

Agenda



Capital Region City Deal Joint Cabinet

Date: Tuesday, 2 May 2017

Time: 9.30 am

Venue: Ty Dysgu, Nantgarw

Item		Wards Affected
1	<u>Agenda</u> (Pages 3 - 4)	
2	<u>Agenda - Cym</u> (Pages 5 - 6)	
3	<u>Grant Funding Terms and Conditions Report</u> (Pages 7 - 16) To receive the Report of the City of Cardiff Council Corporate Director of Resources in relation to the acceptance of the terms and conditions of the grant transfer from Welsh Government and HM Treasury to the Accountable Body.	
4	<u>Annual Business Plan 2017-2018</u> (Pages 17 - 22) To receive the Report of the Cardiff Capital Region Programme Director in relation to the proposed Annual Business Plan for 2017-2018.	
5	<u>Compound Semi-Conductor Project Proposal</u> (Pages 23 - 32) To receive the Report of the Cardiff Capital Region Programme Director in relation to a Candidate Scheme proposal seeking Wider Investment Fund support.	

Contact: Democratic Services

Tel: [01633 656656](tel:01633656656)

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Date of Issue: 26 May 2017

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Wel
**Cardiff Capital Region City Deal
Special Regional Joint Cabinet**

Tuesday 02nd May 2017, 09.30 a.m.
Ty Dysgu, Nantgarw

Agenda

1. Welcome and Apologies

2. Declarations of Interest

To be made at the start of the Agenda Item in question, in accordance with the members Code of Conduct.

3. Grant Funding Terms and Conditions Report

To receive the Report of the City of Cardiff Council Corporate Director of Resources in relation to the acceptance of the terms and conditions of the grant transfer from Welsh Government and HM Treasury to the Accountable Body.

4. Annual Business Plan 2017-2018

To receive the Report of the Cardiff Capital Region Programme Director in relation to the proposed Annual Business Plan for 2017-2018.

5. Compound Semi-Conductor Project Proposal

To receive the Report of the Cardiff Capital Region Programme Director in relation to a Candidate Scheme proposal seeking Wider Investment Fund support.

Sheila Davies
CCR Programme Director
25th April 2017

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Bargen Ddinesig Prifddinas-Ranbarth Caerdydd Cyd-Gabinet Rhanbarthol Arbennig

Dydd Mawrth 02 Mai 2017, 09.30 a.m.
Tŷ Dysgu, Nantgarw

Agenda

1. Croeso ac Ymddiheuriadau

2. Datgan Buddiannau

I'w gwneud ar ddechrau'r Eitem Agenda dan sylw, yn unol â Chod Ymddygiad yr aelodau.

3. Adroddiad Telerau ac Amodau Cyllid Grant

Derbyn Adroddiad Cyfarwyddwr Adnoddau Corfforaethol Cyngor Dinas Caerdydd mewn perthynas â derbyn telerau ac amodau trosglwyddo'r grant o Lywodraeth Cymru a Thrysorlys EM i'r Corff Cyfrifol.

4. Cynllun Busnes Blynyddol 2017-2018

Derbyn Adroddiad Cyfarwyddwr Rhaglen Prifddinas-Ranbarth Caerdydd mewn perthynas â'r Cynllun Busnes Blynyddol a gynigir ar gyfer 2017-2018.

5. Cynnig Project Lled-Ddargludydd Cyfansawdd

Derbyn Adroddiad Cyfarwyddwr Rhaglen Prifddinas-Ranbarth Caerdydd mewn perthynas â chynnig Cynllun Ymgeisydd sy'n ceisio cymorth Cronfa Fuddsoddi Ehangach.

Sheila Davies
Cyfarwyddwr Rhaglen P-RC
25 Ebrill 2017

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CARDIFF CAPITAL REGION CABINET CABINET MEETING 2nd May 2017

GRANT FUNDING TERMS AND CONDITIONS

REPORT OF ACCOUNTABLE BODY - CORPORATE DIRECTOR OF RESOURCES CITY OF CARDIFF COUNCIL

AGENDA ITEM: 3

Reason for this Report

1. To inform Joint Cabinet of the Welsh Government funding terms and conditions relating to the HM Treasury Contribution (£375 million), including the clarification raised and responses agreed with Welsh Government.
2. To discharge the Condition Subsequent within the Cardiff Capital Region City Deal (CCRCD) Joint Working Agreement (Clause 2.3).
3. To recommend that Joint Cabinet approve the Welsh Government funding terms and conditions, whilst noting any residual risks that remain.

Background

4. Between 25th January and 9th February 2017 Full Council approval was received from each of the ten authorities within the Cardiff Capital Region for the establishment of a Cardiff Capital Region Joint Cabinet to deliver the commitments in the City Deal Heads of Terms document.
5. Each Council approved the conclusion of a Joint Working Agreement (JWA) in respect of the City Deal, which establishes the Joint Cabinet, and includes the Assurance Framework and Implementation Plan. The Joint Working Agreement was formally signed by the region's ten local authorities on 1st March 2017.
6. The JWA contains a Condition Subsequent which sets out that the Councils shall consider and, if deemed appropriate, approve the terms of any Welsh Government funding conditions relating to the £375 million HM Treasury funding contribution as a Joint Committee Matter (JWA Clause 2.3), with the prior agreement of the Accountable Body (in consultation with the other Councils).
7. Furthermore, the Affordability Envelope outlined within the JWA is predicated on HM Treasury funding over the next 20 years. The profile of that funding was set-out in a letter from HM Treasury to Welsh Government dated 11th November 2016 is set out in paragraph 10 of this report.

8. Approval of CCRC's Investment Fund was received from Welsh Government on 9th March 2017. The letter highlights that Welsh Government do not intend to impose additional terms and conditions in line with the city deal ethos of local accountability, but fully expect matters to be conducted that ensure financial propriety and good governance. The funding conditions were subsequently detailed in a letter dated 22nd March 2017 (Appendix 1).
9. The funding letter was distributed to all partnering Councils for review and comment and a list of clarification issues' were documented based on the responses received. Officers from the Accountable Body met, proposed and agreed with Welsh Government a number of clarifications to the original funding conditions. The accepted clarifications are set out in (Appendix 2), in line with Condition 20c of its funding letter.

Issues

Funding Profile:

10. The confirmed funding profile reflects the assumptions used in the CCRC financial modelling exercises, considered by Shadow Joint Cabinet in January and February 2017. Specifically, the £375m of HM Treasury funding over 20 years for the purposes of CCRC, profiled as follows:
 - 2016/17 – 2020/21: £10m revenue funding per year (£50m in total during this period);
 - 2021/22 – 2030/1: £22m capital funding per year (£220m in total during this period);
 - 2031/32 – 2035/36: £21m capital funding per year (£105m in total during this period).

Use of Funding:

11. The funding will be paid to the Accountable Body on behalf of the ten CCRC local authorities. The funding must be used solely to support the objectives of CCRC through the implementation of projects and schemes agreed by the Cardiff Capital Region Joint Cabinet in accordance with arrangements set out in its Joint Working Agreement, Wider Investment Fund, Assurance Framework, Implementation Plan and, when agreed, JWA Business Plan.

Gateway Review:

12. An outcome based Gateway Review of CCRC led by HM Treasury will be undertaken in 2020/21. It is important to note that funding for 2021/22 and beyond is conditional on CCRC successfully passing this Gateway Review, whilst any unspent funding up to this time may be subject to repayment if Gateway Review is not passed.

State Aid:

13. CCRCDC must comply with the European Commission's State Aid Rules. The funding conditions require CCRCDC to comply with all applicable laws or regulations or official directives whether derived from domestic, EU or international law.

Buying Goods and Services:

14. Any goods and / or services bought by CCRCDC must be purchased in a competitive and sustainable way so as to demonstrate best value in the use of public funds.

Notification Events and their consequences

15. CCRCDC must notify the Welsh Government immediately if a Notification Event (listed within the Schedule attached to the funding terms and conditions letter from Welsh Government dated 22nd March) has occurred or is likely to occur. Examples of Notification Events include: non-approval of the JWA Business Plan, repayment of any part of the funding is required under European Law (whether under State Aid rules or otherwise), failure to comply with the funding terms and conditions, the funding, in full or in part, is not being used for the purpose, there is suspicion of fraudulent activity involving the use of CCRCDC funding etc.
16. If a Notification Event occurs which is not capable of remedy, if the remedial actions are not implemented or are implemented but not successful, the Welsh Government reserves the right to take any of a range of defined actions. These include withdrawal of the award of funding; and / or repayment of all or part of the funding; and / or suspension or cessation of further funding payments.

Clarification Issues

17. As outlined above, the Accountable Body on behalf of the project has engaged with Welsh Government to seek clarification on a number of issues raised by partnering Councils. The key points are summarised below.
18. Whilst the Welsh Government funding terms and conditions letter covers the first 5 years to 2020/21, totalling £50 million, there is no intention from Welsh Government to restrict CCRCDC commitments (in respect of HM Treasury funding) to this sum. It is important to note that it will be a matter for the committee to determine how any monies committed in advance of receipt of HM Treasury monies will be funded, noting the potential risk referred to above; i.e. funding for 2021/22 and beyond is conditional on CCRCDC successfully passing the Gateway Review
19. Subsequent funding letters will also cover periods of 5 years, subject to the scheduled Gateway Reviews being passed at those intervals. It is important to note that whilst Welsh Government have confirmed that it has no intention to vary the conditions that will apply to future funding letters, until future funding conditions are confirmed in writing, a residual

risk remains that future conditions could be different to those set-out within the current funding letter.

20. The funding letter sets out that Welsh Government will pay each annual instalment of funding within the first 6 months of the beginning of each financial year. The project has asked Welsh Government to explore whether these payments can be made earlier than this. The project has requested that payments in respect of 2016/17 and 2017/18 is received by the 1st June 2017, and future years' payments are received at the beginning of each financial year or within 10 working days of Welsh Government receiving monies from HM Treasury, whichever is later. Welsh Government have agreed to consider these requests.
21. Until the above point is confirmed, or otherwise, it remains possible that the 2016/17 and 2017/18 funding may not be received until 1st September 2017, which could represent a risk to any projects or schemes that require early investment. If Cardiff Capital Region Joint Cabinet determine that CCRCD scheme(s) require early investment, this must be pursuant to the terms of the Assurance Framework and the Annual Business Plan.
22. Welsh Government have confirmed that in any year, where funds have been committed and / or there is a clear intention to spend, carry forward of funding to future years will be permitted. Carry forward in respect of the final year (2020-21), will also be permitted providing that the Gateway review is passed.
23. As set out in clause 2.3 of the JWA the funding terms and conditions will need to be approved by Joint Cabinet with the prior agreement of the Accountable Body (in consultation with the other Councils). This consultation was carried out and agreement and approval was received from all ten authorities.

Reasons for Recommendations

24. To enable CCRCD to spend and / or commit funds from the Wider Investment Fund, as outlined in the CCRCD Joint Working Agreement.
25. To discharge the Condition Subsequent within the CCRCD Joint Working Agreement (Clause 2.3).

Financial Implications

26. The financial implications are primarily set out in the main body of the report. However, it is explicit that any project agreed and approved by the CCRCD Joint Cabinet must comply with the terms of the Assurance Framework and the Annual Business Plan in order to eliminate the risk of grant being reclaimed.

Legal Implications

27. The legal implications are set out in the main body of the report.

RECOMMENDATIONS

It is recommended that the Cardiff Capital Region Joint Cabinet:

- a) Consider and if deemed acceptable, approve the Welsh Government funding terms and conditions, including the clarifications formally agreed, which terms and clarifications are set out in Appendix 2.
- b) Authorise the Section 151 Officer of the CCRCDC Accountable Body to formally sign acceptance of the Welsh Government funding terms and conditions on behalf of the Cardiff Capital Region Joint Cabinet.

Christine Salter
25th April 2017

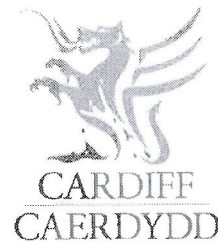
The following appendices are attached:

- Appendix 1:** Welsh Government Funding Terms and Conditions Letter (22nd March 2017).
- Appendix 2:** Clarifications to the Welsh Government funding terms and conditions, dated 11th April, formally accepted and signed by Welsh Government.

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Fy Nghyf / My Ref: CDR/rr
Eich Cyf/Your Ref.:

Dyddiad/Date: 11 April 2017



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Cardiff,
CF10 4UW
Tel: (029) 2087 2087
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CF10 4UW
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FAO Debra Carter
Deputy Director for Local Government Strategic Finance
Welsh Government
Cathays Park
Cardiff
CF10 3NQ

Dear Debra

Re: Payment of Funding in relation to Cardiff Capital Region City Deal Investment Fund for the years 2016-17 to 202-21

Thank you for your funding letter dated 22nd March 2017 and arranging to meet with us on 6th April to review the clarifications raised by the project, which we had sent on the 31st March.

At the meeting you very helpfully clarified Welsh Government's intentions in respect of a number of funding conditions. Please find below our understanding of the points discussed, which subject to your confirmation, would form an amendment/variation to the funding letter and be signed by both Welsh Government and the Accountable Body as set-out in Condition 20c of your funding letter.

Condition 1 – Award of Funding

It was confirmed by Welsh Government that whilst this funding letter covers the first five years to 2020-21, totalling £50 million, there is no intention on its part to restrict Cardiff Capital Region City Deal (CCRCD) commitments (in respect of HM Treasury funding) to this sum.

HM Treasury's letter dated 11th November 2016 is attached as Appendix 1 to this letter. This sets out that funding totalling £375 million has been committed for CCRCD and will be provided to Welsh Government as block grant over the next twenty years.

Condition 1b confirms that this funding will be provided to Welsh Government with the expectation that it will be passed on to CCRCD. Subsequent funding letters will also cover a period of five years, which are subject to the scheduled Gateway Reviews being passed at those intervals. This is the case for all City Deals across the UK. Furthermore, Welsh Government confirmed that it has no intention to vary the Terms and Conditions that will apply to future funding letters.

Condition 3 – Interpreting these Conditions

Welsh Government confirmed that the definition of 'you' is intended to cover the City of Cardiff Council as the Accountable Body for CCRCD for and on behalf of all ten local authorities. This definition applies to the funding letter in its entirety and in particular to Condition 20f.

It was accepted that 'Programme Manager' will mean 'Regional Programme Director'. This definition applies equally to Condition 9c – Monitoring Requirements.

Condition 5 – Payment Profile

Welsh Government agreed to consider that in future years (from 2018-19 onwards) that funding is paid in full, at the beginning of each financial year or within 10 working days of receipt from HM Treasury, whichever is later.

CCRCD can confirm that subject to Joint Cabinet approval (scheduled for the end of April) it may have a requirement to drawdown circa £16 million to £20 million, no later than 1st June 2017 (the project is aiming to finalise the expenditure profile this week). Welsh Government agreed to explore whether it could make available funds in respect of financial years 2016-17 and 2017-18 within this timescale. In the event that this date cannot be achieved by Welsh Government, funds will be made available as soon as practicably possible after this date particularly in respect of 2016/17 funding and in any event no later than six months from the 1st April 2017.

In terms of the payment process, Welsh Government confirmed that it will issue a notification in advance of the payment being released and there will be no requirement to complete and submit a grant claim form.

Welsh Government confirmed that in any year, where funds have been committed and/or there is a clear intention to spend, carry forward of funding to futures years will be permitted. Carry forward in respect of the final year (2020-21), will also be permitted providing that the Gateway Review is passed.

Condition 10aii – Audit Requirements

Welsh Government confirmed that 'Wales Office' will mean 'Auditor General for Wales'.

Condition 15b – Giving Notice

Welsh Government confirmed that 'You' will mean 'Corporate Director Resources at the address stated in Condition 3'.

ATEBWCH I / PLEASE REPLY TO: Cyfarwyddwr Corfforaethol Adnoddau/Corporate Director Resources, Ystafell / Room 343C, Neuadd y Sir / County Hall, Glanfa'r Iwerydd / Atlantic Wharf, Caerdydd / Cardiff, CF10 4UW. Ffon / Tel (029) 20872300; E-bost / E-Mail: Treasurersoffice@cardiff.gov.uk

I would be grateful if you could confirm that the points outlined above are accepted by signing the declaration at the end of this letter or please provide any amendments as appropriate.

Finally, Welsh Government confirmed that there is no deadline for accepting the funding terms and conditions. However, we outlined that clause 2.3 of the Joint Working Agreement requires Joint Cabinet to approve the terms of any Welsh Government funding conditions within six months of the Commencement Date (1st March 2017), with the prior agreement of the Accountable Body (in consultation with the other Councils). Please accept this letter as our intention to recommend the funding conditions to Joint Cabinet for approval at their meeting at the end of this month, subject to the agreement of the above matters.

Yours sincerely



Christine Salter

Cyfarwyddwr Corfforaethol Adnoddau /Corporate Director Resources

Declaration:

I hereby accept the amendments/variations outlined above in respect of the award of funding in relation to Cardiff Capital Region City Deal Investment Fund for the years 2016-17 to 2020-21.



Signature

Debra Carter

Name

Deputy Director for Local Government Strategic Finance

Title

11.04.2017

Date

ATEBWCH // PLEASE REPLY TO: Cyfarwyddwr Corfforaethol Adnoddau/Corporate Director Resources, Ystafell / Room 343C, Neuadd y Sir / County Hall, Glanfa'r Iwerydd / Atlantic Wharf, Caerdydd / Cardiff, CF10 4UW. Ffon / Tel (029) 20872300; E-bost / E-Mail: Treasurersoffice@cardiff.gov.uk

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CARDIFF CAPITAL REGION CABINET

CABINET MEETING 02 May 2017

THE WIDER INVESTMENT FUND ANNUAL BUSINESS PLAN 2017-18

REPORT OF CARDIFF CAPITAL REGION PROGRAMME DIRECTOR

AGENDA ITEM: 4

Reason for this Report

1. Subject to the agreement of the Regional Cabinet to Terms and Condition of the Welsh Government and subsequent receipt of HMT contributions by the Accountable Body, covered in a separate report, there is a need to produce an Annual Business Plan, to comply with Section 2.4 and 7.3 of the Joint Working Agreement (JWA), to allow Regional Cabinet to commit up to £50,000,000 (fifty million pounds) in advance of the agreement and adoption of the JWA Business Plan.

Background

2. The report of the Accountable Body received and approved by the Regional Cabinet at its meeting held on 17th March 2017, included the Regional Cabinet's Annual Budget for 2017-2018 amounting to £1 million (one million pounds), along with details of each council's respective contribution.
3. That report of the Accountable Body also proposed that 3% of the Wider Investment Fund (£742,500) would be ring-fenced for programme development and support, including support of the Advisory/Consultation Bodies, and was approved, (subject to acceptance of the Terms and Conditions for grant transfer).
4. The report of the Regional Programme Director contained the work plan for 2017-2018 called the Transition Plan, which was also approved by the Regional Cabinet at its meeting on 17th March.

Proposal

5. To allow Regional Cabinet to proceed to commit up to £50,000,000 (fifty million pounds), in advance of the agreement and adoption of the JWA Business Plan, Section 2.4 of the Joint Working Agreement (JWA) needs to be complied with. Section 2.4 states that an Annual Business Plan needs to be in place and agreed by the Joint Cabinet.
6. Regional Cabinet have already approved £742,500 of the 2017-2018 Wider Investment Fund monies for partnerships and programme development support as stated above. This means that for 2017/18 the remaining budget available for project development and implementation is £19,257,500.

7. As the JWA Business Plan, (as detailed in Section 7 of the JWA), is still under development and hence key projects and programmes have not yet been prioritised and agreed, it is proposed that the use of the £19,257,500 is limited to the development and implementation of schemes, projects and programmes as detailed in the Cardiff Capital Region Implementation Plan, which was approved as part of the JWA, with any specific proposal subject to approval of the Regional Cabinet.
8. It is proposed that the CCRC Annual Business Plan 2017-2018 will consist of:
 - the Transition Plan 2017-2018 as agreed by Regional Cabinet on 17th March 2017; and
 - £19,257,500 available for the support of schemes, projects and programmes detailed in the Cardiff Capital Region Implementation Plan, which was approved as part of the JWA.
 - Any decision made by the Joint Cabinet related to 2.4 of the JWA.
9. To allow the Annual Business Plan to be implemented there may be a need to establish delivery mechanisms to take forward approved schemes, projects and programmes. It is therefore proposed that the Joint Cabinet agree that appropriate delivery mechanisms, for example appointment of a lead authority; a special purpose vehicle; a community interest company, be put in place to deliver approved projects.
10. The Annual Business Plan for the Regional Cabinet should be prepared and circulated no later than 90 Business Days prior to the envisaged commencement of the relevant Accounting Period” and the Regional Cabinet shall meet within 30 Business Days of the date of circulation to approve its contents. As the proposed Plan for 2017-2018 is required to allow Joint Cabinet to comply with section 2.4 of the JWA and is proposed to be superseded in the near future by the JWA Business Plan it is proposed that these prior notification periods are waved.

Financial Implications

11. *(to follow)*

(received and inserted 26th April 2017)

12. The source of the funding for the Annual Business Plan is £20 million to be received in 2017/18 from the HM Treasury Contribution on ‘Initial Project Investments’. The spend is subject to the terms of the Assurance Framework as per clause 2.4 of the Joint Working Agreement.

Legal Implications

13. *(to follow)*

(received and inserted 26th April 2017)

14. Clause 7.3 of the Joint Working Agreement (‘JWA’) provides that the Programme Director shall procure a draft Annual Business Plan for consideration and, if deemed suitable, approval by the Joint Cabinet. The

Annual Business Plan is defined as meaning the plan in relation to the annual spend for approved projects to be implemented in the accounting period to which the report relates.

15. The JWA provides timescales in which the annual business plan should be prepared and the periods of notice to be given to the parties. In this case, because of time constraints, it is proposed to waive the timing and notice requirements set out in clause 7.3. The waiver of requirements required by the JWA, in effect, amount to an amendment of the terms of the JWA. The waiver is not a deemed a substantive amendment to the terms and conditions of the JWA and the amendment can be agreed by the Joint Committee, within the scope of its delegated powers. The delegation to the Joint Cabinet including the authority to make amendments to the terms of the JWA, which are not substantive. That said however, Members need to be satisfied that they have had appropriate time to consider the content of the Annual Business Plan and are content with the same. In this case, it is understood that there has been no consultation with stakeholders as regards the proposed Annual Business Plan, which may be a point of criticism that such stakeholders may raise.
16. In preparing the Annual Business Plan regard should be had, amongst other matters, to:
 - (i) the Council's duties under The Well-being of Future Generations (Wales) Act 2015 and; (ii) public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, Councils must in making decisions 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. Protected characteristics are: a. Age; b. Gender reassignment; c. Sex; d. Race – including ethnic or national origin, colour or nationality; e. Disability; f. Pregnancy and maternity; g. Marriage and civil partnership; h. Sexual orientation; i. Religion or belief – including lack of belief.
17. As and when any individual project proposals are developed legal advice should be sought.

Equalities Impact Statement

18. Included above.

Reasons for Recommendations

19. To comply with 2.4 and 7.3 of the JWA and allow Regional Cabinet to commit up to £50,000,000 (fifty million pounds) in advance of the agreement and adoption of the JWA Business Plan.

RECOMMENDATIONS

It is recommended that the Cardiff Capital Region Cabinet:

- a) For 2017-2018, waive all requirements for prior notification of an Annual Business plan, and

- b) For the purposes of complying with 2.4 and 7.3 of the Joint Working Agreement approve the Annual Business Plan 2017-2018, attached as **Appendix 1**, consisting of:
- the Transition Plan 2017-2018 as agreed by Regional Cabinet on 17th March 2017;
 - a budget (money received) of £19,257,500 and the ability to commit up to £50m (fifty million pounds fifty) for the support of schemes, projects and programmes detailed in the Cardiff Capital Region Implementation Plan, which was approved as part of the JWA, with any specific proposal subject to approval of the Regional Cabinet;
- c) To note that if commitments exceed the available monies received in 2017-2018 this will result in committing future annual budgets;
- d) Agree to establish appropriate delivery vehicles to implement approved projects, for example a lead authority; special purpose vehicle; a community interest company.

Sheila Davies
CCR Programme Director
25th April 2017

The following Appendix is attached:

- Annual Business Plan 2017-2018

Background papers:

- Cardiff Capital Region City Deal Agreement dated 1.3.17
- The report of the Accountable Body received and approved by the Regional Cabinet at its meeting held on 17th March 2017
- The report of the Regional Programme Director received and approved by the Regional Cabinet at its meeting held on 17th March 2017

APPENDIX 1

ANNUAL BUSINESS PLAN 2017-2018

The report of the Accountable Body received and approved by the Regional Cabinet at its meeting held on 17th March 2017, included the Regional Cabinet's Annual Budget for 2017-2018 amounting to £1 million (one million pounds), along with details of each council's respective contribution.

That report of the Accountable Body also proposed that 3% of the Wider Investment Fund (£742,500) would be ring-fenced for programme development and support, including support of the Advisory/Consultation Bodies, and was approved, (subject to acceptance of the Terms and Conditions for grant transfer).

The report of the Regional Programme Director contained the work plan for 2017-2018 called the Transition Plan, which was also approved by the Regional Cabinet at its meeting on 17th March.

Regional Cabinet have already approved £742,500 of the 2017-2018 Wider Investment Fund monies for partnerships and programme development support as stated above. This means that for 2017/18 the remaining budget available for project development and implementation is £19,257,500.

As the JWA Business Plan, (as detailed in Section 7 of the JWA), is still under development and hence key projects and programmes have not yet been prioritised and agreed, it is proposed that the use of the £19,257,500 is limited to the development and implementation of schemes, projects and programmes as detailed in the Cardiff Capital Region Implementation Plan, which was approved as part of the JWA, with any specific proposal subject to approval of the Regional Cabinet.

The capital expenditure in financial year 2017-2018 is:

	Capital Expenditure Profile:	
Financial Year Ending	Development of Schemes detailed in the Implementation Plan	Total
	£m	£m
31-Mar-18	19.257	19.257

To allow the Annual Business Plan to be implemented there may be a need to establish delivery mechanisms to take forward approved schemes, projects and programmes. It is therefore proposed that the Joint Cabinet agree that appropriate delivery mechanisms, for example appointment of a lead authority; a special purpose vehicle; a community interest company, be put in place to deliver approved projects.

Note:

The capital expenditure profile may vary dependent on any decision made by the Joint Cabinet related to 2.4 of the JWA which allows the Regional Cabinet to commit up to £50,000,000 (fifty million pounds) in advance of the agreement and adoption of the JWA Business Plan.

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CARDIFF CAPITAL REGION CABINET

CABINET MEETING 02 May 2017

THE COMPOUND SEMICONDUCTOR PROJECT PROPOSAL

REPORT OF CARDIFF CAPITAL REGION PROGRAMME DIRECTOR

AGENDA ITEM: 5

Appendices 1, 2, 3a, 3b, 4, 5a, 5b, 6a, 6b, and 7 of this report are exempt from publication because they contain information of the kind described in paragraphs 14 and 21 of parts 4 and 5 of Schedule 12A to the Local Government Act 1972.

Reason for this Report

1. To present the Regional Cabinet with a proposal received from the private sector to invest funding from the Wider Investment Fund to support the development of a Compound Semiconductor Industry Cluster in the region by establishing an anchor space in the region for high end production and manufacturing.
2. To provide the Regional Cabinet with information, advise and analysis of the proposal to enable it to decide on this investment proposal.
3. To explain to the Regional Cabinet why the proposal would require the creation of a Special Purpose Vehicle to acquire a site and undertake associated works.

Background

4. The Cardiff Capital Region City Deal Document (Heads of Terms) included the following commitments to:
 - *“Transform the UK’s capability and help **position Cardiff as the European leader in Compound Semiconductor applications, the UK Government will invest £50million to establish a new Catapult in Wales. This new Catapult will complement the work of other organisations in Wales who are already working in this important area, including the Compound Semiconductor Institute at Cardiff University and the Compound Semiconductor Centre, a joint venture between Cardiff University and IQE;***
 - *Recognising this opportunity, the Cardiff Capital Region will **prioritise interventions that support the development of an internationally-competitive Compound Semi-Conductor cluster. Local partners believe that this will put the UK at the heart of an emerging global growth technology;***
 - *Accelerate the growth of innovation and facilitate investment in research and development, the Cardiff Capital Region will seek to prioritise:*
 - **Mechanisms to support high growth sectors;**
 - **The development of new facilities and employment sites;**
 - **Investment in intellectual property creation and commercialisation;**
 - **Adding value and complimenting existing innovation support.”**

5. The Cardiff Capital Region City Deal Implementation Plan 2016-2020, adopted by all 10 authorities as part of the Joint Working Agreement, included:

T2.5 /2 Developing an Internationally Competitive Compound Semiconductor Cluster

Accelerate growth of innovation by:

- Establishing an anchor space in the region for high end production and manufacturing in 2017/18.
6. The objective of these commitments is to create a complete compound semiconductor eco-system in South Wales to take advantage of the growing prominence of compound semiconductor technology. This requires the development and integration of a compound semiconductor supply chain in South Wales, with the economic and social benefits that will bring.
 7. The benefits of clusters are well understood, with Silicon Valley in the US being a prime example. Indeed, there are semi-conductor clusters across Europe, namely Eindhoven, Dresden, Leuven and Grenoble. However, these are based on silicon technology, hence this is a unique opportunity for Wales to establish the world's first compound semiconductor cluster and establish itself at the forefront of compound semi-conductor technology globally.
 8. The cluster would build on existing investment into this technology by Cardiff University, IQE Plc, and Welsh Government. It would see a complete eco-system for the compound semi-conductor market in South Wales, allowing full movement from research through to production and commercialisation. The establishment of a UK Government funded Catapult at the proposed site would further enhance the reputation of the cluster.
 9. A proposal has been received from the private sector to invest £37.9m funding from the Wider Investment Fund to support the development of a Compound Semiconductor Industry Cluster in the region by establishing an anchor space for high end production and manufacturing. It is proposed that this investment would be repaid, over an agreed period of time, by means of leasing and resale of the property, the detail is attached as **Appendix 1**.
 10. As this proposal supports the Regional Cabinet's aspiration to support innovation and specifically helping to develop an internationally competitive compound semiconductor cluster the Cardiff Capital Region Programme Board (CCRPB) approved the proposal going forward for full assessment. It was agreed that Monmouthshire and Rhondda Cynon Taf Councils would lead on the assessment work.

Assessment

11. As part of the assessment process several specialist independent reviews have been undertaken or commissioned.
12. External legal advice has been procured from Pinsent Masons and contained in **Appendix 2**.
13. External property advice has been commissioned from JLL and contained in **Appendices 3(a) and 3(b)**.

14. An external due diligence report including an economic impact assessment has been commissioned from KPMG and is contained in **Appendix 4**.
15. External advice has been sought from Pinsent Masons and KPMG in relation to delivery options and this is contained in **Appendices 5(a)** and **5(b)**.

Cardiff Capital Region Programme Board Observations

16. The CCRPB have met twice to review the proposal, at those meetings they acknowledged that the City Deal Assessment Toolkit is still being developed and the Advisory Bodies are yet to be put in place, however, due to time constraints the proposal requires a decision to be made.
17. The CCRPB have reviewed the proposal and the specialist independent reviews and have formed the views listed below:

17.1 The proposal has the potential to:

- Create the environment for the successful development of a CSC cluster that could generate 4,000-5,000 jobs;
- Directly create and safeguard over 2,400 well paid jobs in the region;
- Provide a positive ratio of £1 public funding to £9.90 of private sector investment.

17.2 The proposal is structured to maximise the potential for the £37.9m to be repaid over an agreed period of time.

17.3 The proposal represents value for money and can comply with the HMT 5 Case Business Model requirements.

17.4 The proposal is legal and state aid compliant.

17.5 The proposal meets the terms of the Joint Working Agreement and the Assurance Framework.

17.6 The risk related to this proposal is medium / low with the probability of moderate implication being “unlikely” to “very unlikely”.

17.7 To effectively implement this proposal there is a requirement for the Joint Cabinet to establish a Special Purpose Vehicle.

18. On the basis of the above views, in accordance with 3.10 of the Assurance Framework, the CCRPB recommendation to the Regional Cabinet is:

The proposal should be recommended to the Regional Cabinet for support via the Wider Investment Fund.

19. The full observations of the CCRPB are contained in **Appendix 7**.

Summary of Proposal

20. That the Regional Cabinet establish an anchor space in the region for high end production and manufacturing to assist in the establishment of a Compound Semiconductor Industry Cluster, by:
 - acquiring suitable premises;
 - entering into a development agreement to fit out the premises; and
 - entering into an agreement to lease the premises with an option for the lessee to acquire the freehold at a future date.
21. To enable this proposal to proceed to establish a Special Purpose Vehicle (SPV).
22. The full updated proposal is contained in **Appendix 6**, including a Risk Register.

Financial Implications

23. *(to follow)*

(received and inserted 26th April 2017)

24. The ten partnering Councils approved the Cardiff Capital Region City Deal (CCRCD) Wider Investment Fund (WIF) totalling £495 million, consisting of £375 million grant from HM Treasury, passported via Welsh Government over the next 20 years. The remaining £120 million will be contributed by the ten partnering councils based on their respective population base and is currently modelled as being 100% capital in nature. The latter will become available once the JWA Business Plan is approved by all ten partner Councils. This constitutes the 'Reserved Matter' and is scheduled to be discharged no later than the 28th February 2018.
25. In order to drawdown the £375 million, Regional Cabinet must first discharge the 'Condition Subsequent' by approving the funding terms and conditions. The funding terms and conditions outline that £10 million per year of revenue funding will be provided from 2016/17 through to 2020/21 i.e. £50 million in total. The first two tranches of grant totalling £20 million will be paid no later than 30th September 2017, although Welsh Government are considering a request made by the project for this cash to be released by the 1st June 2017.
26. At its meeting of the 17th March 2017, Regional Cabinet approved that £742,500 be set aside in 2017/18 to meet the costs associated with (1) Regional Bodies and (2) Programme Development and Support.
27. The attached report seeks approval of £38.4 million (£37.9 million investment ask plus £0.5 million to agree the SPV programme management budget for the first two years) from the Wider Investment Fund, to support a request for investment funding ahead of the Joint Working Agreement (JWA) Business Plan being prepared and considered for approval by the ten partnering Councils.
28. Clause 2.4 of the Joint Working Agreement (JWA) provides that up to £50 million may be committed from the HM Treasury Contribution on 'Initial Project Investments' pursuant to the terms of the Assurance Framework and Annual Business Plan.

29. The Annual Business Plan has been prepared and presented to Regional Cabinet for consideration and approval at its meeting of the 2nd May 2017 – Agenda Item 4. This report is prepared on the basis that the Annual Business Plan is duly approved by Regional Cabinet.
30. The 'Total Costs' outlined for the project amount to £38.4 million and are scheduled to be paid on a quarterly basis from around June 2017 to 31st March 2019. This excludes the cost (£2 million) of acquiring the building from Welsh Government as it is anticipated, that subject to the Cabinet Secretary's approval, this sum will represent Welsh Government support towards the project. If approval is not secured, then the total investment cost will increase by this amount, albeit the costs will be met from the receipt generated by a future sale of the site.
31. Whilst Welsh Government are yet to confirm the exact timing for releasing the 2016/17 and 2017/18 grant monies, it is anticipated that a shortfall in cashflow will arise in both 2017/18 (circa £7.1 million) and in 2018/19 (circa £2.8 million). If Welsh Government are unable to meet the June 2017 date, then the short-term borrowing requirement will increase further. The proposal outlines the need to identify one or more councils to make available a temporary bridging loan to meet the cashflow requirements associated with the project's required investment profile. Therefore once approved, Recommendation B will be subject to the nominated Authority / Authorities budget framework approval processes and timescales for securing the same.
32. If the request for investment funding is approved, then Regional Cabinet should note that it will be committing just under 76.8% of the HM Treasury contribution due over the first five years to 2020/21. Furthermore, if Regional Cabinet decide to commit similar sums in respect of Regional Bodies and Programme Development and Support, then this will represent a further commitment of 5.9% over the remaining funding term to 2020/21. Therefore, the amount available to support other schemes will be greatly reduced over this period and will be largely dependent on funding from the Council contributions.
33. Furthermore, the scope for approving new revenue based projects will amount to around £8.63 million or 17.3% and be available in Year 5 only, and is likely to result in partnering councils having to consider whether a proportion of their respective capital allocations may now need to be provided as revenue. Whilst this would reduce the total cost of their contributions, it could have a disproportionate impact on the annual affordability cost approved as part of the affordability envelope. An alternative would be to approach Welsh Government / HM Treasury and request that an element of capital funding from Year 6 is provided as revenue.
34. The 'Project Proposal' is attached at Appendix 1 and is supplemented by the work carried out by a number of specialist advisors as detailed in paragraphs 11 to 15, with the advisors final reports attached as confidential appendices. Regional Cabinet should satisfy themselves that the format and detail of information referred to above complies with the requirements of its Assurance Framework.
35. The reports represent a substantial amount of complex technical, legal and financial information and therefore it is imperative that Regional Cabinet are given sufficient time to read and understand the advice given, as well as having the opportunity to raise any clarifications deemed appropriate. In particular, Regional Cabinet should note any key assumptions listed within the reports and be mindful of any caveats outlined. Equally important is the need to ensure that any risks identified (and the

associated mitigation measures) are fully understood, accepted and arrangements for their ongoing review and management are in place. Furthermore, Regional Cabinet should be confident that any residual issues outlined at this time are clearly articulated, and are capable of being resolved within the parameters e.g. cost estimates etc., before entering into legally binding commitment.

36. The Assurance Framework forms Schedule 8 of the JWA and was formally approved on the 1st March 2017. Schedule 2 of the JWA (Joint Committee Terms of Reference), states:

“Agree the detail of the decision-making process and assessments (as referred to in the Assurance Framework and where yet to be completed) prior to Joint Cabinet considering individual projects.”

37. The detailed decision-making processes and assessments will be developed in parallel with the timescales for finalising the JWA Business Plan. However, as an interim measure, the Programme Management Office (PMO) has developed a ‘Candidate Scheme Observation Record’ which will capture and reflect the consensus views of Programme Board. To assist Programme Board in formulating their individual views, PMO have also developed and populated an ‘Assessment Against 5 Case Business Model Requirements’, based on the information available at this time.
38. Cardiff Capital Region Programme Board observations are attached at Appendix 7 and summarises the Board’s view of the extent to which the Project Proposal has met the requirements outlined above.

Structure of the deal and Financial Standing

39. In addition, Regional Cabinet should be satisfied that the Project Proposal and related advice adequately covers the following key financial and commercial points:
- Matters pertaining to the financial standing and creditworthiness of the applicant at this time. Furthermore, that the forecasted performance of the applicant over the period of the proposal remains within an acceptable range, given the level of investment planned;
 - That the applicant remains incentivised at all times to manage costs and ensure that works are completed on time and within budget;
 - The Project Proposal is structured in a way which ensures the transfer of risk associated with delays and/or costs over-runs to the applicant;
 - That agreed benefits are realised and that all rental income due to Council’s SPV is received as expected;
 - All income and costs in relation to the Catapult are appropriately reflected within the terms of the proposal and where appropriate reflected within the level of investment being sought;
 - That Parent Company Guarantee provided will be enforceable and provides the required level of security, given the planned scale of investment;
 - An assessment of the ‘opportunity cost’ forgone in approving this request for investment versus over any other proposal or opportunity available;
 - Regional Cabinet need to be satisfied with the advice provided in relation to the deal needing to be structured as an operating lease and therefore being accounted for as being off-balance sheet;

- Matters relating to the funding terms and conditions, including but not limited to State Aid, Procurement, the purposes etc;
 - An assessment of VAT, SDLT and wider taxation implications in respect of the proposed delivery vehicle;
 - That the proposal is ultimately affordable and represents value for money.
40. The report seeks approval to create a Special Purpose Vehicle (SPV) through which all approved investment monies will flow. Legal advice on Regional Cabinet's powers in this regard is attached at Appendix 5a. Setting-up and managing the day to day operations of the SPV will give rise to budgetary implications, for example legal costs associated with constituting and registering the SPV, the need to discharge financial and administrative duties etc. In addition, costs associated with taking forward the project's next steps i.e. Implementation Plan, ongoing contract monitoring and evaluation arrangements, including landlord obligations. Regional Cabinet should satisfy itself that the costs identified within the Financial Case are sufficient to meet the above.
41. These financial implications were written ahead of all external advice being finalised and may require to be supplemented once the Authority has had sight of the final advice reports.

Legal Implications

42. *(to follow)*

(received and inserted 26th April 2017)

43. The legal advice in respect of the Compound Semiconductor Project Proposals ('the Project') has been provided by external lawyers Pinsent Masons and Members are referred to that advice set out in the confidential appendices to the report.
44. As will be seen from the body of the report, the Project has had the benefit of taking external advice from a number of advisers; KPMG, JLL, GVA, Pinsent and a QC, which recognise the exciting potential of the proposals. In looking at the external advice, please note, however, that each advice:-
- (a) is based on a number of assumptions and
 - (b) contain caveats which serve to limit the advice
45. Whilst it is not unusual for external advice to be based on assumptions and to contain caveats, it is important that the decision makers are satisfied as to the robustness of the assumptions made and, as regards any caveats, the resulting limitation on the advice given.
46. From the report it can be seen that the investment required is of significant magnitude. As with any decision, Members will need to be satisfied that they have before them all material information and have had appropriate time to consider matters and raise any queries they may have, so that a reasonable and informed decision may be made.
47. In considering this matter Members should be mindful of the WG funding conditions (see previous report which sets out advice on the terms and conditions attaching to the funding) and the Authorities potential liabilities if found to have breached the WG funding conditions - in terms of both claw back and jeopardising

future funding if the CCRCD fails to pass a gateway review because of such a breach. Here the position as regards compliance with all legislation, including procurement and state aid are key issues (please see the external advice for the detailed legal advice on these matters).

48. The Joint Working agreement provides powers to the Joint Cabinet to make Initial project investment decisions (authorised to commit up to £50 000 000 of the HMT contribution) on projects approved pursuant to (i) the terms of the Assurance framework and the (ii) Annual Business Plan. It is therefore important that the decision makers are content that point (i) and (ii) are satisfied before making the decision in respect of the Project.
49. The proposal involves expenditure of monies in excess of the HMT contribution that will have been received by the date the proposed expenditure is required. The question therefore arises how such shortfall in funding is being met? The intention of the JWA is clear that it is only the HMT contribution (up to £50 million) that can be committed ahead of the JWA business Plan being approved. At the time of writing these legal implications it is understood that it is proposed that one local Authority would take the lead and use its prudential borrowing powers to borrow the shortfall in funding required and subsequently be repaid from future tranches of HMT funding, once received. The condition to proceed with the Project will need to be conditional on such Authority making a decision to prudentially borrow the monies required and with the 9 remaining Authorities agreeing to enter into an appropriately worded agreement (back to back agreement) whereby they commit to make good their share of such funding, if for any reason future year HMT contribution is not received.
50. As will be appreciated the JWA Business Plan has yet to be agreed .The decision to approve the JWA Business Plan is a matter reserved to each Council and as a consequence there is a risk that the JWA Business Plan may not be agreed as we simply do not know what each council may decide. It should be appreciated that if the JWA Business Plan is not approved, the authorities will still be left with meeting the costs of the current Project to the extent that HMT funding does not cover the same or if, for whatever reason, the HMT funding is reclaimed or future years funding stopped. This point is further addressed in the Business Case at paragraph 4.12, which is understood to reflect the external legal advice received.
51. The external advice makes a number of recommendations in terms of conditions that should be attached to the proposed transaction, should a decision be taken to proceed. To point out the obvious these conditions should be applied if a decision is made to progress the Project.
52. These legal implication were written ahead of all external legal advice being finalised and may require to be supplemented once the Authority has had sight of the final advices.
53. In this case it is understood that there has been no consultation with stakeholders as regards the proposal, which may be a point of criticism that such stakeholders may raise
54. In considering this matter, regard should be had, amongst other matters, to:
 - (i) The Councils' duties under the Well-being of Future Generations (Wales) Act 2015 and;

- (ii) Public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils must in making decisions 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. Protected characteristics are: a. Age; b. Gender reassignment; c. Sex; d. Race – including ethnic or national origin, colour or nationality; e. Disability; f. Pregnancy and maternity; g. Marriage and civil partnership; h. Sexual orientation; i. Religion or belief – including lack of belief.

Equalities Impact Assessment.

55. Included above.

Reasons for Recommendations

56. To support the development of a Compound Semiconductor Industry Cluster in the region and in accordance with the Cardiff Capital Region Wider Investment Fund Assurance Framework provide the views of the Cardiff Capital Region Programme Board (contained in **Appendix 7**) in supporting this proposal.

RECOMMENDATIONS

Subject to the agreement of terms for the purchase of the specific facility:

- a) To enter into a Heads of Terms agreement for the purchase of a specific facility with finalisation of the transaction delayed until such time as the property is sold-on or at the cessation of the lease;
- b) In accordance with section 2.4 of the JWA, commit £37.9m of the HMT Contribution to the Wider Investment Fund for landlord works, building fit-out and ancillary works;
- c) To enter into a Heads of Terms agreement for an eleven-year lease, with an in-built stair-cased rental profile and flexible Option to Purchase;
- d) To support a further Heads of Terms that allows the head lessee, to enter into a sub-lease arrangement;
- e) To make a direct award for the development and fit-out of the facility;
- f) Establish a Special Purpose Vehicle to implement the proposal, the detail of which will be the subject of a further report.
- g) Prior to a Special Purpose Vehicle being established, to agree that for purposes of continuity, that Monmouthshire County Council continues to act as lead Authority.
- h) To accommodate this proposal will require an amendment to the Annual Business Plan 2017-2018 which will be reported back to the next meeting of the Regional Cabinet.

Sheila Davies
CCR Programme Director
25th April 2017

The following Appendices are attached:

Confidential Appendix 1:	Proposal to CCR City Deal – March 2017
Confidential Appendix 2:	Legal Observations - Pinsent Masons
Confidential Appendix 3(a):	Property Market Review – JLL
Confidential Appendix 3(b):	Property Feasibility Estimate - JLL
Confidential Appendix 4:	Due Diligence Report including an Economic Impact Assessment - KPMG
Confidential Appendix 5(a):	Establishing an SPV – Pinsent Masons
Confidential Appendix 5(b):	SPV Investment Issues – KPMG
Confidential Appendix 6(a):	Full Revised Proposal
Confidential Appendix 6(b):	Risk Register
Confidential Appendix 7:	Cardiff Capital Region Programme Board Observations Record

Background paper:

- Cardiff Capital Region City Deal Joint Working Agreement dated 1.3.17