

Report

Cabinet

Part 1

Date: June 8th, 2015

Item No:

Subject **Cardiff Capital City Region – Preparation for negotiating a City Deal**

Purpose This report will explain the background behind the concept of city deals which are negotiated with UK Government as a way to provide funding for infrastructure investment. It will explain the work which has taken place on a regional basis in South East Wales and the role Newport City Council could play in the negotiations to conclude a city deal for the Cardiff Capital City Region.

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Summary The report provides an explanation of the genesis of city deals. It then explains the work done to date by the ten authorities in the Cardiff Capital City Region and outlines the proposal for further work which requires Newport City Council to commit some staff and financial resources

Proposal The Cabinet is recommended to:

- (1) Approve that officers proceed with the negotiation of a City Deal with UK Government, Welsh Government and surrounding authorities and return to Cabinet with a further report before submitting a final proposal.
- (2) Agree to use £50k from the 2014/15 revenue budget underspend to provide initial funding for this and delegate Authority to the Chief Executive to work with other authorities to appoint specialist advisors to support delivery of a detailed City Deal proposal for South East Wales.

Action by Chief Executive

Timetable Immediate and ongoing

Background

On 18th March 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.

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.

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.

The process involved in getting to a final submission is resource intensive and will require participating partners to provide staff support and a budget for the provision of appropriate specialist advice.

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.

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 UK Government. There may also be a role for EU funding as part of the mix.

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.

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.

What are City Deals?

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.

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

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 (GVA) 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%.

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.

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.

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.

Greater Manchester's latest agreement has introduced some new and innovative opportunities including the potential to share in 'bottom-line' savings such as savings to the current circa £20bn per annum dependency costs by helping more people back to work.

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. That is the case for both Greater Manchester and West Yorkshire, the largest of the City Deals in England, and is the case for Glasgow.

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 provided to deliver key infrastructure projects will always require significant private sector investment.

Next Steps

Cardiff Council will lead the work as they are the largest authority. This is in line with the process with other parts of the UK. Some initial specialist advice has been procured to develop an initial high-level proposal for a City Deal. This report is attached at Appendix 1. 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.

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. Again, more detail is provided in Appendix 1.

If all parties agree to proceed, an outline proposal will be submitted to the UK Government that will provide a high-level proposition, outlining the key aims and objectives of the Deal, and an initial summary of proposed governance arrangements. This will represent only the start of a detailed process that is likely to take up to 12 months to complete. It will require a significant level of technical expertise in developing appropriate economic modelling tools by which projects and programmes can be prioritised. Specialist Advisors have provided an outline 'Gateway Process', similar to that used by other agreed Deals, to drive the process and secure agreement at key milestones.

To enable this work to take place it is proposed to create a fund across of £500,000 across the south east Wales authorities to procure the specialist work required. It has been proposed contributions will be made on a basis of population. Under this arrangement, Newport City Council would be asked to contribute £50,000. The details of the proposed contributions for each authority is set out in appendix 2.

Financial Summary

Any final city deal would require significant capital funding. It isn't possible to identify this at the moment and further reports would be required before any further finance is committed.

	Year 1 (Current) £	Year 2 £	Year 3 £	Ongoing £	Notes including budgets heads affected
Costs (Income)	50,000				.To be funded from a specific reserve to be established for this purpose from 2014/15 underspend on the revenue budget
Net Costs (Savings)					
Net Impact on Budget					

Risks

The risks can be identified as follows:

- 1) When initial work is completed it could become clear that a city deal isn't viable for the Cardiff Capital City Region
- 2) Other authorities might decide not to participate, although all have indicated they will take part in the initial feasibility phase, subject to individual approval processes.
- 3) Sufficient funding might not be able to be found to progress with a city deal

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
1	m	m	Procuring specialist advice	Chief Exec
2	m	m	Ongoing discussions	Chief Exec
3	h	m	Specialist advice	Chief Exec

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Council recently adopted the 2015/16 Improvement Plan which sets out 8 key activities. One of the 8 objectives is to, "Develop and Regenerate the City". The negotiation of a city deal for South East Wales is a central element of the long term strategy to help improve outcomes for the communities of the city.

Options Available

Essentially there are two options:

- 1) Work with other local authorities within the Cardiff Capital City region to agree a city deal
- 2) Decide not to participate

Preferred Option and Why

The preferred approach is option 1. All the evidence shows that the level of infrastructure investment and the associated benefit to local communities increases when individual local authorities work together. Infrastructure such as the proposed South East Wales Metro crosses the boundaries of all ten authorities and the economy of Newport will clearly benefit from improved movement of people of goods.

Opting out from the discussions would limit our ability to influence future governance arrangements for the City region and as a consequence the communities of Newport would not gain from the positive impacts of investment.

Comments of Chief Financial Officer

At this stage of this exciting development, a contribution of £50k is required and it is recommended that this is funded from use of the 2014/15 revenue budget underspend which will need to be put into reserves to carry it forward into the current year.

Clearly, further funding issues will arise as this project develops and these will need further consideration by all partners at that time.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report at the present time as Cabinet are only being asked to agree, in principle to the City Deal negotiations and the commitment of a funding contribution towards the costs of preparing an outline business case. Further consideration would need to be given to the detailed outcomes, funding and governance arrangements in due course.

Staffing Implications: Comments of Head of People and Business Change

There are no staffing implications. Any work undertaken will be done within current resources. The city deal proposal builds on the work undertaken in recent years on the Cardiff Capital Region and provides new funding opportunities to take forward potential collaborative programmes e.g. improving transport infrastructure, housing, skills development and job creation. The Local Government Association points to a growing body of evidence that taking decisions closer to where people live can achieve better outcomes, saves money, produces multiplier effects, leverages private sector investment and improves economic competitiveness.

Comments of Cabinet Member

This matter falls within the remit of the Leader of the Council who has agreed the contents of this report

Local issues

This is a citywide initiative. It is too early to identify ward specific impacts.

Scrutiny Committees

No input from scrutiny at this time. Any final proposal will be subject to the scrutiny process.

Equalities Impact Assessment

n/a

Children and Families (Wales) Measure

n/a

Consultation

None

Background Papers

Appendix 1 – Outline advice from specialists

Appendix 2 - Breakdown of proposed financial contributions

Dated: 20th May, 2015