Section A: Summary information

EOI final version: 15 January 2013

A1. Proposal title

"The Portsmouth and Southampton City Deal: A second wave for the Solent Maritime economy"

A2. Key partners involved in the proposal.

- Portsmouth City Council
- Southampton City Council
- Solent Local Enterprise Partnership
- Hampshire County Council
- Isle of Wight County Council
- District Councils including: East Hampshire, Eastleigh, Fareham, Gosport , Havant, New Forest, Test Valley and Winchester.
- BAE Systems
- Associated British Ports
- Centros Delancy
- Tipner Regeneration Company
- Morgan Sindall
- Hammerson
- Southampton Football Club

A3. Local point of contact.

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Section B: Problem definition

B1. What is the single economic challenge or opportunity that you want to address through a city deal? Why has this been chosen as the focus of your proposal?

With a population of over 1.3 million and 50,000 businesses the Solent area is an internationally recognised key industrial hub, anchored around the two cities of Portsmouth and Southampton, the M27 corridor and the Solent waterway. Southampton Airport links to 43 destinations in Europe with 1.76 million passengers (2011) and 250 tonnes of cargo a year. The economic and communications inter-dependencies between the cities and the wider Solent area are crucial to a local economy that produces output of around £48.5bn (GVA £23.7bn) and supports around 485,000(FTE) jobs. The cities have a sub regional footprint and workers in the wider sub region tend to travel into the cities, so their prosperity is critical to the wider economy.

Like many areas, our economy faces multiple challenges including the need to invest in education and skills to ensure that local residents are equipped to take up the jobs that are created, improving the strength of our business and housing stock, and supporting areas that are economically vulnerable in order to substantially reduce the high levels of welfare dependency. It is our expectation that these areas will be addressed in the Core Offer associated with the City Deal.

The focus of our EOI is **to address the challenge associated with facilitating the growth and diversification of our maritime sector, specifically our sub-sectors in transport and logistics, defence and advanced manufacturing, the visitor economy and the complex supply chains linked to research and innovation. The focus of the Portsmouth and Southampton City deal is to deliver enabling infrastructure and assemble land to bring forward the development of seven key sites (Royal Pier, Itchen Riverside, Marchwood, Watermark Westquay the Portsmouth Naval Base, Tipner/Horsea Island and the Northern Quarter) around the Southampton/Portsmouth Waterfronts, allowing growth in this sector and the associated sub-clusters.**

The Solent is the heart of the UK maritime cluster, comprising 20.5% of the Solent's GVA, compared with just 3.5% across the UK. It contributes 40,000 jobs and over 3,000 businesses in the wider supply chain. Whilst the outlook for this cluster is extremely positive, without galvanising decision-making and investment, the availability of timely land capacity and the right knowledge and skills is a significant constraint on future economic growth, as is the congestion on access routes across the wider inter urban network. With the focused support set out in Section C, we can unlock investment worth £1.5bn and significant growth linked to;

Southampton Waterfront: This is dominated by the Port of Southampton providing a wide range of passenger, freight and cargo functions. It has a sub-regional footprint providing, directly and indirectly, 15,000 jobs[1] in the Solent, contributing over £1.2bn of output per annum and it is one of the UK's largest ports, an international gateway and a global import and export hub for the UK motor industry, exporting more vehicles than any other UK port[2]. It is the busiest cruise port in the UK showing a 380% increase in cruise passengers over the period 1998 to 2010[3]. The container[4] and Ro-Ro sectors are forecast to grow by an average annual rate of 3-4% and by 2020 the intensity of land use will have reached the limits of practical land use optimisation. We are seeking to facilitate the growth of the Port by supporting land assembly linked to the MOD site at Marchwood and optimise the land use linked to the Waterfront including Itchen Riverside, Royal Pier and Watermark Westquay.

Portsmouth Waterfront: This is dominated by a defence cluster which is also very well represented right across the Solent area[5]. Portsmouth and the Royal Naval Base form the heart of this and the present day Base has three miles of waterfront. It provides, directly and indirectly, 20,000 jobs across

[1] Across the City of Southampton and surrounding areas including IOW and Districts in South Hampshire
[2] 700,000 vehicles in 2011
[3] 1,243,000 in 2010. This will increase to 2,000,000 by 2030
[4] DP Container terminal sits on 210 acres with 1350m of continuous quay and handles 40 – 45% of UK deep sea trade.
[5] Many of the largest suppliers to the MOD including BAE, Lockheed Martin, Northrup Grumman, QinetiQ, Serco and Rolls Royce are located in the Solent

the sub region and contributes over £1.6bn of output. Currently it supports the RN surface fleet and there is a strong maritime services function offering an integrated ship support, complex software engineering and advanced manufacturing solutions, equipment management, training, estates and logistics service. We are seeking to facilitate the transformation of the Naval Base by accelerating planned infrastructure investment linked to the site and optimising the land use linked to the waterfront including the Tipner./Horsea Island bridge, the Tipner development and the Northern Quarter

The key to the success of the Solent economy will hinge on its ability to grow, evolve and adapt to changing trends in global trade, the evolution of complex warships which require high end advanced manufacturing and complex business engineering solutions, new commercial and regulatory priorities (e.g. in renewables), changes in defence policy and shipping.

In the period to 2030 the Port of Southampton forecasts an increase of 4000 jobs and an additional £0.5bn GVA output per annum and there is a lack of space for expansion along Southampton Water, which could be alleviated by access to land at Marchwood.

Going forward the vision is that the surface fleet will be managed from a Portsmouth hub (see point 3 below) and there will be an increase in tonnage from 90,000 in 2012 to 240,000 by 2020. Ships will be highly complex and at least 150% larger, needing 300% more power with an overall increase in sailors (base ported in Portsmouth) of 2000.

This growth is at risk and is being jeopardised due to:

1. **Complexities linked to multiple public agency involvement**, land assembly and land remediation. Large sites with employment and housing potential exist, but, given the constraints over the use of land for environmental and policy reasons, they require concerted decision-making and significant investment to make them fit for purpose. Long lead-in times and sequential rather than co-ordinated decision-making by central agencies in DEFRA, the MOD and HCA is suppressing private sector investment.

2. **Uncertainty linked to delivering infrastructure and development**. Securing efficient delivery of infrastructure requires co-ordinated and timely decision making and an environment that gives confidence to investors. A wide variety of issues contribute to this as detailed in 1. but some of the key problems include an unclear planning and consenting regime at a national level. Our unique coastal location is subject to the habitats directive. It is important that the sensitivity of environmentally important sites is respected, but there are issues linked to proportionality and there are many examples where protracted decision-making in relation to these directives has led to unnecessary costs and delays in the delivery of our key infrastructure projects.

3. **Uncertainty around land release and associated investment** needed to facilitate this expansion. Much of it is controlled by public agencies such as the MOD. For example, the port facility at Marchwood is located within the wider Port of Southampton area handling some 100,000 tonnes of cargo per annum. The 2010 Strategic Defence Review concluded that this was surplus to MOD requirements and should be disposed of, but as yet its future has not been confirmed. Conversely, there is a lack of space for expansion along Southampton Water, which could be alleviated by access to land at Marchwood; it would also free up development opportunities linked to the Itchen riverside, including potential Southampton Football Club investment. Another example is the Portsmouth Naval Base. There is a need to prepare for the arrival of the Queen Elizabeth Class aircraft carriers, which will be based in Portsmouth at the latest from 2017. The dockyard's Victorian infrastructure, whilst historically important, will not meet the increased demand of supporting the surface fleet without 'wrap-around' investment in business critical infrastructure such as utilities and logistics. The MOD has a planned 10 year capital investment of £332m for the Base. This needs to be brought forward and aligned with infrastructure investment from the private sector and local public sector investment to bring forward the arrival of the QE Class carriers to 2015, thereby safeguarding the maritime services operations and supporting the sustainable future operation of the Naval Base.

B2. Why can't this be taken forward by the private sector or through existing policy tools?

Given the history of the area it is unsurprising that some of the development sites have large upfront costs that render them initially unattractive, particularly where land remediation including de-contaminating ex-military sites is needed and/or third party consents from statutory bodies are required. This inhibits private sector investment.

The private sector is encountering blockages caused by over regulation and land assembly issues. Developments have **experienced severe delays or are being mothballed until businesses** (such as ABP, Morgan Sindall and BAE Systems) **receive the permissions they need** from key agencies such as the MMO and Natural England, or land acquisition from the MOD. In an area with a strong maritime core and a high concentration of MOD land this is a barrier to growth and there are long running issues particular to Portsmouth and Southampton linked to securing consents from the MMO for Port development and certainty from the MOD on land release/acquisition needed to create the space for the expansion along the Southampton Water and to safeguard the sustainable, maritime services side of operations at the Portsmouth Naval Base.

Our local leaders (public and private) are committed to working together to effect long term economic change in both cities. There is a willingness to use local funds to bring forward these sites working on a shared risk basis with government, but it will require the development of flexible financial frameworks and greater devolvement and co-ordination of decision-making. Central government has a vital role to play through the City Deal to create the conditions needed for this economic transformation to take place, including a need to secure a **special relationship with key government agencies (particularly the DEFRA family, MOD, HCA, Crown estates (TCE) and HA) to ensure that we all work together** to meet shared goals.

Section C: Broad approach

C1. What broad approach do you intend to take to addressing the challenge or opportunity identified above?

Our broad approach is to secure devolved and focussed support and decision making across local and central agencies to deliver a £1.5bn transformation of our waterfront sites underpinned by a new strategic Growth plan for the Solent area. The land, investors and schemes have been identified and commitment to this through the City Deal will give further confidence to the sector and the Solent area. It will focus on bringing into use land benefiting from existing port infrastructure of national significance and enhancing a global maritime cluster by strengthening the private sector business base in both cities.

We will do this by:

1. Preparing a high quality **three year strategic plan to direct investment** in the Solent area in to include transport, housing, schemes to get people back into work, skills, schemes to support business creation and growth and any additional local growth funding. This would combine with the local investment funds identified below.

2. Committing **significant local investment (£1.5bn) alongside a new strategic plan[6] for local growth for the Solent area.** Recognising the scale and complexity of the challenges we face, the immediate threat of further economic shocks and more job losses including the Ford closure announcement, the Solent LEP will lead the development of a new three year strategic plan for the Solent area for completion in mid 2013. This plan will include coordination with on-going public programmes and private sector demand and will leverage funding, including from local authorities

[6] and supporting investment framework, prioritising projects on an appraisal system that assesses impact on economic growth

and the wider public and private sector. Capacity is already in place to ensure that this can go forward with immediate effect.

To support the delivery of this plan and to unlock over £1bn of private sector investment, **we will create two distinct funds with a total of £500m directed specifically at unlocking growth.**

The first fund will be drawn from the significant temporary cash balances held in the earmarked reserves of the Local Authorities party to this Deal, and the Growing Places Fund. Instead of investing these funds on the money markets, the Local Authorities are prepared to use them as development finance to potentially accelerate the developments at Tipner, Itchen Riverside, Royal Pier, Watermark West Quay and Northern Quarter[7] and to potentially make them more viable to unlock further private sector investment. Such funds would be suited to these private sector developments as they have a relatively short payback and would be issued in the form of loan finance over a rolling 5 to 10 year period. Whilst the reserves are required in the future to meet known liabilities, there is a willingness to explore investing these funds into the core growth proposals in this Deal. Of over-riding concern however, is the duty of Local Authorities and the Accountable Body for the Solent LEP to safeguard public funds and to not invest such funds at undue risk.

The second fund would be created at the risk of the Local Authorities and sourced from Prudential Borrowing. This fund would be used to support Public Sector infrastructure which is required as an enabler of development and which had no obvious private sector payback and would potentially include supporting the construction of the Tipner/Horsea Island Bridge and road/flood defence infrastructure in Portsmouth and Southampton[8]. The Local Authorities would be willing to borrow for investments that could be financed by additional NNDR receipts generated over a 20 year period or the life of the asset, whichever is the earlier. Equally, the Authorities would undertake the necessary due diligence and business case modelling prior to awarding any investment. This fund will be limited only by the likely payback in terms of NNDR receipts but could reasonably be expected to amount to c £200m.

To do this our asks are that:

i. Building on the creation of our local investment fund, the Solent will work with you to support the creation of a **single pot for economic growth to be made available in** 2014, combining investment across government agencies and local investment funds. This should include a provision for the Solent to share in all revenues generated from local growth.

ii. Our first investment fund is **underwritten by the Government's Infrastructure Guarantee** under the Infrastructure (Financial Assistance) Act 2012. We would mitigate the risk by gaining all the normal charges, securities and guarantees from developers linked to the schemes at at Tipner, Itchen Riverside, Royal Pier, Watermark West Quayand Northern Quarter and develop a business case, including associates risk event scenarios. Utilising these temporary surplus funds would not require any additional borrowing on the part of the local authorities or on the national balance sheet. We would ask that this Infrastructure Guarantee is used to underwrite any loss of principal and interest that may arise should there be a default on the loan for any reason.

iii. Our agreed sites within our second investment fund are **outside of the national reset proposals for NNDR**.

[7] subject to the preparation of a business case, including associate risk scenarios and use of the Infrastructure Guarantee is used to underwrite any loss of principal and interest that may arise should there be a default on the loan for any reason.

[8] subject to undertake the necessary due diligence and business case modelling prior to awarding any investment. and a case that demonstrated that that this could be financed by additional NNDR receipts generated over a 20 year period or the life of the asset, whichever is the earlier.

iv. The Solent LEP nominate an **infrastructure project funded under the new concessionary public works loan rate**.

3. **Creating a favourable business environment** and reducing regulation is critical to our success. We have agreed a sub-regional spatial strategy across ten local authorities to prioritise development and employment sites for our key sectors, and identified infrastructure needs. Our local planning policies are aligned to this and, in addition to the Enterprise Zone, we will apply LDO arrangements in significant growth locations to facilitate the speedy development of individual sites such as Northern Quarter and Itchen Riverside. We will, as part of the City Deal, **agree an investment framework**[9] that details the pipeline of projects we will implement over the 10 year period to 2023 (and as detailed in D1) and beyond to 2033 and this will be a material consideration in the determination of planning applications. This has and will continue to improve business confidence. **To do this our asks are to:**

I. Simplify and speed-up planning procedures nationally within the Solent area and also to balance the influence of statutory consultees. We want to see reform to ensure that the **statutory bodies'**[10] **working practices are improved** to facilitate the delivery of **timely, informed and proportionate responses** to proposed development at the Port of Southampton and along the waterfront at Itchen Riverside and Royal Pier and similarly for Tipner and the Portsmouth Naval Base . We would like to develop collaborative planning arrangements at a local level, including a local, time limited planning appeal process for major developments.

II. Establish a single conversation and a direct dialogue with the MMO, Natural England, Environment Agency MOD and HCA to secure a positive and joined-up approach to development proposals linked to the Port, the Naval Base, Marchwood and other key strategic sites such as Tipner, Royal Pier, the Ford site and Itchen Waterside. Within this the Solent would be willing to pilot the creation of a jointly led (DEFRA/local area) problem solving unit to address blockages (linked to dredging, land remediation and development of the current ex-military/MOD sites of Tipner, Marchwood and the Naval Base) which are holding back projects of economic significance. In addition we need to secure an agreement to localised asset management bringing together local and national land assets and investment and the creation of **a local delivery team** made up of senior decision makers from the local authorities, the LEP, BIS, DFT DCLG (HCA). the DEFRA family , (the MMO, the Environment Agency and Natural England) Crown Estates (TCE) and the MOD - all tasked with delivering these developments in a timely and responsive manner.

III. Secure a responsive approach to the **release of decommissioned MOD sites back to the market** and a new approach to releasing economically important development land by the MOD, particularly in relation to the development of Marchwood and the Naval Base at Portsmouth where there is the potential to unlock further growth in maritime services and logistics.

IV. There is also a need to enhance local influence over other national agencies in order to remove unnecessary and inefficient central control. Local management of the network will help ensure transport into the sites is managed effectively, thereby increasing the viability of these sites.The South Hampshire highway network is dominated by the M27, which, whilst an important strategic road (particularly with regard to port traffic), also performs an significant local distributor function. This together with the M271, M275 are unusual in that c70% of the traffic they carry comprises local journeys. The fragmented nature of the road network in this area means that different agencies are managing transport for different objectives some of which conflict with the economic growth of the cities and wider Solent area. In addition we are missing real opportunities to reduce costs by developing shared traffic management, procurement and land use strategies. We also believe there is also a need to rebalance the HA priorities to be more supportive of economic

[9] Aligning local funds, core economic funds from central government, ERDF and private sector investment

[10] From the DEFRA family – including MMO, Natural England and Environment Agency

growth. To do this requires the establishment of **a joint Management Board between the HA and the local highways authorities** (HCC, PCC, SCC and IOW) and the development of **a tailored Route Management strategy** for the M27, M271 and M275 and the surrounding local road network.

C2 How can this approach 'do more with less' by delivering greater efficiency in public spend or by leveraging new resources from the private sector?

The **overarching benefits** are that it will:

- Deliver **significant £1.5BN local co-investment from the private and public sectors** in our key commercial locations, shortening the time horizon on which these developments can come forward as detailed in D1
- Encourage a **greater willingness in the Cities and the wider Solent to take on risks**, adopting a risk sharing approach with Central Government when implementing projects to promote local growth. This is critical as many of our sites need de risking before we can unlock private sector investment.
- Facilitate the preparation of **joint investment plan across the two cities and Solent area**, encouraging local authorities to collaborate in investment planning alongside the central government infrastructure guarantee facility and local business rate retention.
- Deliver rigor in determining the economic benefits from **projects appraised under an agreed investment framework** that assesses impact on economic growth
- Deliver greater efficiency in the management and operation of the **transport network to underpin growth** by better utilisation of existing capacity.

C3 What local resources do you expect to invest in addressing this problem?

We will invest over **£1.5bn of local funds** under a risk sharing approach with the private s**ector, local government, Solent LEP and central government as follows:**

- **Creating a revolving fund to support economic investment in the Solent area Two local investment funds comprising c£500m** drawing on significant temporary cash balances in earmarked reserves within the two cities and the Solent LEP Growing Places fund and by pooling and applying prudential borrowing capacity across Solent local authorities to borrow against Local Authority-wide growth.
- **£1bn private sector investment** via ABP, Morgan Sindall (for Royal Pier), BAE Systems. Tipner Regeneration Company, Southampton FC and Centros Delancey.

We will also align and invest our considerable **local public/private partnerships**, our local skills and regeneration experience, extensive track record of collaborative working (Solent LEP, PUSH, TfSH) and our commitment to develop suitable combined authority governance arrangements to deliver the City Deal.

We will also be bringing forward identified land which relates to a world trade gateway of national significance for high value added developments to support our key sectors.

Section D: Expected benefits

D1 How do you expect your proposal to have an impact on local jobs and growth, and at what scale?

The City Deal focuses on a 10 year plan for the sites detailed below, as they have the greatest potential to transform our economy for the cities and wider Solent area, as the two cities account for 29% of total private sector employment within the Solent sub region[11]. Based on independent analysis[12] this could facilitate:

- The growth of Southampton Port over the period 2013 to 2023.
- The transformation of the Naval Base by 2015 to meet the increased demand for supporting the surface ships moving forward
- The delivery of the Northern Quarter by 2018
- The realisation of Watermark West Quay in Southampton by Hammerson by 2019
- The delivery of the Tipner and the Tipner/Horsea Island bridge by development by 2020
- The delivery of the Royal Pier by Morgan Sindall by 2023
- The delivery of the Itchen Riverside, with a timeline dependent on discussion regarding release of MOD sites

This will unlock over £1 bn of private sector investment and in the period to 2023 will create 16,500 new jobs and safeguard 3900 existing jobs for residents across the Solent sub region.

Section E: Governance

E1. Over what geographical area will you address this problem? Why?

The Solent area comprises two of the largest cities in the south east, Portsmouth and Southampton with the surrounding southern part of the County of Hampshire. The 'urban core' is made up of the two cities plus Eastleigh, Fareham, Gosport and Havant. The geography covered by the Solent LEP also includes the Isle of Wight and parts of the New Forest, Test Valley, Winchester and East Hampshire. There are significant economic interdependencies across the area; therefore the geographical focus for the bid will be the Solent LEP functional economic area. The County and district authorities have long recognised the need to promote a 'cities first' policy; there is an interdependency between the economies of the two cities and the surrounding area that requires the group of authorities comprising south Hampshire to work together across administrative boundaries.

E2. What governance structures will ensure effective, binding and strategic decision-making across the relevant economic area?

[11] Centre for Cities - 2011

[12] Socio – economic impact of the Port of Southampton – Atkins 2011 and the Socio economic impact of Portsmouth Naval Base – Portsmouth University - 2012

A formal protocol of collaboration already exists between the two city councils that has endured changes of political administration and chief executives. The formal creation of the Solent LEP, and the links between that and the existing sub sub-regional bodies, Partnership for Urban South Hampshire (PUSH) and Transport for South Hampshire (TfSH) has enhanced the existing local authority governance arrangements by bringing together not only the main business organisations but also a wide range of sector based organisations that provide a strong base on which to build and drive forward an economic strategy. This will ease the transition towards a combined arrangement. It has also enabled the private sector, local authorities and higher education to work together under the Solent LEP and the relevant local authorities and others to work together effectively for eight years. All partnerships have been resilient to political change within the constituent authorities.

The Southampton and Portsmouth City Deal provides an opportunity to build on these governance arrangements, as well as the expertise of others who have developed governance arrangements for their City Deals. This includes considering key advantages of a Combined Authority model as it is recognised that this delivers joint governance arrangements for transport, economic development and regeneration, which allow for strategic prioritisation across the area covered by the Combined Authority. It is intended to engage with core cities such as Leeds and Sheffield who are adopting a Combined Authority model and there is a commitment to undertake an options appraisal of a range of models, including existing Joint Committee structures, the Solent LEP governance structure and the Combined Authority model[13]. This will commence in March 2013 with an intention to conclude the appraisal by September 2013. This should ensure that we develop robust governance arrangements that build on our current strengths and which also meets the requirement to ensure effective, binding and strategic decision-making across the Solent LEP economic area.

E3. How will you generate momentum in developing a workable city deal proposal?

Considerable momentum has already been developed. We are already building on strong existing relationships that have existed for a number of years through TfSH, PUSH and the Solent LEP. A core team has come together from the local authorities and the Solent LEP to develop the City Deal. All of the Council Leaders and Chief Executives of the local authorities in the Solent area have expressed their commitment to making the City Deal work. Together with the Solent LEP, we have commissioned the Centre for Cities to assist with our bid and are meeting regularly with Cities Unit and BIS Ministers and colleagues, including a series of workshops held with the county and district councils, the LEP, PUSH and TfSH to support the development of this bid.

Following the announcements in the Autumn Statement, Solent LEP will lead the development of a new three year strategic plan for the Solent area for completion in mid 2013, consulting with all relevant local partners, including City, District and County authorities, the local chambers of commerce and other business bodies. This plan will build on existing plans, include coordination with ongoing public programmes, and will seek to leverage funding, including from local authorities and the wider public and private sector. We are also committed to agreeing as part of the City Deal the creation of a local growth team comprising senior decision makers from the local authorities, the LEP, BIS, DFT DCLG (HCA) and the DEFRA family (the MMO, the Environment Agency and Natural England) and the MOD. They will be tasked with facilitating these developments, joining up local and central government, and delivering in a timely and responsive manner.

[13] As agreed at the City Deal workshop meeting on 8 January 2013 by all Local Authorities listed in A2 and the Solent LEP