

CARDIFF CAPITAL REGION CITY DEAL UPDATE

REPORT OF DIRECTOR OF ECONOMIC DEVELOPMENT

AGENDA ITEM: 1

PORTFOLIO: LEADER (ECONOMIC DEVELOPMENT & PARTNERSHIPS)

Reason for this Report

1. The purpose of the report is to update the Cabinet on the progress of the Cardiff Capital Region local authorities in developing and securing a City Deal with the Welsh and UK Governments.

Background

2. On 18 March 2015 the Chancellor of the Exchequer announced in his Budget Statement that 'We're giving more power to Wales. We're working on a Cardiff City Deal'. The announcement effectively moves the current discussion about a potential City Deal for Cardiff on to the next stage where the Government has now offered to begin the formal process of negotiation.
3. Further announcement was made on the 25th November by the Chancellor of the Exchequer who said "*The Government is working with the Cardiff Capital Region and the Welsh Government to deliver an ambitious City Deal for Cardiff. The Spending Review announces an in principle commitment to contribute to an infrastructure fund for the Cardiff region.*"
4. A City Deal for Cardiff could unlock significant new money to support capital investment in major infrastructure priorities for the city-region. However, every deal done to date has been bespoke with the eventual size and scope of the deal dependant on a number of important local factors.
5. The Government's stated aim of the City Deal programme is to devolve control to cities and wider regions to:
 - take charge and responsibility of decisions that affect their area;
 - do what they think is best to help businesses grow;
 - create economic growth;

- decide how public money should be spent.
6. The first wave of City Deals were with the 8 largest English cities outside of London that are as follows:
 - Greater Birmingham
 - Bristol Region
 - Greater Manchester
 - Leeds City Region
 - Liverpool City Region
 - Nottingham City Region
 - Newcastle Region
 - Sheffield City Region
 7. These cities have made deals with government that give them greater accountability for their actions, in exchange for new powers to help encourage growth and jobs in their areas. Some of these city regions have made multiple deals with government such as Manchester which has three such deals.
 8. Further City Deals have been agreed with a further twenty cities, being the next fourteen largest cities outside of London and their wider areas and the six cities with the highest population growth during 2001 to 2010. These cities negotiated deals with government that gave each city new powers in exchange for greater responsibility to stimulate and support economic growth in their area.
 9. In 2014, Glasgow and the Clyde Valley agreed a £1.2bn City Deal with the UK and Scottish Governments, the first City Deal agreed with a city-region outside England.
 10. Following the Glasgow announcement it was clear that there was an opportunity for devolved nations to develop City Deals. Following this the City of Cardiff Council engaged specialist advisors to explore the potential to develop a proposition for Cardiff. As part of this work it was identified that there was a particular opportunity available to work with partners across the Cardiff Capital Region to develop a City Deal proposal based upon the city-region boundary that would provide a greater size and scope for the proposed City Deal.
 11. Subsequently The City Deal Implications and Next Steps report was considered on 2 April 2015 where the Cabinet agreed:
 - a) that officers proceed with the negotiation of a City Deal for Cardiff with UK Government, Welsh Government and surrounding authorities and return to Cabinet with a further report before submitting a final proposal.
 - b) that engagement with surrounding authorities in SE Wales take place to develop an appropriate local governance structure to support delivery of a City Deal for Cardiff.
 - c) that authority be delegated to the Chief Executive to:
 - identify a budget and to appoint Specialist Advisors to support delivery of a detailed City Deal proposal for Cardiff

- commission a review of the Cardiff Business Council model to put in place appropriate arrangements to support a successful City Deal proposal.
12. Following the April meeting regional partners were engaged as part of City Deal discussions. Through these discussions all nine additional local authorities in the Cardiff Capital Region made a commitment to contribute, on a pro-rata basis, towards a £500,000 fund to support the development of a City Deal proposal.
 13. Local authorities also formed the City Deal Project Board which consists of the ten local authority leaders to oversee the development of the proposal, with a Welsh Government observer also invited. The Project Board is also supported by the Cardiff Capital Region Chief Executives Group and a Cardiff Capital Region City Deal Project Officer Group. Specialist advisors have also been appointed to provide technical support in developing the project proposal.
 14. Significant progress has been made to date, with a process that has been accelerated in comparison with the development timeline of other city-deals. On 4 September 2015 the 10 Local Authority Leaders submitted a Position Statement to the Chancellor of the Exchequer outlining the vision for a City Deal for the Cardiff Capital Region, as well as providing further detail regarding proposed areas of intervention.

Issues

15. The ten Cardiff Capital Region local authorities are still at the initial stages of negotiating a Cardiff Capital Region City Deal with the UK and Welsh Governments. Progress has been made in shaping a City Deal that is comparable with the City Deal agreed between eight local authorities in the Glasgow City Region, the Scottish and UK Governments.
16. On 11 November 2015 the Cardiff Capital City Region made a headline submission for a £1.28bn City Deal to the UK Treasury, along with a letter of support from the First Minister, committing to principles and outlining plans for the development of a possible City Deal.
17. In the First Minister's letter he noted that:

"The Welsh Government is strongly supportive of the bid that you are developing, which is focused on connectivity, business support, skills and innovation, there are many ways in which the Welsh Government and the local authorities can work together to ensure that decision making reflects the regional needs and that the local authorities at a regional level have a stronger voice and influence. I feel that this is reflected in the proposals contained in the bid and I fully support the proposals...."

.....I am willing to commit to providing up to £580 million of capital funding to support the realisation of the region's connectivity plans.

This is an exciting opportunity for the Cardiff Capital Region. Our officials have been working closely together, and I anticipate that with this commitment to providing support for an infrastructure fund, they can conclude the work on financial modelling and profiling. I wish you every success with your submission.”

18. The basis of the City Deal submission is that the GVA per capita in Wales is the lowest in the UK, and if this is to improve we need to adopt a new approach to improving economic outcomes in the Cardiff Capital Region. A City Deal and Infrastructure Fund offers a mechanism to help the Region unlock its growth potential through targeted investment. Without this type of investment, infrastructure bottlenecks in housing and transport created by population growth, along with skills gaps will stifle the Region’s economic growth. The Cardiff Capital Region has set itself the target of a 5% uplift in Gross Value Added (GVA).
19. The City Deal also represents a new approach to infrastructure investment for the Cardiff Capital Region based on prioritisation of projects according to their impact on GVA, and through a ‘Payment by Results’ mechanism where the funding provided by the UK Government is linked to the ability to deliver projects and through measurement of their economic impact.
20. The proposition from the Cardiff Capital Region outlines the following key points that will form the basis of any City Deal with HM Treasury to deliver the ambitious economic growth target:
 - **Connectivity** – a historical legacy of under investment in infrastructure has left the Cardiff Capital Region lagging behind the rest of the UK. It is accepted that connectivity has a significant impact on the economic performance of an area, particularly in terms of transport.
 - **Digital** – digital technology is widely recognised as an enabler of productivity and driver of innovation and international trade. A recent Office of National Statistics paper shows that Wales has the lowest turnover in the digital sector in the UK, and the slowest rate of increase over the past 5 years. There is a need to improve the infrastructure, skills and support for the digital agenda in the Region. To address this, the Cardiff Capital Region is seeking to regionalise resources to deliver a programme to invest in infrastructure, skills and sector development, so that Cardiff Capital Region can compete with the most digitally connected city-regions in the world.
 - **Innovation** – Investment in innovation in the Region, despite a skilled workforce and high performing universities has also remained low in the Region. Innovate UK expenditure in Wales is less than a third of the average UK per head figure, and government expenditure on research and development in Wales stands at 1%, a third of the expected pro-rata spend.

- **Skills** – Whilst the Region benefits from a skilled workforce, too many people are in low paid employment or out of work. There is a need to both give people in South East Wales the skills to access sustainable employment, whilst also supporting those in work to develop their potential. Improving skills will have a significant impact on the economic performance of the region, through improving productivity and economic activity rates.
 - **Business Support & Regeneration** – We propose to regionalise local resources in respect of business development, strategic transport & planning, and marketing & tourism with a dedicated fund for promotion.
21. The Joint Letter from the ten Cardiff Capital Region local authorities, supported by the First Minister, to HM Treasury suggests the development of a £1.28bn fund as an indicative starting point for discussions with the following contributions:
 - £580m from Welsh Government;
 - £120m from the 10 local authorities;
 - £580m from UK Government.
 22. These figures will inform the initial conversation with HM Treasury and reflect the high level of ambition of the 10 local authorities of the Cardiff Capital City Region.
 23. On this indicative initial scenario the UK Government contribution of £580m is expected to be funded over up to 35 years, based on a Payment by Results mechanism where funding will be released when specific projects are delivered and objectives met. It would be expected, however, that initial payments within the first 5 years would not be subject to the Payment by Results mechanism. Based upon the Glasgow precedent, it would be expected that 15% or more of the £580m would be paid within this period.
 24. There will also be a requirement for local government to cover finance costs of investment ahead of receiving funding through the Payment by Results mechanism, in addition to financing the local government capital contribution.
 25. In terms of the proportion of costs between local government partners, this will depend on the agreement of the details of the City Deal, including the agreed size, the profile of expenditure and the mechanism agreed for the distribution of costs. With regard to sharing costs between local government, previous City Deals have undertaken this either on a per capita basis, a project by project basis, or a combination of both. At present the approach for the Cardiff Capital Region is yet to be agreed.
 26. In order to ensure that individual projects have been prioritised appropriately, the Cardiff Capital Region has agreed on the lead objective of ‘net fiscal bottom line’ – that is the net impact of GVA and reduction in dependency costs. Two secondary metrics - which deals

with the impact of the City Deal programme as a whole - have been agreed for the Cardiff Capital Region, namely geographic balance, and targeting communities with the greatest amount of need as measured by the Welsh Index of Multiple Deprivation. This will ensure that only those projects with a significant impact in terms on economic performance will be supported, but also that the impact of the City Deal is felt across the Cardiff Capital Region.

27. Furthermore, to support the delivery of the above, and to mitigate the requirement for local financial contribution, the Cardiff Capital Region will also seek new powers and fiscal flexibilities. This will include, amongst others, exploring:
 - Establishing Regional Strategic Planning arrangements that ensure that development takes place on a complimentary basis for all in the city-region;
 - A Programme of Tax Increment Finance (TIF) projects, funded by additional NNDR tax revenue gains from economic development activities, agreed by the Capital City Region and over seen by Welsh Government;
 - The creation of a Regional Investment Fund that will provide funding and finance for regeneration activities across the Cardiff Capital Region;
 - The ability to lever Supplementary Business Rates to support investment.
28. In the First Minister's letter to Local Authority Leaders, he committed that *"The Welsh Government will also work constructively with local authorities to explore how it can support authorities to strengthen their ability to invest in vital infrastructure."*
29. The next stage of the process will involve identifying the interventions that will form the City Deal proposal. These interventions will need to relate to the agreed metrics of the City Deal, and also align with the identified priorities. They will also be subject to agreement with the UK Government with progress during this stage regularly reported to the City Deal Project Board.
30. The development of these proposals will also require working with a broad range of stakeholders and subject specialists, as well as engagement with appropriate representative groups. From a Cardiff perspective, it is essential that the City Council contributes fully to this process to ensure that the interests of the Capital are reflected fully in the agreed city-region position.
31. The outline timetable for a final submission of the City Deal included in the submission document is:
 - **Week commencing 9 November** - Letters to UK Government from CCR partner authorities and Welsh Government, committing to principles and outlining plans for development of deal details

- **25 November** – Chancellor’s Autumn Statement and Comprehensive Spending Review
 - **December – March** – Project identification and development
 - **January – March** – Further development of funding and financing principles
 - **Spring** – Chancellor’s Budget Statement
 - **Spring** – Agreement of CCR City Deal Document
 - **April – June** – Development of economic model (with WG), project prioritisation and development of programme
 - **June – August** – Programme optimisation, and agreement of funding and financing details between CCR partners and UK and Welsh Governments
 - **Late summer** – Finalisation of programme financial, governance and delivery arrangements
32. At all stages in the process, reports will be taken to the appropriate decision making forum at the appropriate time for approval.
33. In parallel with the development of the City Deal, the Leader is also working with Newport City Council and Bristol City Council as part of the Great Western Cities initiative. The initiative is exploring projects to take advantage of areas where collaboration between city regions can help deliver improved economic and environmental outcomes.
34. In October 2014 the RSA City Growth Commission published a report entitled ‘Unleashing Metro Growth’ which emphasised the importance of cities and their metropolitan areas as drivers of economic growth. In particular the report emphasised that connectivity between neighbouring city-regions will be paramount to enabling the UK economy to thrive as a system of cities and to support long-term, sustainable economic growth. The report therefore argued that Britain will increasingly need to rely on the prosperity of a small number of ‘powerhouse super city regions’, including the Great Western Cities across the Severn. In this context it is essential that the work of the Great Western Cities is complimentary to the development of the City Deal.

Local Member consultation

35. A key element of the City Deal will be consulting and engaging businesses, higher and further education, all local authority Council Members and the wider community. Initial information sharing meetings will be arranged shortly to brief 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.

Reason for Recommendations

36. The City Council, in partnership with the other Cardiff Capital Region local authorities, is negotiating with the Welsh and UK Governments to secure a significant investment of up to £1.28bn, in projects that will have a very positive impact on the economy of the Region. The majority of the funding provided by the UK Government through the City Deal process is

by a payment by results mechanism based on increases in agreed economic outputs for the Region.

37. Whilst the current funding scenarios are indicative, there will inevitably be a financial contribution required from local government.
38. It is important that all Council Members are aware of the progress being made in developing the City Deal, and in due course can quantify the economic benefits of the City Deal and the associated financial risks that rest with the Council.

Financial Implications

39. The ten local authority partners (partners) working together have contributed towards a £500,000 fund to develop a City Deal proposal for the Cardiff Capital Region. Contributions have been calculated on a per capita basis and Cardiff's contribution of £117,736 has been met from resources previously approved for this purpose. The fund is anticipated to be sufficient to cover the initial development, negotiation and submission stages of the process.
40. As outlined in the report a successful outcome to a City Deal bid would require partners to borrow, upfront, substantial levels of risk capital that would be subject to a 'Payment by Result' mechanism. City Deals are negotiated on a deal by deal basis, so the exact details are yet to be agreed. However, other deals have been structured on the basis that circa 85% of HM Treasury's funding represents 'risk capital' and is paid over a defined period (post-delivery), subject to the agreed performance objectives being achieved.
41. A deal structured on this basis places considerable risk with partners as they will be required to borrow risk capital upfront and meet all associated interest costs. Cabinet should note that the actual level of risk capital received back will be less than amount borrowed if the agreed performance targets are not fully achieved. This will represent a cost to the partners. In addition, interest costs are not eligible for funding and will need to be met by partners. Furthermore, the deal may require partners to separately contribute 'Local Authority Capital' as part of the overall City Deal fund agreed. Therefore each partner will need to undertake a detailed assessment of their affordability envelope to support a range of City Deal scenarios as details of the overall fund level, agreed projects, basis for sharing risk capital and the level of partner capital required emerges.
42. The council's capital programme currently does not include any allocations in respect of a City Deal initiative and therefore any amounts required will represent new commitments over and above the existing programme. Given the significance of the amounts likely to be involved at partner level, 'affordability' and 'choices' will be key considerations in-light of other commitments being progressed by the council and the limited resources available.

43. As the City Deal proposal develops a further report will need to be presented to Cabinet on the emerging financial risks and rewards, including any impact on the council's future revenue and capital budgets.

Legal Implications

44. As outlined in the body of the report the Council is in discussion with Central Government, Welsh Government and nine South Wales local authorities to develop the detail of the City Deal proposals. Legal advice is being provided on (i) the governance options available in order to enable the ten local authorities to work together to deliver the City Deal and (ii) as to the form of the detailed agreement that would be required to underpin such arrangements. Any governance structure and agreement proposed will require approval of each participating authority and detailed legal advice on these matters will be provided when the detailed proposals are presented for approval. The body of the report refers to exploring the potential for the parties to seek new powers and fiscal flexibilities to support the delivery of the City Deal and detailed legal advice should be sought as these matters are explored.
45. In considering this matter and developing the proposals for the City Deal regard must be had to the Council's duties under the Equality Act 2010 and appropriate steps taken to ensure compliance, including preparation of an equalities impact assessment (EQIA) to ensure that the Council has understood the potential impacts of the proposed decision in terms of its public sector equality duty. Pursuant to the Council's duties under the Equality Act 2010 the Council must, in making decisions, have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: (a) age, (b) gender reassignment (c) sex (d) race – including ethnic or national origin, colour or nationality, (e) disability, (f) pregnancy and maternity, (g) marriage and civil partnership, (h) sexual orientation and (i) religion or belief – including lack of belief.

HR Implications

46. The City Deal is currently in its infancy and no decisions have yet been taken on areas of investment. Equality Impact Assessments will be undertaken on a regional basis as City Deal decisions are brought forward in the future.

RECOMMENDATIONS

It is recommended that the Cabinet note the progress to date and the estimated timescales to get the full agreement of all parties to complete the City Deal.

NEIL HANRATTY

Director

4 December 2015

The following appendices are attached:

Appendix A - Press Release - Cardiff Capital Region City Deal Welcomes
Chancellor's Backing

Appendix B - Member Briefing Document

Cardiff Capital Region City Deal Leaders Welcome Chancellor's Backing

Confirmation in Autumn Statement For City Deal

Issued: Wednesday, November 25, 2015

THE Cardiff Capital Region (CCR) Leaders comprising the Leaders of the 10 local authorities in South East Wales today (Wednesday November 24) welcomed Chancellor George Osborne's backing for a £1.28 billion City Deal for South-East Wales.

In his announcement, Mr Osborne said: "The Government is working with the Cardiff Capital Region and the Welsh Government to deliver an ambitious City Deal for Cardiff. The Spending Review announces an in principle commitment to contribute to an infrastructure fund for the Cardiff region."

This announcement means negotiations can now progress between UK Government, Welsh Government, and the 10 local authorities to agree and deliver a detailed programme of projects which will deliver economic growth in the region.

The City Deal submission by the Leaders of Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen, and the Vale of Glamorgan, had already been boosted by an agreement from the Welsh Government to contribute £580m towards the programme.

The £580m will support the establishment of a Cardiff Capital Region Fund, aimed at delivering strategically-important projects.

The Leaders believe a City Deal for the Cardiff Capital Region represents a unique opportunity to transform the local economy to improve local productivity, create new jobs, and reduce worklessness.

The vision is to reduce the gap of the gross value added economic measure (GVA) between the city region and the UK average, and to improve the balance of opportunity that exists right across the region

It will also support the development of a more regional approach across the Cardiff Capital Region, and local authorities will be looking at how they can collectively deliver some services and functions – such as business support and strategic planning.

Overall, the deal will be looking to support investment in areas including business and regeneration, innovation, digital and skills, with an investment in infrastructure across South Wales that will improve opportunities for all communities in the region.

Part of the deal will also be based on providing the Cardiff Capital Region with the tools to support city-region investment.

To ensure that projects comprising the City Deal make a difference they will be prioritised according to their impact in terms of GVA and jobs, as well as ensuring that their impact is felt across the CCR.

The methodology to support this work will be the immediate focus, along with determining how all stakeholders will be engaged in the proposition development in the coming months.

Councillor Phil Bale, Leader of City of Cardiff Council, and involved in the bid, said: “The partners welcome the decision by the Chancellor today. This represents a major step forward in bringing together a City Deal for the Cardiff Capital Region.

“A £1.28bn City Deal will mean that we can make investments that will have a material impact on the city-region economy – we can make this happen by working together as 10 authorities with the Welsh and UK Governments.

“We are at an early stage of the process, but the journey has certainly begun. We will be sitting down with our stakeholders, including the private sector and the education sector, to discuss an exciting range of projects around the programme priorities, which will have an extremely positive impact on the region.”

Ends

For more information contact Alastair Milburn, Effective Communication, 07813 857328 or amilburn@effcom.co.uk

Appendix B

Cardiff Capital Region City Deal – *Delivering Economic Success for All*

What is a City Deal?

The “City Deal” process began in late 2011, as part of the UK Government’s broader devolution agenda. City Deals seek to empower local areas to drive growth by putting greater resources and financial freedoms in the hands of local leaders. Central to these deals is a clear set of “offers” locally, in return for a number of “asks” of central government. A number of deals have been agreed with English Cities as well as a bespoke tri-partite deal between Glasgow City and the Scottish and UK Governments.

What are the Priorities for the Cardiff Capital Region City Deal?

The ten local authorities of the Cardiff Capital Region are seeking a City Deal to improve productivity, drive innovation and support job growth *throughout* South East Wales. Our priorities are:

- Innovation: *An Innovative City-Region*
- Connectivity: *A Connected City-Region*
- Business Support: *Targeted support for business*
- Employment: *Support for those out of work*

Realising the Cardiff Capital Region’s economic potential would mean better employment and income prospects for the 1.5 million people across the city-region. A 5% increase in GVA would deliver substantially more than £1bn extra to the economy each year. The City Deal can help deliver this.

Who will contribute funding to the City Deal?

The UK Treasury will be expected to contribute financially to the Cardiff Capital Region City Deal, alongside funding from the ten local authorities, the Welsh Government, private sector and European Union. The City Deal will involve some cost to Local Authorities. Work is being undertaken to understand the full extent of the financial commitment, but these are not anticipated to impact revenue budgets during the immediate to short-term.

What governance arrangements will be required to support the City Deal

Delivering the City Deal will rely on robust city-region governance structures, with real power, resource and responsibilities. The Cardiff Capital Region approach is building on the progress made in establishing a city-region approach to economic development in South East Wales. A Project Board which includes the leaders of the ten authorities has been formed. The board is working with KPMG to submit a formal submission for a Cardiff Capital Region City Deal to the UK Government.

What happens next?

Over the next few months, the ten local authority leaders will work the UK and Welsh Government to develop a detailed proposition, with a final decision is expected in 2016. The Project Board, with support from Effective Communication, is also working with partners across the city-region, including the business community and higher education to develop the proposal.