

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

24 NOVEMBER 2015

REPORT OF THE CORPORATE DIRECTOR COMMUNITIES

REGIONAL ECONOMIC DEVELOPMENT CARDIFF CAPITAL REGION CITY DEAL

1. Purpose of Report

- 1.1 The purpose of the report is to update Cabinet on the progress of the ten South East Wales local authorities, in partnership with the Welsh Government, in developing and securing a City Deal with the UK Government.

2. Connection to Corporate Improvement Plan / Other Corporate Priority.

- 2.1 The Cardiff Capital Region City Deals support the current Corporate Priority 1: Working together to develop the local economy. and the proposed revised priority of Supporting a Successful Economy.

3. Background.

- 3.1. There have been a series of reports and initiatives which look to develop the economic prospects of South East Wales by taking forward the concept of cities working with their region to drive growth by harnessing all of the assets and opportunities. The reports/initiatives referred to are:

- Cardiff Capital Region – Powering the Welsh Economy
- Cardiff County Council – City Deal
- Great Western Cities

- 3.2 The changing global economy requires local authorities and other stakeholders to change the way they respond to supporting the local economy. The growth of the City Region concept provides an approach which is being used elsewhere in the UK and Europe.

- 3.3 Bridgend is a part of the Cardiff Capital region and on 14th July 2015, Cabinet authorised participation in discussions that take forward the Capital City Region concept and the Great Western Cities initiative including the contribution of up to £47,000 towards the preparation of a City Deal bid for Cardiff and South East Wales. Cabinet further supported the preparation of a regional growth plan, based on an update to the South East Wales Strategic Framework

- 3.4 Bridgend County is potentially well placed to benefit from and contribute to a City Deal because of its:
- importance to the Cardiff capital region in terms of its diversity, commuting patterns, sector profile, and high employment growth;
 - strength as a business location for new and existing business that want to capitalise on its location/accessibility, availability of prestige employment sites, and environment;

- attractive environment and diverse mix of both urban and rural living.

3.5 A City Deal could generate major infrastructural investment especially in rapid transport systems (e.g. rail electrification, Metro) and help to strengthen Bridgend County Borough's attractiveness as a location to live, work and invest in new opportunities.

4. Current situation / proposal.

4.1 The 10 South East Wales local authorities are still at the early stages of negotiating a Cardiff Capital Region City Deal with the UK and Welsh Governments. Progress has been made in shaping a City Deal comparable with the City Deal agreed between the 8 local authorities of the Glasgow City Region, the Scottish and UK Governments.

4.2 The Cardiff Capital City Region has presented a £1.28 billion City Deal submission to the UK Treasury, supported by the First Minister of the Welsh Government committing to principles and outlining plans for the development of a possible City Deal.

4.3 The basis of the City Deal submission is that productivity 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 the economic outcomes in South East Wales, that will enable much higher levels of investment to be made. A City Deal and Infrastructure Fund could provide 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 ambitious target of a 5% per annum permanent improvement in the fiscal bottom line (ie Gross Value Added (GVA)¹ over an initial 10 year programme, equating to net increases in GVA of £200m per annum.

4.4 The proposal from the Cardiff Capital Region (attached at **Appendix 1**) outlines the following key points that will form the basis of any City Deal with the Treasury to deliver the ambitious economic growth target:

- **Connectivity** – a historical legacy of under investment in infrastructure has left South East Wales 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. To address this, the Cardiff Capital Region is seeking to:
 - Provide dedicated and pooled resources to deliver a City Region Infrastructure Fund;
 - Improve coordination of city regional transport investment.
- **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

¹ Gross Value Added is the measure of the value of goods and services produced in an area, industry or sector of an economy.

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. To address this the Cardiff Capital Region seeks to:
 - Designate the Cardiff Capital Region as an “Innovation Zone”;
 - Provide risk capital for new ideas through an Innovation Investment Fund;
 - Establish a catapult centre for the Region where some of the best businesses, scientists and engineers work side by side on research and development transforming high potential ideas into new products and services to generate economic growth.
- **Skills** – Whilst the Region benefits from a skilled workforce, too many people are in low paid employment or on benefits. If activity rates in the Region were to rise to the UK average, this would lead to an additional 31,000 local people entering the labour market. To address this the Cardiff Capital Region seeks to:
 - Develop a regional strategic plan for employment and skills based on evidence of need coupled with a mechanism to align skills funding, advice and support to meet the demands of the regional economy, delivering better outcomes for industry and those in the labour market;
 - Create a regional “Skills Innovation Hub” to connect industry to education, employment and skills initiatives;
 - Create a network of academies with industry, to co-design, develop and deliver programmes in response to demand from industry.
- **Business Support** – We propose to regionalise local resources in respect of business development, marketing and tourism with a dedicated fund for promotion.

4.5 To support the delivery of the above, the Cardiff Capital Region will also seek new powers and fiscal flexibilities. This will include exploring:

- Establishing Regional Strategic Planning arrangements that ensure that development takes place on a complementary basis for all in the city-region;
- A Programme of Tax Increment Finance (TIF) projects, funded by additional NNDR (National Non-Domestic Rates Revenue) tax revenue gains from economic development activities, agreed by the Capital City Region and overseen by Welsh Government;
- The creation of a Regional Investment Fund that will provide funding and finance for regeneration activities across South East Wales;
- The ability to lever Supplementary Business Rates to support investment.

4.6 The Joint Letter from the ten South East Wales local authorities, supported by the First Minister, to HM Treasury proposes a £1.28 billion fund over ten years with the following contributions:

- £580 million from Welsh Government;
- £120 million from the 10 local authorities;
- £580 million from UK Government.

- 4.7 These figures form the basis of an initial conversation with HM Treasury and reflect the high level of ambition of the ten local authorities of the Cardiff City Region.
- 4.8 The City Deal concept is predicated upon a Payment by Results (PbR) approach and local authorities borrowing on behalf of the UK Government the funding required for it to invest £580 million. So under the £1.28 billion fund scenario the UK Government contribution of £580 million would be borrowed by the ten local authorities and funded by the UK Government over thirty five years, with potentially 15% or more of the total to be repaid in the first five years (eg through investment in infrastructure) and the remaining 85% to be repaid to the local authorities on the achievement of the economic (ie GVA) targets set.
- 4.9 Under this scenario the Welsh Government would also provide £580 million contribution to the Fund and the assumption is that this would be in the form of additional capital investment or capital grant and not predicated on a PbR approach. The model also assumes that the ten local authorities would make a capital contribution to the Fund of £120 million, which for this council would amount to £10.8 million if based on a population share.
- 4.9 The Capital City Region is working with KPMG to model a range of funding scenarios to understand the capital and interest costs resting on each of the ten local authorities. For Bridgend County Borough Council, using the above scenario it is estimated that the peak borrowing cost will be approximately 2.1 million per annum in 2026, with a total annual revenue costs to serve the borrowing over the thirty five years at around £35 million. However it is important to note that this is but one possible scenario and at this stage no commitment has been given by any party.

Next Steps

- 4.9 The City Deal process is a lengthy process and in some cities it has taken up to 18 months to secure the deal. The Joint Letter from the 10 South East Wales council leaders, supported by the First Minister, to the HM Treasury committing to the principles and setting out outline plans for the development of a deal is the first step in the process.
- 4.10 The next steps are to focus on the three key foundations of the City Deal:
- **Real Economy Prioritisation** - prioritising projects by their impact on increasing jobs and economic output;
 - **Establishing Governance and Metrics** – Programme agreed based on the performance of projects against the key metrics;
 - **Establishing Funding Parameters** – Agreeing baseline budgets, payment by results and “self-help” funding where local authorities contribute extra funding from a variety of sources to fund specific projects.
- 4.11 Over the period to spring 2016, the local authorities working with Welsh Government will develop, analyse and economically model a range of projects to come up with a short list of strong performing projects in GVA terms to be identified. Final decisions on these projects will be made by the 10 local authorities in partnership with Welsh Government in July 2016.

- 4.12 In parallel to the development of the projects will be the development and finalisation of the governance, oversight and monitoring arrangements that will be used to deliver and implement the programme. The Cardiff Capital Region local authorities will seek to finalise the City Deal over the summer, with an announcement by the early autumn.

5. Effect upon Policy Framework& Procedure Rules.

- 5.1 None.

6. Equality Impact Assessment

- 6.1 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 as City Deal decisions are brought forward in the future.

7. Financial Implications.

- 7.1 There are no direct financial implications arising from this report which is for information only.
- 7.2 A South East Wales City Deal would bring significant financial implications for this Council. Under the £1.28 million scenario outlined above there would be a requirement for the Council to find around £10.8 million as its capital contribution (based on population share) in the first ten years of the Fund and around £35 million (peaking at £2.1 million per annum in 2026) revenue over the 35 years of the Fund financing period. At this point the Council has made no budgetary provision for these costs which would need to be found in future budget planning rounds, taking account of the Council's current and future Medium Term Financial Strategy.
- 7.3 It is also important for members to be aware that City Deals have added financial risks as the capital investment made by the UK Government would be based on achieving agreed economic growth targets. In a worst case scenario, complete failure to achieve the economic targets could result in the ten local authorities having to meet the cost of 85% of the UK Government capital contribution on top of the associated borrowing costs (ie a total of nearly £80 million for this Council over 35 years). This risk needs to be set against the potential benefit to the county borough in respect of the economic gains that should be achieved from the investment.
- 7.4 As the City Deal developments and negotiations continue, further information will be made available to Members on the potential financial risks and rewards and no commitments will be made without the necessary Cabinet and Council approvals.

8. Recommendations

It is recommended that Cabinet:

- Note the progress to date and the estimated timescales to get the full agreement of all parties to complete the City Deal;
- Note that a further update report will be presented to Cabinet in the New Year.

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Background documents:

Powering the Welsh Economy: A Report by Cardiff Capital Region Board dated December 2014.
Letter and Supporting Information from the Cardiff Capital Region to the UK Government.