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Local Government and Regeneration Committee

The remit of the Committee is to consider and report on a) the financing and delivery of local government and local services, and b) planning, and c) matters relating to regeneration falling within the responsibility of the Cabinet Secretary for Infrastructure and Capital Investment.

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Note: The membership of the Committee changed during the period covered by this report, as follows:

Jayne Baxter (Lab, Mid Scotland and Fife) joined the Committee on 2 September 2015, replacing Alex Rowley (Lab, Cowdenbeath)
George Adam (SNP, Paisley) joined the Committee on 5 November 2015, replacing Clare Adamson (SNP, Central Scotland)
Introduction

1. Following scrutiny of the Scottish Government’s 2014-15 draft budget proposals, we agreed to mainstream our future budget scrutiny, on a rolling basis, into our on-going work programme. This will be our second such report having previously reported on the 2015-16 draft budget proposals in this manner. We have found this approach makes the process more meaningful and adds a continued budgetary focus to the scrutiny of the Committee’s remit. This consistent aim also means we can focus more on whether spending by the Scottish Government and public bodies is generating the outcomes and efficiencies expected.

2. For the first time last year we scrutinised the Scottish Government’s Local Government circular which sets out the budget allocations to local authorities. This was an innovative approach and we expect to do the same for the Local Government 2016-17 Settlement Circular when it is available in the New Year.

What this report covers

3. This year we have focussed our main interest on the following areas—
   - Use of local government pension funds to invest in capital infrastructure investments, and
   - City or region deals, and other public policy initiatives, and their potential to foster an economic environment for infrastructure investment and regeneration.

Background and remit

4. At our meeting on 4 February 2015, we agreed to take evidence on the use of local government pension funds to invest in infrastructure projects. This followed a recommendation in our report on the 2015-16 Draft Budget—

   “We note evidence received in term of the fiduciary duty applying to trustees of local government pension funds. There are clearly opportunities to deliver much-needed capital investment in areas such as transport and housing, if impediments can be addressed. We encourage the Scottish Government and local government pension fund managers to look closely at this aspect with a view to unlocking this funding for investment in secure local capital projects. We expect the Scottish Government to take all possible steps to facilitate such investment. We will look to take evidence from local government pension funds, in terms of their operation and ability to invest, as part of our 2015 mainstreamed budget work programme.”

5. We agreed the following remit for our inquiry, to—

   a) Look at how current investment vehicles are developed with a view to attracting Local Government Pension Funds (LGPF) in Scotland investment to support the delivery of capital infrastructure (such as housing or transport projects etc.) in other parts of the UK;

   b) Examine perceived barriers to local capital investment vehicles and how these link to funds’ investment strategies, their fiduciary duty and the legislative framework; and

   c) Consider if there is a role for other public policy initiatives, such as city or region deals, to help foster an economic environment for such investment vehicles to be developed.

**Approach to scrutiny**

6. We took preliminary evidence at our meeting on 29 April 2015 from the Scottish Public Pensions Agency (SPPA); Strathclyde Pension Fund; Greater Manchester Pension Fund; Falkirk Council Pension Fund; Unison Scotland; Scottish Futures Trust and Aberdeen City Council in relation to North East Scotland Pension Fund.

7. We also wrote to all 11 LGPS in Scotland seeking further information on any investment made in Scottish or UK infrastructure projects and any current barriers to investing in infrastructure projects, as well as their approach to ethical and social investment. In addition, we wrote to West Yorkshire Pension Fund (WYPF), as it was suggested to us they were a fund managed almost entirely with in-house expertise.

8. Over and above this activity, we undertook a fact finding visit to Manchester on 14 September 2015. This visit has been fundamental to our consideration of both infrastructure investment by LGPSs in Scotland and city or region deals. Greater Manchester Combined Authority (GMCA) and Greater Manchester Pension Fund (GMPF) have been hailed as the ‘gold standard’ in their respective operational environments and our visit certainly underlined this accolade in our minds.

9. We also held an external committee meeting in Greenock on 5 October 2015 where we discussed infrastructure investments by pension funds and city or region deals. At this meeting we heard from Inverclyde Council on both topics. On pension funds we heard again from Strathclyde Pension Fund as well as Scottish Borders Council and Ediston Real Estate who are involved with the Clydebuilt project. Glasgow City Council gave evidence on the Glasgow and Clyde Valley (GCV) city deal.

10. Finally, on 28 October 2015, we took evidence from John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy.
Local Government Pension Schemes in Scotland

Background

11. Of the five major public sector Scottish schemes – those for local government, NHS, teachers, police officers and fire fighters – only the local government scheme is a funded scheme (i.e. backed by assets held in investment funds). As at 2013, the LGPS was valued at £24.1b and is now estimated to be valued around £26b.

Governance of pension funds

12. The day-to-day operation of the in Scotland, including investment decisions and scheme administration, is the responsibility of the 11 fund authorities. Each is responsible for one of the 11 legally separate pension funds which underpin the overall LGPS in Scotland (see Annexe A). Each fund has a pension committee which takes the overarching decisions on investment. The authority is required to obtain and consider proper advice on their investments. The annual report includes a statement of the fund management’s investment policy, a statement by the actuary of the level of funding, governance compliance, and a funding strategy statement.

13. The SPPA provides policy advice to the Scottish Government and to local government on the scheme and on developing scheme regulations. The SPPA also determines appeals made by members of the scheme.

14. The SSPA also provides support to the Local Government Pension Scheme (Scotland) Advisory Board, which provides advice to the Scottish Ministers, at their request, on the desirability of changes to scheme design and the implication of other policy issues. A new Scheme Advisory Board (SAB) was established in

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2 According to the Scottish Public Pensions Agency (SPPA) as at 31 March 2011 the LGPS had in total 218,232 active members, 96,349 deferred members and 167,332 pensioners and dependants.
3 UNISON Scotland. Written submission, paragraph 12
4 29 April 2015, Official Report column 8
5 The LGPS is set out in regulations made under section 7 of the Superannuation Act 1972. The Local Government Pension Scheme (Scotland) Management and Investment of Funds Regulations 2010 (as amended) provide the legal framework which governs LGPS investments. The Regulations require administering authorities to carry out a separate audit of their funds and to publish a pension fund annual report. The Regulations also provide that administering authorities must invest any fund money not immediately needed to make payments, and general requirements about how investment policy must be formulated.
6 The Local Government Pension Scheme (Scotland) Advisory Board is responsible for providing advice to the Scottish Ministers, at their request, on the desirability of changes to scheme design and the implication of other policy issues.
April of this year. It agreed its draft work plan in April, which was approved by the Scottish Ministers in August.7

Pension funds and their fiduciary duty

15. The sole purpose of the LGPS is to meet pension liabilities when they fall due. Thus, the pension committees have a legal and fiduciary duty to treat the interests of scheme members as paramount. To comply, investments made on behalf of scheme members are geared towards securing the best rate of return subject to any investment restrictions agreed for the scheme (e.g. ethical, social or environmental reasons.)

16. The SAB, as part of its newly agreed work plan, is considering whether guidance is required for all levels of the LGPS on the fiduciary duty.8

The role of the Scottish Government

17. The Scottish Government has no role in relation to funds’ investment priorities. The ‘fiduciary duty’ placed on LGPS to act in the interests of the beneficiaries of the funds is the underlying principle of their investment strategy and governs their investment decisions. The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy said—

“Our role is to work with our partners in local government to remove any barriers in our control and to identify any opportunities to optimise such [infrastructure] investment, always respecting the fiduciary duties of the scheme managers.”9

Background to investment in infrastructure in Scotland

Transparency and consistency of information on investments

18. When preparing for this inquiry, we found it difficult to obtain an overall picture of infrastructure investment by LGPS. Dave Watson of Unison advised it had only recently been possible to see an aggregate of where LGPS money was being invested in Scotland - almost half was invested in overseas equity, another quarter in UK equities, with little investment in local infrastructure.10 He was keen for there to be greater transparency and consistency of information on investments, outlining one of the few current ways to ascertain how £26b was invested was through the use of freedom of information requests.11 Chad Dawtry of the SPPA

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7 Scottish Public Pensions Agency. Written submission, paragraph 5.
8 Scottish Public Pensions Agency. Written submission, Annexe A.
9 Local Government and Regeneration Committee. Official Report, 28 October 2015, Col 3
advised at the moment “the Scottish Government does not have central sight of where that money is invested”.  

19. According to the Government's Actuary Department (GAD) less than 1% of UK LGPS' funds are typically invested in the infrastructure investment category.  

20. The SAB indicated in its work plan an intention to carry out a benchmarking exercise to inform the collection and consistency of fund data and also to improve transparency of investments.  

21. Of the 11 Scottish funds, five confirmed they had made, or intend to make, investments in infrastructure. Others mentioned aspirations to do so. The funds who set out actual investments in infrastructure were—

- **Fife** invests up to 5% of the total value of their fund in global infrastructure (including some in the UK).  

- **Strathclyde** currently has 14 separate infrastructure and related investments with a total value of around £350m (2 Scottish, 11 UK and 1 global).  

- **Borders** invests in infrastructure indirectly through a growth fund.  

- **Falkirk** has made a £30m commitment to invest in Social and Affordable Housing, and has an $80m commitment to global infrastructure, some projects of which are in the UK.  

- **Lothian** has £300m investment in infrastructure, 6% of its total assets, 70% in the UK.  

22. Strathclyde’s two Scottish infrastructure investments relate to the Clydebuilt Fund, which established a £50m local property fund in 2014 and is managed by Ediston

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14 [Scottish Public Pensions Agency. Written submission, Annexe A.](http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/05_StrathclydePF.pdf) 
15 [http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/03_FifeCouncilPF.pdf](http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/03_FifeCouncilPF.pdf) 
16 [http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/06_ScottishBordersCouncilPF.pdf](http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/06_ScottishBordersCouncilPF.pdf) 
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18 [http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/08_LothianPF.pdf](http://www.scottish.parliament.uk/S4_LocalGovernmentandRegenerationCommittee/General%20Documents/08_LothianPF.pdf)
Real Estate, and a facility of £35m as part of the funding package for construction of the Athlete’s Village for the Glasgow 2014 Commonwealth Games.20

23. David Robertson of the Scottish Borders Council Pension Fund advised it invests in UK property through a third-party fund manager and has set “a strategic allocation of 5% of the fund to be invested in property”, as at “31 March 2015, the fund was sitting slightly ahead of that target, at 5.3%”.21

Barriers to infrastructure investment

24. We also asked funds about barriers to infrastructure investment. Strathclyde summed up the views of those already investing in infrastructure—

“There are no absolute impediments to investment in infrastructure. There are however various challenges and obstacles to overcome which could be considered as barriers. These include risk, return, governance, and some aspects of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations together with the practicalities of identifying suitable strategies and projects, appointing managers, structuring investment proposals, bringing together investors, agreeing terms, concluding legal documentation and approving funding.”22

25. Tayside highlighted a number of barriers for those not currently investing in infrastructure—

“Tayside Pension Fund although not currently holding investments in this asset class would consider the following to be potential barriers, however as no suitable opportunity has been presented to the fund to invest in this area, these comments are not known with certainty:

- (i) Scale of investment required - Significant investment is required which may be in excess of asset allocation available.
- (ii) Costs of investment - Fees associated with this asset class could be in excess of current budget for other investments. Pension funds are under pressure to lower costs.
- (iii) Liquidity and risk - Although pension fund investments are long term in nature, this asset class is more illiquid than others, therefore any sizeable allocation to this asset class could affect the risk profile of the fund overall.
27. A Registered Social Landlord is a not-for profit corporate entity whose objective is to provide good quality rented accommodation with affordable rents.
the decision whether or not to invest depends entirely on the assessment of these factors but that they should be weighed in the balance along with all over relevant factors when decisions to buy, hold sell investments are being made.”

30. Some went further. Strathclyde and Shetland mentioned they were signed up to the UN Principles on Responsible Investment, which “reflect the view that environmental, social and corporate governance [ESG] issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.”

Other approaches to investment in infrastructure

Greater Manchester Pension Fund

31. GMPF is the largest local government fund in the UK. It has assets of £17.5 b and more than 350,000 members with 100,000 employee, pensioner and deferred members. GMPF has invested in its local area for more than 20 years. The fund’s local investment programme has the twin aims of commercial returns and supporting the area.

32. Having heard from Peter Morris, Executive Director of the GMPF, in Committee we were keen to find out more about how the GMPF reconciles its fiduciary duty with achieving suitable financial return from investment in infrastructure in its area.

33. Housing was an important part of the fund’s investment portfolio providing strong income generation and a secure collateral base. It also explained to us a recent project in building affordable homes with Manchester City Council – Matrix Homes - which met its strategy for social responsibility. GMPF provided the capital to fund the developments, while Manchester City Council and the Homes and Community Agency provided the five sites. Half of the 500 homes were being built for sale, half for market rent, a mix determined by commercial factors. Financial viability was determined in aggregate across the five sites – good sites balancing more challenging sites. We also learned that crucial to the success of the project was appropriate governance structures.

34. Learning from experience and following its involvement with the Investing for Growth Initiative, the fund is developing a local impact portfolio, with five other pension funds where the aim is to deliver commercial returns and have social

29 Shetland Island Council Pension Fund. Written submission, paragraph 9.4.
impact. GMPF has also invested in targeted loans to SMEs, property and social impact bonds.\textsuperscript{31}

35. GMPF is now considering further collaborative work with other funds. It indicated that the pooling of resources has the benefit of economies of scale while also reducing management fees and costs.

36. One of the lasting impressions from our Manchester visit was the level of enthusiasm, proactivity and vision shown by the staff and the political leaders involved with the Fund. GMPF has a dynamic team supporting the Fund to achieve the best returns for its members while identifying new innovative investment vehicles and ways of working. We had a strong sense they were driving the Fund’s investment strategy with a clear view of their short, medium and long-term goals, whether these were to increase in-house expertise, diversify the Fund’s portfolio, tackle social need, or grow the local economy.

West Yorkshire Pension Fund

37. Our attention was also drawn to WYPF and its approach to in-house investment management. In its written submission, it gave a number of advantages over externally managed funds, namely the speed of identifying potential infrastructure opportunities, the speed of authorisation for new infrastructure investments and the ability to manage investments over the longer term as in-house investment managers were free to make investment decisions based on a long-term assessment of the investment and returns.\textsuperscript{32}

38. This in-house approach enabled the Fund to gear its strategy towards low risk investments, over a longer period of time, and to keep fee costs down to achieve a 96% funded scheme.\textsuperscript{33}

Conclusions

Scheme Advisory Board’s work plan

39. We acknowledge the work plan set by the new Local Government Pension Scheme (Scotland) Advisory Board. We are particularly interested in the collection of data exercise under which the Board aims to provide greater transparency on investments and consistency of information. The Committee would find it helpful if

\textsuperscript{31} Investing for Growth Initiative: Five local authority pension funds launched a £250m ‘investing for growth’ initiative in 2013. The five pension funds are: Greater Manchester, West Yorkshire, West Midlands Pension, South Yorkshire and Merseyside. The initiative aimed to identify UK-based opportunities that, while meeting the risk and return requirements of the Local Government Pension Scheme (LGPS)

\textsuperscript{32} West Yorkshire Pension Fund. Written submission, paragraph 11.

\textsuperscript{33} West Yorkshire Pension Fund. Written submission, paragraph 6.
the SAB could provide further detail on the remit for this work and if we could be kept up-to-date on the progress of this project.

**Pension Funds’ approach to infrastructure investment**

40. A common theme we came across in scrutinising local government, and in particular with our scrutiny of the community empowerment legislation, is its cautious approach to risk, whether this is because of the overriding need to ensure money is not wasted or because something has always been done in a particular way and therefore continues in this manner. We make the point that without some degree of risk taking, innovation will not happen. We see parallels with the taking of a narrow interpretation of the fiduciary duty.

**Fiduciary duties**

41. GMPF, Strathclyde and others are able to reconcile their fiduciary duties with investing in infrastructure projects in the UK and locally. We recognise the narrowness of meeting the fiduciary duty can cause a dichotomy for some funds depending on their interpretation. The Law Commission’s recent report[^34] comments “fiduciary duties are difficult to define and inherently flexible. This is one of their essential characteristics: they form the background to other more definite duties, allowing the courts to intervene where the interests of justice require it”.[^35]

42. Pension funds have been able to reconcile risks because of the long-term nature of these investments, their positive social or economic impact and because infrastructure investments are less volatile than other types of investment. We therefore advocate those LFPS in Scotland, which haven’t yet considered these types of investment, to challenge themselves to do likewise and give a degree of priority to investing members’ funds more locally and building in elements of public good. The work done in Manchester has shown there are successful ways of making this type of investment work while protecting members’ contributions and pension reserves.

**Social, environmental and ethical considerations**

43. While considering rates of return, it would be remiss of us not to consider investments in certain industries, for example, fossil fuels, arms and tobacco. These might provide a high rate of return but we question whether local government pension funds should be investing in such industries given social, environmental and ethical considerations. We note Strathclyde Pension Fund’s view these industries would be less responsible if public pensions did not invest and also that collective action by investors can have a greater influence on the

industry. We consider funds should be guided by consultation with their members on this issue.

### Pooling of pension funds

44. The UK Chancellor recently announced 89 LGPS in England and Wales\(^{36}\) are to be pooled into six British Wealth Funds to enable them to invest more in infrastructure and to minimise fees and costs. We also note the potential for the second Markets in Financial Instruments Directive to restrict smaller pension funds ability to invest in infrastructure. We would find it helpful to know what discussions the Scottish Government has had with the UK Government to safeguard opportunities for smaller Scottish pension funds to invest in infrastructure.

45. We agree investment in infrastructure is vital to a successful economy, but we are less attracted to the UK’s formal pooling arrangements for Scottish pension funds. During our inquiry we heard how informal collaborations worked well because there was a willingness to work together for a shared vision and benefit. Strathclyde, Falkirk and Lothian and a few others are already working with other funds to increase their investment options. This is to be applauded and we encourage funds to seek out opportunities to work collaboratively to benefit from shared expertise in identifying suitable infrastructure investment and to reduce investment costs such as management fees. Being proactive in this regard has particular importance given the potential changes to investment rules.

### Development of expertise in infrastructure investment

46. We would like to see Scottish LGPS investigating how they can grow their expertise to open up new investment opportunities and to assist in supporting long-term investment strategies, as well as saving on fees and costs. We recommend the SAB should provide a focus and forum to assist Scottish local government pension funds to share expertise and to form working collaborations.

### City or region deals

47. In 2011, the Scottish Government launched its city strategy as set out in the Agenda for Cities, “Scotland’s Cities: Delivering for Scotland”\(^{37}\). This strategy also saw the establishment of the Scottish Cities Alliance (the Cities Alliance), a partnership of Scotland’s seven cities (Aberdeen, Dundee, Edinburgh, Glasgow, Inverness, Perth and Stirling). The Cities Alliance aims to attract external investment, stimulate economic activity and, create new jobs and business opportunities.\(^{38}\)

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\(^{36}\) Public Finance, 5 October 2015. [LGPS funds to be pooled for infrastructure investment boost.](http://www.scottishcities.org/)


\(^{38}\) [http://www.scottishcities.org/](http://www.scottishcities.org/)
48. City or region deals are a UK policy initiative to encourage local authorities to operate strategically at the regional level and support a long-term and wider focus on their priorities. Each deal is bespoke to the particular city region and is expected to include a package of measures designed to reflect regional circumstances. The GCV city deal became the first city deal in Scotland in August 2014.

49. The UK Government announced in its Budget on 18 March 2015 that there was merit in extending the city deal model further. In Scotland Aberdeen, Edinburgh and the Inverness and Highland city regions have recently submitted proposals for city deals.

50. Other initiatives are also available to stimulate growth and deliver infrastructure investment such as Tax Increment Finance (TIF). TIF uses prospective future additional revenue gains from taxes to finance the borrowing required to fund public infrastructure improvements that will, in turn, create those gains. Growth Accelerator Model (GAM) is another approach where public and private sectors share the risks by taking a payment by results approach. More models are available and can be found in the updates to the Scottish Government’s Infrastructure Investment Plan. 39 We do not consider these approaches in this report but recognise their potential to unlock investment in infrastructure.

**Greater Manchester City deal and devolution agreement**

51. We were impressed by the opportunities that had arisen in Manchester since they started work on their city deal and were keen to see how Scottish cities could use the initiative in their own regional areas.

52. When we met with representatives of GMCA it explained the combined authority was made up of 10 local authorities. 40 In 2017, an elected Mayor will become the 11th member of the GMCA. The 10 local authorities have worked closely together on infrastructure schemes for two decades; however, the combined authority had only been a formal arrangement since 2011. The constituent local authorities unanimously considered the GMCA enabled them to strategically plan economic growth of the Greater Manchester area to deliver social policy through the strategic delivery of services such as housing and transport.

53. In March 2012, the GMAC secured a city deal. The deal included:

- A "Revolving Infrastructure Fund" allowing the GMCA to earn-back up to £30m per year against spending on infrastructure projects;

- The formation of a "Greater Manchester Investment Framework" allowing Greater Manchester to make better use of Central Government and EU funding;

40 Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan
• The establishment of a "Greater Manchester Housing Investment Board" to build new housing in the area;
• The creation of a "City Apprenticeship and Skills Hub" to increase the number of apprenticeships available in the area; and
• The formation of a "Low Carbon Hub" to integrate multiple carbon reduction measures.41

54. City deal status and devolution of transport had allowed for long-term strategic action to be taken on integration and connectivity of transport, rationalisation of transport services, re-regulation of bus services and investment in transport infrastructure with a view to meeting communities’ needs and creating a growing local economy. Also, importantly, this had meant a move from ‘start-stop funding’ to a single funding agreement which provided more security to make longer-term investment.42

55. The GMCA told us it was now focusing on the delivery of health and social care as responsibility for healthcare had recently been devolved with the GMCA taking full responsibility in April 2016. The combined authority believed it was possible to reduce the health funding gap43, currently £2b for the Manchester area, through potential savings and efficiencies from across the area’s 15 NHS trusts.44

**Glasgow and Clyde Valley City Deal**

56. In January 2013, GCV undertook a study to determine whether an infrastructure fund could meet the area’s objectives. The study found there was significant need for additional infrastructure investment and a more co-ordinated approach to delivery would maximise the impact of investment.45

57. There are eight councils in the GCV: East and West Dunbartonshire, East Renfrewshire, Glasgow City Council, Inverclyde, North and South Lanarkshire and Renfrewshire. The GCV city deal includes three strands:

• A £1.13b infrastructure investment fund (£500m each from the UK and Scottish Governments) to enhance transport infrastructure; unlock new sites for housing and employment; and improve public transport over the next 10-20 years;

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42 Start-stop funding is where funding is provided for a fixed period and renewal is sought. For example this could be based on a bid for funds based on the previous year’s expenditure, or by applying to renew funds, or by providing evidence a target has been met.
45 (UK Government) (2014). Glasgow and Clyde Valley City Deal.
• A £72m life science and business support strand (£39m from the Scottish Government); and

• A £24m employability strand (Scottish Government supporting the partnership approach)

58. Over its lifetime, GCV leaders estimate the deal will:

• Support an overall increase of around 29,000 jobs in the city region;

• Work with 19,000 unemployed residents and support over 5,500 back into sustained employment;

• Secure £1b of Scottish Government and UK Government capital funding to support a proposed infrastructure investment programme for the area. This will be complemented by a minimum of £130m of investment from GCV local authorities;

• Lever an estimated £3.3b of private sector investment into the proposed infrastructure investment programme; and

• Spread the benefits of economic growth across GCV, ensuring benefit to deprived areas.

59. At our Committee meeting in Inverclyde, Alan Vessey from Glasgow City Council told us in terms of the infrastructure programme 14 business cases had been approved with another three business cases expected. Of the 14, three projects were in the Inverclyde area: Inchgreen, renewables hub; Inverkip, roadway improvements; and Greenock, expansion of the ocean terminal.

60. We were interested to learn whether and how profitability would be shared when investment involved a private company. Aubrey Fawcett, representing Inverclyde Council, explained profitability would be clawed back through a joint venture agreement, for example if the public sector and Peel Ports put in 50% investment each towards the expansion of the ocean terminal, then the residual income and the net income would be split on a 50:50 basis.

61. Another area we wished to clarify was how the public could be satisfied public money through a city deal was not being used to support or benefit a private concern. We were assured by Inverclyde Council that public money must be dealt with in a proper manner that does not breach state-aid rules.

62. We were keen to explore the ambition and innovation in the infrastructure projects proposed for the city deal. Alan Vessey understood initially 80 projects had been submitted and 20 were identified to give the city deal programme the best

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46 LGRC. Official Report, 5 October 2015, col 12
economic benefit. He also stated the projects worked together in a regional context.  

63. Our community stakeholder event held in Inverclyde raised some concerns about the lack of communication with the community around the various plans for Inverclyde. John Mundell, Chief Executive of Inverclyde Council, explained a number of recent community engagement events had been held. He accepted that, as far as the city deal was concerned, “people do not have enough awareness, despite the local work that has been done in Glasgow and Clyde Valley and that we need to do more. Our professionals in those areas are working on that just now.”

64. On whether Inverclyde was getting a fair deal from the city deal, Councillor Clocherty said—

“The answer is easy: yes, we are getting a good deal, when we consider the size of Inverclyde and the bang for our buck, as the convener put it. We are talking about a £1.13 billion infrastructure programme, with £0.5 billion coming from the UK Government, £0.5 billion coming from the Scottish Government and the local authorities coming up with the rest. Given the scarce resources that Inverclyde Council has for regeneration, our contribution, for three major projects, represents a very good deal for Inverclyde.”

65. John Swinney, Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy told us there were “many strengths and opportunities” in city deals. He also stated genuine collaboration was crucial to their effectiveness. He did not commit to providing funding to all Scottish city deals, but said—

“We are supportive and keen to be helpful, but our degree of support and the level of support will be determined by the quality of the propositions that come forward.”

66. We were interested in how the work was being monitored. Inverclyde Council explained briefly the governance arrangements in place. He advised Scottish Government and Treasury officials would be involved and that sufficient information will have to be provided to demonstrate we are getting the required gross value added outputs.
When asked whether city deals offered value for money, the Deputy First Minister said—

“The assessment of value for money must be applied rigorously and continuously through the city deal.”

He added—

“My in-principle view is that city deals are likely to be value for money because they will be driven by the values of collaboration and co-operation, shared interest and the breaking down of boundaries between public authorities.”

There was concern some areas not included in any city deal could be disadvantaged. This could directly impact on such areas’ ability to grow their economy, tackle regeneration and also connectivity, such as travelling to work or hospitals. This was of heightened concern where such areas had issues of deprivation.

Areas highlighted as an example of those which could lose out on funding as they were not either in city deal arrangements or included under the Scottish Cities Alliance were Grangemouth and Kilmarnock. In response to these concerns, the Deputy First Minister advised there was an existing range of interventions which could be deployed to support individual localities, such as TIF and GAM amongst others.

Conclusions

Greater Manchester Combined Authority

Although there are some ‘structural’ differences in the systems north and south of the border, there are lessons to be learned from the experience of GMAC. We found it valuable to hear what could be achieved through consensual partnership working by local authorities with shared goals. In doing so, economies of scale are created which work to the advantage of not just the largest authority but all partners. This formal partnership of authorities creates a climate of opportunity to strategically plan and focus on integration of infrastructure and services with funding over a longer timescale. Again the drive, professionalism and vision were evident in the combined authority’s staff and political leadership. We see these qualities as integral to the success of any city deal.

Collaborative working by local authorities

72. The GCV city deal is in its infancy and funding by the UK and Scottish governments is over a 20 year period. Greater Manchester’s local authorities have experience of working together for the past 20 years and so are well placed to grasp the opportunities provided by a city deal and more devolved powers. It remains to be seen whether the formal partnership of the eight local authorities involved in the GCV city deal will be able to forge and maintain stronger links through the process and find other opportunities, outwith the confines of the city deal, to work together for the greater good of the region. We ask the Scottish Government to review this aspect regularly throughout the lifespan of the city deal and update the Committee.

Selection of infrastructure projects

73. We note with the GCV city deal there were 80 infrastructure projects submitted by councils and 20 selected. The Committee asks the GCV cabinet to provide the criteria used to identify the projects which have the most benefit to the region; lessons learned from this process and whether these lessons were, or will be, communicated to the other regions in advance of their bids for a city deal. In addition, we would like to know how the Scottish Government intends to measure the impact of these infrastructure investments on the local and wider economy.

Governance arrangements

74. We understand each city deal will have its own governance arrangements; for example, an independent Commission on Urban Growth is to be established to undertake analysis and make recommendations to the UK and Scottish governments on the performance of the infrastructure fund. Crucial to its success will be the management and accountability structures underpinning a city deal, particularly where there is private investment. We seek clarification from the Accounts Commission what its role will be in relation to city deals as the public spending watchdog for local government. If the Aberdeen, Edinburgh and Inverness and Highlands city deals all come to fruition this will mean 75% of Scotland’s population will be covered by deal based agreements. This underlines the need for robust governance and careful monitoring performance and outcomes.

Infrastructure investment and non-city deal areas

75. The fact that 75% of Scotland’s population could be covered by deal based arrangements poses a serious equality and equity question: what becomes of the remaining 25%. How will these non-city regions tackle growing their economies when funding is being channelled to city regions? We would find it helpful if the Scottish Government could identify those potential communities and provide a more detailed view on what initiatives and support it will make available to assist. We recommend the Scottish Government takes all necessary steps to ensure all
Scotland benefits from initiatives to invest in infrastructure. We also consider the Scottish Government ensures city deals have wider benefit to those areas immediately surrounding the city region and do not disadvantage these communities.

City deals and improved public services

76. A significant part of our work programme has been devoted to the delivery of public services. We would be encouraged to see evidence of the impact city deals have on the efficiency and effectiveness of public services through the medium of enhanced infrastructure investment. It would be helpful if the Scottish Government could advise how it intends to measure and report upon this aspect under city deals.

77. The Committee’s community stakeholder event held in Inverclyde raised some concerns about the lack of communication with the community around the various plans for Inverclyde. We recommend those council areas included in a city deal undertake sufficient awareness work to assist communities understand strategic infrastructure investment plans for its area and the anticipated benefits this will bring.

78. Local authorities have been making progress in community involvement in recent years. We would be dismayed if this did not work through into city deals. We ask the Scottish Government to indicate how, under the arrangements being agreed, community involvement can be guaranteed and crucially built in from the outset.
## Annexe A

Local Government Pension Funds and the allocation of councils to those funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strathclyde Pension Fund</td>
<td>Glasgow City, Argyll and Bute, East Ayrshire,</td>
</tr>
<tr>
<td></td>
<td>North Ayrshire, South Ayrshire, West Dunbartonshire, East Dunbartonshire, North Lanarkshire, South Lanarkshire, East Renfrewshire, Renfrewshire, Inverclyde</td>
</tr>
<tr>
<td>Lothian Pension Fund</td>
<td>City of Edinburgh, Midlothian, West Lothian, East Lothian</td>
</tr>
<tr>
<td>North East Scotland Pension Fund</td>
<td>Aberdeen City, Aberdeenshire, Moray</td>
</tr>
<tr>
<td>Tayside Superannuation Fund</td>
<td>Dundee City, Angus, Perth and Kinross</td>
</tr>
<tr>
<td>Scottish Borders Pension Fund</td>
<td>Scottish Borders</td>
</tr>
<tr>
<td>Dumfries and Galloway Pension Fund</td>
<td>Dumfries and Galloway</td>
</tr>
<tr>
<td>Falkirk Council Pension Fund</td>
<td>Falkirk, Stirling, Clackmannanshire</td>
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<tr>
<td>Fife Council Pension Fund</td>
<td>Fife</td>
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<tr>
<td>Highland Council Pension Fund</td>
<td>Highland, Comhairle nan Eilean Siar</td>
</tr>
<tr>
<td>Orkney Islands Pension Fund</td>
<td>Orkney</td>
</tr>
<tr>
<td>Shetland Islands Pension Fund</td>
<td>Shetland</td>
</tr>
</tbody>
</table>
Annexe B

Extracts from minutes of the Local Government and Regeneration Committee

4th Meeting, 2015 (Session 4) Wednesday 4 February 2015

2. Budget Strategy Phase 2016-17 (in private): The Committee considered its approach to the Budget Strategy Phase 2016-17 and agreed to—

- take evidence on the role of local government pension funds in terms of investment in capital infrastructure projects, and
- keep a watching brief on the formation and operation of the recently announced Commission on the future of Council Tax.

3. Work programme (in private): The Committee considered and agreed its work programme up to the end of June 2015. As part of this programme, the Committee agreed to undertake its work on the Budget Strategy Phase 2016-17 in late April 2015. The Committee also agreed to review its work programme in private, in June 2015 and to consider any further review of the work programme, in private, at future meetings.

13th Meeting, 2015 (Session 4) Wednesday 29 April 2015

2. Budget Strategy Phase 2016-17: The Committee took evidence at the Budget Strategy Phase 2016-17 from—

- Chad Dawtry, Director of Policy, Scottish Public Pensions Agency;
- Barry White, Chief Executive, Scottish Futures Trust;
- Dave Watson, Scottish Organiser, Unison Scotland;
- Peter Morris, Head of Pension Policy, Tameside Metropolitan Borough Council, Greater Manchester Pension Fund;
- Richard McIndoe, Strathclyde Pension Fund and Head of Pensions, Glasgow City Council;
- Steven Whyte, North East Scotland Pension Fund and Head of Finance, Aberdeen City Council;
- Bryan Smail, Falkirk Pension Fund and Head of Finance, Falkirk Council.
2. **Budget Strategy Phase 2016-17 (in private):** The Committee considered the evidence received and agreed to consider an approach paper on issues raised in relation to the Budget Strategy Phase 2016-17 in due course.

13\textsuperscript{th} Meeting, 2015 (Session 4) Wednesday 29 April 2015

1. **Work programme (in private):** The Committee considered its work programme for the period September 2015 to March 2016. It agreed to undertake the following items of work which will be scheduled, as appropriate, over the period from September 2015 to March 2016.

In terms of its mainstreamed scrutiny of the Scottish Government’s annual budget, the Committee considered and agreed a more detailed approach to its scrutiny of local government pension fund investment in supporting capital infrastructure development. The Committee agreed the following scope for this work—

To examine the ability of Scottish Local Government Pension Funds ("LGPFs") to support the delivery of local capital infrastructure through their investment policies by—

a. Looking at how current investment vehicles are developed with a view to attracting LGPF investment to support the delivery of capital infrastructure (such as housing or transport projects etc.) in other parts of the UK;

b. Examining perceived barriers to local capital investment vehicles and how these link to Funds’ investment strategies, their fiduciary duty and the legislative framework; and

c. Considering if there is a role for other public policy initiatives, such as City or Region Deals, to help foster an economic environment for such investment vehicles to be developed.

Based on the first phase of this work already undertaken, the Committee also agreed—

- to seek written evidence from Bradford City Council, as the parent authority for the West Yorkshire Pension Fund’s investment strategy, in terms of its development of in-house expertise on pension investments;

- to undertake fact-finding visits to Manchester and Inverclyde to examine key issues;
to invite COSLA representatives to take part in a fact-finding visit, as appropriate;

to take any further oral evidence from key stakeholders;

to take oral evidence from the Deputy First Minister and Cabinet Secretary for Finance, Constitution & Economy and the Cabinet Secretary for Social Justice, Communities & Pensioners’ Rights;

to report to the Finance Committee on this work, as well as provide reports to other relevant subject committees on any relevant issues arising;

to consider any further approaches to the draft budget, and any draft reports on it, in private at future meetings, and

to delegate the approval of any witness expenses to the Convener and clerks.

22nd Meeting, 2015 (Session 4) Monday 5 October 2015

1. Draft Budget Scrutiny 2016-17: The Committee took evidence on issues around local government pension funds and investment in capital infrastructure projects and Inverclyde's role in the Glasgow and Clyde Valley City Deal from—

Cllr Jim Clocherty, Depute Leader of the Council, John Mundell, Chief Executive, and Aubrey Fawcett, Corporate Director for Environment, Regeneration and Resources, Inverclyde Council;

Alan Vesey, Director City Deal, Glasgow City Council;

Richard McIndoe, Head of Pensions, Strathclyde Pension Fund;

Alastair Dickie, Development Director, Ediston Real Estate;

David Robertson, Chief Financial Officer, Scottish Borders Council.

26th Meeting, 2015 (Session 4) Wednesday 18 November 2015

5. Draft Budget Scrutiny 2016-17 (in private): The Committee considered a draft report.