

# Report

## Council

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### Part 1

Date: 31<sup>st</sup> January, 2017

Item No:

**Subject**      **Cardiff Capital Region City Deal**

**Purpose**        The purpose of the report is to seek approval:

- To formally establish the Cardiff Capital Region ('CCR') Joint Cabinet (the 'Regional Cabinet'), as a joint committee, to oversee the Region's economic growth and to deliver the commitments set out in the CCR City Deal.
- Of the CCR City Deal Joint Working Agreement ('JWA'), the CCR City Deal Assurance Framework and Implementation Plan which are required to establish the Regional Cabinet and the City Deal Investment Fund.

**Author**        Will Godfrey, Chief Executive

**Ward**            All Wards

**Summary**     In March 2016, Newport City Council was a signatory to the Heads of Terms agreement for the Cardiff Capital Region City Deal (CCRCD). This set out the headline terms of an agreement between UK Govt, Welsh Govt and the 10 local authorities of the SE Wales region to secure investment of £1.229bn to promote economic growth across the region.

We are now at the stage where further consideration has been given to the principles outlined and the Council is now required to consider taking the next steps to commit to the terms of the city deal.

**Proposal**     It is recommended that Council:-

- 1) Approve the Joint Working Agreement (the 'JWA') as the legal document that formally establishes the Cardiff Capital Region ('CCR') Joint Committee (the 'Regional Cabinet') as a Joint Committee, with delegated functions, with a Commencement Date of the 1<sup>st</sup> March 2017. The elected member representative to the Regional Cabinet shall be the Leader of the Council, or his/her nominated Deputy;
- 2) Approve the financial contributions from each constituent council towards the collective £120m total, (together with such associated costs e.g. carry costs), as detailed in the body of this report;

- 3) Approve the carry forward of any remaining revenue funds from 2016/2017, contributed by each constituent council, into 2017/2018 in order that the support structure for the Regional Cabinet continues;
- 4) Approve the collective revenue contributions of up to £1m (inclusive of Recommendation 2.3 above, on a proportional basis as set out in the JWA) to the 2017/2018 budget, in order that the support structure for the Regional Cabinet continues;
- 5) Approve that the City of Cardiff Council acts as the Accountable Body with the responsibilities as set out in the JWA;
- 6) Approve the Assurance Framework as the open and transparent, robust decision making process for considering all proposals requiring support from the CCR City Deal Wider Investment Fund;
- 7) Approve the Implementation Plan in the form attached to the JWA, subject to each constituent council approving the JWA Business Plan;
- 8) Approve the Chief Executive in consultation with the Leader of the Council, the Monitoring Officer and s151 Officer be granted delegated authority to agree such amendments as are necessary to the JWA, Assurance Framework and Implementation Plan (as are appropriate) from the date of acceptance of these recommendations to the Commencement Date of the 1<sup>st</sup> March 2017;
- 9) Approve the Chief Executive in consultation with the Leader of the Council, the Monitoring Officer and s151 Officer be granted delegated authority to agree whether the Council should continue to explore the opportunity to continue to participate in the CCR City Deal in the event that one or more of the ten constituent councils fail to agree any of the recommendations; and
- 10) Approve the Leader of the Council or her nominated Deputy be granted delegated authority to sign the JWA on behalf of the Council.

**Action by** Chief Executive

**Timetable** If Council agrees the recommendations there will be immediate action to take and a signing ceremony is planned for 1 March 2017.

This report was prepared after consultation with:

- Leader of the Council
- Seminar for all Council members held on 19<sup>th</sup> January 2017
- Monitoring Officer
- S151 Officer

## Background

On 15<sup>th</sup> March 2016, each of the ten constituent council leaders in South East Wales, the First Minister, the Welsh Government Minister for Finance and Government Business, the Secretary of State for Wales and the Chief Secretary to the Treasury signed the Cardiff Capital Region ('CCR') City Deal Heads of Terms Agreement. The City Deal is therefore an agreement between the UK Government, Welsh Government and the ten leaders of the CCR. It includes:

- A £1.2 billion investment in the CCR's infrastructure through a 20-year Investment Fund;
- The creation of a non-statutory Regional Transport Authority to co-ordinate transport planning and investment, in partnership with the Welsh Government;
- The creation of a CCR Skills and Employment Board;
- The CCR and the Welsh Government will work with the Department of Work and Pensions to co-design the future employment support from 2017 for people with a health condition or disability and/or long term unemployed;
- A CCR Business Organisation will be established to ensure that there is a single voice for business to work with local authority leaders; and
- The Welsh Government and the CCR commitment to a new partnership approach to housing development and regeneration. This will ensure the delivery of sustainable communities, through the use and re-use of property and sites.

To ensure the right investments are made to achieve significant economic growth the CCR City Deal has set a small number of key targets, which are: the creation of 25,000 new jobs by 2036; and leveraging £4 billion of private sector investment as a result of the £1.2bn public sector investment.

Since the 15<sup>th</sup> March 2016, the ten constituent councils have been working with the Welsh and UK Governments to establish the governance arrangements required to release the £1.2bn of investment. This has also clarified the management and control over the CCR City Deal Investment Fund, which comprises two distinct elements:-

- .1 **£734m – METRO scheme.** This will comprise £503m, Welsh Government funding provided over the first seven years of the Investment Fund, from 2016/17 to 2022/23; £106 million from the European Development Fund (which is committed and guaranteed following Brexit by both UK and Welsh Government); and £125m from UK Government. This element will be the direct responsibility of Welsh Government.
- 2 **£495m – Regional Cabinet Fund,** comprising the ten constituent councils' commitment to borrow £120 million over the 20 year period of the Investment Fund, together with the £375m from UK Government, for investment in infrastructure, housing, skills and training, innovation, business growth and "Metro plus" transport proposals. This element will be the responsibility of the CCR Regional Cabinet.

In addition, the existing Shadow Joint Cabinet (constituted in advance of the formal establishment of the Regional Cabinet):

- Created a Shadow CCR Transport Authority;
- Agreed to the creation of the CCR Economic Growth Partnership that brings together business, higher education and local government; and

- Commissioned an independent Growth and Competitiveness Commission. The Commission's purpose has been to support the Region's economic and investment strategy by reviewing the evidence about the CCR, its challenges and opportunities for economic growth and making recommendations as to how the CCR can achieve its full growth potential.

The independent Growth and Competitiveness Commission reported its findings on 16<sup>th</sup> December 2016, and a link to the Commission's report can be found below.

[http://cardiffcapitalregioncitydeal.wales/report/growth & comp\\_com\\_process\\_web.pdf](http://cardiffcapitalregioncitydeal.wales/report/growth & comp_com_process_web.pdf)

The Commission's review supported the key proposed investment themes set out in the City Deal Heads of Terms Agreement, and concluded that:

*“The Cardiff Capital Region has the potential to **develop into a prosperous capital city-region for Wales**, with multiple benefits for the Welsh economy and all the people of Wales. The Capital Region can be a decision making centre, a global gateway for capital, trade, and visitors, a knowledge hub, and a major population centre and business cluster for Wales, providing opportunities and resources for other regions to develop. There are many points of progress in the capital region over the past 20 years but more is needed in the next cycle to take it forward. In particular, an integrated economic strategy that is sequenced with increased investment in infrastructure and place renewal is now required. This should focus on:*

- *Improving inter-connectivity within the region to increase opportunities, choices, and mobility of people, jobs and investment, to foster a region with multiple locations of growth that play to those area's strengths.*
- *Investment in education, skills and employability to improve productivity and participation the economy.*
- *Enhancing the business climate for emerging sectors, enterprises and innovation that can spawn new sources of jobs and incomes into the longer-term future.*

*Such a strategy should be complemented by enhanced governance integration, confident promotion and story-telling, and leveraging of private sector and institutional investment.”*

## **NEXT STEPS**

The next step is to formally establish the Regional Cabinet and agree the terms and conditions of the City Deal Investment Fund. There are three specific requirements to be met, set by UK and Welsh Governments, namely:-

- The transition of the Regional Cabinet out of the “Shadow” arrangements;
- Formal approval of the Assurance Framework for the Investment Fund; and
- Formal approval of the Implementation Plan.

Details of these are as follows:-

- **The JWA** – attached as Appendix 1 to the report.

The JWA is the legal document that formally establishes the ‘Regional Cabinet’ as a Joint Committee, with delegated functions, with a Commencement Date of the 1<sup>st</sup> March 2017.

Clause 9 and Schedule 1 of the JWA set out the decision making and delegations policy for dealing with matters and decisions relating to the CCR City Deal. There are three categories of delegations being (i) matters delegated to the Programme Director; (ii) matters delegated to the Joint Committee and (iii) matters reserved to the Councils.

A matter reserved to the Councils means it is a matter which will have to be referred to each Council for a decision rather than being taken by the Regional Cabinet and a matter requiring unanimous approval of all ten constituent councils before being able to be implemented. There are three matters which are to be reserved to the constituent councils and thus this Council would be required to take a subsequent decision on, namely;

1. Approval and adoption of the JWA Business Plan means the strategy which defines the regional objectives (*including the high level programme, which shall include amongst other matters, the indicative investment programme for the “Programme Themes” (as such Programme Themes are defined under the Implementation Plan) and any agreed strategic projects together with the indicative spend profile for the wider investment fund) and as more particularly defined in the JWA.*
2. Agreeing any increase to the Affordability Envelope (which means the overall costs and investment by each Council under the JWA over the 25 year evaluation period, which shall not exceed in aggregate £210,800,000 and shall include, without limitation, all interest and UK Government ‘cost to carry’ and shall be updated to reflect the terms of the JWA Business Plan including the high level programme (once approved by the constituent councils) to include, amongst other matters, the annual spend profile for each council);
3. Approval of any increase to the Councils’ Contribution above the £120M.

The JWA does allow the Regional Cabinet to commit and/or spend up to £50m before the reserved matter 1 above has been considered by the 10 constituent councils. The £50m is approximately 10% of the £495m Investment Fund, and would be funded by the first five years of UK Government funding, which is £50m. If the Regional Cabinet does commit or spend a sum up to £50m before the reserved matter 1 above is considered by the 10 councils, and not all 10 councils approve reserved matter 1, there is a risk that the UK Government funding would have to be returned and the 10 constituent councils would have to cover this cost from within their existing budgets.

- **The Assurance Framework** - The Assurance Framework – set out in Schedule 8 to the JWA - is the document that outlines the set of systems, processes and protocols designed to provide an evidence-based and independent assessment of the governance, risk management, and control processes of CCR City Deal Investment Fund.
- **The Implementation Plan** - The Implementation Plan – set out in Schedule 9 to the JWA - details the work to be undertaken over the next three to five years, setting out the key milestones and activities, against which the Gateway Review (as defined in the JWA) will assess performance of the City Deal activities at the first 5 year stage.

Over the course of the next few weeks, all ten constituent councils will be asked to agree to the recommendations set out in this report, which have been consistently presented to all ten councils. Once all ten constituent councils agree to the Assurance Framework and the Implementation Plan they need to be submitted to the Welsh and UK Governments by the end

of February 2017 and finalised by 31<sup>st</sup> March 2017, in order to release this financial year's funding contribution from UK Government.

## Financial Summary

The s151 officers have modelled a number of potential scenarios, agreeing appropriate assumptions in respect of variables such as the profile of likely spend interest rates for borrowing, the split of capital and revenue funding and the treatment of inflation. The result of this detailed work is a prudent funding model based on:

- UK Government Grant Contribution of £375 million
- Local Authority Capital Contribution of £120 million
- Borrowing Repayment Term of 25 years
- Borrowing Interest Rate at 3%

The modelling estimates that the total costs of the deal at the regional level is projected to be £210.8m, this being the overall 'affordability envelope' for the 10 constituent Councils. This is based on:

- Central Government (UK/WG) 'Cost of Carry' costs at £44m, that is, the interest costs associated with up-front borrowing of the UK Government grant contribution of £375m ahead of its receipt.
- Local Authority costs of their capital contribution at £166.8m, that is, the principal and interest cost associated with borrowing the £120m capital contribution to be made by the Local Authorities.

Based on proportion of total population for the City Deal area, Newport's City Council's share of financial contributions is 9.8%. The annual revenue budget requirement to fund this contribution is profiled over the life of the deal given the timing of spend and income requirements, resulting in the following indicative financial commitments:

- A revenue contribution of £20.7m over the 25 year programme
- Year 1-5 revenue contribution of £1,045k
- Revenue contribution peaking in year 11 at £1,307k in that year

This Council will need to include a sum within its base budget requirements when the first year contribution is needed and will need to set aside funding to support future years as part of its medium term financial planning arrangements. Use of the Treasury Equalisation Reserve will be explored to support City Deal so that fluctuations in annual contributions can be smoothed and any volatility minimised from annual budget setting requirements.

Approval of the JWA Business Plan is a Reserved Matter and will be brought back to full Council for final consideration and approval. Central to this will be the development of the proposed programme of investment that will be undertaken as part of the City Deal initiative. The business plan will provide the council with confirmation of its affordability exposure over the life of the City Deal.

Whilst the overall Financial Envelope is being agreed now, any changes to Newport's annual profile will be reflected in the business plan along with the implications of any financial matters unresolved at this time.

## **Risks**

It is understood that the continuation of UK/Welsh Government funding is subject to securing satisfactory 'Gateway Reviews' as part of the Investment Fund Assurance Framework adopted. Reviews are likely to be structured to occur at Years 5, 10 and 15. Funding from Year 6 onwards will therefore be subject to the agreed performance objectives being achieved at each of the gateway stages.

An Investment Fund structured on this basis introduces a level of uncertainty, as there will be a requirement to borrow in advance of receipt of UK/Welsh Government grant and meet the associated interest costs. Therefore, in the event that the agreed performance targets are not fully achieved, there is a risk that UK/Welsh Government funding may be reduced or even cease. Under these circumstances any reduction will represent a further cost to the City Deal in the event that there are projects that have committed that are reliant on the full level of future grant. Furthermore, this position assumes that there is no 'clawback' provision within the UK/Welsh Government Terms & Conditions, which is yet to be confirmed. In order to mitigate this risk, the projects selected will go through a detailed economic modelling assessment to inform the key discussions that will take place around performance measures. The final performance targets agreed will include a 'margin of safety', which will further reduce the risk of targets not being achieved.

The Welsh Government and Wales Audit Office have been engaged in respect of a number of technical and accounting matters including the finalisation of grant Terms and Conditions. These matters need to be resolved with the Wales Audit Office and be confirmed with the external auditors responsible for the audit of the ten partnership councils. These matters have arisen due to the way City Deal Investment Funds tend to typically operate i.e. grant expenditure being incurred ahead of receipt. The Glasgow & Clyde Valley City Deal also faced these challenges, successfully resolved these matters with their auditors. In relation to those matters which could give rise to affordability implications, the approach adopted within the affordability modelling reflects the successful approach adopted by the Glasgow City Deal. However, it should be recognised that until such time as written agreement is in place with Wales Audit Office on these matters, these remain as key project risks, albeit that any changes that result in an increase to the Affordability Envelope is a matter reserved back to each Council.

Once the JWA is approved, councils will be 'locked-in' for a minimum period of five years. As with other Joint Committee's the legal implications set out that the cost of withdrawing are likely to be substantial and are effectively designed to keep councils locked in for the duration of the City Deal.

## **Links to Council Policies and Priorities**

The core mission of the Council is "Improving People's Lives". The Cardiff Capital Region City Deal is focused on improving economic outcomes which is entirely consistent with this mission statement

## **Options Available**

There are two options:

- 1) Agree the terms of the City Deal and sign up to the commitment outlined in this report.
- 2) Reject the terms of the deal.

## **Preferred Option and Why**

Option 1 is the recommended course of action. If council rejects the deal it is likely that Newport City Council will lose investment in important infrastructure. This would have a detrimental impact on the communities of the city.

## **Comments of Chief Financial Officer**

The attached report provides an update on the work completed since the report to the Cabinet on February 2016. In addition, the report seeks the approval of key documents that will form the basis of how the City Deal will be governed (Joint Working Agreement), how the investment fund will be managed and approved (Assurance Framework) and proposals for implementing the City Deal (Implementation Plan).

As noted in the report, once the Business Plan is agreed, then the signing of the JWA now will enter the Council into a long term commitment which will require it to fund the revenue implications of the borrowing and other costs associated with the delivery of the agreed programme. In addition, councils will be 'locked-in' for a minimum period of five years with cost of withdrawing likely to be substantial and are effectively designed to keep councils locked in for the duration of the City Deal

As set-out in this report, approval of the City Deal Business Plan is a Reserved Matter and will be brought back to the Cabinet and Full Council for final consideration and approval. Central to this will be the development of the proposed programme of investment that will be undertaken as part of the City Deal initiative. The business plan will provide the council with confirmation of its affordability exposure over the life of the City Deal i.e. whilst the overall Financial Envelope is being agreed now, any changes to Newport's annual profile will need to be set-out in the business plan along with the implications of any financial matters unresolved at this time and highlighted in the report above.

Once the Reserved Matter is satisfied, a further report will need to be brought back to Cabinet and Full Council to deal with the budget framework issues that arise from the City Deal Business Plan, as well as the impact on the council's Treasury Management Strategy and performance indicators. The Local Authority (Capital Finance and Accounting) (Wales) Regulations 2003 and the Prudential Code for Capital Finance in Local Authorities put the principles of Prudence, Affordability and Sustainability at the centre of all decisions made in relation to capital expenditure. The reports setting the final approvals will need to ensure that these principles are fully satisfied over the full term of the City Deal Business Plan.

## **Comments of Monitoring Officer**

The proposed action is in accordance with the Council's statutory powers under the Local Authorities (Goods and Services) Act 1970, the Local Government Act 1972, the Local Government (Wales) Act 1994 and the Local Government Act 2000. This statutory framework provides a range of legal powers which enable the Council to enter into collaborative arrangements with other local authorities and public bodies and to incur expenditure in relation to the joint discharge of functions and the provision of services.

The principles of collaborative working and pooled funding required to deliver the City Deal have already been agreed as part of the Heads of Terms Agreement signed by the local authorities, the Welsh Government, the Secretary of State for Wales and H M Treasury on 15<sup>th</sup> March 2016. However, in order to take the scheme forward and to secure the Welsh Government and Treasury funding, the local authorities are now required to enter into a legally binding Joint Working Agreement to establish the



necessary joint governance arrangements and to commit the necessary funding to establish the Regional Investment Fund. Because this will require a formal delegation of decision-making to a joint Regional Cabinet and a long-term budget commitment in terms of the overall affordability envelope and each council's proportionate contribution, these decisions will have to be taken by full Council (although Cabinet are able to sanction the delegation of executive powers to the Regional Cabinet).

The Regional Cabinet will be established as a Joint Executive Committee and will be empowered under Section 20 of the Local Government Act to take collective executive decisions on a majority basis (with each council having equal voting rights) regarding the approval of individual City Deal projects. This is a Treasury funding requirement to demonstrate commitment to collaborative regional working. Once the governance arrangements have been established, then only a limited number of "Reserved Matter" decisions will have to be brought back to each individual council for unanimous approval. The reserved decisions mainly relate to the JWA Business Plan (which includes the outline programme and indicative spending profile) and any changes to the financial envelope. All other major executive decisions are then delegated to the Regional Cabinet; they would only need to make recommendations back to the individual Councils if there was any material change to the Business Plan and a need for further financial contributions or Welsh Government imposed any onerous funding conditions.

The Council has the legal power to enter into the funding commitments under the in exercise of its general "well-being" powers under Section 2 of the Local Government Act 2000. This gives the Council a wide ranging discretionary power to do anything that it considers is likely to promote or improve the environmental, economic and social well-being of the area and/or persons within the area. Provided that the Council reasonably considers that its financial contribution towards the City Deal Investment Fund will benefit Newport, either directly or indirectly, then it does not matter that the money is spend or invested outside the area. Therefore, the fact that individual City Deal projects may be located outside of Newport does not prevent the Council from making a financial contribution, provided there is an overall regional "well-being" objective. It is clear from the other documents attached to the JWA, namely the Assurance Framework and the Implementation Plan, that the proposed City Deal strategic objectives and the assessment criteria for individual projects, are consistent with the priorities and objectives set out in the Council's Community Strategy and should promote and improve the economic and social well-being of Newport and its citizens. As such, the terms of the proposed JWA are considered to fall within the Council's discretionary "well-being" powers.

The Council will need to enter into a legally binding commitment under the JWA to this collaborative arrangement on 1<sup>st</sup> March 2016. That does lock the Council into certain obligations before a detailed investment programme of projects and individual spending profiles have been agreed. There is an initial "lock-in" period of 5 years, to coincide with the first Treasury gateway review, and no council can withdraw during this period. Also, even though individual councils can withdraw on 12 months' notice after the first 5 years, there are significant financial consequences of withdrawal. This is intended to reflect the longer term commitment required from all partners to deliver the City Deal programme and to secure the investment benefits in terms of regional growth.

Even though the councils will be required to enter into these binding legal and financial commitments up front, without any certainty at this stage about the individual projects, there are a number of safeguards built into the process. Firstly, the JWA will contain the overall financial envelope that the Councils are committing to, collectively and individually, and a profile of the total costs for each authority (to include the "carry-forward" costs of advance borrowing over the first 10 years, before all the tranches of HMT are released). Secondly, the JWA Business Plan (to include the indicative implementation programme and spend profiles) will be a Reserved Matter which will need to be reported back to each of the councils for unanimous approval in the next 12 months. Finally, the Assurance Framework and gateway review processes also provide further safeguards that the committed funding can only be used by the Regional Cabinet on projects that meet the relevant criteria and objectives for regional investment and growth.

Therefore, it would be reasonable and in accordance with the Council's discretionary legal powers to agree the recommendations and enter into these commitments.

## **Staffing Implications: Comments of Head of People and Business Change**

There are no staffing implications

## **Comments of Cabinet Member**

The Leader of the Council supports the recommendations included in this report

## **Scrutiny Committees**

The report hasn't been presented to scrutiny committee as consideration of the proposal is being subjected to full council approval.

## **Equalities Impact Assessment**

At this stage the proposals do not require an equalities impact assessment. This will take place when the reserved matter comes back to council for consideration.

## **Children and Families (Wales) Measure**

n/a

## **Consultation**

A briefing session was held for all council members on 19<sup>th</sup> January to provide background information prior to this meeting.

## **Background Papers**

The Joint Working Agreement is attached at appendix 1 to this report. The document also includes the Assurance Framework and Implementation plan.

Dated: 20<sup>th</sup> January, 2017