

FULL COUNCIL REPORT

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Service Area	Community Regeneration
Committee Division	Council
Exempt/Non Exempt	Non Exempt
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To: Mayor, Ladies and Gentlemen

CITY DEAL: APPROACH BY CARDIFF CITY COUNCIL

PURPOSE OF THE REPORT:

To provide Council with information regarding the recent work undertaken by Cardiff City Council on behalf of the ten South East Wales Authorities to potentially attract a City Deal for South East Wales.

To inform Council of the work which is proposed to be undertaken over the coming 9 months to prepare a formal City Deal proposal.

To request that funds are made available by Merthyr Tydfil to enable the Council to participate in the formulation of a formal City Deal proposal for the South East Wales Region.

1.0 INTRODUCTION AND BACKGROUND

- 1.1 On 21 May 2015 the Chief Executive of Cardiff County Council wrote to the Chief Executives of South East Wales Local Authorities (Rhondda Cynon Taff, Vale of Glamorgan, Merthyr, Bridgend, Caerphilly, Blaenau Gwent, Newport, Torfaen and Monmouthshire) requesting that consideration be given to a proposal to undertake the work necessary to formulate a City Deal proposal that would be submitted to the UK Government. This follows two meetings involving Chief Executives and Leaders of the various Councils at which the work undertaken by Cardiff City Council to date was considered and discussed.

- 1.2 Cardiff City Council has already decided that their Officers be delegated to proceed with negotiations with the UK Government and have set aside monies to appoint Specialist Advisors to support the delivery of the City Deal proposal. A report presented to a meeting of the Cardiff City Cabinet on 2 April 2015 covered in some detail the nature of the City Deal proposal, its use in other parts of the UK and the preparatory work necessary to advance an effective proposal. The largest proportion of this report is taken from that Cardiff report.
- 1.3 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 City Deal'*. The announcement effectively moves the current discussion about a potential City Deal for South East Wales on to the next stage where the Government has now offered to begin the formal process of negotiation.
- 1.4 The announcement follows on from the decision made in the run up to the referendum on Scottish independence to award a City Deal for Glasgow. This was the first deal with a city in a devolved nation of the UK. Up until that point the opportunity had only been made available to English cities: the first round was with the 8 largest English cities outside of London, known as the Core Cities; and the second round was with the next 14 largest cities outside of London and the 6 cities with the highest recent population growth.
- 1.5 A City Deal 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.

2.0 ISSUES AND FINDINGS

- 2.1 The process involved in getting to a final submission is resource intensive and will require participating partners to support the allocation of a number of staff and a budget for the provision of appropriate specialist advice.
- 2.2 A key factor in determining the scale and scope of City Deals has been the level of maturity of existing partnership/governance arrangements. There seems to be a clear correlation between the scale of funds negotiated and the level of local trust and co-operation that can be demonstrated to be in place.
- 2.3 In the South East Wales context, it is clear there will need to be a significant role for Welsh Government in taking forward a City Deal proposal not least to ensure adequate funding is available to match any new monies provided by Central Government. There may also be a role for EU funding as part of the mix.
- 2.4 In all cases, the business community has played a role in the City Deal process. In some cases local business has led the process through Local Enterprise Partnerships. The larger agreements have been led by consortia of local government, strongly supported in close partnership by the local business community.
- 2.5 The latest and largest Deals have required a significant element of local risk taking

both in terms of the 'Payment by Results' approach and a requirement for local capital investment. The Payment by Results approach potentially introduces cash-flow consequences in terms of upfront costs being locally funded in advance of any Government contribution which is dependent on agreed outcomes being achieved.

3.0 CITY DEALS

- 3.1 The 'City Deal' process was initiated in late 2011 as part of the UK Government's broader devolution and growth agenda. City Deals provide bespoke agreements between Government and cities that seek to empower localities to drive economic growth by providing additional freedoms and resources. In return the Government has sought new local governance arrangements, which have taken a variety of forms including combined Authorities, city mayors, and other forms of local government led partnerships.
- 3.2 The Government's stated aim of the City Deal programme is to devolve control to cities 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
- 3.3 A common theme in the larger deals has been a 'Payment by Results' approach. The 'Payment by Results' approach is in effect a new form of Tax Increment Finance. Tax Increment Finance is based on retaining a share of business rate uplift which is typically around 2% of total Gross Value Added uplift to pay back finance raised for infrastructure investment. A 'Payment by Results' approach provides access to a share of the total tax receipt from GVA uplift resulting from infrastructure investment which typically equates to circa 40%.
- 3.4 The development of a successful proposal relies on agreement of a set of minimum objectives for participant areas. This means that there must be a minimum guaranteed outcome for all participant areas, typically in terms of access to job opportunities. To that end, the Infrastructure Fund created by a City Deal is required to invest according to a strict set of criteria. Essentially, eligible projects are evaluated against the net economic impact they would have on the City Deal area and also the contribution they would make towards meeting the agreed minimum objectives. The crucial requirement of city leaders therefore is to set, and agree with UK Government, the 'rules' by which the Infrastructure Fund invests. In many areas this has led to a drastic change to the order of priority for capital investment, and typically it has seen transport investment focus on projects that bring people and jobs closer together.

3.5 Overall the effective building blocks required by Local Authorities to deliver a coherent City Deal proposal include:

- Agreeing appropriate and sound objectives and minimum outcomes
- Identification of resources to support the development of the City Deal as well as to contribute to the overall fund and cover the cost of financing requirements
- Operationally effective governance that also fits in with the UK Government's agenda in terms of the devolution of powers to city-regions
- Effective tools for prioritisation that provide rigour to the expected levels of impact in terms of jobs and GVA, as well as reducing the risk that Local Authorities are exposed to in terms of meeting the required objectives to trigger payments from the UK Government
- Functional economic geography consistent with effective decision making and ensuring that a scale where net impact can be maximised
- An element of local financial risk taking that shows the commitment of partners.

3.6 The scale of impact anticipated from some of the largest deals is significant:

- Greater Manchester's £2.75bn Transport Fund is expected to deliver up to £3.6bn in annual GVA and 37,000 jobs;
- Leeds City Region's £1.45bn Transport Fund is expected to deliver up to £2.6bn in annual GVA and 23,000 jobs;
- Glasgow City Region's £1.13bn fund is expected to deliver up to £2.2bn in annual GVA and 28,000 jobs.

4.0 GOVERNANCE ARRANGEMENTS

4.1 Effective local partnership/governance arrangements are at the heart of successful City Deals and will determine the extent to which Government is prepared to invest in a locality. The deals agreed by Government to date have been based on a variety of approaches reflecting local circumstances. The largest deals have clearly been achieved where the strongest local partnership arrangements exist and in most cases these have been Local Authority led.

4.2 As part of the recent work undertaken by the Cardiff's Specialist Advisors a review of partnership arrangements involved in existing City Deals has been provided as the basis for considering an appropriate model.

4.3 In all cases, the private sector has had an important role to play. Inherently, local business is at the heart of the concept of a City Deal. City Deals are intended to grow the local economy, to increase GVA, by providing the infrastructure for business to flourish. It is therefore imperative to engage with local business in

shaping priorities and supporting delivery. More to the point, the public sector funding provides direct support for this growth.

4.4 Cardiff has procured specialist advice to develop an initial high-level proposal for a City Deal. At this stage in the process there is no description of projects, as full analysis of economic impact will need to be undertaken before projects are properly identified and prioritised. Instead the focus is on a number of key areas for investment such as transport, housing, regeneration, skills and energy. Transport in particular has been a central theme of most City Deals to date.

4.5 The potential scale of the deal will rely on many factors including the extent of match funding contributions available from local sources and the appetite for taking risk. In terms of potential, based on a pro-rata calculation of the Glasgow deal, to achieve the same percentage of GVA uplift (5%) it would require an infrastructure fund in the region of £800m.

4.6 Cardiff's Specialist Advisors have provided an outline gateway process that has been used by the agreed deals both to drive the process and secure the necessary agreements at key milestones.

4.7 Gateway 1 involves:

- Agree the types of investments/sectors for inclusion in Infrastructure Fund/City Growth Deal plus interventions aimed at dependency reduction.
- Agree objectives (including programme minima) and metrics for appraising performance of investments/interventions.
- Sign-off on economic modelling approach to be used.
- Begin to develop proposed governance and joint working arrangements.
- Agree instructions for working up individual investments/ interventions.
- Define local funding sources 'in play' (but not decisions on the level).

Gateway 2 involves:

- Test/demonstrate economic modelling suite and sign-off that it is fit for purpose.
- Initial sift of long list and sign-off on medium list of investments/interventions.
- Agree funding scenarios to be developed.
- Engage with potential partners and government on scale of contribution/funding devolution available and scope for Payment by Results (PbR).

Gateway 3 involves:

- Present prioritisation of schemes against lead metric on a net cost basis (e.g. including match funding and other offers).
- Refine package to ensure that programme minima are delivered at each funding scenario.
- Iterate with potential funders and government on co-funding/devolution propositions and PbR options.

Gateway 4 involves:

- Present final shortlist of 'compliant' funding scenarios – i.e. those that maximise the lead metric and deliver the minima.
- Decisions on which scenario to be taken forward as final Fund/City Growth Deal proposition based on degree of local funding commitment.
- Decisions on the necessary delivery governance reforms (if applicable).

- 4.8 Undertaking the work to develop a detailed City Deal proposal will require resources both in terms of the cost of procuring external and independent expertise as well as staff time from participating Authorities.

5.0 FINANCIAL IMPLICATION(S)

5.1 Immediate

Cardiff have identified that £500,000 will be required to undertake the preparatory work necessary to develop a City Deal proposal on behalf of the region and on the basis of the contributions being based on a pro-rata (per population) calculation. The input from Merthyr Tydfil would be around £20,000 and would be funded from earmarked reserves. Clearly, Merthyr Tydfil would only commit its resource subject to all ten Authorities agreeing.

5.2 Long Term (only if Merthyr Tydfil were to continue its participation once the preparatory work is completed)

At this stage there are a range of questions that require detailed answers before a proper analysis can be undertaken. The preparatory work will enable these matters to be addressed before a substantive decision. For example

- i. Will the capital input from participants be on a pro-rata basis (based on population)
- ii. What available capital finance can be termed as appropriate for City deal purposes i.e. are existing spend programmes e.g. 21st Century Schools eligible expenditure
- iii. What commitment will be given by Welsh Government
- iv. Where will the money be spent within the region
- v. How will decisions be taken at a regional level

It is the preparatory work that is proposed that will answer these questions. Once this information becomes available it is at that point that Cabinet can consider in detail Merthyr Tydfil's position.

6.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

6.1 The Single Integrated Plan and Sustainability Impact Assessment has been completed and the proposals have no negative impact on all aspects of the Corporate Plan and Single Integrated Plan. No negative impacts have been identified.

7.0 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) form has been prepared for the purpose of this report. It has been found that a full assessment is not required at this time. The form can be accessed on the Council's website/intranet via the 'Equality Impact Assessment' link.

8.0 RECOMMENDATION(S) that

8.1 A financial contribution of around £20,000, funded from earmarked reserves, be approved.

8.2 This contribution be subject to all other Authorities in the region agreeing to participate.

ELLIS COOPER
CORPORATE DIRECTOR PLACE AND TRANSFORMATION

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location

Consultation has been undertaken with the Corporate Management Team in respect of each proposal(s) and recommendation(s) set out in this report.