

CABINET PROPOSAL

CARDIFF CAPITAL REGION CITY DEAL

Reason for this Report

1. The purpose of this report is to update Council on the progress of the City Deal with the recent signing of a “Heads of Terms” document that outlines the principles for the detailed development of the deal.
2. The document was signed by local authority Leaders, Welsh Government Ministers and UK Government Ministers, on the 15 March, with a commitment to full implementation of the deal subject to appropriate approvals from participating Councils.
3. The Heads of Terms outlined in high level terms the financial aspects of the City Deal as well as other arrangements with regard to governance and scope. The detailed development of the deal will be the subject of further reports to the Cabinet and Council.

Background

4. Following the Glasgow announcement in the summer of 2014 it was clear that there was an opportunity for devolved nations to develop City Deals. The Council subsequently engaged with Glasgow and other members of the UK Core Cities network to discuss how Cardiff could explore the potential for its own City Deal. This in turn led to initial discussions with the UK Government to discuss proposals for developing a Cardiff City Deal.
5. As a result of these initial discussions the 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.
6. 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 moved the discussion about a potential City Deal for Cardiff on to the next stage with the Government offering to begin the formal process of negotiation.

7. Subsequently a *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.*
8. 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.
9. Local authorities then formed a City Deal Project Board consisting of the ten local authority Leaders to oversee the development of the proposal, with a Welsh Government observer also invited.
10. 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.
11. 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.
12. A further announcement was then made on the 25 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.”*
13. The *Cardiff Capital Region City Deal Update* report taken to Cabinet on the 10 December 2015 identified an outline schedule for the development of the City Deal as:

- **Week commencing 9 November 2015** - Letters to UK Government from CCR partner authorities and Welsh Government, committing to principles and outlining plans for development of deal details
 - **25 November 2015** – Chancellor’s Autumn Statement and Comprehensive Spending Review
 - **December 2015 – March 2016** – Project identification and development
 - **January – March 2016** – Further development of funding and financing principles
 - **Spring 2016** – Chancellor’s Budget Statement
 - **Spring 2016** – Agreement of CCR City Deal Document
14. This timescale identified the critical point in the development of the City Deal as the signing of an agreement in spring 2016 in line with the Chancellor’s Budget Statement.
15. In the Budget Proposals 2016/17 report that was agreed by Council on 25 February 2016, it was resolved that:
- “the City Deal Document referred to in paragraph 235 to 239 of the report be signed on behalf of the Council (on the understanding that the document will provide that it will be subject to the agreement of the Full Council). Pursuant to the City Deal Document the Council continues to work with the Cardiff Capital Region partner local authorities, UK and the Welsh Government to develop the final City Deal Agreements, and further reports on this matter be submitted to Council as appropriate to keep members apprised of developments.”*
- The report also noted that *“In developing the overall City Deal governance and investment programme it is also anticipated that a dedicated team will be put in place. It is proposed that local authorities make a contribution to the costs of putting this team in place.”*
16. A negotiating team including the Leader of the Council, Councillor Andrew Morgan (Leader of Rhondda Cynon Taf County Borough Council) and Councillor Peter Fox (Leader of Monmouthshire County Council) have been acting on behalf of the region to refine the City Deal proposition. This has resulted in the City Deal that has been tabled.
17. The City Deal was subsequently signed in Cardiff on 15 March 2016 by the ten local authority Leaders, the First Minister of Wales, the Minister for Finance, the Secretary of State for Wales and the Chief Secretary to the Treasury.

Issues

18. The ‘Heads of Terms’ document outlines the parameters for the detailed development of the City Deal. The document outlines how the ten local authorities will work in partnership with the Welsh Government and UK Government to support economic growth. The key principles include:

- Establishing strong governance across the region through a Cardiff Capital Region Cabinet. Through this, the ten local authority Leaders will join up decision making, pool resources, and partner with business.
- A £1.229 billion investment in the Cardiff Capital Region's infrastructure through a 20-year Investment Fund. A key priority for investment will be the delivery of the South East Wales Metro, including the Valley Lines Electrification programme.
- 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 UK Government will invest £50 million to establish a new Catapult Centre in Wales. The CCR will also prioritise investment in research and development, and provide support for high value, innovative businesses.
- The creation of Cardiff Capital Region Skills and Employment Board (building on existing arrangements) to ensure skills and employment provision is responsive to the needs of local businesses and communities.
- A partnership between the Cardiff Capital Region and the Welsh Government to work with Department of Work and Pensions to co-design the future employment support from 2017 for people with a health condition or disability and/or who are long term unemployed.
- A Cardiff Capital Region Business Organisation to be established to ensure that there is a single voice for business to work with local authority leaders.
- A new partnership approach to housing development and regeneration between the Welsh Government and the Cardiff Capital Region. This will ensure the delivery of sustainable communities, through the use and re-use of property and sites.

19. Details are provided in the City Deal document that is attached to this report as Appendix A.

Cardiff Capital Region Governance

20. In order to progress enhanced regional working, and support the delivery of the investment fund, the City Deal document outlines proposals to establish a Cardiff Capital Region governance model that:

- complies with the existing statutory framework that exists in Wales to deliver this City Deal;
- strengthens and streamlines the existing governance and partnership arrangements across the Capital Region;
- improves business involvement in local decision making;
- provides confidence and assurance to both the UK and Welsh Government that the local authority leaders are making decisions which will drive economic growth across the Capital Region; and
- enables local authorities to explore with the Welsh Government alternative governance arrangements in the medium term.

21. Utilising the existing statutory framework the ten local authorities will establish a joint committee, to be referred to as the Cardiff Capital Region Cabinet. The authorities would delegate certain functions (a specified range of activities relevant to delivering the City Deal) to the joint committee to be carried out jointly by the authorities and on a collaborative basis. The joint committee would be underpinned by a comprehensive agreement between the authorities, which inter alia would set out the functions to be delegated to the committee and those matters which would be reserved to each authority for decision. This agreement will be subject to the Authority's approval.
22. The Cardiff Capital Region Cabinet, which will comprise of 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.
23. The Cardiff Capital Region will also establish proposals for an integrated Strategic Development Plan that incorporates housing and employment land-use with wider transport plans. The strategic plan will provide the underpinning blue-print for development across the city-region.
24. The Strategic Development Plan will form part of a hierarchy of land use plans comprising the National Development Framework prepared by the Welsh Government (due to be published in 2019), the Strategic Development Plan and the Council's Local Development Plan (LDP). The recently adopted LDP forms the statutory development plan for Cardiff and will inform the preparation of the first Strategic Development Plan.
25. To support the Cardiff Capital Region a Cardiff Capital Region Economic Growth Partnership will be established comprising business, higher education and local government. The partnership will be responsible for setting an overarching city-region economic development strategy, as well as monitoring and making recommendations to the Cabinet with regard to City Deal implementation. The partnership will have a specific role to provide advice on investment decisions. This will ensure the City Deal and other interventions make an impact on economic growth and increase employment.

26. In addition an Independent Growth and Competitiveness Commission will be established, with a remit to examine the challenges and opportunities for economic growth and competitiveness and make recommendations for how the Cardiff Capital Region can achieve its full growth potential. The Commission will be jointly established by the ten local authorities that comprise the Cardiff Capital Region in consultation with the Welsh and UK Governments.
27. The document also outlines further regional governance arrangements relating to the transport and skills agendas.

Infrastructure Fund

28. The £1.229 billion investment fund is one of the largest per capita individual City Deals to date. The UK and Welsh Governments are contributing £500 million and £503 million to this fund respectively, with the Welsh Government funding to be provided over the first seven years of the Investment Fund
29. In addition, £106 million has been committed from the European Regional Development Fund and the balance of £120 million will be the collective responsibility of the ten local authorities forming the Cardiff Capital Region.
30. The investment fund will comprise of £734 million allocated to South East Wales Metro (SEWM), with the balance (£495 million) allocated to other city-region schemes. The latter will be used to take forward a wide range of projects and schemes that support economic growth across the Cardiff Capital Region. Decisions on the prioritisation of these schemes will be taken by the Cardiff Capital Region Cabinet. Schemes taken forward could include: further transport schemes; investment to unlock housing and employment sites; and development of research and innovation facilities.
31. As part of this, the ten local authorities across the Cardiff Capital Region will develop and adopt an assurance framework for this Investment Fund. This will also need to be agreed by the UK and Welsh Government. By adopting the assurance framework prior to the commencement of the Investment Fund, the Cardiff Capital Region will ensure that schemes that are taken forward represent value for money and are underpinned by a robust business case development process. The funding allocated to the SEWM will be subject to a separate but equally robust assurance framework that will cover the wider Metro project.
32. The grant funding for the investment fund will be profiled over a 20 year period. Local authorities will be responsible for financing any capital investment in advance of receipt of the grant funding.
33. The Cardiff Capital Region will also be required to evaluate the impact of the Investment Fund in order to unlock funding that has not been pre-allocated to the SEWM programme. This will be comprised of gateway assessments every five years. To underpin these gateway assessments, an independent review will be commissioned to evaluate the economic

benefits and economic impact of the investments made under the scheme, including whether the projects have been delivered on time and to budget. This assessment will be funded by the Cardiff Capital Region, but agreed at the outset with the UK Government. The next five year tranche of funding will be unlocked if the UK and Welsh Governments are satisfied that the independent assessment shows the investments to have met key objectives and contributed to national growth.

34. In a scenario where a future Investment Fund Gateway is not achieved, leading to any reduction or cessation of City Deal grant, then it will be the responsibility of individual local authorities within the Cardiff Capital Region to manage the financial impact of this within their local authority budget, utilising reserves or surpluses as required.
35. To support borrowing costs, as well as to provide appropriate incentivisation and resource for greater regional collaboration, the Welsh Government has agreed to explore with the Cardiff Capital Region:
 - the devolution of business rate income above an agreed growth baseline to provide funding for the City Deal programme;
 - providing the ability to levy an infrastructure supplement;
 - creating the option for the local authorities to use alternative finance sources; and
 - removing conditions around some specific Welsh Government grants, to allow funding to be pooled at the regional level in areas such as school support and interventions that seek to address poverty.

Next Steps

36. Further work will need to be undertaken over forthcoming months to develop a comprehensive City Deal Agreement that will provide detail on how the Deal will operate and set out the steps for implementation. This will be subject to the agreement of each participating Council.
37. As part of these more detailed discussions there will be a need to ensure that governance arrangements that are put in place are supported by all participating local authorities.
38. Furthermore there will need to be agreement on areas of finance relating to the infrastructure fund. In particular there is a need to develop an agreement relating to how the local contribution to the Infrastructure Investment Fund will be allocated. Any capital costs incurred ahead of incoming grant as part of the City Deal will also require local financing to support the investment. Other City Deals have split these costs either by population, a 'project on patch' basis or a mixture of the two. Advice from specialist support suggests that if the share is decided by projects on patch, a decision must be made with regard to whether any funding agreed from central government is 'top-sliced' or not – i.e. central funds are earmarked first and foremost for truly regional projects.
39. Detailed agreement will also be required on the development of the prioritisation and assurance framework for the identification of projects as

part of the investment programme. All projects proposed will also require a detailed business case to be produced.

40. Based on experience from other City Deals it is expected that it will take between 6 and 18 months for the full programme to be agreed and finalised.
41. In developing the overall City Deal governance and investment programme it is anticipated that a dedicated team will be put in place. It is proposed that local authorities make a contribution to the costs of putting this team in place.
42. Any final agreement on governance and financial implications of the City Deal will be brought to Council for approval.

Reason for Recommendations

43. To update Council on the progress on City Deal, and to outline next steps in the process.

Financial Implications

44. The Heads of Terms document signed by the Council in conjunction with nine other participating local authorities, Welsh and UK Governments is intended to provide certainty and signals the commencement of more detailed work to develop a final programme of investment and to agree the governance arrangements that will oversee the approval and delivery of the investment fund.
45. Based on experience from other City Deals it is anticipated that the next phase of detailed work could take between 6-18 months to complete and will be funded by the ten local authority partners via contributions to the City Deal Partnership Budget. An initial budget of £500,000 was established earlier in the year and around £200,000 of this regional budget remains uncommitted at this time.
46. As outlined in the report a dedicated team will now need to be put in place to complete the next phase of works. The team will be supplemented by specialist external advice as required and therefore, it is anticipated that a further contribution will be required in 2016/17 subject to the agreement of partners. Cardiff's share will be met from revenue resources approved in the 2016/17 budget for this purpose. Any unused contributions will be returned to the Council.
47. The Heads of Term document outlines in high-level terms the overall size of the investment fund and provides an indication of the amount that will need to be met by the ten local authorities. The Heads of Terms document suggests that CCR partners will only be required to contribute towards the 'Other City-Region Schemes' element of the fund and will be responsible for meeting the financial commitment associated with (i) 'Cost of Carry' (interest costs arising from timing differences associated with UK Government funding) and (ii) 'Local Authority Funding Share' (minimum of £120 million).

48. It addition, it should be noted that the continuation of UK Government's funding is subject to securing satisfactory 'Gateway Reviews' as part of the Investment Fund Assurance Framework adopted. Reviews are likely to be structured to occur at Years 5, 10 and 15. Therefore, funding from Year 6 onwards represents 'risk capital' as it will be subject to the agreed performance objectives being achieved at each of the Gateway stages.
49. A deal structured on this basis introduces a level of uncertainty, as CCR partners will be required to borrow risk capital upfront and meet the associated interest costs. Therefore, in the event that the agreed performance targets are not fully achieved, there is a risk that UK Government funding may be reduced or even cease. Under these circumstances any reduction will represent a further cost to CCR partners. In order to mitigate this risk, the projects selected will go through a detailed economic modelling assessment 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.
50. The Investment Fund Assurance Framework will be developed by CCR Partners and approved by UK and Welsh Government. An independent panel is to be established to monitor compliance with the agreed framework.
51. As part of the work done to-date, Cardiff Capital Region (CCR) partners have carried out some high-level modelling to get an indication of the overall cost and profile associated with two elements described above (Cost of Carry and Local Authority Funding Share). However, detailed work on the 'Other City-Region Schemes' is yet to be completed, in advance of the final investment fund being agreed. Therefore the modelling carried out at this time is indicative and could change. Furthermore, the report outlines that CCR Partners are yet to agree the basis on which its financial commitment will be met by individual local authorities. This represents a key issue to be resolved as the different approaches e.g. basis of 'population', 'projects on patch' or a 'hybrid' of the two, could represent financial commitments that are significantly different at individual local authority level.
52. Other key variables that will impact on the overall cost and profile to be met by CCR Partners include; the profile of UK Government funding flowing into the fund, the annual net borrowing requirement, the borrowing term e.g. 20 years, interest rate at the time of borrowing and wider inflation assumptions.
53. For indicative modelling purposes only it has been assumed that CCR Partners share their financial commitment on the basis of population. On this basis Cardiff would be required to meet 23.5% of the overall CCR Partner cost. In addition, the modelling assumes a 10 year investment programme, with UK funding and borrowing costs spread over a period of over 20 years. On this basis the financial commitment that CCR Partners would be required to meet totals around £279million over a 20 year period. Cardiff's share would amount to circa £65million. The indicative

modelling is predicated on the investment fund commencing in 2016/17, on this basis annual debt peaks at around £25 million in financial year 2026/27 (Year 11), with Cardiff's debt peaking at around £6 million in that year. Cardiff's indicative commitment in 2020/21 (the final year of the Capital Programme approved in February) amounts to around £1.7 million. Furthermore, changes due to population growth would impact on the apportionment calculation if this was the agreed basis taken forward.

54. These are significant sums, therefore as key variables are agreed and the base case position established, other modelling techniques such as sensitivity analysis, scenario analysis, optimism bias etc. will also need to be introduced to provide an overview of the wider risk envelope associated with any base case established.
55. 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 a new commitment over and above the existing programme. Given the significance of the amounts likely to be involved at local authority partner level, 'affordability' and 'choices' will be key considerations for Cabinet in-light of other commitments being progressed by the council and the limited resources available, providing always that amounts approved remain prudent, sustainable and affordable.
56. As the City Deal proposal develops a further report will need to be presented to Cabinet on the emerging financial commitment as well as the associated risks and issues. The report will need to consider the any budget framework issues and as well as the impact on the council's Treasury Management Strategy. In this regard, matters will need to be reported to Full Council.

Legal Implications

57. The Cardiff Capital Region City Deal document outlines the proposed terms for the City Deal. As set out in the body of the report, further work will need to be undertaken over forthcoming months to develop the comprehensive legal documentation required to set out the detailed provisions in terms of how the City Deal will operate, the obligations that fall to each party and the detailed governance arrangements. A comprehensive agreement will be drawn up between the participating authorities and the final form of such agreement is subject to the agreement of each participating authority ('The Agreement').
58. In terms of the governance arrangements as between the 10 local authorities, the City Deal Document is premised on the authorities establishing a joint committee, to which the authorities would delegate certain powers. The joint committee would be referred to as the Cardiff Capital Region Cabinet. It is important to note that the City Deal document provides that the establishment of a Cardiff Capital Region Cabinet will be the first step in the development of greater city-region governance across the Cardiff Capital City Region. The Agreement is intended to be structured such that it will enable the local authorities to explore with the Welsh Government alternative governance

arrangements in the medium term. It is proposed that the Agreement will also allow for the possibility of additional functions and powers to be devolved to the Cardiff Capital Region Cabinet in the future. Accordingly, it will be important to ensure that the Agreement contains suitable provision for the Authority's approval to be sought to any alternative governance arrangement that may be proposed during the term of the City Deal.

59. The City Deal document refers to the establishment of a number of bodies (by way of example only, a Cardiff Capital Region Business Organisation) and as part of the detailed work over the forthcoming months, terms of reference for such bodies will need to be developed so that all are clear as to the roles and responsibilities of such bodies.
60. The City Deal document refers to the authorities seeking greater financial autonomy and flexibility and exploring with Welsh Government the potential for 'additional flexibilities'. Detailed legal advice will be required on this and the potential implications for the authority in obtaining such additional flexibilities.
61. As will be appreciated, a considerable amount of work will be required in terms of developing the Agreement and other legal documentation required to facilitate the City Deal.
62. In developing the detailed City Deal arrangements regard should be had to the carrying out of appropriate consultation and the Council's statutory equality duty.
63. The Council has to satisfy its public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties) – the Public Sector Equality Duties (PSED). These duties require the Council to 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'. The 'Protected characteristics' are: Age, Gender reassignment, Sex, Race – including ethnic or national origin, colour or nationality, Disability, Pregnancy and maternity, Marriage and civil partnership, Sexual orientation and Religion or belief – including lack of belief.
64. All decisions taken by or on behalf of the Authority must:
 - Be within the legal powers of the Authority and of the body or person exercising powers on behalf of the Authority.
 - Comply with any procedural requirement imposed by law.
 - Be undertaken in accordance with procedural requirements imposed by the Authority e.g. Authority procedure rules.
 - Be fully and properly informed.
 - Be properly motivated (i.e. for an appropriate, good and relevant reason).
 - Be taken having regard to the Authority's fiduciary duty to its tax payers as elected members are trustees of the public interest and of its statutory purposes for which public powers are conferred on them.

This general duty requires the Authority to act prudently and in good faith in the interests of those to whom the duty is owed.

- Otherwise be reasonable and proper in all the circumstances.

CABINET PROPOSAL

Council is recommended to note the report and delegate authority to the Chief Executive, in consultation with the Leader of the Council, the Corporate Director Resources and Monitoring Officer to conclude any interim arrangements necessary to facilitate the development of the final City Deal (including without limitation to the generality of the foregoing appointment of external consultants and any interim appointments that may be required), provided the requisite budget provision is available.

THE CABINET

24 March 2015

The following Appendix is attached:

Appendix A: Cardiff Capital Region City Deal