

Item: 12

Special General Meeting of the Council: 6 May 2020.

Islands Growth Deal.

Joint Report by Chief Executive and Executive Director of Development and Infrastructure.

1. Purpose of Report

To advise of progress with the Islands Growth Deal and the proposed approach to finalising the next stage of the proposal.

2. Recommendations

The Council is invited to note:

2.1.

That the Chief Executive, in consultation with the Leader and Depute Leader, continues to negotiate and progress, for Orkney Islands Council's interest and the wider Orkney Community, a Deal for the Islands for discussion with the Scottish and UK Governments.

2.2.

Progress with the Islands Growth Deal towards an announcement for the Islands as set out in section 4 of this report.

2.3.

The proposed strategy and approach towards finalising the content of the Islands Growth Deal, in particular with regard to the Orkney components, as set out in section 5 of this report.

It is recommended:

2.4.

That the Chief Executive should submit a report to the Council, in due course, on the final content of the Islands Growth Deal, following ongoing negotiations with the Scottish and UK Government.

2.5.

That powers be delegated to the Chief Executive, in consultation with the undernoted members and officers, to achieve final sign off of the Heads of Terms document anticipated this calendar year, noting the experience of other Growth Deals is this process requires a rapid response:

- Leader
- Depute Leader.
- Chair, Development and Infrastructure Committee.
- Chair, Education, Leisure and Housing Committee.
- Chair, Orkney Health and Care Committee.
- Executive Director, Development and Infrastructure.
- Head of Finance
- Solicitor to the Council.

3. Government Commitment to the Islands Growth Deal

3.1.

In accordance with the Council's decision on 17 January 2017, the Chief Executive, in consultation with the Leader and Depute Leader, has continued to negotiate and progress, for Orkney Islands Council's interest, a Deal for the Islands for discussion with UK and Scottish Governments.

3.2.

The UK Prime Minister announced on 29 July 2019 that funding would be made available by UK Government to enable completion of Growth Deals for the Islands, Argyll and Bute, and Falkirk. The three Islands Councils and the external consultants engaged on their behalf have subsequently been active in both clarifying the basis for calculation of the quantum for a Growth Deal for the Islands, and the timescale in which that might be announced. The Secretary of State for Scotland stated in the UK Parliament, in answer to a question from Alistair Carmichael MP, that the Secretary of State was exploring with HM Treasury a basis for funding a Growth Deal for the Islands which is different in substance to that of other Growth Deals. It should be noted that a per capita calculation, which would leave a Growth Deal for the Islands minimal in nature, was not being considered. Subsequent discussions have confirmed that a different method of calculation is under consideration, but the diversion of the UK Budget announced in March 2020 to COVID-19 issues had the effect that no announcement could be made on this point.

3.3.

The Leaders and Chief Executives of the three Islands Councils held a positive meeting with Michael Matheson MSP, Cabinet Secretary for Transport, Connectivity and Infrastructure, in Edinburgh on 9 January 2020. Mr Matheson confirmed Scottish Government's commitment to a proactive timetable for both finalising the Projects which might be included within the Deal, and, once a Deal is announced, for agreeing Heads of Terms. Further details are set out below. Scottish Government has hitherto matched the funding awarded by UK Government in support of Growth Deals, and it is the three Islands Councils' expectations that a similar matching sum would be identified.

3.4.

It was anticipated that there would be an announcement later this year regarding the amount of the Islands Deal. However, the impacts of the COVID-19 pandemic have taken precedence with a subsequent impact on the timescales in which the Islands Deal can now progress as the UK and Scottish Governments work together to contain and mitigate its impact.

3.5.

The policy priority for the three Islands Councils remains to secure an announcement by the UK Government this year.

4. The Islands Growth Deal

4.1.

The themes and specific projects comprising the Islands Deal have evolved over time, as the three Councils and their stakeholders work together to identify the most appropriate and impactful areas appropriate for funding.

4.2.

The initial themes identified that made up the Growth Deal were:

- Leading the way to a low carbon future.
- World class tourist destinations.
- Digital islands.
- Creative islands.
- Future fit housing.
- Healthy ageing and affordable remote health and care.
- Strengthening primary production and increasing local value added.
- Islands future skills.
- Talent Attraction and Retention.

4.3.

Over time these themes and their associated projects have evolved. Members received a presentation by the Islands Growth Deal Programme Director on 28 January 2019 setting out the updated proposals for the Deal and a revised programme, together with suggested changes to the portfolio of projects and Innovation Programmes surrounding these. The presentation also reflected the importance of innovation within a Growth Deal together with economic growth and job creation. The presentation also addressed a more realistic upper target of funding support and proposals for programme management of the Islands Growth Deal portfolio going forward.

4.4.

Following this visit by the Programme Director, a drop-in session on 21 February 2019 was organised for Members to consider the revised content of the Deal, both in terms of the financial 'ask', the Innovation Programmes, projects and management options. Further to this, feedback was collated by the Islands Growth Deal Project Manager for Orkney and submitted to the Programme Director. A briefing note setting out the key points was also then circulated to Members for information.

4.5.

A further visit by the Programme Director took place in May 2019, with a further presentation to Members on 14 May 2019, following which a detailed narrative was issued to Council officers, this being the first full draft document pulling together the content of the Deal for presentation to the Scottish Government.

4.6.

Following this work, there were nine interlinked Innovation Programmes that sought to play to the Islands' strengths and shared opportunities and challenges, as follows:

- Primary Industries and Value Added.
- Circular Economy.
- Zero Carbon Energy Systems.
- Fit for Future Housing.
- Healthy Ageing.
- Remote Digital Health and Care.
- Creative Industries.
- Island Visitor Economy.
- Space Industries.

4.7.

Alongside these nine programmes, which contain a number of projects, are some major strategic Island specific projects independent of each other, one of which is the proposed Scapa Flow International Distribution Hub Project. There were also a number of 'Enabling' proposals which sought to underpin and ensure the successful delivery of the Deal's projects, as follows:

- Skills, Talent Attraction and Entrepreneurial Support.
- Digital Connectivity Infrastructure Fund.
- Campus Infrastructure Fund.
- Islands Innovation Management Team.

4.8.

Some initial Scottish Government feedback was received in early February 2020 on the detailed proposals. This feedback on the various themes and projects was disseminated to relevant leads and officers involved both within and out-with the Council as necessary to inform preparations for follow-up workshops in March 2020. The workshops were preceded by a preparatory visit by the Programme Director over three days commencing on 17 February 2020. This included a presentation to Elected Members.

4.9.

A series of themed workshops was held with the Scottish Government on 12 and 13 March 2020, followed by a tele-conference workshop on 20 March 2020. The purpose of these workshops was to allow an opportunity for Government to discuss Islands Deal proposals and projects with theme leaders and to provide feedback on the various projects put forward within formal Islands Deal submission in November 2019.

4.10.

The UK Government's Scotland Office lead officer for Deals also attended the workshops and provided verbal feedback on the proposals. More formal feedback is anticipated from the UK Government, which will help provide further definition around the proposals they are interested in supporting. The timing of this critical feedback is unfortunately now uncertain due to COVID-19.

5. Next Steps and approach to finalising the Islands Growth Deal proposal

5.1.

The Islands Local Authorities have been advised that the quantum of the Deal, whilst potentially significantly greater than the equivalent per-capita funding of other Growth Deals, is likely to be less than the current total ask, based on the projects submitted to date. A prioritisation exercise is therefore required, in order to reduce the total funding requested. Clearly, formal feedback from the UK Government would be desirable before such an exercise is completed but it is appropriate for each local authority to complete an initial review, on the basis of the indicative likely funding available.

5.2.

The prioritisation exercise for Orkney will take into account the feedback received to date from both the UK and Scottish Governments and will also reflect the local priorities and objectives for Orkney.

5.3.

The next critical milestone will be the formal announcement of the quantum of the Islands Growth Deal. Despite the current situation there is still an expectation that this could take place in Summer 2020. This would then be followed by a Heads of Terms document, which is signed by both Governments, Chief Executives and Leaders of each of the three Councils. Based on intelligence from the Scottish Deal Programme Management Office, the signing of the Heads of Terms often takes place with little warning, often within a 48 hour period or less. With this in mind, as the Councils move towards an agreement on the content of the Islands Growth Deal, delegated authority may be required to facilitate a rapid response to requests for further project detail from both Westminster and the Scotland Office. However, in light of temporary governance processes agreed on 23 March 2020, where a Special Meeting may be called at short notice, for now it is proposed that reports continue to be submitted to Elected Members, where appropriate.

5.4.

Movement towards Heads of Terms will require creating Outline Business Cases (OBCs) using the Treasury Green Book Five Business Case format. Training is being arranged for project leads with the capacity to do this in the next few weeks. Although further feedback is anticipated from both Governments which may alter prioritisation, it is assessed as making strategic sense to begin the work on the OBCs for the Orkney projects at the earliest opportunity. Moving to OBC on the joint-islands projects will be more challenging and will require cross-island teams to be deployed within an appropriate governance framework. The Islands Deal Programme Director has been tasked with liaising with other Scottish Deals to identify extant governance frameworks/models that may be appropriate to adopt (or be readily adaptable) for use on the Islands Deal joint islands projects.

5.5.

Despite the uncertainties that the COVID-19 pandemic has introduced, it will be important to maintain as much momentum as possible over the next period. In addition to beginning work on the OBCs, ongoing engagement will also continue with colleagues in the Western Isles and Shetland to finalise lead officers and governance arrangements around the joint-islands projects to allow entry to the OBC process at the earliest opportunity.

5.6.

The Islands Deal Growth team in Orkney will continue to apprise Elected Members of progress as movement is made towards an announcement and Heads of Terms, with regular reference to the Strategic Leadership Group and the OIOF Programme Board in order that Elected Members have the means by which to continue to inform the process as it unfolds.

6. Human Resource Implications

Since the last report the temporary post of Islands Deal Project Manager has been extended for a period of six months from January 2020 to July 2020 and will be kept under review as the Islands Growth Deal progresses.

7. Links to Council Plan

7.1.

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Enterprising Communities.

7.2.

The proposals in this report relate directly to Priority 4.9 Work in partnership with the two other Islands Councils to finalise the Islands Growth Deal.

8. Links to Local Outcomes Improvement Plan

Projects identified in the Islands Growth Deal were strongly founded on discussions with partners and connectivity with Local Outcomes Improvement Plan priorities, a key criteria in the composition of the Deal priorities and projects.

9. Financial Implications

9.1.

There are no financial implications directly arising from this report.

9.2.

The total capital value of Orkney Island Deal projects currently requested is approximately £70 million, although the prioritisation exercise is aimed at amending this in line with current indications of the likely amount of Government funding.

9.3.

In a report to the Policy and Resources Committee on 25 September 2018, it was reported that the joint Islands Growth Deal Programme Director had identified a budget requirement of £600,383 to progress the deal to a Business Case sign-off anticipated now in 2021. With funding for £200,000 of the requirement already identified, the Committee recommended that the balance of £400,383 be met from the Renewables, Regeneration and Redevelopment Fund.

10. Legal Aspects

The Islands Growth Deal will require a formal UK Government announcement. Thereafter, the UK and Scottish Governments would enter into discussions with the three Islands councils to develop 'Heads of Terms' for the purposes of outlining the principles of the agreement reached. The Islands Growth Deal would ultimately result in a formal tripartite agreement between the three Islands Councils, the UK Government and Scottish Government, including a detailed implementation plan.

11. Contact Officers

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