



SPECIAL CABINET – 31ST JANUARY, 2017

SUBJECT: CARDIFF CAPITAL REGION CITY DEAL (CCR CITY DEAL)

REPORT BY: INTERIM CHIEF EXECUTIVE

1. PURPOSE OF REPORT

The purpose of the report is to:

- 1.1 Provide an update for Members regarding the progress made since the last report to Council.
- 1.2 To seek approval for the formal establishment of the Cardiff Capital Region City Deal (CCR City Deal) Joint Committee, which will oversee the region's economic growth agenda and delivery of the twenty year CCR City Deal.
- 1.3 To seek approval of the CCR City Deal Joint Working Agreement, the CCR City Deal Assurance Framework and Implementation Plan which are required to establish the Regional Cabinet and the City Deal Investment Fund.

2. SUMMARY

- 2.1 The economy of South East Wales has historically under performed the majority of other regions of the UK, which is reflected in the high levels of poverty and deprivation experienced across the CCR. The ten constituent Councils need to act now and together to accelerate the economic growth of the CCR.
- 2.2 The report seeks approval for the formal establishment of the CCR joint cabinet and associated documentation which will enable the commencement of a programme of economic growth across the region through the 20 year CCR City Deal.

3. LINKS TO STRATEGY

- 3.1 The Well Being of Future Generations Act (Wales) 2015 comprises of seven wellbeing goals as follows:
 - A prosperous Wales
 - A resistant Wales
 - A healthier Wales
 - A more equal Wales
 - A Wales of cohesive communities
 - A Wales of vibrant culture and thinking Welsh Language
 - A globally responsible Wales

3.2 The CCR City Deal seeks significant investment built around the following purposes and themes:

- Improve productivity and economic performance in the region.
- Tackle worklessness which currently costs the UK Government £4bn in welfare payments for South East Wales.
- Build on the foundations of innovation we have across the region.
- Investment in physical and digital infrastructure.
- Provide effective support for business.
- Improve skills.
- Ensure the economic benefit is felt across the region.
- Working together to deliver more.

3.3 The CCR City Deal will make a significant contribution to delivering the well being goals referred to earlier and to delivering the Council's priorities of economic development and regeneration.

4. BACKGROUND

4.1 On 15th 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 development of capabilities in Compound Semiconductor Applications;
- 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.

4.2 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 leverage of £4 billion of private sector investment as a result of the £1.2bn public sector investment.

4.3 The City Deal Heads of Terms Agreement is very clear in what is expected of the ten constituent councils:

"The establishment of a Capital Region Cabinet will be the first step in the development of greater city-region governance across the Cardiff Capital Region. The Cabinet, which will comprise the ten participating local authorities, will provide the basis for initial decision making regarding the Investment Fund. In addition the Cardiff Capital Region Cabinet will be responsible for:

- *management of the Cardiff Capital Region Investment Fund;*
- *additional devolved funding provided to the Capital Region;*
- *the Cardiff Capital Region Transport Authority;*

- *contracting with Transport for Wales on prioritised Metro projects;*
- *control over devolved business rate income above an agreed growth forecast, subject to Welsh Government agreement;*
- *strategic planning including housing, transport planning and land use;*
- *influencing skills and worklessness programmes;*
- *an Inward investment and marketing strategy; and*
- *considering the scope for strengthening Capital Region governance further.”*
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4.4 Since the 15th 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 of two distinct elements:-

4.4.1 **£734m – METRO scheme.** This will comprise of £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.

4.4.2 **£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.

4.5 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.

4.6 The independent Growth and Competitiveness Commission reported its findings on 16th December 2016. The report can be accessed via the following link:

<http://cardiffcapitalregioncitydeal.wales/report/growth & comp com process web.pdf>

4.7 The Commission’s review supported the key proposed investment themes set out in the CCR 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 in 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.”

- 4.8 The Commission also highlighted the fact that the City Deal was not just about, what could actually be considered, a relatively small Investment Fund, but that it was also an opportunity for a new way in which the ten constituent councils could work with each other, UK and Welsh Governments and the business community.

“At the heart of this report is the need to prioritise and make informed choices. The City Deal represents a significant investment into the Cardiff Capital Region, but it cannot finance everything that is required, particularly given that much of the funding is already committed. The available funds are also limited in that they are phased over a twenty year timeframe.

*Not everything that would have a positive impact on the long term development of the economy and, more particularly, the communities of the Cardiff Capital Region, will be able to be funded. Choices will need to be made, which we hope will be informed by the principles and recommendations provided by the Commission. Rather than seeing the City Deal as a broad programme of investment, we suggest that it may be better to regard it as the **foundation to increase joint working and co-investment**. Resources should focus on key themes intended to signal a direction of travel and leverage wider investments, enhance the performance of existing assets, accelerate the process of change, and guide future policy options.”*

- 4.9 The conclusion emphasises the need for the ten constituent councils to ensure the CCR governance arrangements are suitable, effective and robust in order to make the difficult decisions on strategic priorities for investment.

5. THE REPORT

- 5.1 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.

5.2 Joint Working Agreement

- (i) The Joint Working Agreement, which is attached to this report as Appendix A, has been developed as the legal framework for establishing a Joint Committee. Legal Advisors were commissioned as an independent body to produce the relevant agreement documentation. The Joint Working Agreement is in essence the agreement that will establish the governance arrangements determining the roles and responsibilities for a Joint Committee that rests on the powers and responsibilities of a Joint Committee. The proposed commencement date is 1st March, 2017.
- (ii) From a local government perspective this is a model that is considered an effective, tried and tested way of formalising governance arrangements at the pan-local authority level. The Council is already involved in a similar arrangement, Prosiect Gwyrdd, and

this approach is also replicated in the Glasgow and Clyde Valley City Deal.

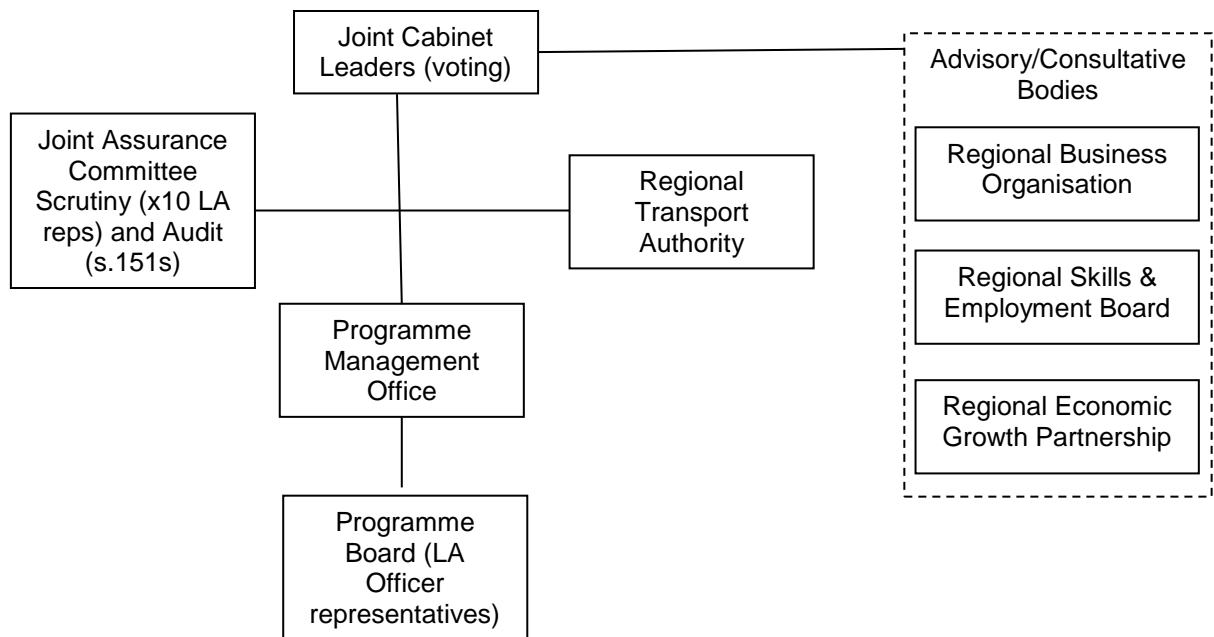
- (iii) Overall the Joint Working Agreement establishes the following principles:
- The establishment of a Joint Cabinet of the ten Cardiff Capital Region local authorities;
 - The areas of delegation for the Joint Committee (which focus on the management of the City Deal fund and project approval). Clause 9 and Schedule 1 of the Joint Working Agreement sets out the detail of delegations policy for dealing with such matters.
 - The establishment of City of Cardiff Council as the Accountable Body;
 - Financial principles for the Joint Committee;
 - The matters reserved to individual Councils; and
 - The means by which decisions relating to the programme of the investment (linked with the Assurance Framework) are agreed.
- (iv) The Joint Working Agreement confirms that the Joint Committee would be formed by the ten local authority representatives of the Cardiff Capital Region. The Joint committee would work on a one member one vote basis, and decisions would be made by simple majority reflecting the position in other city-region arrangements. It is intended, however, that decisions would be sought on a consensus basis before any proposal is taken to the vote. It is also proposed that meetings would require a quorum of seven.
- (v) The Joint Working Agreement also establishes that the Joint Committee will establish as sub-committees, as soon as reasonably practicable, the Regional Transport Authority and the Cardiff Capital Region Skills and Employment Board.
- (vi) In approving the Joint Working Agreement it needs to be clearly understood that the Council would be delegating responsibility for overseeing the implementation of the City Deal to the Joint Committee with only the 'reserved matters' being brought back to the Council for approval. The key reserved matters are:
- (a) Approval and adoption of the Joint Working Agreement 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 Joint Working Agreement.*
 - (b) Agreeing any increase to the Affordability Envelope (which means the overall costs and investment by each Council under the Joint Working Agreement 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 Joint Working Agreement 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);
 - (c) Approval of any increase to the Councils' Contribution above the £120M.
- (vii) Importantly, the Agreement commits councils to participation in the Joint Committee for a minimum of five years or, if later, the completion of the first five year Gateway Review – this is the "lock-in" period. For the sake of completeness only, it should be appreciated that if the Council sought to withdraw from the joint working arrangement during the lock-in period, it would be in breach of the provisions of the Joint Working Agreement, unless a negotiated arrangement could be reached with the other

- Councils. Entering the agreement creates legitimate expectations that the Council will remain a party to the City Deal arrangements for at least the lock-in period.
- (viii) Following the lock-in period, Councils may withdraw from the Agreement at any time – in accordance with the defined withdrawal provisions – but this would be subject to liabilities determined by, among other matters, the extent of financial commitments made.
 - (ix) If the reserved matter relating to the Joint Working Agreement Business Plan is not approved, then the Council would still be locked into the Joint Committee for the lock-in period. This would serve to constrain the Committee since it would not have an agreed plan against which to deliver the City Deal investment programme. In practice, it is intended that all parties will be actively involved in the preparation of the Joint Working Agreement Business Plan and that this will be agreed by all Councils.
 - (x) The Joint Working Agreement also authorises the Joint Committee to have discretion over £50 million of HM Treasury funding ahead of the agreement by the Councils of the Joint Working Agreement Business Plan. This is equivalent to the first five years of HM Treasury Funding or 10% of the total Investment Fund. Any projects covered by this funding will still be subject to the Assurance Framework and all associated evaluation. In the event that a Council does not agree the Joint Working Agreement Business Plan it would still be liable for any spend committed under these arrangements. Accordingly, approval of the Joint Working Agreement will incur a level of liability related to the amount of expenditure committed for Councils in advance of the agreement by the Councils of the Joint Working Agreement Business Plan.
 - (xi) The Joint Working Agreement outlines the administrative arrangements that will be put in place, including the establishment of an Accountable Body. The Accountable Body will administer the City Deal and will hold the funds from UK Government, local government and other sources. The Accountable Body will also be responsible for ensuring financial and legal compliance.
 - (xii) It is proposed that the City of Cardiff Council should become the Accountable Body of the City Deal.

5.3 Assurance Framework

- (i) The Assurance Framework – attached in Appendix A, Schedule 8 (of the Joint Working Agreement) – applies to the £495 million Cardiff Capital Region City Deal Investment Fund and 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 the Investment Fund.

Assurance Framework Governance and Resource Structure



- (ii) The Assurance Framework should also be considered in tandem with the Joint Working Agreement in as much as both documents outline decision making processes relating to the City Deal. The diagram above outlines the governance and reporting structure of the Assurance Framework in relation to the development and approval of a programme and projects.
- (iii) Adherence to the processes detailed in the Assurance Framework will ensure that funding and resources will be applied appropriately to deliver stated outcomes.
- (iv) The Assurance Framework commits to the development of a Regional Economic Strategy, a Regional Impact Assessment Tool and a Prospectus for Growth and Prosperity in order to determine eligible projects for consideration.
- (v) The Assurance Framework will apply to any:
- Additional devolved funding provided to the Cardiff Capital Region;
 - Additional borrowing by the constituent authorities provided to the Cardiff Capital Region; and
 - Use of devolved business rate income above an agreed growth forecast, subject to Welsh Government agreement
- (vi) The Assurance Framework outlines the process and decisions that are required for approval of the programme and overall projects, which includes the appraisal criteria for projects. This process requires projects to be submitted to the Programme Management Office for initial consideration to ensure that the proposal is in line with City Deal objectives. After initial assessment the proposal will be shared with appropriate advisory groups and an external business case assessor for further review. Following this review the initial proposal will be submitted to a Programme Board (which comprises senior officials from each participating local authority) for approval prior to being presented to the Joint Committee.
- (vii) The Assurance Framework makes clear that the ultimate decision for approval of projects will lie with the Joint Committee.

5.4 Implementation Plan

- (i) The Implementation Plan – attached in Appendix A, Schedule 9 of the Joint Working Agreement – details the work to be undertaken over the next three to five years, setting out the key milestones and activities, against which the independent Gateway Review will assess performance of the City Deal activities at the first five year milestone.
- (ii) The Implementation Plan outlines the approach that will be taken to delivering key elements of the City Deal Heads of Terms, covering the following areas:
 - South East Wales Metro and Connecting the CCR
 - Additional Flexibilities
 - Investing in Innovation and the Digital Network
 - Developing a Skilled Workforce and Tackling Unemployment
 - Supporting Enterprise and Business Growth
 - Housing Development and Regeneration
 - Cardiff Capital Region Economic Growth Partnership
 - Independent Growth and Competitiveness Commission
 - Delivery, Monitoring and Evaluation
- (iii) The Implementation Plan will be reviewed and further developed over the next 12 months. The version attached to the Joint Working Agreement is the current version.

5.5 As mentioned previously, the Joint Working Agreement 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, (schedule 1 of the Joint Work Agreement) 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.

5.6 All ten constituent councils will be asked to agree to the recommendations set out in paragraph 10 of 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 31st March 2017, in order to release this financial year's funding contribution from UK Government.

5.7 All ten constituent council Leaders are very supportive of the CCR City Deal and are keen for their respective council to sign up to the Joint Working Agreement, Assurance Framework and Implementation Plan. Nevertheless, this decision must be taken by each constituent council and there is the risk that:

- Individual councils may request changes to the terms and conditions of the Joint Working Agreement and the other documentation; or
- One or more councils may not agree to formally establish the CCR Regional Cabinet.

5.8 In terms of any requested changes to terms and conditions of the legal documentation, it is proposed that the Interim Chief Executive in consultation with the Leader of the Council, the Acting Director of Corporate Services & S.151 Officer and the Interim Head of Legal Services & Monitoring Officer be granted delegated authority to make such amendments as are necessary to the Joint Working Agreement, Assurance Framework and Implementation Plan (as are appropriate) from the date of acceptance of these recommendations to the Commencement Date of the 1st March, 2017.

5.9 Furthermore, it is proposed that the Interim Chief Executive in consultation with the Leader of the Council, Acting Director of Corporate Services & S.151 Officer and the Interim Head of Legal Services be granted delegated authority to decide whether the Council should continue to explore the continued opportunity 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 set out at paragraph 10 of the Report.

5.10 **Legal & Governance Implications Arising From the Joint Working Agreement**

The Report has highlighted that in order to facilitate the CCR City Deal it is proposed that the 10 Constituent Councils conclude a Joint Working Agreement which will serve to establish a Joint Committee to be known as the Cardiff Capital Region Joint Cabinet. It is proposed that Councils delegate that relevant executive and Councils' function relating to delivering the CCR City Deal to the Joint Committee.

5.11 The following paragraphs of the Report highlight the salient legal/governance issues raised by the Joint Working Agreement to be read in conjunction with earlier information in the Report and the Joint Working Agreement attached at Appendix A.

- (i) Accountable Body – The Joint Committee has no separate legal identity and so cannot own property, accept grants or enter into contracts in its own right. It is proposed that one authority, namely Cardiff Council will act as the 'Accountable Body'. As the Accountable Body, the Council will take responsibility for employment of the staff directly affected, enter any third party agreements required and provide all support services required by the Joint Committee. The Accountable Body will hold any funds received directly from the Welsh Government, the UK Government (if any), the European Regional Development Fund (if any), the Councils and/or any other sources in relation to the City Deal, Cardiff Council will have the primary obligation to ensure that the funding received is only used and released in accordance with the terms of the funding imposed by WG, which in turn are passed back to the other Councils via the Joint Working Agreement.
- (ii) Funding conditions – at the time of writing the report the terms that will be attached to the City Deal funding are not definitively known. Accordingly the Joint Working Agreement contains a condition (referred to as a condition subsequent) that approval of the terms of any Welsh Government funding conditions relating to the City Deal is a "Matter Reserved to the Joint Committee and Cardiff Council, as the Accountable body for approval".
- (iii) The Joint Working Agreement sets the extent of the matters to be delegated to the Joint Committee. (See schedule 2 of the Joint Working Agreement).
- (iv) The Joint Working Agreement sets out that each Authority would appoint 1 Elected Member to the Joint Committee. Decisions would be taken by simple majority vote and each authority would have one vote exercisable by their appointed Elected Member. It is proposed that the Chairperson would be one of the Elected Member representatives, appointed for 12 months, with the position of Chairperson allocated in turn to each authority. The Joint Working Agreement provides that the Chair would agree not to exercise their casting vote.
- (v) The Joint Working Agreement provides that Joint Committee would be supported by a Programme Board comprising one officer nominated from each authority. This board would not be a decision making body. The Board would be chaired by a Programme Director, who is given certain delegated powers (which are primarily intended to relate to day to day operational matters, (refer to schedule 1 of the Joint Working Agreement). The Joint Committee will provide an annual report on progress which could be reported to the Council/Cabinet as appropriate.

- (vi) 'Lock-in' and exit provisions. It is important to note that the Joint Working Agreement contains 'lock-in' provisions. What this means in practice is that no Council can withdraw from the Joint Working Agreement for a period of five years from the commencement date (proposed to be 1st March, 2017). Thereafter a party can withdraw, but such withdrawal is likely to come at significant costs to the withdrawing authority. The reason for this is that, put simply, the withdrawing party has to make good to the other authorities in respect of any additional costs they would incur as a result of the withdrawal (in effect the monies the authority has agreed to contribute).
- (vii) The Joint Working Agreement contains what are referred to as reserved matters. These are matters which cannot be decided upon by the Joint Committee, but which must be referred back to each council for approval. A key such matter is approval of the CCR City Deal Joint Working Agreement Business Plan. If the reserved matter is not approved, then the Council would still be locked into the Joint Committee for the lock-in period, but in effect the Committee would be stymied in its action because it would not have an agreed Joint Working Agreement Business Plan against which to deliver the City Deal Investment Programme. In practice it is intended that all parties will be actively involved in the preparation of the Joint Working Agreement Business Plan and that the same would not be presented to Councils for formal approval until all were content. It is however proposed that prior to approval of the reserved matter (The Joint Working Agreement Business Plan) that the Committee would be empowered to spend up to £50m on City Deal projects identified as having regional benefit and meeting the other requirements set in the Assurance Framework. It should be appreciated that even if the Council does not approve the Reserved matter (Joint Working Agreement Business Plan) that it will none the less be obliged to meet its part of any expenditure committed up to the sum of £50m.
- (viii) The Joint Working Agreement at Clause 12 sets out the totality of the Council's agreed financial contributions.
- (ix) The Joint Working Agreement sets out how the costs associated with delivering the City Deal and running the Joint Committee are to be met, which will be shared on a per capita population basis as at 2015 figures.
- (x) The Joint Working Agreement contains provision to address matters such as disputes, variations, data protection and freedom of information. Accountable Body (SIRO) will retain responsibility for all information security and information management policies regarding the upkeep and exchange of data.
- (xi) Scrutiny Arrangements – there are a range of approaches to scrutiny of collaborative activities, which include scrutiny by existing Scrutiny Committees on a 'Council by Council' basis, joint meetings between Council's Scrutiny Committees through to the establishment of new joint overview and a Scrutiny Committee. It is proposed that initially scrutiny will be undertaken by Council's existing Scrutiny Committees but that the Councils will work together to create a new City Deal joint overview and Scrutiny Committee. It is anticipated that Scrutiny would be involved in monitoring the performance and governance of the City Deal on an on-going basis, but it would be a matter for the Scrutiny Committee to determine what areas it wishes to scrutinise.

6. WELL-BEING OF FUTURE GENERATIONS

- 6.1 The CCR City Deal contributes to the Well-Being Goals as set out in the "Links to Strategy" section of this report. It is consistent with the five ways of working as defined within the sustainable development principle in the Act in that the CCR City Deal has been developed collaboratively with the partner Authorities. The intention of the CCR City Deal is to take action to improve the high levels of poverty and deprivation across the CCR. The CCR City Deal promotes a collaborative approach to acceleration of the economic growth across the region.

7. EQUALITIES IMPLICATIONS

- 7.1 Full Equality Impact Assessment Screening has not been prepared for the purpose of this report, as the CCR City Deal remains very much within its infancy. However, if deemed necessary in the future individual Equality Impact Assessments will be undertaken and future decisions will have due regard to the need to:-
- (1) Eliminate unlawful discrimination;
 - (2) Advance equality and opportunity;
 - (3) Foster good relations on the basis of protected characteristics.

8. FINANCIAL IMPLICATIONS

- 8.1 This is the first City Deal awarded to Wales and the operation of an Investment Fund totalling £495m on behalf of ten local authorities introduces a number of practical and accounting considerations. With this in mind project officers have commenced dialogue with senior officials from both Welsh Government and Wales Audit Office to work through the implications of a number of detailed accounting and reporting matters.
- 8.2 Schedule 4 of the JWA outlines 'Heads of Expenditure' envisaged in relation to Joint Committee costs, although this does not represent an exhaustive list. The Heads of Expenditure will need to be kept under review and updated for time to time as the roles and responsibilities of the Accountable Body 'bed down'. For example, Caerphilly CBC will need to be clear on the expectations in relation to resourcing the development of projects (and the associated documentation), which are agreed as part of the JWA Business Plan. Another area that will need to be clearly understood is how responsibilities for delivering the agreed list of projects will be determined. For these reasons the JWA contains the necessary provisions to share Accountable Body costs and liabilities with the other nine partnership councils.
- 8.3 Once approved, if the Joint Committee budget is exceeded by more than 5%, then the Joint Working Agreement outlines that any increase will need to be met from the Wider Investment Fund rather than falling on individual council budgets. Similarly, if the Joint Committee wishes to set a budget which is more than 5% greater than the previous year's budget then any increase will also need to be met from the Wider Investment Fund.
- 8.4 The ten constituent Councils established a Memorandum of Understanding (MOU) during 2015 to enable them to progress work on the City Deal. The MOU set-out a Partnership Revenue Contribution Budget required to fund the work needed based on an annual sum of £500,000. It is proposed that this arrangement continues for 2017/18 but that the sum is increased to £1m, of which CCBC's share would be up to £120,000, per annum. If approved this Council would include this sum within its base budget requirements for 2017/18. During 2017/18 the Implementation Plan will be developed and will provide a costed budget plan for the following three to five years.
- 8.5 The report outlines that ahead of the JWA Business Plan being agreed, that the Joint Committee are given the discretion to commit up to £50m of the UK/Welsh Government funding. Council should note that in the event that a business plan cannot be agreed, CCBC would still be liable for its share of any commitment i.e. up to 12% of £50m.
- 8.6 As set-out in this report, 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 JWA 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 CCBC'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.

- 8.7 Once the JWA is approved, councils will be 'locked-in' for a minimum period of five years. As with other Joint Committee's such as Prosiect Gwyrd, the legal implications (highlighted in the body of the report) 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.
- 8.8 The CCR City Deal Investment Fund 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.
- 8.9 The £375m of funding provided by the UK Government to the Regional Cabinet Fund, is funded on a staged basis over 20 years, £10m a year over the first 5 years, £21m a year over the following 5 years and £22m a year over the remaining 10 years. Therefore, if the Regional Cabinet is to generate the economic improvement the region requires, it is likely that investments will be made early in the life of the Fund and the ten constituent councils will have to borrow funding to cover the temporary shortfall in funding from the UK Government. This is called the **carry costs** of the funding.
- 8.10 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 which estimates that the total costs of the deal at the regional level is projected to be £210.8m, of which £166.8m is the estimated cost of the local authority's capital contribution and £44.0m is the estimated carry costs of financing the UK Government debt as described in paragraph 8.9. CCBC's share (12%) of the estimated total costs is projected to be in the order of £25.2m over a 25 year period (based on an assumed average asset life). See Table 1 below.

Table 1. – Cardiff Capital Region City Deal Investment Fund Indicative Modelling and Proposed Affordability Envelope

CCRCD Investment Fund	JWA Jan 2017
UK Contribution	£375.0m
LA Contribution (Capital)	£120.0m
Repayment Term	25 years
Interest Rate	3.0%
UK/WG 'Cost of Carry'*	£44.0m
LA £120m Cost of Capital**	£166.8m
Proposed 'Affordability Envelope'	£210.8m
<u>CAERPHELLY CBC ONLY Figures</u>	
Total @ 12%	
Years 1-5 (MTFP)	£1.3m
Total Cost Over 25 Years	£25.2m
Peak Debt (Year 11)	£1.6m

**Cost of Carry refers to the interest costs associated with up-front borrowing of the UK Government funding ahead of receipt.*

***Cost of Capital refers to the Principle and interest cost associated with borrowing the capital contribution to be made by the local authorities*

- 8.11 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. The total cost will be smaller in the early years of the deal (years 1 to 5 is estimated to be a total of £1.3m) and will peak in Year 11 at £1.6m for that year. Prudently, this Council will include a sum within its base budget requirements for 2017/18 to cover the estimated first year contribution and will seek to set aside funding to support future years as part of our medium term financial planning arrangements. A specific Treasury Management Reserve will be established to support CCR so that fluctuations in annual contributions can be smoothed and any volatility minimised from annual budget setting requirements.
- 8.12 As part of the terms of the City Deal, the Regional Cabinet will be required to evaluate the impact of the £495m Investment Fund in order to unlock UK Government funding. Every five years a gateway assessment will be undertaken, which consists of an independent review to evaluate the economic benefits and economic impact of the investments, including whether the projects have been delivered on time and on budget. The gateway reviews are likely to be structured to occur at Years 5, 10 and 15. Therefore, funding from Year 6 onwards will be subject to the agreed performance objectives being achieved at each of the gateway stages. If a future Investment Fund gateway is not achieved, leading to a reduction or cessation of City deal grant, then it will be the responsibility of the ten constituent councils to manage the financial impact of this within their existing council budgets. This would inevitably lead to an increase in the savings target in the MTFP for Caerphilly CBC.
- 8.13 In order to mitigate this risk, the projects selected will go through the Assurance Framework 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.
- 8.14 Over the past few months, officers have engaged with Welsh Government on a number of City Deal issues. One such issue relates to the Terms and Conditions (T&Cs) that will accompany the UK Government Funding. The ten constituent councils have yet to receive a draft copy of the T&Cs and therefore, the JWA contains a condition that its continuation is subject to these T&CS being acceptable to the Regional Cabinet.
- 8.15 In addition, there are a number of detailed technical accounting matters that remain unresolved at this time. 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 constituent councils. These matters have arisen due to the way in which 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, and successfully resolved these matters with their auditors, Audit Scotland. These matters are unlikely to alter the total costs of the CCR City Deal but could alter the payment profiling with larger payments occurring earlier over the course of the 25 year life of the City Deal.
- 8.16 Members are also requested to note the reserved matters that need to go back to each Council in respect of financial implications as detailed in the report.

9. CONSULTATIONS

- 9.1 The Report has been sent to the Consultees listed below and all comments received are reflected in the Report.

10. RECOMMENDATIONS

Cabinet are asked to formally endorse and recommend to Council the recommendations set out at paragraph 10.1 to 10.8 below and to formally approve the recommendation at paragraph 10.9 below and to seek authority from Council for the Head of Legal Services & Monitoring Officer to amend the Council's Constitution to reflect the proposals as set out:

- 10.1 Approve the Joint Working Agreement 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 1st March, 2017. The elected member representative to the Regional Cabinet shall be the Leader of the Council, or his/her nominated Deputy.
- 10.2 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.
- 10.3 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.
- 10.4 Approve the collective revenue contributions of up to £1 million inclusive of recommendation 3 above, on a proportionate basis as set out in the Joint Working Agreement) to the 2017/2018 budget, in order that the support structure for the Regional Cabinet continues.
- 10.5 Approve the City of Cardiff Council acting as the Accountable Body with the responsibilities as set out in the Joint Working Agreement.
- 10.6 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.
- 10.7 That the Interim Chief Executive in consultation with the Leader of the Council, the Interim Head of Legal Services & Monitoring Officer and Acting Director of Corporate Services & S.151 Officer be granted delegated authority to agree such amendments as are necessary to the Joint Working Agreement Assurance Framework and Implementation Plan (as are appropriate) from the date of acceptances of these recommendations to the Commencement Date of the 1st March, 2017.
- 10.8 That the Interim Chief Executive in consultation with the Leader of the Council, the Interim Head of Legal Services & Monitoring Officer and Acting Director of Corporate Services & S.151 Officer be granted delegated authority to decide whether the Council should continue to explore the opportunity 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 10.1-10.7 above.
- 10.9 That the Leader of the Council or his/her nominated deputy be granted delegated authority to sign the Joint Working Agreement on behalf of the Council.

11. REASONS FOR RECOMMENDATIONS

- 11.1 To enable the formal establishment of the Cardiff Capital Region Joint Committee, which will oversee the region's economic growth agenda and delivery of the 20 year CCR City Deal.
- 11.2 To approve the Joint Working Agreement, Assurance Framework, Implementation Plan to enable the establishment of the CCR City Deal.

12. STATUTORY POWER

- 12.1 Well Being Powers: Local Government Act 1972 and 2000.
Local Government Wales Measure 2009 and
Local Authorities (Goods and Services) Act 1970

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Appendices:

Appendix A The Joint Working Agreement which includes the Assurance Framework & Implementation Plan

Background Papers:

- Report to Cabinet – 17th June, 2015
- Report to Council – 6th October, 2015
- Report to Council – 24th February, 2016
- Report to Council – 19th April, 2016
- Report to Council – 19th July, 2016
- The Independent Growth and Competiveness Commission. This can be accessed via http://cardiffcapitalregioncitydeal.wales/report/growth_&_comp_com_process_web.pdf
- Heads of Terms Agreement