

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

31 JANUARY 2017

REPORT OF THE CHIEF EXECUTIVE

CARDIFF CAPITAL REGION - CITY DEAL

1. Purpose of Report

- 1.1 To outline the next steps for the Cardiff Capital Region City Deal.
- 1.2 To seek approval for the formal establishment of the Cardiff Capital Region Joint Committee, which will oversee the region's economic growth agenda and delivery of the 20 year Cardiff Capital Region City Deal.
- 1.3 To seek approval of the Joint Working Agreement (JWA), Assurance Framework, Implementation Plan and Cardiff's role as the Accountable Body that will enable the establishment of the Cardiff Capital Region City Deal.

2. Connection to Corporate Improvement Objectives/Other Corporate Priorities

- 2.1 The City Deal is identified as a key element in delivering the Council's corporate priority of supporting a successful economy. The corporate plan identifies the Council's aims to help local people develop skills and take advantage of opportunities to succeed, to create conditions for growth and enterprise; and to create successful town centres. The plan identifies the development of the City Deal as the main mechanism for achieving these aims over the medium to long term.

3. Background

- 3.1 On 15th March 2016 each of the ten local authority leaders, the First Minister of Wales, the Welsh Government Minister for Finance, the Secretary of State for Wales and the Chief Secretary to HM Treasury signed the Cardiff Capital Region (CCR) City Deal Heads of Terms Agreement.
- 3.2 The 'Heads of Terms' agreement attached as Appendix A outlines the parameters for the detailed development of the City Deal and sets out how the ten local authorities will work in partnership with the Welsh Government and UK Government to support economic growth.
- 3.3 In order to progress enhanced regional working, and the establishment of the Investment Fund, the Heads of Terms outline proposals to establish a Cardiff Capital Region governance model that:
 - Complies with the existing statutory framework that exists in Wales to deliver the City Deal proposals;
 - 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 Governments that local authority leaders are making collective decisions which will serve to drive economic growth across the Capital Region; and
- Enables local authorities to explore with Welsh Government arrangements for local government reform in the medium term.

- 3.4 In particular, the development of the City Deal is reliant on the establishment of a Joint Committee comprising the participating local authorities. This Joint Committee in the first instance will have collective responsibility for decisions relating to the agreed investment programme. However, it will also be the lead body for any local authority regional collaboration on issues highlighted within the City Deal Heads of Terms.
- 3.5 Securing a final City Deal agreement is also reliant on the establishment of an Investment Fund Assurance Framework. By adopting the Assurance Framework prior to the commencement of the Investment Fund, the Cardiff Capital Region will ensure that schemes taken forward represent good value for money and are underpinned by a robust business case. (An exception is the South East Wales Metro which will be subject to a separate Welsh Government assessment)
- 3.6 This report updates Members on the position and seeks approval for the Council to commit to a Joint Working Agreement that represents a fundamental and long-term shift in the way in which local government in the city-region functions, bringing about a step change in collaboration in the areas of economic development, skills and training, regeneration, strategic planning, housing and transport.

Progress in delivering the City Deal

Heads of Terms

- 3.7 The Cardiff Capital Region City Deal Heads of Terms signed in March 2016 is attached to this report as Appendix A. It outlines the joint commitments made by the ten local authorities of the Cardiff Capital Region, the UK Government and the Welsh Government to unlock £1.2 billion of investment to increase the performance of the city-region economy. Over its lifetime of 20 years, partners envisaged that the City Deal would deliver up to 25,000 new jobs and leverage an additional £4 billion of private sector investment.
- 3.8 The Heads of Terms sets out how the City Deal provides funding to support investment in projects to stimulate economic growth: £734m is allocated to Metro; £495m covers an Investment Fund to support additional economic development activities. The latter provides the focus of the local government contribution to the deal and consists of a local government capital contribution of £120m with the remaining £375m provided by the UK Government over a 20 year period. Any expenditure incurred in advance of receipt of the flow of UK Government monies would require borrowing by local authorities. In addition the City Deal is also subject to five year 'Gateway Reviews'.
- 3.9 The Heads of Terms made clear that further work was needed to conclude the City Deal, particularly in relation to the development of governance arrangements. This has been prioritised since the experience of every city-deal partnership to date has

tended to highlight the importance of laying sound foundations in terms of good governance. Recent work has encompassed the establishment of:

- Cardiff Capital Region Joint Cabinet;
- A Programme Management Office;
- Growth and Competitiveness Commission;
- Employment and Skills Board;
- Regional Transport Authority;
- Cardiff Capital Region Economic Growth Partnership
- A Regional Business Organisation.

3.10 In addition, in order to discharge the Cardiff Capital Region's City Deal commitments and implement an ambitious economic strategy in the longer term, the ten local authorities requested that greater financial autonomy and flexibility should be granted by government in order to accelerate the delivery of critical infrastructure across the region at a time of local authority funding constraints.

Cardiff Capital Region Shadow Cabinet

3.11 Following the signing of the Cardiff Capital Region City Deal Heads of Terms the Cardiff Capital Region Shadow Cabinet was established in the summer of 2016, comprising the ten leaders of the participating local authorities. The Shadow Cabinet has provided the interim governance arrangements as a pre-cursor to the development of the proposed Joint Committee and has met on a monthly basis, with more regular fortnightly meetings taking place in recent months.

Programme Management Office

3.12 In order to progress the development of the City Deal, a Programme Management Office has been established comprising a Programme Director and Project Manager. The Programme Management Office is responsible for supporting the activities of the Cardiff Capital Region Shadow Cabinet and has also been responsible for progressing key elements of the City Deal; in particular, the development of an Assurance Framework (see Appendix C, Schedule 8) that will assess the programme of projects that will be taken forward by the City Deal partners, as well as the Cardiff Capital Region City Deal Implementation Plan (see Appendix C, Schedule 9), which outlines how the commitments of the City Deal Heads of Terms will be delivered.

3.13 In addition, external legal support was appointed to develop a Joint Working Agreement (see Appendix C) that will provide the legal framework for the establishment of a Joint Committee for the Cardiff Capital Region.

Growth and Competitiveness Commission

3.14 In accordance with the Heads of Terms - and reflecting broadly the approach taken by Greater Manchester to draw on academic and professional expertise to explore the case for city-region collaboration - an independent Growth and Competitiveness Commission was established under the chairmanship of Professor Greg Clark with a remit to examine the challenges and opportunities for economic growth and competitiveness in the city-region, and to make recommendations on how the

Cardiff Capital Region can achieve its full growth potential. The Commission produced a final report on the 16th December 2016, attached as Appendix B.

- 3.15 The Growth and Competitiveness Commission's core assertion is that: "The Cardiff Capital Region's potential to develop into a prosperous capital city-region for Wales, requires an integrated economic strategy."
- 3.16 The Growth and Competitiveness Commission report provides a number of key recommendations for the development of the city-region. In particular: "The Cardiff Capital Region Cabinet should quickly establish itself as the primary strategic decision making body for the city-region and build a strong partnership with WG to ensure that Local and Welsh Government act in tandem, as the City Deal requires. This means that the CCR Cabinet should integrate appropriate strategic activities in Economic Development, Spatial Development, Transport, and Skills and Employment within a single framework of authority and reporting, and avoid fragmented initiatives."

Cardiff Capital Region Employment and Skills Board

- 3.17 The Cardiff Capital Region committed to strengthening the existing Learning, Skills and Innovation Partnership, to be re-launched as the Cardiff Capital Region Skills and Employment Board. The Board will represent a wide range of stakeholders, including: business organisations; higher and further education; local authorities and the Welsh Government. It will be responsible for:
- Cardiff Capital Region's skills and worklessness strategy;
 - Pooled local authority skills resources including any devolved Welsh Government budget;
 - Producing an annual regional plan for employment and skills. This annual plan, led by industry, will set out how both the existing skills needs of businesses and the Capital Region's future skills challenges will be addressed;
 - Influencing and monitoring the delivery and impact of employment and skills programmes across the region;
 - Ensuring an industry-led approach to the design and delivery of apprenticeship programmes meets the needs of both business and apprentices;
 - Supporting the Welsh Government's "Curriculum for Wales, Curriculum for Life" plan, by encouraging closer alignment between future employer skills needs and education provision across the region; and
 - Ensuring European Union funding investments in skills and employment add value and align with other programmes.

Regional Transport Authority

- 3.18 The City Deal Heads of Terms also committed to establish a new non-statutory Regional Transport Authority to co-ordinate transport planning and investment, in partnership with the Welsh Government. The Cardiff Capital Region Transport Authority will be responsible for:
- Pooled local transport resources;

- Regional planning for the local transport network;
- Working with Transport for Wales to ensure objectives for transport investment are aligned;
- Exploring the creation of a single integrated ticketing platform for public transport across the Cardiff Capital Region;
- Working in partnership with the Welsh Government to define the priorities of the South East Wales Metro concept and to support its delivery; and
- Working in partnership with the Welsh Government to promote the development of integrated aviation routes from Cardiff Airport and St Athan Enterprise Zone, to deliver economic benefit.

3.19 A shadow regional transport authority involving relevant Cabinet portfolio holders has met to initiate work to establish formal arrangements once the Joint Working Agreement is approved.

Regional Economic Growth Partnership

3.20 The Heads of Terms included a commitment for local government to initiate the establishment of a Cardiff Capital Regional Economic Growth Partnership – in effect, a multi-agency advisory board to shape the development of the wider city-region economic development agenda. The remit of the partnership has been agreed to include: recommending a regional economic vision to the Cardiff Capital Region Cabinet; providing recommendations relating to City Deal Investment Fund decisions; and providing a broader advocacy role for the Cardiff Capital Region. The overall membership will cover local government, business and employee bodies, higher education and skills, community development, the third sector and social enterprise.

3.21 An independent person will be appointed in early 2017 to lead the process of formation of the Regional Economic Growth Partnership and the appointment of an independent Chair. Again, this broadly reflects the approach taken by city-region partnerships across the UK to ensure wider public, private and voluntary sector buy-in to city-region governance and strategy.

Regional Business Organisation

3.22 Finally, in terms of Heads of Terms commitments, the development of a Regional Business Organisation consisting of key business stakeholder groups across the city-region was viewed by all signatories to the deal as an important step towards effective city-region governance. The creation of a single voice for business in the city-region will serve to strengthen the ability of businesses to design and deliver economic development and regeneration activities across the region, and influence the implementation of city deal projects and initiatives.

3.23 A joint Confederation of British Industry, Federation of Small Businesses, Institute of Directors and South Wales Chamber of Commerce statement outlined the underlying principles for the Business Organisation. The final structure is being designed by the Cardiff Capital Region business community with the launch anticipated in the spring of 2017.

4. Current Situation/Proposal

4.1 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 Welsh 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.

4.2 Details of these are as follows:-

- **The Joint Working Agreement (JWA)** – attached as Appendix C 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.

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.

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. The matters which are to be reserved to the constituent councils and thus this Council would be required to take a subsequent decision on are;

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.*
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 evaluation period, which shall not exceed in aggregate £210.8 million 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.

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 approximately 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.

- **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.

4.3 Over the course of the next few weeks, all ten constituent councils will be asked to agree to the recommendations set out in section 9 of this report, which have been presented in a consistent manner to all ten councils. Once all ten constituent councils agree to the Assurance Framework and the Implementation Plan they need to be submitted to the Welsh and UK Governments by the end of February 2017 and finalised at the latest by 31st March 2017, in order to release this financial year's funding contribution from UK Government.

4.4 It is proposed that the Chief Executive in consultation with the Leader of the Council, the Director of Operational and Partnership Services and s151 Officer be granted delegated authority to decide whether the Council should continue to explore the continued opportunity 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 below.

5. Effect upon Policy Framework & Procedure Rules

5.1 The report details changes to governance procedure through the operation of the joint Committee. The report also enables the development of policy through the reserved matters that link directly to the Corporate Objectives.

5.2 A key element of the City Deal will 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 already 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.

6. Equality Impact Assessment

- 6.1 An Equality Impact Assessment screening form has been prepared for the purpose of this report. As a result of the screening, and the fact 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 required. If deemed necessary individual Equality Impact Assessments would be undertaken on a regional basis as City Deal decisions are considered in the future.

7. Financial Implications

- 7.1 The CCR City Deal Investment Fund for the ten partner Local Authorities is based on the following indicative modelling:

- UK Government Grant Contribution of £375 million
- Local Authority Capital Contribution of £120 million
- Borrowing Repayment Term of 25 years
- Borrowing Interest Rate at 3%

- 7.2 The total CCR City Deal 'Affordability Envelope' for the ten constituent councils is £210.8 million based on the following indicative calculations:

- Central Government (UK/WG) 'Cost of Carry', that is the interest costs associated with up-front borrowing of the UK Government funding ahead of receipt, totaling an estimated £44.0 million across all ten authorities
- Local Authority £120 million 'Cost of Capital', that is the principal and interest cost associated with borrowing the capital contribution to be made by the Local Authorities, totaling an estimated £166.8 million

- 7.3 Based on proportion of total population for the City Deal area, Bridgend County Borough Council's share of financial contributions is 9.4% resulting in the following indicative financial commitments:

- Capital contribution of £11.28 million over ten years
- Proposed 'Affordability Envelope' of £19.9 million, including cost of carry

- 7.4 The 2017-18 Medium Term Financial Strategy (MTFS) will include both the revenue and capital implications of the City Deal. Bridgend will fund its share as follows, based on the indicative expenditure profile:

- £11.28 million contribution as a revenue contribution to capital:
 - 2017-18 Recurrent budget pressure of £598,000
 - 2021-22 Recurrent budget pressure of £427,000
 - 2023-24 Recurrent budget pressure of £684,000
- Cost of carry will be financed through interest only borrowing from Public Works Loan Board (or internal borrowing if possible), and drawn down on an annual basis, as required by approved projects' cashflow requirements.. Interest costs over the 2017-18 to 2020-21 MTFS period are forecast at £87,000. The peak borrowing requirement is forecast in 2026-7, with Bridgend's share at £17.9 million, with associated interest costs of £515,000 in that year.

- 7.5 The ten constituent councils established a Memorandum of Understanding (MOU) during 2015 to enable work to be progressed on the City Deal. The MOU set out a Partnership Contribution to fund the required work based on an annual sum of £500,000. An underspend against the Partnership contribution was reported for 2015/16 and is expected for 2016/17.
- 7.6 The council's proposed revenue budget for 2017/18 includes a recurrent budget pressure of £94,000 to fund BCBC's share of Joint Committee costs. Recommendation 9.2 of this report seeks approval to utilise BCBC's share of the Partnership Contribution Budget underspend towards meeting its share of the future Regional Cabinet costs. The Regional Cabinet will be responsible for setting its annual Budget, but if this is proposed to increase by more than 5% of the preceding year's budget, under the Joint Working Agreement this will become a reserved matter for constituent council's approval.
- 7.7 Ahead of the JWA Business Plan being agreed the Regional Cabinet is given the discretion to commit up to £50 million of the UK Government funding subject to funding Terms and Conditions. This 'discretionary spend' would be subject to the Assurance Framework processes with any commitments made incorporated into the JWA Business Plan once agreed. In the event that a Business Plan cannot be agreed, BCBC would still be liable for its share of any commitment to the extent that such commitments sit outside the UK Government funding.
- 7.8 Approval of the JWA Business Plan is a Reserved Matter and will be brought back to constituent councils for final consideration and approval. Central to this will be the development of the proposed programme of investment that will be undertaken as part of the City Deal initiative. The business plan will provide the council with confirmation of its affordability exposure over the life of the City Deal. Whilst the overall Financial Envelope is being agreed now, any changes to BCBC's annual profile will be reflected in the business plan along with the implications of any financial matters unresolved at this time.
- 7.9 It is understood that the continuation of UK/Welsh Government 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. Funding from Year 6 onwards will therefore be subject to the agreed performance objectives being achieved at each of the gateway stages.
- 7.10 An Investment Fund structured on this basis introduces a level of uncertainty, as there will be a requirement to borrow in advance of receipt of UK/Welsh Government grant 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 the City Deal in the event that there are projects that have committed that are reliant on the full level of future grant. Furthermore, this position assumes that there is no 'clawback' provision within the UK Government Terms & Conditions, which is yet to be confirmed. 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.

- 7.11 The Investment Fund Assurance Framework has been developed by the project and will need to be approved by UK and Welsh Government as mentioned above. An independent panel is to be established to monitor compliance with the agreed framework and it is understood that a representative from the CCR City Deal will be invited to key meetings as the work of that panel is developed.
- 7.12 The Welsh Government and Wales Audit Office have been engaged in respect of a number of technical and accounting matters including the finalisation of grant Terms and Conditions. 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 partnership councils. The Glasgow & Clyde Valley City Deal also faced these challenges, successfully resolved these matters with their auditors, and therefore the affordability modelling assumes this approach. However, it should be recognised that until such time as written agreement is in place with Wales Audit Office on these matters, these remain as key project risks and any changes that result in an increase to the Affordability Envelope is a matter reserved back to each Council.
- 7.13 Once the JWA is approved, councils will be 'locked-in' for a minimum period of five years. As with other Joint Committee's the legal implications set out that the cost of withdrawing are likely to be substantial and are effectively designed to keep councils locked in for the duration of the City Deal.

8. Recommendations

It is recommended that the Cabinet and Council agree the following in so far as it applies to each of their functions:

- 8.1 Approve the Joint Working Agreement (appendix C) as the legal document that formally establishes the Cardiff Capital Region 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;
- 8.2 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;
- 8.3 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;
- 8.4 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;
- 8.5 Approve that the City of Cardiff Council acts as the Accountable Body with the responsibilities as set out in the JWA;

- 8.6 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;
- 8.7 Approve the Implementation Plan in the form attached to the JWA, subject to each constituent council approving the JWA Business Plan;
- 8.8 Approve the Chief Executive in consultation with the Leader of the Council, the Corporate Director Operational and Partnership Services 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;
- 8.9 Approve the Chief Executive in consultation with the Leader of the Council, the Corporate Director Operational and Partnership Services 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 8.1 - 8.8 above; and
- 8.10 Approve the Leader of the Council or his nominated Deputy be granted delegated authority to sign the JWA on behalf of the Council.

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25 January 2017

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Background documents

None