new strategic approach or formal change to policy but have been more opportunistic in nature based on local priorities. They have not therefore set clear precedent for cities or regions to follow or build upon or maximise opportunities for collaboration to gain added value. The cities believe this has been a missed opportunity.
- In addition, there is a clear recognition from cities that the assessment and prioritisation of transport projects can lack transparency. The Scottish Transport Appraisal Guidance ("STAG") methodology for transport appraisal and focus on cost benefit analysis can be deemed narrow in its approach and outcomes, particularly in relation to wider economic benefits. In addition, the process can lack flexibility with appraisals taking up to two years and potentially costing hundreds of thousands of pounds.

The solution

The cities want:

- To have greater transparency and provision of information on transport policy and investment plans
- To share in decision making on the prioritisation and delivery of transport spend
- To have a role in the process for transport appraisals.

The cities will:

- Work as a cross-city collective to build a new way of working with Transport Scotland
- Commit to sharing information and resources to create efficiencies in transport delivery.

Benefits and impacts

A range of benefits could flow from the proposed new approach to joint working:

- By giving cities greater certainty, influence and confidence over the pipeline of projects and their prioritisation, cities will be better placed to work collaboratively with business and communities to maximise the impact of new connections.
- Cities will be better informed and consulted on projects that impact their cities, ensuring their insights and understanding can be fed into projects to deliver maximum benefit to the public and improved efficiency of public spending. For example, projects delivered by Transport Scotland can be better aligned to locally delivered projects to drive economies of scale, more efficient planning and target reduced disruption.
- The impact of greater collaboration can be seen by the inroads being made by Transport for the North as part of the Northern Powerhouse proposals in England. Clear and unwavering support from the UK Government to cities and latterly Transport Scotland via the Memorandum of Understanding, have provided England's northern cities with an opportunity to create market confidence in the delivery of major transport improvements
- At an international level, the G4 Randstad cities of Amsterdam, The Hague, Rotterdam and Utrecht are commonly touted as a leading example of a joined up approach to developing collaborative big solutions to transport and connectivity investment. The cities play a vital role in decision making across the metropolitan area of 7.1 million people
- Cities will be able to align local government policies to ensure new and enhanced transport corridors have the maximum impact. As outlined in the analysis of what makes a great city, transport does not sit in isolation as a lever to unlock city productivity and attractiveness. It interacts with other levers to act as the conduit for labour, skills, goods and services and contributes hugely to the quality of life and liveability of a city. Aligning new transport connectivity to locally driven skills programmes and business incentives will help maximise the transformative economic impact of new projects. At an intercity level this could encourage policy cohesion and enable Scotland to operate better as a functioning economic unit.
- In terms of transport economics, greater city involvement in investigating and analysing the potential economic benefits from transport investment through a more transparent and broad transport methodology could strengthen the outcomes and reach of new connections. For example, the linkage between transport investment and inclusive growth remains unclear. A cohesive approach involving Government, agencies and cities could lead to advancements in developing appraisal models to link investment with inclusive growth.



4.3.2 The relationship with Infrastructure Agencies

The proposal

The cities want a more strategic role in leading the delivery of infrastructure investment for cities.

The need for change

At a city and city region level, the term “infrastructure” incorporates a range of forms including;

- enabling infrastructure for transport
- water and sewage infrastructure
- low carbon infrastructure
- collection and recycling of waste infrastructure
- household and business energy infrastructure
- digital infrastructure
- place making infrastructure
- land assembly infrastructure for development including the role of planning authorities

This involves a range of Scottish Government and UK Government agencies including Scottish Water, SEPA, Scottish Futures Trust, Zero Waste Scotland and others (Transport Scotland have been covered separately earlier). The relationship between cities and these bodies varies in strength and effectiveness.



The need to ensure city infrastructure is fit for the future links to the aspirations of Smart Cities and the challenges cities face in meeting long term global trends, such as carbon reduction and demand for sustainable energy solutions. This is supported by investment trends with investors highlighting infrastructure as one of the key areas where UK regions could improve competitiveness in coming years.

The cities recognise the value in Scottish Government guiding strategy and delivery at a national level. Scottish Government sets out the national plan for infrastructure across the National Planning Framework, Infrastructure Investment Plan and the National Transport Strategy. However, the overarching view of the cities is that the planned delivery of infrastructure at a national level and by Government agencies occurs without sufficient involvement of cities. The cities see the current approach having a number of impacts:

- In interviews and consultations, cities highlighted a sense of detachment from policy and delivery across a range of agencies. The impact of this disconnection between local and central government and agencies is that opportunities for joint investment and joint working to deliver large scale opportunities are being missed. For significant programmes such as low carbon, cities recognise it will take all stakeholders across Government, communities and business to deliver the type of transformative change that is required to make Scottish cities competitive on the global stage.
- The cities highlighted missed opportunities for greater joint working with agencies particularly linked to utilities such as Scottish Water and SEPA. Better alignment of objectives and programmes and greater sharing of information could create a much more effective whole public sector approach leading to potential efficiencies and economies of scale.
- In the area of low carbon investment, major strides are being made across the UK under City Deals and Devolution Deals enabling comparator UK cities to potentially take a lead over Scotland's collective cities.
- Emerging City Deals in Aberdeen and Inverness have made clear commitments to future infrastructure needs, for example port access infrastructure and place making. However, these commitments have been negotiated individually and have not created clear policies or guidelines for others to follow. The approach to delivering infrastructure investment through City Deals in Scotland remains unclear preventing clear opportunities for co-working and co-investment between local and central government and agencies. Similarly visibility over the pipeline for Growth Accelerator which has been adopted in Edinburgh and Dundee by Scottish Government remains unclear.

The solution

The cities want:

- Cities to share in decision making with national agencies at a policy level, in particular in relation to infrastructure
- Cities to be given a clear strategic role in directing national agency investment into cities and city regions
- Cities to have a clear role in the Scottish Government's announced review of national agencies

The cities will:

- Work as a cross city collective to establish a clearer process for engagement between cities and all Government agencies
- Commit to finding more efficient ways of working and de-cluttering overlapping agenda.

Benefits and impact

A range of benefits could flow from the proposed new approach to joint working:

- At a practical level there are great opportunities for efficiencies and economies of scale if investment programmes across the range of agencies in Scotland that deliver infrastructure in all its forms can be aligned. For example, aligning digital, low carbon and utilities infrastructure with local infrastructure improvements could lead to a range of projects being delivered at one time, creating opportunities for cost efficiencies and minimising disruptions. Similarly, the delivery of major new infrastructure such as improvements and enhancements to ports and airports will benefit from greater collaborative working across public and private sector partners.
- This cohesive, joined up approach will enable local councils and other local and national stakeholders to align their activities to maximise the impact of new and enhanced infrastructure, instilling investors with a greater sense of confidence in the management and direction of projects. For cities looking to attract investors, this clarity of pipeline and investment opportunities creates a much more compelling city offer and will enhance opportunities to secure private sector investment and partnership.
- A stronger pipeline of projects gives local government the opportunity to align other policies such as skills and employment programmes to create long term local job opportunities and opportunities for greater co-working with businesses.
- A clear example of this greater collaboration in practice is the city of Freiburg. The city has been able to leverage its green credentials to become a leader in the environmental economy. It has created a hub of knowledge and innovation around green energy including in particular Solar energy
- A more prominent role for cities in the overall planning and delivery of a long term pipeline of infrastructure projects enables communities and citizens to be more involved in decision making and delivery.

Greater clarity, certainty and policy guidance around new innovative models such as City Deals and Growth Accelerator can enable lessons to be learned from models already in place leading to efficiencies for cities and regions seeking to develop these models in the future. Greater transparency and flows of information will benefit all parties and remove the uncertainty surrounding many of these models at present.

4.3.3 Shared development of digital policy

The proposal

The cities want to work with Scottish Government and key stakeholders to ensure cities are capable of supporting a digital future

The need for change

Ambitious targets have been set out to ensure every home and business in Scotland has access to high speed broadband by 2022, building on the Scottish Government's target of 95% access by 2017. The cost for this project is being met partially by the Scottish Government, with further investment from the private sector.

In addition to roll out of digital infrastructure, the Scottish and UK Governments have embarked upon policies to accelerate the take up of digital infrastructure particularly across the business base. For example the £40m broadband connection voucher scheme.

Scotland has also begun to develop smart cities, with Glasgow leading the way in this field, winning investment of £24m that has been used to date on a range of projects, including improving street lighting in order not only to make technological advances, but also to reduce the city's impact upon the environment.

While all of these steps are welcome the pace of developing a digital future for Scotland remains well behind the pace of technological advancement. This is has the potential to create significant issues for the Scottish economy.

The impact of the status quo is as follows:

- High speed quality broadband access in Scotland's cities and regions remains patchy. This can have multiple impacts including deterring business growth and investment. Investors quote digital infrastructure as a key area in which the UK could improve its investment competitiveness, rating it alongside political stability and reduction in business regulation in its importance
- The availability of SuperFast Broadband in Scotland's Cities, defined as 24mpbs, remains poor relative to UK counterparts and weaker still against international competitors. The latest official statistics on SFB speeds will be available in July 2016 but recent Uswitch research across 42 UK cities placed only Glasgow above the national target at 26mpbs with Edinburgh and Aberdeen at 21mpbs and 15mpbs respectively, both in the bottom quartile of cities. Speeds in Scotland's other cities are also yet to hit the national target. At an international level users can expect 1,000mpbs speed in cities such as Hong Kong, Paris and Bucharest. Scotland's cities have a significant distance to travel to offer a digital future to their citizens.
- City Region Deals in Scotland have all included proposals linked to improving and accelerating high speed digital infrastructure and providing support for digital uptake. Aberdeen and Inverness Regional Deals both benefited from additional investment in digital but these investments have been individually tailored to these cities and have not provided a clear path for others to follow.
- A further area of significant opportunity remains advancing digital innovation in the public sector. The Scottish Futures Trust's report on digitalisation in Scotland highlighted the potential savings offered by streamlining ICT services across the public sector, achieving savings on existing IT expenditure of between 25% and 50%. Investments in initiatives like smart cities can also achieve significant savings, as well as providing more efficient public services.



The solution

Scotland's cities want:

- A shared role in setting policy on digital infrastructure roll out at a city and city region level
- A clear role in setting policies to support digital up-take.

The cities will:

- Take a lead role to ensure Cities, Government and National Agencies collaborate to work effectively with the private sector to deliver a digital future

Benefits and impact

A range of benefits could flow from the proposed new approach to joint working:

- Efficiencies and economies of scale through joint working. By bringing the cities' digital strategies together with the Scottish and UK Governments, a more efficient approach can be adopted that is more targeted to the needs of cities and their regions, ensuring better value for the investment made.
- A stronger collective bargaining position for the public sector with key stakeholders
- The opportunity to create big, bold and long term solutions to the challenges presented by a digital future. Analysis published by the Scottish Futures Trust suggests that by becoming a world leader of digital infrastructure, Scotland could create 175,000 jobs by 2030, as well as having a positive impact on exports, public services and the environment. Analysis suggests a full commitment to digitalisation could see an increase in GDP of £13bn by 2030.

4.4 A radical change in the approach to Economic Development within Scotland's cities

4.4.1 The relationship with Scottish Enterprise

The proposal

Scotland's cities want a more strategic role in leading the delivery of policies that set the conditions for business growth at a city level and a clear role in the review announced by Scottish Government of its national agencies.

The need for change

The primary agencies influencing the support provided to businesses from the public sector at a city and city region level are Scottish Enterprise and Highlands & Islands Enterprise ("SE" and "HIE"). At a city level, it has been noted that the strength of relationships and alignment between cities and enterprise agencies varies across the country. The relationship between Inverness and HIE is particularly strong as evidenced through the recent Inverness & Highland City Region Deal.

At a UK level, the establishment and empowerment of Local Enterprise Partnerships through the Local Growth Fund and their direct involvement in City and Devolution Deals has created a more coherent and localised support network for businesses and enterprise in England. The focus on specialisms and regional economic strategies developed in collaboration between central government, local government, enterprise agencies and business has created a strong platform for growth. The emerging, strong economic performance of English cities in comparison to Scottish counterparts and improvements in FDI numbers in English regions points to evidence of these interventions potentially beginning to make positive impacts. The 127% increase in FDI across the Northern Powerhouse in 2 years is a clear signal of a rebalancing effect in England.

The view of Scotland's cities is that the economic development strategies of various Government agencies including SE / HIE, Scottish Development International, UK Trade and Investment, and non-Government agencies such as Scottish Council for Development and Industry, Chambers of Commerce, Universities and Colleges – presents an often cluttered landscape. This can be counter-productive due to competing and often conflicting priorities. Scottish Government's announced review into its national enterprise and skills agencies demonstrates the need for positive change.

Scotland's cities hold a unique role as the drivers of economic growth and therefore cities desire a more pivotal role in coordinating and driving policy to set the conditions for business, enterprise and entrepreneurs. Cities can bring leadership to provide coherence across this agenda.

The impact of the current complex approach is as follows:

- Scotland's cities currently lack sufficient information as well as the powers and levers to work effectively with the key stakeholders identified above to create the optimal conditions for enterprise at a city and city region level. Scotland's cities recognise that the business community will drive economic growth and that their role, as civic leaders is to set the optimal conditions for enterprise, innovation and entrepreneurship to thrive. At present, cities feel increasingly detached and unable to fulfil that role. This is both at a policy level and the inability to set incentives through setting local taxes and levies.
- The cities recognise that national agencies play a specialised and important role in certain areas, for example international profile and that cities taking on these tasks would be inefficient and counterproductive. However, the status quo is overly complex.
- City Region Deals in Glasgow, Aberdeen and Inverness have seen UK and Scottish Government support growth in innovation and enterprise but these have been individual deals with different objectives and unique circumstances. A cluttered landscape remains for enterprise in terms of who is best placed in the public sector to support innovation and early business growth.

The Solution

The cities want:

- A recognised leadership role for cities to coordinate policy, strategy and investment plans that impact city growth
- An assessment of roles and responsibilities across public sector agencies to determine who is best placed to deliver and drive the conditions for enterprise
- Cities to have a clear role in the Scottish Government's announced review of national agencies

The cities will:

- Work as a cross city collective to establish a clearer process for engagement between cities and all Government agencies
- Commit to finding more efficient ways of working and de-cluttering overlapping agendas.

Benefits and impact

The impact of de-cluttering the current arena for overlapping strategies would drive significant benefits:

- Opportunities to work collectively to develop solutions to the big challenges Scotland's cities face and all parties to play to their relative strengths at the local and increasingly international stage
- Efficiencies in public sector spending at a time when budget constraints and incentives to business are under increasing pressure
- A real clarity for business and global investors in terms leadership from the public sector and a clear and distinct offer for cities.
- A clear example of a distinct and successful city offer is Umea in Sweden. Umea has been able to double in size in 30 years through development of a new University and the creation of a strong inward investment strategy based around research and technology. This joined up approach with a variety of partners has had tangible results

4.4.2 The relationship with skills agencies

The proposal

The cities want a more strategic role in setting policy and investment decisions across the skills agenda and a clear role in the review announced by Scottish Government of its national agencies.

The need for change

The view of the cities is that at present, the economic and skills strategies set by cities are disconnected from the strategies set at a national level that direct the flow of funds and resource into skills and employment agencies and city academic institutions. This disconnect fuels the attainment gap, the skills gap and exacerbates productivity issues. It also hinders the opportunity to attract new talent and skills through immigration.

The development, diversity and flexibility of the labour market is one of the key areas the UK could improve competitiveness according to foreign investors. The health of the labour market was seen as a key factor in improving research, education and the general flexibility of the economy.

The issues identified around skills policy mirror similar attitudes around infrastructure and enterprise policy. Cities frequently feel detached from the policy setting process driven by a national agenda and as a result the delivery process. National targets often do not align with regional needs. The impact of the current approach is as follows:

- The ability to tailor skills programmes to cities' needs is vital for Scotland's cities to retain existing talent and attract new talent. This is a huge long term factor for Scotland's cities, particularly smaller cities such as Perth, Stirling and Inverness where employment growth and working age population growth are low. The Inverness City Region Deal specifically targets the retention of young talent as the key aspiration for revitalised skills programmes.
- The lack of coordination between cities, government agencies and the University and College sector is creating inefficiencies, poor planning and a range of missed opportunities. Where regions are becoming more co-ordinated, opportunities for scalable solutions and investment are emerging that have the potential to create real transformative change at the city level.
- The lack of coordination across agencies is creating an overly complex system for service users (examples exist of individuals being required to contact 29 agencies in a single city in relation to employment opportunities) and creating cost inefficiencies for the public sector.

The solution

The cities want:

- A lead role for cities to define the overall skills strategy incorporating Skills Development Scotland, Scottish Funding Council, Universities, Colleges and other related agencies across their cities and city regions
- Cities to have a clear role in the Scottish Government's announced review of national agencies.

The cities will:

- Work as a cross city collective to establish a clearer process for engagement between cities and all Government agencies
- Commit to finding more efficient ways of working and de-cluttering overlapping agendas.



Benefits and impact

A range of benefits could flow from the proposed new approach to joint working:

- Skills programmes could be more effectively tailored to individual cities' and city regions' needs.
- Closer working between agencies and cities will improve coordination, avoid overlap and drive opportunities for public sector efficiencies. Cities have the ability to link these opportunities from education through skills programmes to labour demand closing the attainment gap and skills gap.
- At a UK level, the coordination of local government and universities across the Greater Cambridge City Deal has unlocked huge investment and growth potential providing a model for other cities to aspire to.
- International examples of coordinated activities include Karlstad in Sweden with a population of 62,000 people which has successfully built a business and research cluster around its indigenous industries.
- At a larger mega city level At an FDI level, London, Paris and Berlin are the most attractive European cities for investment with Western Europe outperforming other global areas significantly. Investors cite London as the most attractive city due to its international business culture, reputation of local companies and local labour force. 29% of investors cite Paris as a result of its international business culture, infrastructure programmes and quality of its universities.
- The coordination of policy, investment and decision making has the potential to deliver significant upsides for communities and business as Scotland seeks to attract and retain the best talent from outside and within Scotland.
- Creating opportunities to align programmes and investment across the public sector and private sector and critically the university and college communities. This type of coordinated approach has the potential to create critical mass in terms of investment which can create a range of opportunities.

4.4.3 Influencing immigration policy

The proposal

The cities want greater influence over immigration and inward migration policy at UK and global level through Scottish Government.

The need for change

The cities have a strong collective view on the need to increase net migration to Scotland's cities but currently have no outlet or roadmap to share policy development.

Economic forecasts show that Scotland's share of the population has shrunk since 1999 and is forecast to continue to decline. Scotland's aging population also presents a long term issue for cities and the national economy. Immigration into Scotland's cities is therefore essential if city economies are to have the required population resources to meet labour demand.

Scotland's cities will require a balance of highly skilled talent to meet skills shortages and low income migration to support population growth and mix. At present the restrictions on post study work visas for international graduates in Scotland is a key barrier to attracting and retaining skilled migrants. In terms of attracting low income migrants, the cities acknowledge that a nuanced policy developed in collaboration with Scottish Government and UK Government will be required to create the right balance between economic growth and inclusive growth for cities' existing populations.

At present Scotland's cities have no role in influencing or setting Government policy in relation to immigration. A clear collective stance from Scotland's cities is that they desire an opportunity to positively influence the debate and policy arena in order to secure greater positive migration into Scotland's cities.



The solution

Scotland's cities want:

- Influence over inward migration and immigration policy at a UK Government and European level
- Influence over post study work visa policy at a Scottish Government and UK Government level.

The cities will:

- Work as a cross city collective to provide a single point of view to influence this agenda.

Benefits and Impact

The impact of a stronger voice for Scotland's cities on immigration policy could be significant:

- Opportunities for greater net migration into Scotland's cities to boost productivity and economic growth through attracting talent and skilled labour and arresting the impact of Scotland's declining working age population
- Attracting and retaining international university students to support the Scottish workforce
- The Scottish Government's own message on immigration will be strengthened by clear support from its collective cities

4.5 A shared approach to improving our communities

4.5.1 Shared development of welfare policy

The proposal

The cities want to develop shared policy with Scottish Government and UK Government on the devolution of welfare powers to Scotland and delivery of welfare reforms across Scotland's cities and regions.

The need for change

Major reform in the funding and delivery of welfare has already been enacted through the Scotland Act 2016. This will result in £2.6bn of the welfare budget devolved to Scottish Government from this year, representing 14.6% of the total £17.5bn in benefit expenditure to Scotland.

The majority of the welfare programme devolved to Scotland will focus on non-working age benefits such as the Disability Living Allowance which accounts for £1.4bn of the devolved budget. Although the Universal Credit will remain a reserved matter, the Scottish Government will have the ability to flex elements. The transfer of powers coincides with fundamental change at a UK level in the make-up and delivery of welfare. This poses significant challenges to the Scottish Government and Local Government in Scotland.

This transformational change in the funding and control of the welfare budget will require the Scottish Government to work collaboratively with a range of partners, in particular local government. The cities see this change as a live opportunity to develop this policy area in close partnership with Scottish Government. The new model for delivering welfare in Scotland provides real opportunities and significant risks.

Impact:

- The affordability of programmes in the short and long-term will require Scottish Government and partners, including city and city region local authorities, working together to create efficiencies and drive improvements in outcomes. A clear example is the devolvement of the Work Programme and Work Choice which are set to receive a reduced budget as a result of pre-agreed cuts to those programmes at a UK level. It is estimated that the budgets being transferred to Scotland in respect of these programmes will see a cut from circa £53m per annum to £7m per annum, a cut of 87%. The impact of this scenario is that Scottish Government and partners may face an immediate funding gap in the delivery of welfare programmes.
- Engagement between cities and the DWP has helped create a joined up approach for claimants in need of additional support, as well as minimising the duplication of public services and expenditure. This must be replicated with the Scottish Government when it assumes new devolved welfare powers. The Scottish Welfare Fund is an example of good engagement in this area, where it was recognised that local authorities were best placed to deliver this service and it has allowed support for the most financially vulnerable citizens to be joined up with support by Social Work Services. It is therefore vital that the Scottish Government recognises the contribution that cities can make in the delivery of welfare. We would ask that there is a formal process for that engagement.
- In addition, the early proposals for establishing a Scottish Social Security Agency will require all parties to work collaboratively, including cities and regional local authority partners, to ensure an efficient and joined up service can be implemented.



The solution

The cities want:

- To have a shared role in the development of new policies and the establishment of new agencies and functions to deliver welfare in Scotland
- A clear role for cities in the delivery of the radical changes to welfare reform about to be introduced in Scotland.

The cities will:

- Work as a cross city collective to support UK Government and Scottish Government in delivering a renewed welfare system in Scotland.

Benefits and impact

A range of benefits could flow from the proposed new approach to joint working:

- A whole public sector solution that can act as a catalyst for a renewed approach to welfare and that drives efficiencies in public sector spending and delivers better outcomes to Scotland's people
- The cities can help deliver closer alignment between policy and citizens through localised decision making building on the Scottish Government's ambitions to empower local communities



4.5.2 Shared development of health initiatives

The proposal

The cities want to develop shared policy with Scottish Government and UK Government to successfully deliver reforms to health and social care across Scotland.

The need for change

The delivery of health and social care within cities in Scotland is going through a period of significant change. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This transformation brings together NHS and local council care services under one partnership arrangement for each area. 31 partnerships have been established across Scotland.

There is widespread support for the principles of integration across Health and Social Care and the required governance and management arrangements are in place although final structures are to be finalised in some areas. However, the pace and scale of change has proved challenging and new structures have yet to be fully implemented. In particular, there have been complexities in reaching an agreed budget position. Integrated Strategic plans have been developed but have not been tested in practice and there are significant workforce integration issues to address. The uncertainty over implementation of these significant changes could lead to a range of impacts.

Health and social care reforms and further reforms to public health, like welfare reform, will require lengthy and complex transitions and will pose significant challenges to central and local government.

Impact:

- The full benefits of integrated care may not be realised, particularly in relation to cost efficiencies and opportunities to improve the quality of care
- During this period of transition all parties must work collaboratively to ensure uncertainty does not impact the quality of care services. Any negative impact could have significant repercussions for local and central government
- The differing organisational cultures of health and local government will create tensions and challenges as these complex changes take place. Like any merger, this can cause risks to delivery and elongate the timeframe of transition.

The solution

The cities want:

- A greater role in the current delivery of health and social care reforms
- A shared role in setting future policies on health and social care and reforms to public health policy

The cities will:

- Work as a cross city collective to provide a single point of contact to Scottish Government and key stakeholders to explore and deliver the full benefits available from the change to more localised delivery.

Benefits and impact

A range of benefits could flow from the proposed new approach to joint working:

- Scottish Government cites nine key target outcomes from the changes made to integrated health and social care. Primary amongst these outcomes are improving the quality and delivery of health and social care and driving efficient use of resources across the public sector. By engaging more with cities and city region partners, achieving these outcomes will be more likely.

4.5.3 Delivering Scotland's Affordable Housing Targets

The proposal

The cities want greater powers and levers from Scottish Government to deliver Scottish Government's affordable housing targets.

The need for change

The Scottish Government's target of building 50,000 affordable homes across Scotland over the next five years will require a step change in the approach to housing development across the country. The Agenda for Cities report highlights that many will be built in Scotland's cities.

On 29th February, the Scottish Government announced a new national £50m infrastructure fund to unlock priority sites. The fund, to be administered at a national level, would consist of flexible grant and loan. The Scottish Government also announced that further innovative financing mechanisms are being explored to enable local authorities to deliver.

The cities recognise that the national fund is a welcome step in the right direction to enable Scotland's local authorities to deliver on the 50,000 new affordable homes target. However, to deliver such a step change in housing supply, Scottish local government will require a range of new tools and freedoms in relation to land supply, funding, financing and housing delivery.

The overarching view of the cities is that the current relationship between cities and Scottish Government housing teams is strong. Cities have strong links with Government departments and sit on influential committees such as the Joint Housing Policy and Delivery Group. Innovation in housing has been allowed to develop as evidenced by new models such as the National Housing Trust. However, greater development of this relationship and continuity with Scottish Government finance colleagues will be required in order to accelerate the roll out and use of new mechanisms going forward if Government ambitions are to be achieved.

The solution

The cities want:

- To be consulted on new housing policies set at a national level
- New regional housing infrastructure funds to be administered locally, in addition to the national housing infrastructure fund
- To have first refusal on all surplus public sector land for affordable housing
- Five year certainty over affordable housing grant

The cities will:

- Work as a cross city collective to accelerate the use of newly available tools and powers to increase affordable homes supply
- Work as the hubs of city regions to deliver solutions to unlock regional housing supply at scale



Benefits and impact

A range of benefits could flow from the proposed new approach to joint working:

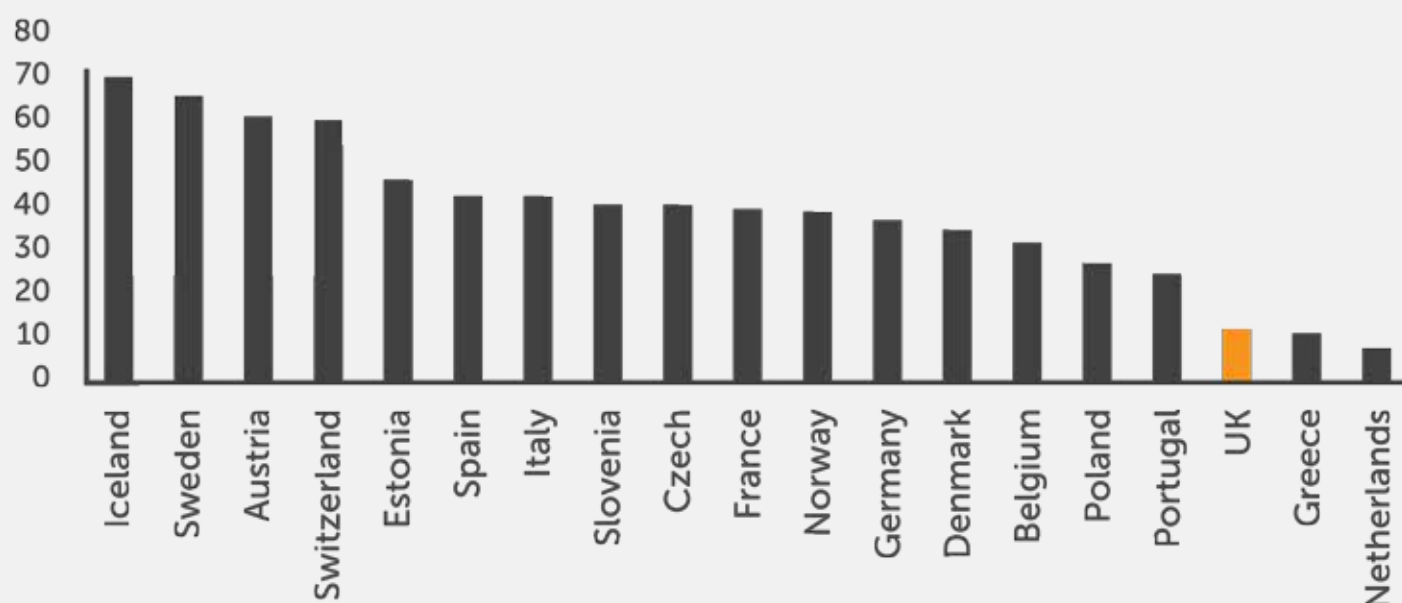
- The impact of the proposed changes to working would be that cities carry greater confidence in the ability to meet Scottish Government's ambitious target of 50,000 affordable homes in the next parliament.
- Critically this confidence can be passed on to the private sector who will play a key role in the delivery of these ambitious targets. The housebuilding sector and investment market offer opportunities for critical mass in terms of delivery structures and funding models. The delivery of 50,000 affordable homes over the next parliament could require up to 150,000 private homes over the same period in order to create sustainable mixed tenure communities
- The acceleration of housebuilding across Scotland's cities is vital if they are to attract and retain the talent and skills to enable city economies to grow
- A key target for cities would be to create local skills in the construction market as opposed to the previous house building surge that saw a large amount of imported temporary labour. A more cohesive strategy and secure pipeline of housebuilding could reap significant benefits at the city level in terms of skilled job creation
- In addition, the cohesion delivered by better use of surplus public sector land could have a range of benefits in particular linked to inclusive growth. Specific examples could include MOD land being transformed into affordable housing for veterans and surplus NHS land being used to develop purpose built facilities for the elderly. This type of flexible and pragmatic approach to a wide range of housing needs would be unlocked by greater partnership working.

4.6 Fiscal levers for all cities

The Empowering Scotland's Cities discussion document was clear in its request for Scotland's cities to be given greater freedom over raising taxes.

The cities recognise that local government control over local taxes is limited. At a comparative level, the UK has one of the lowest percentages of local tax to local expenditure in Europe at just 12%¹⁰ as shown in Figure 8.

Figure 8: Local taxes as a percentage of local expenditure



Source: Gibb and Christie, 2015

In Scotland and the UK, local authorities have limited powers over taxation in international comparative terms. Revenue retained locally amounts to less than 5% of the total raised (HM Treasury, 2014) and 17% of local public expenditure in Scotland (Audit Scotland, 2015), compared to around three times these figures in other developed nations (ESPON and EIUA, 2012).

The view of the cities is that the current system does not enable them to tailor local conditions to the needs of individual cities and that the cities simply do not have the fiscal levers and tools to create sustainable public finances and sufficient incentives for local growth.

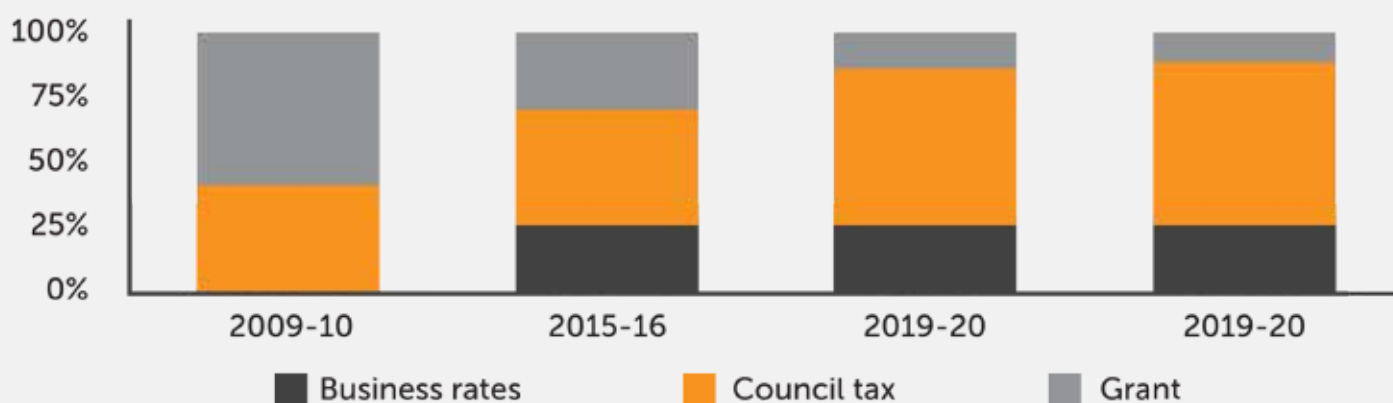
Furthermore, unlike comparison cities internationally and increasingly comparison cities in the UK, Scotland's cities are unable to see a clear line between investment and the additional tax accrued from investment. For cities, the benefit often accrues to neighbouring authorities via council tax, to Scottish Government via devolved taxes and UK Government via reserved taxes. This misalignment between spending and direct benefits is constraining ambition and impacting the sustainability of public finances. As evidenced below, the changing tax landscape in the UK and Scotland offers opportunities for a more mobile and diverse tax.

4.6.1 The UK's changing tax landscape

At a UK and Scottish level the tax agenda is a key political priority. Tax policy is going through a period of rapid change driven by a range of factors including constitutional change in Scotland, deep public spending cuts and public demand to reform the tax system. These influences have contributed to significant changes that will impact cities and city regions. For Scotland's cities this is leading to an uneven playing field in relation to control over taxes compared to UK counterparts and ongoing uncertainty over the future of taxes that underpin local authority finances.

At a UK level, the commitment from UK Government to fully devolve business rates to English local authorities and the greater opportunities for them to retain the upside from City Deals and Devolution Deals through various means is creating more flexible and adaptive structures in England. Scotland's cities believe there is a risk, borne out by current economic analysis, that English cities could leave them behind by creating more attractive conditions for growth.

Figure 9: UK's changing tax landscape



Source: *Institute for Fiscal Studies (2019-2020 graphs show two proposals for business rates)*

Government grants in England and Wales have been cut by 40% since 2010 and will be phased out altogether by 2020. Instead, councils will have the power to retain 100% of local business rates. City regions with devolution deals and directly elected mayors will also be able to raise business rates by up to 2% for specific infrastructure projects if they have the backing of local businesses, or to cut rates to attract businesses.

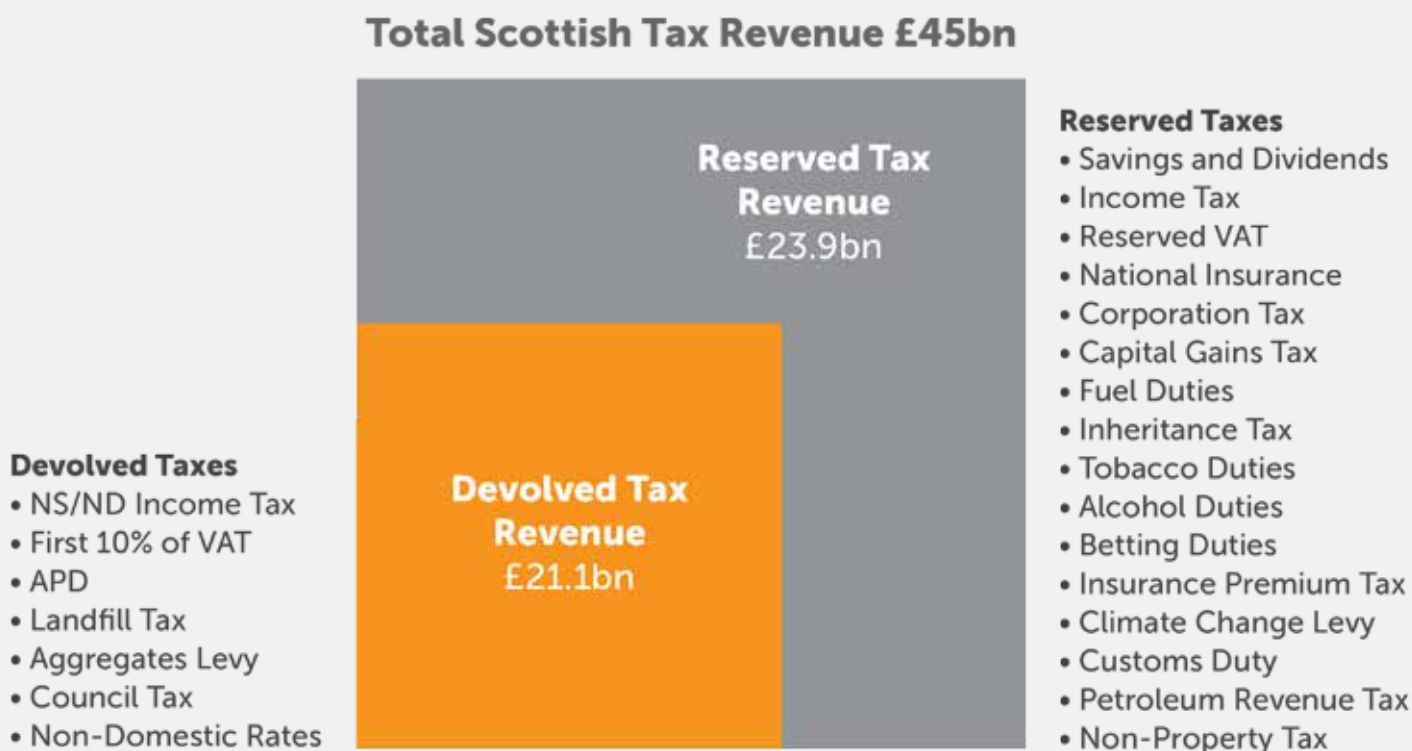
Scotland's cities believe there is a risk, borne out by current economic analysis, that English cities could leave them behind by creating more attractive conditions for growth. This shift in power over local taxes also comes against a backdrop of deep cuts to local authority funding in England comparative to Scotland. Since 2010 local government in England has seen day to day spending cuts of 79%. Comparatively, Scotland's budget has seen a reduction of 12%. This suggests spending cuts at the local authority level in Scotland have further to go.

Similarly, Scotland's cities can see the radical changes taking place in England in relation to local government finance. The replacement of grant with locally derived taxes will give English cities and regions unprecedented control over tax and spend, bringing them more in line with European and International comparators. For Scottish cities and regions this sharpens the need for greater clarity on future tax policy in Scotland.

4.6.2 Scotland's changing tax landscape

In Scotland, the tax landscape is going through its biggest shake up for 300 years. The diagram below highlights the impact of the Scotland Act 2016 and the split of devolved and reserved taxes under the new agreement.

Figure 10: Devolved and reserved taxes



The cities recognise that the debate on local taxes is moving forward.

Since the fiscal agreement in February 2016, the Scottish Government has delivered three further key announcements in relation to local taxes that build upon the December 2015 Commission for Local Tax Reform.

- Commitment to undertake a review into business rates.
- A transformation of Council Tax from 2017 giving local authorities the opportunity to raise rates and the application of a national levy on higher bandings to be ring-fenced for education.
- A consultation on retention of income tax raised at the local level.

The view of the cities is that further changes to tax policy in Scotland and greater devolution of tax powers to local authorities is a natural next step following the Commission for Local Tax Reform. However, the cities recognise that further changes in tax policy must be developed collaboratively between Scottish Government, UK Government, cities and local authorities. To that end, the cities propose the following steps in relation fiscal levers.



The cities want:

- Greater consultation and representation in the setting of local taxes
- The ability to adopt appropriate local taxes and levies to drive their local economies
- Transparency from Scottish Government and UK Government on the impact of changes to tax policy on the overall funding package presented to cities and city regions, in particular the impact on government grant.

The cities will:

- Continue to work with leading figures to build robust cases to support the devolvement of taxes and levies to cities

In order to advance the discussion on the future changing tax landscape, the cities set out below an outline analysis of a range of potential taxes. This “menu” of local taxes below draws on some of the significant work undertaken to date across this agenda including by the cities themselves, leading academics, the Scottish Government and UK Government.

4.6.3 A menu of local taxes and levies

A menu of local taxes and levies provides a starting point for discussion with Scottish Government and UK Government around potential freedoms that could be explored to enable cities to set the specific conditions for success.

The table below includes the list of devolved and reserved taxes post Scotland Act 2016. It provides a view from the cities on how revenue generated could be invested and a high level analysis of the potential local tax raised at a city level (where possible). Finally the table provides a view on the fiscal levers that cities consider to be of high priority for further discussion with Scottish and UK Governments

Table 7: Menu of options for local taxation

| Fiscal lever and status | Hypothecation of tax | Estimated Revenue Raised/Retained | Cities view |
|---|---|---|---------------|
| Tourism / Visitor Levy New tax | Cultural assets | Based on figures for nights spent in Scotland by GB and Overseas visitors, EY estimates a £1 levy on hotels and guest houses across each of Scotland's cities could raise a combined total of £15m per annum to be reinvested in cultural assets. | Priority area |
| Local income tax retention Devolved | Social infrastructure | Retaining 25% of income tax, as proposed recently by Scottish Government, could see Scotland's councils take on over £1bn of revenue, with specific values for each city ranging from £405m for Edinburgh to £50m for Dundee. A range of issues have been raised by cities and other stakeholders in relation to how this policy may be delivered including identifying where tax is generated (in cities or where residents live) and the risk of some cities facing low growth projections. | Priority area |
| Reformed Council Tax Devolved | Front line services | Council tax currently accounts for £754m of Scotland's cities' revenue, with an existing freeze in Council Tax being lifted in 2017 and councils being given the freedom to raise the rate by 3%. The tax represents 12% of Local Government funding. The future of Council Tax in Scotland remains uncertain with the Commission for Local Tax reform recommending a series of potential changes including a greater alignment of the tax with property values and land values. | Priority area |
| Property tax (link to LBTT) Devolved | Front line services / reinvestment in housing | A proportional share of LBTT, based on cities' share of Scottish real estate activity, suggests they account for almost £160m of the LBTT raised across Scotland. The establishment of LBTT in Scotland offers an opportunity to analyse the impact of this new tax on mobility and the housing market. | Priority area |

| Fiscal lever and status | Hypothecation of tax | Estimated Revenue Raised/Retained | Cities view |
|--|---|--|--|
| Property tax (link to LBTT) Devolved | Front line services / reinvestment in housing | A proportional share of LBTT, based on cities' share of Scottish real estate activity, suggests they account for almost £160m of the LBTT raised across Scotland The establishment of LBTT in Scotland offers an opportunity to analyse the impact of this new tax on mobility and the housing market. | Priority area |
| Congestion / Parking levy New tax | Place making | No congestion charges or parking levies currently exist in Scotland. Nottingham Council implemented a Workplace Parking Levy (WPL) in 2012, which raised £9.1m for the year 2014/15. The WPL is charged on businesses with ten or more parking spaces within a zone, and revenue raised is ring-fenced for public transport investment in the city | Local decision |
| Non-Domestic Rates Devolved | Digital and technology infrastructure | Non-Domestic Rates in Scotland's cities raise £1.16bn representing 15% of Local Government income. The full devolvement of business rates in England by 2020 sets a clear precedent for future tax policy considerations in Scotland. | Priority area |
| Climate Change Levy Reserved | Low carbon projects | A proportion of the CCL raised in Scotland, based on cities' share of GVA, suggests cities account for £71m of the overall £131m Scotland pays towards this levy | Priority area |
| Airport Passenger Duty Devolved | Transport infrastructure | By apportioning Scottish APD across the passengers at each Scottish airport, EY estimates the cities' airports account for £287m of the £305m of APD raised in Scotland. | Priority area |
| Sales (VAT) levy / Scottish VAT Devolved (10%) and Reserved | Public realm and city attractiveness | £9bn of VAT is paid in Scotland. Based on share of the economy, the generation of VAT in cities is circa £5bn. | For discussion |
| Aggregates Levy Devolved | Low carbon | The levy generated on quarries raised £45m in 2012/13 in Scotland. The proportion raised by cities may be disproportionately low as most generation will be derived outside cities. | For discussion |
| Betting and Gaming Duties Reserved | Social infrastructure | Betting and gaming duties were £120m in 2012/13. A city proportion could equate to £70m. | For discussion |
| Capital Gains Tax Reserved | Housing / public realm | Capital Gains Tax generated £292m in 2012/13. Given its close links to income tax the devolvement of Capital Gains Tax could be considered along with proposals for local retention of income tax. | Priority area as part of discussions on income tax |

| Fiscal lever and status | Hypothecation of tax | Estimated Revenue Raised/Retained | Cities view |
|--|-------------------------------------|---|----------------|
| Corporation Tax Reserved | Front line services | Onshore corporation tax in Scotland generated £2.8bn in 202/13. The cities recognise devolvement of Corporation Tax would be challenging given it does not form part of the Scotland Act. | For discussion |
| North Sea Oil Reserved | Social infrastructure / wealth fund | North Sea Oil tax revenues are evidently volatile. The opportunity for reform in offshore tax policy was referenced in the Wood Review. | For discussion |
| Fuel Duties Reserved | Low carbon | Fuel duties raised £2.3 bn in 2012/13 in Scotland. The tax remains reserved and is subject to a single rate at a member state level under EU rules. | For discussion |
| Inheritance Tax Reserved | Social infrastructure | Inheritance tax in Scotland raised £243m in 2012/13. | For discussion |
| Insurance Premium Tax Reserved | Front line services | Insurance Premium Tax raised £207m in 2012/13 in Scotland. | For discussion |
| National Insurance Contributions Reserved | Front line services | National Insurance Contributions raised £8.5 bn in Scotland in 2012/13. Reform of national insurance remains a key focus of wider tax reform debates at a UK level. | For discussion |
| Tobacco and alcohol duties Reserved | Social infrastructure | Scottish tobacco and alcohol duties were £2.1 bn in 2012/13. Reform of tobacco and in particular alcohol duties represent | For discussion |
| Vehicle Excise Duty Reserved | Low carbon investment | Vehicle Excise Duty raised £481m in 2012/13. | For discussion |

Source: EY. Outline calculations at Appendix 2

The above table identifies the range of devolved and reserved taxes that could be considered by the cities as fiscal levers. The brief analysis recognises that not all fiscal levers are best delivered at a local level and that the debate on devolvement of taxes overlaps with the significant changes being implemented as a result of the Scotland Act. The cities have prioritised a number of areas for discussion with Scottish and UK Governments. To inform those discussions the potential impact of devolving taxes to cities and local government is explored further below.



4.6.4 Impact of devolving taxes

The devolution of taxes to cities and regions could bring a series of benefits and risks to cities and central government. Key areas are explored below.

Sustainability of public finances

The cities support the devolvement of local taxes and levies for a number of reasons. Primarily, the localisation of taxes will provide cities and regions with the opportunity to create more sustainable public finances. By controlling more fiscal levers locally, the cities can better align revenue generation and local public expenditure.

Hypothecation of taxes

The menu refers to areas where potential ring-fenced fiscal revenue could be directed to meet local needs. This enables cities to make local taxes more accountable to citizens and local businesses. The view of cities is supported by leading academic research. In a study of city finances, allowing cities the freedom to raise and spend taxes in a way that meets the needs and expectations of their residents and businesses most closely, can result in more attractive and responsive cities that can attract people, business and capital.

The impact on local government

The cities recognise that localising tax will have a direct impact on tax revenue generated at a central treasury level for Scottish Government and UK Government. The relationship therefore between localising tax and consequent changes to local government grant is fundamental if public finances are to remain sustainable and the risks associated with raising local taxes are to be mitigated. The clarity in England with business rates replacing government grant provides a benchmark for future transparency. The impact of localised taxes on both Scottish Government grant through devolved taxes and UK.

Government block grant and the Barnett formula through changes to proposed reserved taxes will need to be considered carefully as part of transparent and detailed analysis on the impact of any future taxes devolved to cities and regions.

An uneven playing field

A key risk associated with devolving taxes to cities and regions is the potential for a divide to be created between cities and regions that are able to grow income and those that face a decreasing tax base. Forecasts in England of future business rate growth highlighted a range of regions that will require forms of support from Government as revenues decrease over time. Similarly, the Scottish Government announcement on the potential to ring fence a proportion of locally raised income tax raised a number of concerns over the potential for the policy to exacerbate existing issues in some cities and regions where high unemployment and low productivity could contribute to declining income tax receipts.

The administration of taxes

The changing tax landscape in Scotland has highlighted the impact of administering devolved taxes. HMRC will continue to administer a range of devolved taxes for Scottish Government given the potential resource implications of Scotland creating the administration and collection functions. The risk of disproportionately high administration and collection costs will also be significant when considering the potential devolvement of taxes and levies to the local level.

The impact on citizens and businesses

One of the most fundamental considerations relating to the devolution of taxes or creation of new taxes will be whether the taxes are projected to create additional revenue. Research of city finances indicates that a careful balance must be struck between tax rises and disincentivising business and voters. In a competitive global environment, where people and businesses are able to move and relocate with more ease than ever before, the offering of public services must be proportionate and not demand cumbersome levels of taxation. Only by striking this balance, will cities be able to meet the needs of existing stakeholders, and attract others to cities to grow the tax base.

For Scottish cities in particular, population or business migration as a result of increased taxes poses a risk. A migration of 5% for example or the migration of a single major employer could have a material impact on the local economy.

Building a robust case for tax reform

The cities recognise that these high level considerations will be explored in greater detail as discussions on fiscal levers advance. The cities would fully expect to make a robust economic case for local taxes and levies with clear evidence that individual measures would lead to positive impacts on economic and inclusive growth.



4.6.5 Scotland's cities must play a central role in tax reform discussions with Scottish Government and UK Government

At present cities and local government as a whole have a strong collective view that local government requires greater influence over the policy direction for local taxation in Scotland. The present situation sees Scottish Government control policy with limited ability for local government to influence. This model must change if Scotland's cities are to deliver sustainable public finances in the short and long term.

The cities therefore advocate ongoing discussions with Scottish Government and UK Government to consider the future direction of a range of fiscal levers. In particular the cities have highlighted a number of priority taxes, including devolved and reserved, that could be devolved to cities within a clear policy framework in order to establish the optimal conditions for success for Scotland's cities.

5 Next Steps

This section confirms the cities' view on next steps to take the discussion on Empowering Scotland's Cities forward. The key next steps form around developing a new deal, exploring potential governance structures for delivery and establishing a performance framework.

5.1 Developing a 'New Deal'

The overarching finding from the report is the need to implement a 'New Deal' for Scotland's cities that sets out a clear framework for the future devolution of powers (fiscal and non-fiscal) to Scotland's cities.

The New Deal would help define how the complex interdependencies that will drive our city economies are more effectively impacted and influenced.

The impact of such a framework would be to bring clarity to the role and responsibilities of cities, Scottish Government, UK Government, agencies, communities and business to set the optimal conditions for accelerating the economic growth of our cities in order to improve productivity, attractiveness and national outcomes.

Developing the deal should be the primary next step between cities and Scottish Government and UK Government and should commence at the earliest opportunity. As an immediate forerunner, the cities want a seat at the table for the review of Scotland's national agencies as announced by the Scottish Government Economy Secretary, Keith Brown, in May 2016.

The SCA could act as facilitator and delivery vehicle for this work given the existing commitment at a city and Scottish Government level to its aims and objectives.

Through continuing to bring city leadership together the SCA can also bring representation for city regions and emerging City Region Deals. This can create a broad and transparent forum from which to build cross city and cross city region collaborations focussed on added value. Formal interaction with the Scotland Office and UK Government will also form a central part of discussions going forward.

From this agreed strategic position the cities, Scottish Government and UK Government can commence discussion on potential new devolved fiscal and non-fiscal levers beginning with the early recommendations for action set out in this report.



5.2 Developing the structures for delivery

To deliver the New Deal into the longer term, the Scottish cities, Scottish Government and UK Government should consider the potential structures that could underpin the renewed relationship between central and local government.

A range of options could be considered. At a UK level the governance model has focussed on the appointment of metropolitan mayors and development of combined authorities. These may not be appropriate structures for Scottish cities but clear lessons can be learned from the route adopted by UK cities and regions.

Key considerations will be as follows:

- Avoiding creating further layers of bureaucracy and overlapping existing structures
- Alignment with the Scottish Cities Alliance to maximise opportunities for collaboration and to identify potential pilot structures
- A clear role for communities
- A clear role for business
- A view from COSLA and the Scottish Local Government Partnership on the involvement and impact on local authorities across Scotland.

The cities also recognise that the emerging governance structures for City Region Deals in Scotland may offer insights into future governance arrangements and offer opportunities for collaboration. This should be explored as part of the discussion.



5.3 Developing a performance framework

The Agenda for Cities by Scottish Government released in March 2016 contained a measurement of success with reference to four key metrics:

- Number of businesses
- Private sector jobs
- Gross value added
- Foreign owned businesses

These measures reflected on the collective performance of Scotland's cities against 2011 performance.

The view of Scotland's cities is in alignment with the Agenda for Cities conclusion that this performance framework needs to be broadened to provide greater insight into a variety of measures including inclusive growth. In addition it could target assessment against earlier identified global trends including carbon reductions, quality of life, population growth and digital connectivity.

The cities would also advocate broadening the performance framework to view Scotland's cities' relative performance against key UK competitors such as the core cities and global leaders in areas such as innovation. Viewing Scotland's cities' progress against a broader view of successful cities is vital if Scotland's cities are to truly compete on the global stage in the long term.

The Scottish cities welcome the opportunity to embark on these next steps with Scottish Government and UK Government at the earliest opportunity.

Appendix A

Methodology

EY has adopted a clear approach to bringing the collective cities to a collective position in respect of proposals for potential non-fiscal and fiscal powers.

The approach has consisted of analysis, interviews and workshops with city representatives and the use of straight forward criteria to short list proposals. The approach is outlined below:

Developing a long list of potential proposals

EY drew on its role as advisor to a number of Scottish city deal proposals and reviewed available information on City Deals and Devolution Deals to develop a long list of potential interventions in respect of fiscal and non-fiscal powers and proposals.

The long list was categorised under broad headings including the following:

- Transport
- Infrastructure
- Enterprise
- Skills
- Welfare
- Fiscal levers.

Interviews and workshops

EY conducted interviews with representatives of all seven cities including Chief Executives, key officers and a number of City Leaders.

A series of collective workshops were carried out to form an agreed collective position between the cities.

Interim review process

Having identified a potential long list of interventions, EY reviewed these with cities through the lens of three criteria in order to adopt a collective position.

The criteria adopted are set out below:



The rationale for the criteria is as follows:

1. Potential Impact

Each power or lever was considered as part of a qualitative assessment to understand the range of potential benefits and their impact across the cities. The levers taken forward from this assessment were those that had the potential to make a significant difference.

2. Relevance to the brief

Proposals were then considered with reference to the brief for this project, to determine whether pursuing these proposals was suited to the overarching aims.

3. Commonality

Proposals were then viewed through the lens of commonality of purpose across the seven cities.

The approach enabled a short list of potential proposals to be short listed. The process therefore represents a series of proposals that are considered relevant at this stage and could be subject to change depending on the view of individual and collective cities.

City influence and control

EY reviewed the proposals with cities to consider the appetite for change. Discussions considered the levers and powers on a sliding scale between greater influence over a policy area, to overall control including spend and / or delivery. A broad sliding scale between influence and control framed interviews and workshops in relation to specific proposals.

Appendix B Fiscal powers analysis

| Local Tax / Levy | Potential ring-fenced investment | Estimated Revenue Raised/Retained | Method for Estimation |
|-----------------------------|--------------------------------------|---|---|
| Tourism / Visitor Levy | Cultural assets | Based on figures for nights spent in Scotland by GB and Overseas visitors, EY estimates a £1 levy on hotels and guest houses across each of Scotland's cities could raise an additional £15m | EY drew on Visit Scotland's estimates of nights spent in Hotels/Motels/Guest Houses in 2014. This amounts to 15.1m nights spent, at a theoretical rate of £1. |
| Local income tax retention | Social infrastructure | Retaining 25% of income tax, as proposed recently by Scottish Government, could see Scotland's councils take on over £1bn of revenue, with specific values for each city ranging from £405m for Edinburgh to £50m for Dundee. | EY used HMRC's estimations of income tax raised by authority area in 2013/14, before applying a 25% retention rate. |
| Reformed Council Tax | Front line services | Council tax currently accounts for £754m of Scotland's cities' revenue, with an existing freeze in Council Tax being lifted in 2017 and councils being given the freedom to raise the rate by 3%. | EY used the Scottish Government's statistics for Council Tax raised in 2014/15, reported by local authority area. |
| Sales (VAT) levy | Public realm and city attractiveness | £9bn of VAT is paid in Scotland | EY used HMRC's estimation of VAT attributable to Scotland |
| Property tax (link to LBTT) | Front line services | A proportional share of LBTT, based on cities' share of Scottish real estate activity, suggests they account for almost £160m of the LBTT raised across Scotland | EY used the 2014/15 take of LBTT, and apportioned it to the cities according to the value of their real estate activity in 2014 |

| Local Tax / Levy | Potential ring-fenced investment | Estimated Revenue Raised/Retained | Method for Estimation |
|---------------------------|---------------------------------------|---|---|
| Congestion / Parking levy | Place making | Nottingham Council implemented a Workplace Parking Levy (WPL) in 2012, which raised £9.1m for the year 2014/15. The WPL is charged on businesses with ten or more parking spaces within a zone, and revenue raised is ring-fenced for public transport investment in the city | |
| Non-Domestic Rates | Digital and technology infrastructure | Non-Domestic Rates in Scotland's cities raise £1.16bn | |
| Climate Change Levy | Low carbon projects | A proportion of the CCL raised in Scotland, based on cities' share of GVA, suggests cities account for £71m of the overall £131m Scotland pays towards this levy | This analysis was based on a disaggregation of the Climate Change Levy across the UK, and apportioned to cities based on their share of GVA from EY ITEM's analysis. |
| Air Passenger Duty | | By apportioning Scottish APD across the passengers at each Scottish airport, EY estimates the cities' airports account for £287m of the £305m of APD raised in Scotland. | EY used the CAA's figures for passengers at each of Scotland's airports in 2014, before apportioning the APD raised in Scotland to each passenger, arriving at this figure. |

Acknowledgement:

The Scottish cities would like to acknowledge the work of EY and Scottish Cities Knowledge Centre in supporting the cities to develop this discussion document.

the 1990s, the number of people in the world who are under 15 years of age has increased from 1.1 billion to 1.5 billion. The number of people aged 65 and over has increased from 200 million to 350 million. The number of people aged 15–64 years has increased from 1.1 billion to 1.4 billion.

There are a number of factors that have contributed to the increase in the number of people in the world who are under 15 years of age. One of the main factors is the increase in the number of people who are surviving into old age. This is due to a number of factors, including improvements in medical care, better nutrition, and a decline in the number of people who are dying from infectious diseases.

Another factor is the increase in the number of people who are having children. This is due to a number of factors, including a decline in the number of people who are having children at a young age, and a decline in the number of people who are having children at all. This is due to a number of factors, including a decline in the number of people who are having children at a young age, and a decline in the number of people who are having children at all.

The increase in the number of people in the world who are under 15 years of age is a major challenge for the world. It is a challenge because it means that there are more people who need to be educated, and more people who need to be employed. It is a challenge because it means that there are more people who need to be supported by the state.

There are a number of ways in which the world can meet this challenge. One way is to improve the quality of education. Another way is to create more jobs. A third way is to provide more social support for the young. These are all ways in which the world can meet this challenge.

The increase in the number of people in the world who are under 15 years of age is a major challenge for the world. It is a challenge because it means that there are more people who need to be educated, and more people who need to be employed. It is a challenge because it means that there are more people who need to be supported by the state.

There are a number of ways in which the world can meet this challenge. One way is to improve the quality of education. Another way is to create more jobs. A third way is to provide more social support for the young. These are all ways in which the world can meet this challenge.

The increase in the number of people in the world who are under 15 years of age is a major challenge for the world. It is a challenge because it means that there are more people who need to be educated, and more people who need to be employed. It is a challenge because it means that there are more people who need to be supported by the state.

There are a number of ways in which the world can meet this challenge. One way is to improve the quality of education. Another way is to create more jobs. A third way is to provide more social support for the young. These are all ways in which the world can meet this challenge.

The increase in the number of people in the world who are under 15 years of age is a major challenge for the world. It is a challenge because it means that there are more people who need to be educated, and more people who need to be employed. It is a challenge because it means that there are more people who need to be supported by the state.

There are a number of ways in which the world can meet this challenge. One way is to improve the quality of education. Another way is to create more jobs. A third way is to provide more social support for the young. These are all ways in which the world can meet this challenge.