

SUBJECT: THE CARDIFF CAPITAL REGION CITY DEAL

MEETING: COUNCIL

DATE: 26TH JANUARY 2017

DIVISION/WARDS AFFECTED: ALL

1. PURPOSE:

- To outline the next steps for the Cardiff Capital Region City Deal
- To seek approval for the establishment of the Cardiff Capital Region ('CCR') Joint Cabinet (the 'Regional Cabinet'), as a joint committee, to oversee the Region's economic growth agenda and delivery of the commitments set out in the CCR City Deal.
- To seek approval of the CCR City Deal Joint Working Agreement ('JWA'), the CCR City Deal Assurance Framework and Implementation Plan which are required to establish the Regional Cabinet and the City Deal Investment Fund.

2. RECOMMENDATIONS:

It is recommended that Council:-

- 2.1 Approve the Joint Working Agreement (the 'JWA') as the legal document that formally establishes the Cardiff Capital Region ('CCR') Joint Committee (the 'Regional Cabinet') as a Joint Committee, with delegated functions, with a Commencement Date of the 1st March 2017. The elected member representative to the Regional Cabinet shall be the Leader of the Council, or his/her nominated Deputy;
- 2.2 Approve the financial contributions from each constituent council towards the collective £120m total, (together with such associated costs e.g. carry costs), as detailed in the body of this report;
- 2.3 Approve the carry forward of any remaining revenue funds from 2016/2017, contributed by each constituent council, into 2017/2018 in order that the support structure for the Regional Cabinet continues;
- 2.4 Approve the collective revenue contributions of up to £1m (inclusive of Recommendation 2.3 above, on a proportional basis as set out in the JWA) to the 2017/2018 budget, in order that the support structure for the Regional Cabinet continues;
- 2.5 Approve that the City of Cardiff Council acts as the Accountable Body with the responsibilities as set out in the JWA;

- 2.6 Approve the Assurance Framework as the open and transparent, robust decision making process for considering all proposals requiring support from the CCR City Deal Wider Investment Fund;
- 2.7 Approve the Implementation Plan in the form attached to the JWA, subject to each constituent council approving the JWA Business Plan;
- 2.8 Approve the Leader in consultation with the Chief Executive, the Monitoring Officer and s151 Officer be granted delegated authority to agree such amendments as are necessary to the JWA, Assurance Framework and Implementation Plan (as are appropriate) from the date of acceptance of these recommendations to the Commencement Date of the 1st March 2017;
- 2.9 Approve the Leader in consultation with the Chief Executive, Monitoring Officer and s151 Officer be granted delegated authority to agree whether the Council should continue to explore the opportunity to continue to participate in the CCR City Deal in the event that one or more of the ten constituent councils fail to agree any of recommendations 2.1 – 2.7 above; and
- 2.10 Approve the Leader of the Council or his nominated Deputy be granted delegated authority to sign the JWA on behalf of the Council.

3. KEY ISSUES:

- 3.1 On 15th March 2016, each of the ten constituent council leaders in South East Wales, the First Minister, the Wales Government Minister for Finance and Government Business, the Secretary of State for Wales and the Chief Secretary to the Treasury signed the Cardiff Capital Region ('CCR') City Deal Heads of Terms Agreement. The City Deal is therefore an agreement between the UK Government, Wales Government and the ten leaders of the CCR. It includes:
- A £1.2 billion investment in the CCR's infrastructure through a 20-year Investment Fund;
 - The creation of a non-statutory Regional Transport Authority to co-ordinate transport planning and investment, in partnership with the Welsh Government;
 - The development of capabilities in Compound Semiconductor Applications;
 - The creation of a CCR Skills and Employment Board;
 - The CCR and the Welsh Government will work with the Department of Work and Pensions to co-design the future employment support from 2017 for people with a health condition or disability and/or long term unemployed;
 - A CCR Business Organisation will be established to ensure that there is a single voice for business to work with local authority leaders; and
 - The Welsh Government and the CCR commitment to a new partnership approach to housing development and regeneration. This will ensure the delivery of sustainable communities, through the use and re-use of property and sites.
- 3.2 To ensure the right investments are made to achieve significant economic growth the CCR City Deal has set a small number of key targets, which are: the creation of 25,000 new jobs by 2036; and leveraging £4 billion of private sector investment as a result of the £1.2bn public sector investment.

3.3 The City Deal Heads of Terms Agreement is very clear in what is expected of the ten constituent councils:

“The establishment of a Capital Region Cabinet will be the first step in the development of greater city-region governance across the Cardiff Capital Region. The Cabinet, which will comprise the ten participating local authorities, will provide the basis for initial decision making regarding the Investment Fund. In addition the Cardiff Capital Region Cabinet will be responsible for:

- *management of the Cardiff Capital Region Investment Fund;*
- *additional devolved funding provided to the Capital Region;*
- *the Cardiff Capital Region Transport Authority;*
- *contracting with Transport for Wales on prioritised Metro projects;*
- *control over devolved business rate income above an agreed growth forecast, subject to Welsh Government agreement;*
- *strategic planning including housing, transport planning and land use;*
- *influencing skills and worklessness programmes;*
- *an Inward investment and marketing strategy; and*
- *considering the scope for strengthening Capital Region governance further.”*

3.4 Since the 15th March 2016, the ten constituent councils have been working with the Wales and UK Governments to establish the governance arrangements required to release the £1.2bn of investment. Management and control over the CCR City Deal Investment Fund, comprises two distinct elements:-

3.4.1 **£734m – METRO scheme.** This is made up of £503m Wales Government funding provided over the first seven years of the Investment Fund, from 2016/17 to 2022/23; £106 million from the European Development Fund (which is committed and guaranteed by both UK and Wales Government); and £125m from UK Government. This element will be the direct responsibility of Wales Government.

3.4.2 **£495m – Regional Cabinet Fund,** comprising the ten constituent councils’ commitment to borrow £120 million over the 20 year period of the Investment Fund, together with £375m from UK Government, for investment in infrastructure, housing, skills and training, innovation, business growth and “Metro plus” transport proposals. This element will be the responsibility of the CCR Regional Cabinet.

3.5 In addition, the existing Shadow Joint Cabinet (constituted in advance of the formal establishment of the Regional Cabinet):

- Created a Shadow CCR Transport Authority;
- Agreed to the creation of the CCR Economic Growth Partnership that brings together business, higher education and local government; and
- Commissioned an independent Growth and Competitiveness Commission. The Commission’s purpose has been to support the Region’s economic and investment strategy by reviewing the evidence about the CCR, its challenges and opportunities for economic growth and making recommendations as to how the CCR can achieve its full growth potential.

3.6 The Growth and Competitiveness Commission reported its findings on 16th December 2016, and a link to the Commission’s report has previously been sent to all

Councillors.

- 3.7 The Commission's review supported the key proposed investment themes set out in the initial Heads of Terms Agreement, and concluded that:

*"The Cardiff Capital Region has the potential to **develop into a prosperous capital city-region for Wales**, with multiple benefits for the Welsh economy and all the people of Wales. The Capital Region can be a decision making centre, a global gateway for capital, trade, and visitors, a knowledge hub, and a major population centre and business cluster for Wales, providing opportunities and resources for other regions to develop. There are many points of progress in the capital region over the past 20 years but more is needed in the next cycle to take it forward. In particular, an integrated economic strategy that is sequenced with increased investment in infrastructure and place renewal is now required. This should focus on:*

- *Improving inter-connectivity within the region to increase opportunities, choices, and mobility of people, jobs and investment, to foster a region with multiple locations of growth that play to those area's strengths.*
- *Investment in education, skills and employability to improve productivity and participation the economy.*
- *Enhancing the business climate for emerging sectors, enterprises and innovation that can spawn new sources of jobs and incomes into the longer-term future.*

Such a strategy should be complemented by enhanced governance integration, confident promotion and story-telling, and leveraging of private sector and institutional investment."

- 3.8 The Commission also highlighted that the City Deal was not just about, a relatively small Investment Fund, but also an opportunity for a new way in which the ten constituent councils could work with each other, UK and Wales Governments and the business community.

"At the heart of this report is the need to prioritise and make informed choices. The City Deal represents a significant investment into the Cardiff Capital Region, but it cannot finance everything that is required, particularly given that much of the funding is already committed. The available funds are also limited in that they are phased over a twenty year timeframe.

*Not everything that would have a positive impact on the long term development of the economy and, more particularly, the communities of the Cardiff Capital Region, will be able to be funded. Choices will need to be made, which we hope will be informed by the principles and recommendations provided by the Commission. Rather than seeing the City Deal as a broad programme of investment, we suggest that it may be better to regard it as the **foundation to increase joint working and co-investment**. Resources should focus on key themes intended to signal a direction of travel and leverage wider investments, enhance the performance of existing assets, accelerate the process of change, and guide future policy options."*

- 3.9 This conclusion emphasises the need for the ten constituent councils to ensure the CCR governance arrangements are suitable, effective and robust in order to make decisions on strategic priorities for investment.

- 3.10 The next step is to formally establish the Regional Cabinet and agree the terms and

conditions of the City Deal Investment Fund. There are three specific requirements to be met, set by UK and Wales Governments, namely:-

- The transition of the Regional Cabinet out of the “Shadow” arrangements;
- Formal approval of the Assurance Framework for the Investment Fund; and
- Formal approval of the Implementation Plan.

3.11 Details of these are as follows:-

- **The JWA** – attached as Appendix A to the report.
The JWA is the legal document that formally establishes the ‘Regional Cabinet’ as a Joint Committee, with delegated functions, with a Commencement Date of the 1st March 2017.

3.12 Clause 9 and Schedule 1 of the JWA set out the decision making and delegations policy for dealing with matters and decisions relating to the CCR City Deal. There are three categories of delegations being (i) matters delegated to the Programme Director; (ii) matters delegated to the Joint Committee and (iii) matters reserved to the Councils.

3.13 A matter reserved to the Councils means it is a matter which will have to be referred to each Council for a decision rather than being taken by the Regional Cabinet and a matter requiring unanimous approval of all ten constituent councils before being able to be implemented. There are three matters which are to be reserved to the constituent councils and thus this Council would be required to take a subsequent decision on, namely;

1. Approval and adoption of the JWA Business Plan means the strategy which defines the regional objectives (*including the high level programme, which shall include amongst other matters, the indicative investment programme for the “Programme Themes” (as such Programme Themes are defined under the Implementation Plan) and any agreed strategic projects together with the indicative spend profile for the wider investment fund) and as more particularly defined in the JWA. It is expected that this will be agreed by 28 February 2018 at the latest.*
2. Agreeing any increase to the Affordability Envelope (which means the overall costs and investment by each Council under the JWA over the 25 year period, which shall not exceed in aggregate £210,800,000 and shall include, without limitation, all interest and UK Government cost to carry and shall be updated to reflect the terms of the JWA Business Plan including the high level programme (once approved by the constituent councils) to include, amongst other matters, the annual spend profile for each council);
3. Approval of any increase to the Councils’ Contribution above the £120M.

3.14 The JWA does allow the Regional Cabinet to commit and/or spend up to £50m before the reserved matter 1 above has been considered by the 10 constituent councils. The £50m is approximates to 10% of the £495m Investment Fund, and would be funded by the first five years of UK Government funding, which is £50m. If the Regional

Cabinet does commit or spend a sum up to £50m before the reserved matter 1 above is considered by the 10 councils, and not all 10 councils approve reserved matter 1, there is a risk that the UK Government funding would have to be returned and the 10 constituent councils would have to cover this cost from within their existing budgets.

- 3.15 In approving the Joint Working Agreement it needs to be clearly understood that the Council would be delegating responsibility for overseeing the implementation of the City Deal to the Joint Committee, with only the 'reserved matters' being brought back to the Council for approval. The Joint Committee will be required to report progress to constituent councils and it is intended this will be on an annual basis. Further, it is intended that a joint scrutiny panel will be established at a regional level to provide additional accountability with representation from each individual council. Individual councils' scrutiny committees would also remain a vital source of advice and challenge relating to their council's participation in the process
- 3.16 Importantly, the Agreement commits councils to participation in the Joint Committee for a minimum of five years or, if later, the completion of the first five year Gateway Review – this is the "lock-in" period. "Lock-in" provisions also feature in other collaborations involving the Council, including the Shared Regulatory Service. For the sake of completeness only, it should be appreciated that if the Council sought to withdraw from the joint working arrangement during the lock-in period it would be in breach of the provisions of the Joint Working Agreement, unless a negotiated arrangement could be reached with the other councils. Entering the agreement creates a legitimate expectation that the Council will remain a party to the City Deal arrangements for at least the lock in period.
- 3.17 Following the lock in period, councils may withdraw from the Agreement at any time - in accordance with the defined withdrawal provisions - but this would be subject to liabilities determined by, among other matters, the extent of financial commitments made.
- 3.18 If the reserved matter relating to the Joint Working Agreement Business Plan is not approved, then the Council would still be locked into the Joint Committee for the lock in period. This would serve to constrain the Committee since it would not have an agreed plan against which to deliver the City Deal investment programme. In practice it is intended that all parties will be actively involved in the preparation of the Joint Working Agreement Business Plan and that this will be agreed by all councils.
- **The Assurance Framework** - The Assurance Framework – set out in Schedule 8 to the JWA - is the document that outlines the set of systems, processes and protocols designed to provide an evidence-based and independent assessment of the governance, risk management, and control processes of CCR City Deal Investment Fund.
 - **The Implementation Plan** - The Implementation Plan – set out in Schedule 9 to the JWA - details the work to be undertaken over the next three to five years, setting out the key milestones and activities, against which the Gateway Review (as defined in the JWA) will assess performance of the City Deal activities at the first 5 year stage.

- 3.19 Over the course of the next few weeks, all ten constituent councils will be asked to agree to the recommendations set out in section 2 of this report, which have been consistently presented to all ten councils. Once all ten constituent councils agree to the Assurance Framework and the Implementation Plan they will be submitted to the Wales and UK Governments by the end of February 2017 and finalised by 31st March 2017, in order to release this financial year's funding contribution from UK Government.
- 3.20 All ten constituent council Leaders are very supportive of the CCR City Deal and are keen for their respective council to sign up to the JWA, Assurance Framework and Implementation Plan. Nevertheless, this decision must be taken by each constituent council and there is the risk that:
- Individual councils may request changes to the terms and conditions of the JWA and the other documentation; or
 - One or more councils may not agree to formally establish the CCR Regional Cabinet.

4. REASONS

- 4.1 The economy of South East Wales continues to underperform the majority of other regions of the UK. The ten constituent councils acknowledge the need to act collectively and differently to accelerate the economic growth of the CCR. The Growth Commission Report summed up the position very concisely:

“The international evidence shows us that those city-regions that adopt strategies that combine together economic development with spatial development, infrastructure development, improved sustainability and more effective human services can find a path to increased prosperity and inclusion. This evidence also shows us that such progress is achieved over 5-10 year cycles and through integrated strategies supported by combined efforts between different governments. It will not be achieved in the short term, or solely by individual projects, and one-off or fragmented, actions.

We encourage the leaders of the 10 Authorities, the Welsh Government and the UK Government to act in concert now, and for the long term, to create unified governance, an increased rate of investment and deeper delivery capability that can be sustained for the two to three cycles necessary to achieve success. We see an urgent need to make progress and achieve a rapid mobilisation of efforts.”

- 4.2 The City Deal provides, through the Joint Cabinet, a framework for progressing the emerging local government reform agenda. A major statement on public service reform is anticipated in the near future and is likely to emphasise the importance of city-regions for delivering public services in the future. Proposals outlined in this report are locally led, are maturing quickly and have the potential to offer benefits to our local communities.
- 4.3 The establishment of the Joint Cabinet provides a governance vehicle to build further collaboration – subject to the approval of constituent councils - given that there is no legislation in place at present to establish vehicles similar to a Combined Authority in Wales. In this context, work is underway to consider the development of streamlined strategic planning and transport arrangements for the city-region.

5. RESOURCE IMPLICATIONS

5.1 The CCR City Deal Investment Fund comprises two distinct elements:-

1. **£734m – METRO scheme.** This will comprise £503m, Welsh Government funding provided over the first seven years of the Investment Fund, from 2016/17 to 2022/23; £106 million from the European Development Fund and £125k from UK Government.
2. **£495m – Regional Cabinet Fund,** comprising the ten constituent councils' commitment to borrow £120 million over the 20 year period of the Investment Fund, together with the £375m from UK Government, for investment in infrastructure, housing, skills and training, innovation, business growth and “Metro plus” transport proposals.

5.2 The £375m of funding provided by the UK Government to the Regional Cabinet Fund, is funded on a staged basis over 20 years, £10m a year over the first 5 years, £21m a year over the following 5 years and £22m a year over the remaining 10 years. Therefore, if the Regional Cabinet is to generate the economic improvement the region requires, it is likely that investments will be made early in the life of the Fund and the ten constituent councils will have to borrow funding to cover the temporary shortfall in funding from the UK Government. This is called the **carry costs** of the funding.

5.3 The s151 officers have modelled a number of potential scenarios, agreeing appropriate assumptions in respect of variables such as the profile of likely spend, interest rates for borrowing, the split of capital and revenue funding and the treatment of inflation. The result of this detailed work is a prudent funding model which estimates that the total costs of the deal at the regional level is projected to be £210.8m, of which £166.8m is the estimated cost of the local authority's capital contribution and £44.0m is the estimated carry costs of financing the UK Government debt. Monmouthshire's share (6.1%) of the estimated total costs is projected to be in the order of £12.9m over a 25 year period (based on an assumed average asset life). The proportion is based on 2015 mid-year population estimates and will remain consistent.

5.4 The annual revenue budget requirement to fund this contribution is profiled over the life of the deal given the timing of spend and income requirements. The total cost will be smaller in the early years of the deal (years 1 to 5 is estimated to be a total of £655k) and will peak in Year 11 at £818k for that year. Prudently, this Council will include a sum within its base budget requirements when the first year contribution is needed and will seek to set aside funding to support future years as part of our medium term financial planning arrangements. Use of the Treasury Equalisation Reserve will be explored to support City Deal so that fluctuations in annual contributions can be smoothed and any volatility minimised from annual budget setting requirements.

5.5 As part of the terms of the City Deal, the CCR Cabinet will be required to evaluate the impact of the £495m Investment Fund in order to unlock UK Government funding. Every five years a gateway assessment will be undertaken, which consists of an independent review to evaluate the economic benefits and economic impact of the investments, including whether the projects have been delivered on time and on

budget. The gateway reviews are likely to be structured to occur at Years 5, 10 and 15. Therefore, funding from Year 6 onwards will be subject to the agreed performance objectives being achieved at each of the gateway stages. If a future Investment Fund gateway is not achieved, leading to a reduction or cessation of City deal grant, then it will be the responsibility of the ten constituent councils to manage the financial impact of this within their existing council budgets.

- 5.6 In order to mitigate this risk, the projects selected will go through the Assurance Framework to inform the key discussions that will take place around performance measures. The final performance targets agreed will include a 'margin of safety', which will further reduce the risk of targets not being achieved.
- 5.7 Over the past few months, officers have engaged with Wales Government on a number of City Deal issues. One such issue relates to the Terms and Conditions (T&Cs) that will accompany the UK Government Funding. The ten constituent councils have yet to receive a draft copy of the T&Cs and therefore, the JWA contains a condition that its continuation is subject to these T&CS being acceptable to the Regional Cabinet.
- 5.8 In addition, there are a number of detailed technical accounting matters that remain unresolved at this time. These matters need to be resolved with the Wales Audit Office and be confirmed with the external auditors responsible for the audit of the ten constituent councils. These matters have arisen due to the way in which City Deal Investment Funds tend to typically operate i.e. grant expenditure being incurred ahead of receipt. The Glasgow & Clyde Valley City Deal also faced these challenges, and successfully resolved these matters with their auditors, Audit Scotland. These matters do not alter the total costs of the CCR City Deal but could alter the payment profiling with larger payments occurring earlier over the course of the 25 year life of the City Deal.
- 5.9 The ten constituent councils established a Memorandum of Understanding (MOU) during 2015 to enable them to progress work on the City Deal. The MOU set-out a Partnership Revenue Contribution Budget required to fund the work needed based on an annual sum of £500,000. It is proposed that this arrangement continues for 2017/18 but that the sum is increased to £1m, of which Monmouthshire's share would be £62,000. If approved this Council would include this sum within its base budget requirements for 2017/18. During 2017/18 the Implementation Plan will be developed and will provide a costed budget plan for the following three to five years.

6. FUTURE GENERATIONS AND EQUALITY AND IMPLICATIONS

- 6.1 The Future Generations and Wellbeing Act aims to make public bodies think more about the long-term, work better with people and communities and each other, look to prevent problems and take a more joined-up approach. The Act places a duty that the public bodies will be expected to carry out. The well-being duty states:

Each public body must carry out sustainable development. The action a public body takes in carrying out sustainable development must include:

- a) *Setting and publishing objectives ("well-being objectives") that are designed to maximise its contribution to achieving each of the well-being goals, and*

b) Taking all reasonable steps (in exercising its functions) to meet those objectives.

- 6.2. Given the importance of the City Deal and the development of the Cardiff Capital Region Joint Committee to the city-region it is important that the Future Generations and Wellbeing Act is given due consideration in the development of any proposals. The Future Generations and Wellbeing Commissioner has outlined clearly expectations that the City Deal will need to be based on evidence of its contribution to the well-being 'goals' identified in the Act.
- 6.3 Members should note that the strategic direction of the Capital Region City Deal reflects key tenets of the Act: in particular, the Investment Fund is based on principles of joined-up interventions, planned over the long-term to deliver sustainable improvements in the performance of the city-region economy. In addition, the development and implementation of the Metro is designed to represent a key contribution to increasing public transport use.
- 6.4 A Future Generations and Equality Impact Assessment consideration has been applied in the preparation of this report. It will be apparent to Members that the City Deal is currently in its infancy and no decisions have yet been taken on areas of policy and/or investment. A full Equality Impact Assessment report is not necessary at this stage but will feature as a feature of the Assurance Framework referred to earlier. Equality Impact Assessments will be undertaken on a regional basis as City Deal decisions are made.

7. SAFEGUARDING AND CORPORATE PARENTING IMPLICATIONS:

None

8. CONSULTEES:

- 8.1 A key element of the City Deal has been and will continue to be consulting and engaging businesses, higher and further education, all local authority members and the wider community. Over the past ten months a number of information sharing meetings have been undertaken to brief elected members, business and higher and further education providers in the Region in order to seek their views and ideas on how we maximise the benefits of a City Deal. The recently completed Growth and Competitiveness Commission review undertook a wide range of events and interviews with a range of interest parties across the Region in gathering evidence and stakeholders' views.

9. BACKGROUND PAPERS:

City Deal Heads of Terms document

Growth and Competitiveness Commission Report

Joint Working Agreement (Appendix 1)

10. AUTHOR:

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11. CONTACT DETAILS:

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