



FULL COUNCIL REPORT

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Exempt/Non Exempt	Non Exempt
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To: Mayor, Ladies and Gentlemen

THE CITY DEAL

1.0 SUMMARY OF THE REPORT

- 1.1 The purpose of the report is to update Members 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
- 1.2 The Council, in partnership with the other South East Wales 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.
- 1.3 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.
- 1.4 Whilst the current funding scenarios are indicative, there will inevitably be a financial contribution required from local government,
- 1.5 It is important that all 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.

2.0 RECOMMENDATIONS that:

- 2.1 The progress to date and the estimated timescales to get the full agreement of all parties to complete the City Deal is noted;

- 2.2 The Leader of the Council and Chief Executive work with the other South East Wales Local Authorities to develop a business case for a city deal is authorised.
- 2.3 A further update on progress early in the New Year be received.

3.0 BACKGROUND

- 3.1 In 2011, the UK Government recognised that cities and their surrounding areas are home to 74% of our population and 78% of our jobs, making them important to the long-term growth and economic success of the UK. To reduce the high level of government debt arising from the recession, the country needs more business and employment opportunities to grow the economy. The UK Government considers that transferring powers from government to city-regions will make it easier for cities to achieve economic growth.
- 3.2 To make the improvement in economic growth, the UK Government initially gave England's cities new powers and freedoms through City Deals. City Deals are agreements between government and a city that give the city control 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 The first wave of City Deals were with the 8 largest cities outside of London, known as the Core Cities that are as follows:
- Greater Birmingham
 - Bristol Region
 - Greater Manchester
 - Leeds City Region
 - Liverpool City Region
 - Nottingham City Region
 - Newcastle Region
 - Sheffield City Region
- 3.4 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 3 such deals.
- 3.5 Further City Deals have been agreed with 20 cities, being the next 14 largest cities outside of London and their wider areas and the 6 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. These city regions include:

- the Black Country
- Greater Brighton
- Greater Cambridge
- Coventry and Warwickshire
- Hull and the Humber
- Great Ipswich
- Leicester and Leicestershire
- Greater Norwich
- Oxford and Oxfordshire
- Plymouth and South West Peninsula
- Preston, South Ribble and Lancashire
- Southampton and Portsmouth
- Southend-on-Sea
- Stoke-on-Trent and Staffordshire
- Sunderland
- Swindon and Wiltshire
- Tees Valley
- Thames Valley Berkshire

3.6 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 devolved government.

3.7 All these large city regions in the UK have accessed City Deal funding and overcome the legal, governance and financial issues associated with such large scale collaboration across a number of local authorities and government. There is no reason why the local authorities of the Cardiff Capital Region cannot benefit from a City Deal ensuring that more local people can access high paid employment and for the economic output of the Region to compete with comparable city regions across the UK.

4.0 WHAT IS A CITY DEAL?

4.1 The City Deal is the UK Government's strategy for building stronger urban and regional growth through smarter strategic planning, infrastructure investment and local governance. It is a radical approach to infrastructure priority setting, funding and financing. The majority of City Deals involve establishing a growth benchmark for a city region in return for a significant investment from the UK Government. The model determines an economic growth budget for the region measured as Gross Value Added (GVA), which is a local measure of Gross Domestic Product (GDP).

4.2 In essence the City Deal can be described as follows:

- **A City Deal is a contract** – Each City Deal is a contract between a city region and the UK Government, which in the case of the Cardiff Capital Region will also include Welsh Government. The City Deal generally runs for 10 years or longer. Each identifies a list of priority projects to be delivered along with economic performance benchmarks;
- **The focus is on productivity and growth** - Each region has to make wise choices about infrastructure investment that will boost economic activity. The City Deal model explicitly targets a package of infrastructure projects that lift a region's economic capability over a long-term timeframe. This helps focus competing priorities into a coherent set of goals that can be communicated to business and the community
- **City Deals encourage local leadership and good governance** – The City Deal brings together the regional partners linking key stakeholders such as central, devolved and local government, business and community groups. In other regions this has encouraged a more enterprising, strategic approach to growth and self reliance;

- **City Deals utilise smarter tools for determining infrastructure investment priorities** – The City Deal programme only includes projects that have been assessed in terms of growth in jobs and productivity, and the goal is to achieve ongoing improvements in Gross Value Added (local GDP) for the Region. The City Deal approach promotes a move away from budget silos, such as a housing budget, a transport budget etc, to an economic growth budget for a region. The assessment framework shifts the focus away from isolated project evaluations to metrics that capture the broader benefits such as a reduction in welfare spend, and housing and regeneration dividends. All City Deal contract proposals are independently assessed by the UK Treasury, which also monitors progress towards agreed economic goals;
 - **City Deals unlock access to innovative funding** – the City Deal model allows for the regions to “earn back” a share of the additional taxation dividend generated from faster economic growth – a growth windfall. There are opportunities to use this windfall to settle existing debt obligations faster or to finance new priority infrastructure projects. For example, the Birmingham and Solihull City Deal partners have established GBS Capital which aims to leverage £1bn of seed funding into £10bn of private capital.
 - **City Deals help join up economic, social and sustainability goals** – A feature of the City Deals to date is the inclusion of complementary programmes relevant to a region. For example the Greater Manchester City Deal includes a Growth Hub programme; a Skills Hub – to employ 6,000 apprentices; a Low Carbon Demonstrator – an innovative funding model to reduce emissions; a housing programme that aims to deliver 7,000 new homes by 2017; and an Inward Investment Beacon – a programme for attracting international capital to local projects. This is a good example of how the City Deal fosters a mutually reinforcing set of public policy programmes.
- 4.3 The City Deal model is underpinned by the premise that **everyone benefits** but not everyone benefits all at once. City Deals are developed through careful and considered negotiations between all contributing stakeholders. In the case of the Cardiff Capital Region, these stakeholders are the 10 local authorities, Welsh Government and UK Government.
- 4.4 During the initial stages of these negotiations, each of the stakeholders will clearly articulate expectations for the deal, including the nomination of metrics, outcomes desired from the deal and the financial motivation for participation. These are refined over time to form the basis of the deal. In all deals agreed to date, economic growth has been identified as the leading metric, and the foundation for prioritisation and earn back.
- 4.5 The City Deal Model was initially developed to determine whether city regions could achieve a better infrastructure and economic outcome by acting collaboratively, rather than individually, and be engaging with government and each other to do so. A good example of this is in Greater Manchester where there has been a fundamental shift in the way in which the 10 local authorities worked together in respect of infrastructure funding, prioritisation and delivery. This in turn has realised the current growth in investment and economic outcomes. In Greater Manchester, the 10 council leaders agreed:

- To establish the Greater Manchester Transport Fund to combine the various contributions made across the region to best effect;
- To establish the Greater Manchester Combined Authority – in effect a new tier of local government, accountable to a cabinet of 10 leaders of Greater Manchester, with powers to deliver joint programmes starting with the transport fund.

4.6 In Manchester, these new structures drove collaboration in both planning and delivery of enabling infrastructure such as Local Development Planning. Stakeholders, through their commitment to implementing the City Deal, became more accountable for the outcomes identified by the deal and made the local investments necessary to maximise the regional benefit.

5.0 WHAT IS THE CARDIFF CAPITAL REGION CITY DEAL SEEKING TO ACHIEVE AND HOW?

5.1 The 10 South East Wales 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 the 8 local authorities of the Glasgow City Region, the Scottish and UK Governments.

5.2 The Cardiff Capital City Region has submitted a £1.28bn City Deal outline 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.

5.3 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 the economic outcomes in South East Wales. 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 ambitious target of a 5% per annum permanent improvement in the fiscal bottom line over an initial 10 year programme, equating to net increases in GVA of £200m per annum.

5.4 The proposal from the Cardiff Capital Region 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 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. 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.

5.5 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 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 South East Wales;
- The ability to lever Supplementary Business Rates to support investment.

6.0 HOW COULD THE CITY DEAL POTENTIALLY BE FINANCED?

- 6.1 The Joint Letter from the 10 South East Wales local authorities, supported by the First Minister, to HM Treasury proposes a £1.28bn fund with the following contributions:
- £580m from Welsh Government;
 - £120m from the 10 local authorities;
 - £580m from UK Government.
- 6.2 These figures form the basis of an initial conversation with HM Treasury and reflect the high level of ambition of the 10 local authorities of the Cardiff City Region.
- 6.3 On this scenario the UK Government contribution of £580m is expected to be funded over a 25 to 35 year period, with potentially 15% or more of the total repaid in the first 5 years, based on, for example, an investment in infrastructure, and the remaining 85% repaid based on Payment By Results, in achieving the economic targets set. During this period, the 10 local authorities have initially to borrow the funding required to make the £580m investment. 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 10 local authorities.

7.0 WHAT ARE THE NEXT STEPS IN SECURING A CITY DEAL?

- 7.1 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.
- 7.2 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.
- 7.3 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.
- 7.4 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.

8.0 CONSULTATION

8.1 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. 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.

9.0 CONCLUSION

9.1 The City Deal approach to infrastructure funding has proven to be successful in delivering increased economic activity, infrastructure funding and development certainty in many UK cities, with some cities agreeing multiple City Deals. The Cardiff Capital Region significantly lags behind the rest of the UK in terms of economic output, contributing only 75% of the UK average GDP. This is an opportunity for the 10 South East Wales local authorities to collaborate together, with Welsh Government, to generate a significant boost to the local economy and begin to address the under investment in infrastructure, both connectivity and digital, and take the opportunity to develop the skills of the workforce and support businesses to develop through innovation.

9.2 The potential benefits to Merthyr Tydfil are significant. The inadequacies of the current transportation infrastructure are a major drag on future wealth generation for residents and local business and this, the first City Deal, provides the opportunity for Merthyr Tydfil to capitalise on a major boost to the economy of the Cardiff Capital Region.

10.0 FINANCIAL IMPLICATIONS

10.1 In June 2015 all 10 Local Authorities made a financial contribution to fund the initial development work necessary to make the full first stage submission of a Deal proposal. Contributions from each Authority were based on relative population in each area. Merthyr Tydfil County Borough Council made a contribution of £20,000.

10.2 At present there are no further financial implications in developing a City Deal. However, City Deals do place a considerable risk on local authorities, as the capital investment is paid by HM Treasury based on achieving agreed economic growth targets. Failure to achieve the economic targets could result in local authorities having to cover the cost of 85% of the UK Government capital contribution and the associated borrowing costs.

10.3 As the City Deal developments and negotiations continue, further information will be made available to Members, on the potential financial risks and rewards.

11.0 SINGLE INTEGRATED PLAN AND SUSTAINABILITY IMPACT SUMMARY

11.1 The Single Integrated Plan has Prosperity as a key theme. The City Deal could have a significant impact on realising the Prosperity targets in the SIP.

12.0 EQUALITY IMPACT ASSESSMENT

12.1 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.

12.2 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.

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CHIEF EXECUTIVE

COUNCILLOR BRENDAN TOOMEY
LEADER OF THE COUNCIL

BACKGROUND PAPERS		
Title of Document(s)	Document(s) Date	Document Location
Does the report contain any issue that may impact the Council's Constitution?		No

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