

## **AGENDA ITEM 13**

### **RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**

#### **CABINET**

**24<sup>th</sup> NOVEMBER 2015**

#### **THE CITY DEAL – BRIEFING FOR MEMBERS**

#### **REPORT OF THE CHIEF EXECUTIVE IN DISCUSSION WITH THE LEADER OF THE COUNCIL (COUNCILLOR ANDREW MORGAN)**

**AUTHOR: Chris Bradshaw: 01443 424026**

#### **1. PURPOSE OF THE REPORT**

- 1.1 The purpose of the report is to update Members on the progress of the ten South East Wales local authorities in developing and securing a City Deal with Welsh Government and the UK Treasury Department of the UK Government.

#### **2. RECOMMENDATIONS**

It is recommended that the Cabinet:

- 2.1 Note the progress to date and the estimated timescales to get the full agreement of all parties to complete the City Deal;
- 2.2 Consider whether a presentation on the City Deal should be made to Full Council in December;
- 2.3 Request that a further update on progress is presented to Cabinet early in the New Year.

#### **3 REASONS FOR RECOMMENDATIONS**

- 3.1 The Council, in partnership with the other South East Wales local authorities, is negotiating with the Welsh and UK Governments to secure a significant investment of £1.28bn, in projects that will have a very positive impact on the economy of the Region. The majority of the funding provided by the UK Government through the City Deal process is by a payment by results mechanism based on increases in agreed economic outputs for the Region. This approach passes the majority of the financial risks of the City Deal to the ten South East Wales local authorities. It is important that all Members are aware of the progress being made in developing the City Deal, and in due course can quantify

the economic benefits of the City Deal and the associated financial risks that rest with the Council.

#### **4. BACKGROUND**

4.1 In 2011, the UK Government recognised that cities and their surrounding areas are home to 74% of our population and 78% of our jobs, making them important to the long-term growth and economic success of the UK. To reduce the high level of government debt arising from the recession, the country needs more business and employment opportunities to grow the economy. The UK Government considers that transferring powers from government to cities will make it easier for cities to achieve economic growth.

4.2 To make the improvement in economic growth, the UK Government initially gave England's cities new powers and freedoms through City Deals. City Deals are agreements between government and a city that give the city control to:

- take charge and responsibility of decisions that affect their area;
- do what they think is best to help businesses grow;
- create economic growth;
- decide how public money should be spent.

4.3 The first wave of City Deals were with the 8 largest cities outside of London, known as the Core Cities that are as follows:

- Greater Birmingham
- Bristol Region
- Greater Manchester
- Leeds City Region
- Liverpool City Region
- Nottingham City Region
- Newcastle Region
- Sheffield City Region

4.4 These cities have made deals with government that give them greater accountability for their actions, in exchange for new powers to help encourage growth and jobs in their areas. Some of these city regions have made multiple deals with government such as Manchester which has 3 such deals.

4.5 Further City Deals have been agreed with a further 20 cities, being the next 14 largest cities outside of London and their wider areas and the 6 cities with the highest population growth during 2001 to 2010. These cities negotiated deals with government that gave each city new powers in exchange for greater responsibility to stimulate and support economic growth in their area. These city regions include:

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

4.6 In 2014, Glasgow and the Clyde Valley agreed a £1.2bn City Deal with the UK and Scottish Governments, the first City Deal agreed with a devolved government.

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

## 5 WHAT IS A CITY DEAL?

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

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

- **A City Deal is a contract – the deal is a deal!** – Each City Deal is a contract between a city region and the UK Government, which in the case of the Cardiff Capital Region will also include Welsh Government. The City Deal generally runs for 10 years or longer. Each identifies a list of priority projects to be delivered along with economic performance benchmarks;

- **The focus is on productivity and growth** - Each region has to make wise choices about infrastructure investment that will boost economic activity. The City Deal model explicitly targets a package of infrastructure projects that lift a region's economic capability over a long-term timeframe. This helps focus competing priorities into a coherent set of goals that can be communicated to business and the community;
- **City Deals encourage local leadership and good governance** – The City Deal brings together the regional partners linking key stakeholders such as central, devolved and local government, business and community groups. In other regions this has encouraged a more enterprising, strategic approach to growth and self reliance;
- **City Deals utilise smarter tools for determining infrastructure investment priorities** – The City Deal programme only includes projects have been assessed in terms of growth in jobs and productivity, and the goal is to achieve ongoing improvements in Gross Value Added (local GDP) for the Region. The City Deal approach promotes a move away from budget silos, such as a housing budget, a transport budget etc, to an economic growth budget for a region. The assessment framework shifts the focus away from isolated project evaluations to metrics that capture the broader benefits such as a reduction in welfare spend, and housing and regeneration dividends. All City Deal contract proposals are independently assessed by the UK Treasury, which also monitors progress towards agreed economic goals;
- **City Deals unlock access to innovative funding** – the City Deal model allows for the regions to “earn back” a share of the additional taxation dividend generated from faster economic growth – a growth windfall. There are opportunities to use this windfall to settle existing debt obligations faster or to finance new priority infrastructure projects. For example, the Birmingham and Solihull City Deal partners have established GBS Capital which aims to leverage £1bn of seed funding into £10bn of private capital.
- **City Deals help join up economic, social and sustainability goals** – A feature of the City Deals to date is the inclusion of complementary programmes relevant to a region. For example the Greater Manchester City Deal includes a Growth Hub programme; a Skills Hub – to employ 6,000 apprentices; a Low Carbon Demonstrator – an innovative funding model to reduce emissions; a housing programme that aims to deliver 7,000 new homes by 2017; and an Inward Investment Beacon – a programme for attracting international capital to local projects. This is a good example of how the City Deal fosters a mutually reinforcing set of public policy programmes.

5.3 The City Deal model is underpinned by the premise that **everyone benefits** but not everyone benefits all at once. City Deals are

developed through careful and considered negotiations between all contributing stakeholders. In the case of the Cardiff Capital Region, these stakeholders are the 10 local authorities, Welsh Government and UK Government.

5.4 During the initial stages of these negotiations, each of the stakeholders will clearly articulate expectations for the deal, including the nomination of metrics, outcomes desired from the deal and the financial motivation for participation. These are refined over time to form the basis of the deal. In all deals agreed to date, economic growth has been identified as the leading metric, and the foundation for prioritisation and earn back.

5.5 The City Deal Model was initially developed to determine whether city regions could achieve a better infrastructure and economic outcome by acting collaboratively, rather than individually, and be engaging with government and each other to do so. A good example of this is in Greater Manchester where there has been a fundamental shift in the way in which the 10 local authorities worked together in respect of infrastructure funding, prioritisation and delivery. This in turn has realised the current growth in investment and economic outcomes. In Greater Manchester, the 10 council leaders agreed:

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

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

## **6 WHAT IS THE CARDIFF CAPITAL REGION CITY DEAL SEEKING TO ACHIEVE AND HOW?**

6.1 The 10 South East Wales local authorities are still at the initial stages of negotiating a Cardiff Capital Region City Deal with the UK and Welsh Governments. Progress has been made in shaping a City Deal that is comparable with the City Deal agreed between the 8 local authorities of the Glasgow City Region, the Scottish and UK Governments.

6.2 The Cardiff Capital City Region has submitted a £1.28bn City Deal submission to the UK Treasury, supported by the First Minister of the

Welsh Government, committing to principles and outlining plans for the development of a possible City Deal.

- 6.3 The basis of the City Deal submission is that the GVA per capita in Wales is the lowest in the UK, and if this is to improve we need to adopt a new approach to improving the economic outcomes in South East Wales. A City Deal and Infrastructure Fund offers a mechanism to help the Region unlock its growth potential through targeted investment. Without this type of investment, infrastructure bottlenecks in housing and transport created by population growth, along with skills gaps will stifle the Region's economic growth. The Cardiff Capital Region has set itself the ambitious target of a 5% per annum permanent improvement in the fiscal bottom line over an initial 10 year programme, equating to net increases in GVA of £200m per annum.
- 6.4 The proposal from the Cardiff Capital Region is attached at Appendix 1 outlines the following key points that will form the basis of any City Deal with the Treasury to deliver the ambitious economic growth target:
- **Connectivity** – a historical legacy of under investment in infrastructure has left South East Wales lagging behind the rest of the UK. It is accepted that connectivity has a significant impact on the economic performance of an area, particularly in terms of transport. To address this, the Cardiff Capital Region is seeking to:
    - Provide dedicated and pooled resources to deliver a City Region Infrastructure Fund;
    - Improve coordination of city regional transport investment.
  - **Digital** – digital technology is widely recognised as an enabler of productivity and driver of innovation and international trade. A recent Office of National Statistics paper shows that Wales has the lowest turnover in the digital sector in the UK, and the slowest rate of increase over the past 5 years. There is a need to improve the infrastructure, skills and support for the digital agenda in the Region. To address this, the Cardiff Capital Region is seeking to regionalise resources to deliver a programme to invest in infrastructure, skills and sector development, so that Cardiff Capital Region can compete with the most digitally connected city-regions in the world;
  - **Innovation** – Investment in innovation in the Region, despite a skilled workforce and high performing universities has also remained low in the Region. Innovate UK expenditure in Wales is less than a third of the average UK per head figure, and government expenditure on research and development in Wales stands at 1%, a third of the expected pro-rata spend. To address this the Cardiff Capital Region seeks to:
    - Designate the Cardiff Capital Region as an “Innovation Zone”;

- Provide risk capital for new ideas through an Innovation Investment Fund;
- Establish a catapult centre for the Region where some of the best businesses, scientists and engineers work side by side on research and development transforming high potential ideas into new products and services to generate economic growth.
- **Skills** – Whilst the Region benefits from a skilled workforce, too many people are in low paid employment or on benefits. If activity rates in the Region were to rise to the UK average, this would lead to an additional 31,000 local people entering the labour market. To address this the Cardiff Capital Region seeks to:
  - Develop a regional strategic plan for employment and skills based on evidence of need coupled with a mechanism to align skills funding, advice and support to meet the demands of the regional economy, delivering better outcomes for industry and those in the labour market;
  - Create a regional “Skills Innovation Hub” to connect industry to education, employment and skills initiatives;
  - Create a network of academies with industry, to co-design, develop and deliver programmes in response to demand from industry.
- **Business Support** – We propose to regionalise local resources in respect of business development, marketing and tourism with a dedicated fund for promotion.

6.3 To support the delivery of the above, the Cardiff Capital Region will also seek new powers and fiscal flexibilities. This will include exploring:

- Establishing Regional Strategic Planning arrangements that ensure that development takes place on a complimentary basis for all in the city-region;
- A Programme of Tax Increment Finance (TIF) projects, funded by additional NNDR tax revenue gains from economic development activities, agreed by the Capital City Region and over seen by Welsh Government;
- The creation of a Regional Investment Fund that will provide funding and finance for regeneration activities across South East Wales;
- The ability to lever Supplementary Business Rates to support investment.

## **7 HOW COULD THE CITY DEAL POTENTIALLY BE FINANCED?**

7.1 The Joint Letter from the 10 South East Wales local authorities, supported by the First Minister, to HM Treasury proposes a £1.28bn fund with the following contributions:

- £580m from Welsh Government;

- £120m from the 10 local authorities;
- £580m from UK Government.

7.2 These figures form the basis of an initial conversation with HM Treasury and reflect the high level of ambition of the 10 local authorities of the Cardiff City Region.

7.3 Of the UK Government contribution of £580m it is expected that this will be funded over 20 years, with 15% of the total repaid in the first 5 years, based on, for example, an investment in infrastructure, and the remaining 85% repaid based on Payment By Results, in achieving the economic targets set. During this period, the 10 local authorities have initially to borrow the funding required to make the £580m investment. The Capital City Region is working with KPMG to model a range of funding scenarios to understand the capital and interest costs resting on each of the 10 local authorities. For Rhondda Cynon Taf, it is estimated that the peak borrowing cost will be less than £4m per annum in 2027, with a total annual revenue costs to serve the borrowing over the 35 years at less than £60m.

## **8 WHAT ARE THE NEXT STEPS IN SECURING A CITY DEAL?**

8.1 The City Deal process is a lengthy process and in some cities it has taken up to 18 months to secure the deal. The Joint Letter from the 10 South East Wales council leaders, supported by the First Minister, to the HM Treasury committing to the principles and setting out outline plans for the development of a deal is the first step in the process.

8.2 The next steps are to focus on the three key foundations of the City Deal:

- **Real Economy Prioritisation** - prioritising projects by their impact on increasing jobs and economic output;
- **Establishing Governance and Metrics** – Programme agreed based on the performance of projects against the key metrics;
- **Establishing Funding Parameters** – Agreeing baseline budgets, payment by results and “self help” funding where local authorities contribute extra funding from a variety of sources to fund specific projects.

8.3 Over the period to May 2016, the local authorities working with Welsh Government will develop, analyse and economically model a range of projects to come up with a short list of strong performing projects in GVA terms to be identified. Final decisions on these projects will be made by the 10 local authorities in partnership with Welsh Government in July 2016.



- 8.4 In parallel to the development of the projects will be the development and finalisation of the governance, oversight and monitoring arrangements that will be used to deliver and implement the programme. The Cardiff Capital Region local authorities will seek to finalise the City Deal over the summer, with an announcement by the early autumn.

## **9 EQUALITY AND DIVERSITY IMPLICATIONS**

- 9.1 The City Deal is currently in its infancy and no decisions have yet been taken on areas of investment. Equality Impact Assessments will be undertaken on a regional basis as City Deal decisions are brought forward in the future.

## **10 CONSULTATION**

- 10.1 A key element of the City Deal will be consulting and engaging businesses, higher and further education, all local authority members and the wider community. Initial information sharing meetings will be arranged shortly to brief business and higher and further education providers in the Region in order to seek their views and ideas on how we maximise the benefits of a City Deal.

## **11 FINANCIAL IMPLICATION(S)**

- 11.1 At present there are no financial implications in developing a City Deal. However, City Deals do place a considerable risk on local authorities, as the capital investment is paid by HM Treasury based on achieving agreed economic growth targets. Failure to achieve the economic targets could result in local authorities having to cover the cost of 85% of the UK Government capital contribution and the associated borrowing costs.
- 11.2 As the City Deal developments and negotiations continue, further information will be made available to Members, on the potential financial risks and rewards.

## **12 LEGAL IMPLICATIONS**

- 12.1 The Cabinet authorised the Leader of the Council to work with the other South East Wales local authorities to develop a business case for a City Deal. This development of a business case is still on-going.

## **13 LINKS TO THE COUNCIL'S CORPORATE PLAN / OTHER CORPORATE PRIORITIES/ SIP.**

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

## **14 CONCLUSION**

- 14.1 The City Deal approach to infrastructure funding has proven to be successful in delivering increased economic activity, infrastructure funding and development certainty in many UK cities, with some cities agreeing multiple City Deals. The Cardiff Capital Region significantly lags behind the rest of the UK in terms of economic output, contributing only 75% of the UK average GDP. This is an opportunity for the 10 South East Wales local authorities to collaborate together, with Welsh Government, to generate a significant boost to the local economy and begin to address the under investment in infrastructure, both connectivity and digital, and take the opportunity to develop the skills of the workforce and support businesses to develop through innovation.
- 14.2 The potential benefits to Rhondda Cynon Taf are significant. The inadequacies of the current transportation and housing infrastructure are a major drag on future wealth generation for residents and local business and this, the first City Deal, provides the opportunity for Rhondda Cynon Taf to capitalise on a major boost to the economy of the Cardiff Capital Region.

### **Other Information:-**

#### ***Relevant Scrutiny Committee:***

**Public Service Delivery, Communities and Prosperity Scrutiny Committee**

#### ***Contact Officer***

Chris Bradshaw – 01443 424026

**LOCAL GOVERNMENT ACT 1972**

**AS AMENDED BY**

**THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL**  
**CABINET**

**24<sup>th</sup> NOVEMBER 2015**

**REPORT OF THE CHIEF EXECUTIVE IN DISCUSSION WITH THE LEADER**  
**OF THE COUNCIL (COUNCILLOR ANDREW MORGAN)**

**Item: THE CITY DEAL – BRIEFING FOR MEMBERS**

**Background Papers:**

**Letter and Supporting Information from the Cardiff Capital Region to the  
UK Government**

Officer to contact: Chris Bradshaw 01443 424026

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**SWYDDFA'R ARWEINYDD  
OFFICE OF THE LEADER**

Fy Nghyf / My Ref: CM32719

Eich Cyf / Your Ref:

Dyddiad / Date: 11th November 2015

The Rt Hon George Osborne MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road London  
SW1A 2HQ

Annwyl / Dear Chancellor of the Exchequer

The Cardiff Capital Region is pleased to enclose its headline submission in response to UK Government's commitment to work with us on the development of a City Deal in the context of the forthcoming Comprehensive Spending Review. This follows on from our initial position statement which was submitted to you on 4 September 2015.

A City Deal for the Cardiff Capital Region represents a unique opportunity to transform our local economy to improve local productivity, create new jobs and reduce worklessness. Our vision is to reduce the GVA gap between our city region and the UK average and to improve the balance of opportunity that exists right across our region – delivering a net fiscal return for HM Treasury.

We wish to commence negotiations on a city deal for the Cardiff Capital region of up to £1.28 billion – equivalent to the necessary investment to increase GVA by more than 5%. To support the fund, the Welsh Government has made a commitment to contribute £580m of capital as the basis for a Payment by Results (PBR) contribution from UK Government. We recognise, of course, that local risk-taking has featured in each of the major city deals to date, and that this will also need to be an integral element of our proposition.

The City Deal opportunity has provided further impetus to local collaboration between local authorities of the Cardiff Capital Region, Welsh Government, and the private sector. A city-region governance approach has been agreed that will support both on-going local decision making and the delivery of City Deal programmes and projects. Through discussion with Welsh Government, we also wish to secure new financial flexibilities that will help to support the delivery of our City Deal and enable longer term planning of vital infrastructure across the city-region.

Our intention through the City Deal is to modernise our transport infrastructure and regional connectivity to create a platform for economic competitiveness. We will improve access to jobs across the city-region, and use the city deal to leverage and support investment in housing, employment and education. We will also support and stimulate innovation in our local economy by providing access to leading-edge digital technology; better aligned skills; and targeted business support. An important part of our strategy will rest on bringing together a number of local authority services to establish a new joined-up strategic approach to economic development, tourism, strategic planning and transport.

**ATEBWCH I / PLEASE REPLY TO:**

Swyddfa'r Arweinydd, Ystafell 525, Neuadd y Sir, Glanfa'r Iwerydd, Caerdydd CF10 4UW  
Ffôn (029) 2087 2500 Ffacs (029) 2087 2599

Office of the Leader, Room 525, County Hall, Atlantic Wharf, Cardiff CF10 4UW  
Tel (029) 2087 2500 Fax (029) 2087 2599

Working together is at the heart of our approach. Local partners already have a track record of delivering projects at the city-region scale, and we have effective regional working arrangements in areas such as education, skills and employment programmes, and accessing European funds. The City Deal will build on this process to further embed the city-region approach across the Cardiff Capital Region. Accordingly, we have agreed a mechanism for prioritising investment that will ensure the whole of our city-region knows about and feels the benefit of our City Deal.

The attached document outlines in more detail how we intend to deliver our objectives. We also attach a letter from the First Minister confirming the commitment of the Welsh Government.

We now look forward to receiving your agreement in principle to our proposals. This will enable us to commence the process of negotiations and formal consideration of our respective contributions to the deal.

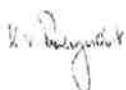
Yn gywir,  
Yours sincerely,



Councillor Hedley McCarthy  
Leader of the Council  
Blaenau Gwent County Borough Council



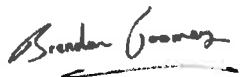
Councillor Mel Nott Bridgend  
Leader of the Council  
County Borough Council



Councillor Keith Reynolds  
Leader of the Council  
Caerphilly County Borough Council



Councillor Phil Bale  
Leader  
City of Cardiff Council



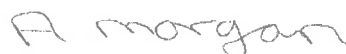
Councillor Brendan Toomey  
Leader and Chair of Cabinet  
Merthyr Tydfil County Borough Council



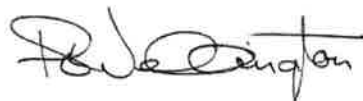
Councillor Peter Fox  
Leader  
Monmouthshire County Council



Councillor Robert Bright  
Leader  
Newport City Council



Councillor Andrew Morgan  
Leader of the Council  
Rhondda Cynon Taf County Borough Council



Councillor Bob Wellington  
Leader  
Torfaen County Borough Council



Councillor Neil Moore  
Leader  
Vale of Glamorgan Council

CC: The Rt Hon Stephen Crabb MP, Secretary of State for Wales  
The Rt Hon Greg Hands MP, Chief Secretary to the Treasury  
The Rt Hon Greg Clark MP, Secretary of State for Communities & Local Government

**Y Gwir Anrh/Rt Hon Carwyn Jones AC/AM**  
**Prif Weinidog Cymru/First Minister of Wales**



**Llywodraeth Cymru**  
**Welsh Government**

Cllr Phil Bale  
 Leader  
 Cardiff Council  
 County Hall  
 Atlantic Wharf  
 Cardiff  
 CF10 4UW

6<sup>th</sup> November 2015

Dear Phil,

We have regularly spoken about the opportunities that a successful City Deal bid presents to the Cardiff Capital Region. I have been impressed with the way that the ten local authorities have worked together to progress this work. Over a relatively short period of time, you have established a partnership and developed an outline proposal. I understand that you are now close to finalising a proposition to submit to the UK Government.

A successful City Deal bid will represent a significant step forward in regional collaboration and can contribute to regional economic growth. The Welsh Government is strongly supportive of the bid that you are developing, which is focused on connectivity, business support, skills and innovation, there are many ways in which the Welsh Government and the local authorities can work together to ensure that decision making reflects the regional needs and that the local authorities at a regional level have a stronger voice and influence. I feel that this is reflected in the proposals contained in the bid and I fully support the proposals.

There is strong evidence that the right infrastructure investment can make a significant contribution to economic growth. I am pleased to see that a central element of the proposal is the establishment of a significant infrastructure fund. Developing investment opportunities at a regional level increases the opportunities to maximise the economic benefits.

I see a modern and sustainable public transport network as integral to the City Deal bid, such as a South Wales Metro, and I understand that the Capital Region shares this view. In order to see the successful establishment of an infrastructure fund, I am willing to commit to providing up to £580 million of capital funding to support the realisation of the region's connectivity plans. I anticipate that developing a strong spine of public transport across the

Bae Caerdydd • Cardiff Bay  
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 CF99 1NA

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 Llinell Ymholiadau Cymraeg 0300 0604400  
 YP.PrifWeinidog@cymru.gsi.gov.uk • ps.firstminister@wales.gsi.gov.uk

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

region will be central to driving the economic growth envisaged by the partnership. I have written to the Chancellor of the Exchequer setting out my expectation that this funding will unlock similar levels of funding from the UK Government. Subject to business cases and the prioritisation of projects in line with the metrics agreed by local authorities, this additional funding can be used to extend the benefits of agreed infrastructure projects and ensure that the economic benefits are felt across the region. The Welsh Government will also work constructively with local authorities to explore how it can support authorities to strengthen their ability to invest in vital infrastructure.

This is an exciting opportunity for the Cardiff Capital Region. Our officials have been working closely together, and I anticipate that with this commitment to providing support for an infrastructure fund, they can conclude the work on financial modelling and profiling. I wish you every success with your submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carwyn Jones', written in a cursive style.

**CARWYN JONES**



# Cardiff Capital Region City Deal:

## Appendix to UK Government letter

### Autumn 2015

Cytundeb  
Dinesig  
Prifddinas  
Ranbarth  
Caerdydd

Cardiff  
Capital  
Region  
City Deal

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

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## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

## Executive Summary

- 1.1. The Cardiff Capital Region is seeking to secure the first City Deal for Wales, following on from the precedent for a deal with UK and devolved governments – the Glasgow City Deal, signed in August 2014.
- 1.2. The Cardiff Capital Region, with a GVA of approximately £25bn and a population of 1.5m, accounts for 51% of the Welsh economy. It is a single economic region that, in addition to accounting for over half of the Welsh economy, is important to the UK economically.
- 1.3. It is proposed that a £1.28bn Cardiff Capital Region Fund is established, supported by a series of activities aimed at improving the impact of interventions and strategic planning at the city-region level.
- 1.4. The aim of the fund is to deliver a 5% uplift in economic output in the Cardiff Capital Region – which equates to more than £1.25bn annually. This would also equate to more than 33,000 jobs if the same growth rate were applied to levels of employment.
- 1.5. As part of this proposal, the Welsh Government is proposing to provide £580m of capital - supporting the development of regional transport infrastructure - as the basis for a Payment by Results (PBR) contribution from UK Government and to support the establishment of a Cardiff Capital Region fund.
- 1.6. An indicative scenario of the proposed fund is as follows:
  - A £1.28bn total 10 year programme
  - £580m capital contribution via Welsh Government
  - Up to £700m of additional investment prioritised by CCR;
  - £580m of HMT PbR funding over 20 years (with 15% or more of the funding paid in the first 5 years as part of a gateway process);
  - A local capital contribution of £120m.
- 1.7. The areas in scope for the fund to support are:
  - Connectivity;
  - Digital;
  - Innovation;
  - Skills and Worklessness.
  - Business Support and Regeneration;
- 1.8. To support the delivery of the above, the Cardiff Capital Region will also seek new powers and fiscal flexibilities. This will include exploring:
  - Establishment of Regional Strategic Planning arrangements;
  - A Programme of Tax Increment Finance (TIF) projects agreed by CCR and overseen by WG;
  - A Regional Investment Fund that will provide funding and finance through Payment by Results for regeneration activities across South East Wales, linking in with revised regional planning arrangements;
  - The ability to lever Supplementary Business Rates to support investment.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

- 1.9. The Cardiff Capital Region authorities will also look to deliver appropriate services (such as business support and elements of post 16 education) on a regional basis, pooling resources and planning as a city-region.
- 1.10. The Cardiff Capital Region has agreed on the lead objective of 'net fiscal bottom line' – that is the net impact of GVA and reduction in dependency costs. This will increase the fiscal receipts in the region, and reduce welfare and dependency. Two secondary metrics have been agreed in for the Cardiff Capital Region, namely geographic balance, and targeting communities with the greatest amount of need.
- 1.11. The authorities have indicated that a suitable governance model is likely to be that of a Joint Cabinet, underpinned by a detailed agreement ('The Joint Working Agreement'), which would set out the detail of the governance arrangements.
- 1.12. The Cardiff Capital Region Authorities are seeking to agree a City Deal by the spring of 2016, with an implementation period to follow for the following six months.

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## Working together for a stronger, better and more productive Cardiff Capital Region

- 1.13. The Cardiff Capital Region (CCR) comprises:
- Blaenau Gwent;
  - Bridgend;
  - Caerphilly;
  - Cardiff;
  - Merthyr Tydfil.
  - Monmouthshire;
  - Newport;
  - Rhondda Cynon Taf;
  - Torfaen; and
  - The Vale of Glamorgan;
- 1.14. These Councils have recognised that a step-change in economic activity is required in order to make Cardiff a competitive city region for the 21st Century.
- 1.15. This step-change will be delivered by approaching infrastructure investment in a radical new way for the region. A programme will be developed and optimised, made up of projects selected according to the contribution they are forecast to make to economic growth per £ of whole-life-cost. This follows the model of economic infrastructure prioritisation developed in recent years by English city regions, with Glasgow and the Clyde Valley establishing a deal with UK and Scottish Governments in August 2014.
- 1.16. This new approach to investment will mark a significant departure to how investment has been delivered in the region previously, with contribution to the “net fiscal bottom line” the fundamental objective of investment.
- 1.17. This means delivering the optimal combination of increasing tax receipts via stimulating economic activity, and reducing dependency (and therefore welfare payments) in the region. Overall, this approach has been designed to deliver the best possible financial, economic and fiscal outcomes for the CCR.
- 1.18. Delivery of outcomes through this approach will be achieved by the creation of new jobs, as well as significant improvements in productivity that will be facilitated by the investment.
- 1.19. In order to deliver these outcomes, CCR partners have come together to jointly develop the CCR deal with Welsh Government, and invite UK Government to participate in this process.
- 1.20. This appendix outlines progress-to-date on developing that deal together with plans for progressing the detail over the next year.

## Strategic and economic context

### Economic context

- 1.21. The CCR, with a GVA of approximately £25bn and a population of 1.5m, accounts for 51% of the Welsh economy. It is a single economic region that, in addition to accounting for over half of the Welsh economy, is important to the UK economically. However, the CCR also has some of the highest levels of benefit dependency in the UK which is why the CCR focus differs to some of those in deals that have been agreed previously.
- 1.22. Targeting the 'net fiscal bottom line' is crucial in a CCR context. South Wales was one of four areas in Britain designated for economic relief in 1934. Of the four areas, only South Wales retains this status. For the next round of EU regional policy (2014- 2020), West Wales and the Valleys has been designated as a 'Tier 1' area (also referred to as an 'a' area), the criteria for which is GDP per capita below 75% of the EU average. The only other area in the UK with this status is Cornwall; the CCR encompasses 35% of the UK's remaining Tier 1 population.
- 1.23. Under business as usual, South Wales has been the largest and longest recipient of the State Aid, regeneration spending, and welfare initiatives available under 'a' area (Tier 1) status.
- 1.24. Over the last decade, there have been some bright spots – but a new approach to delivering growth at the city region level is required if dependency levels are to be addressed and productivity enhanced. The CCR has untapped economic potential that can be unlocked with a carefully targeted programme of locally led investment, and reform that goes a long way beyond 'business-as-usual'.
- 1.25. In practice, this means a combination of:
  - Devolved, growth-focused investment decision making, supported by an objective and analytical assessment framework; and
  - Investing at the kind of scale that can make a real difference.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

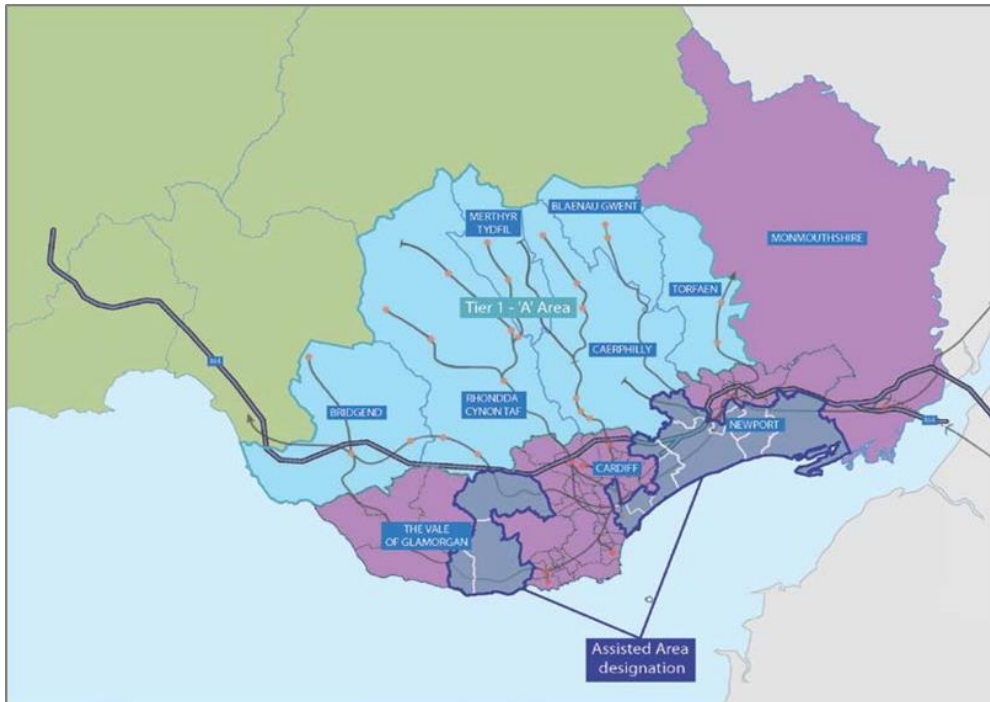
**UK Context**

- 1.26. CCR is seeking to secure the first City Deal for Wales. There is precedent for a deal with UK and devolved governments – the Glasgow City Deal, signed in August 2014.
- 1.27. The English ‘City Deal’ process was initiated in late 2011 as part of the UK Government’s broader devolution and growth agenda. These City Deals are bespoke agreements between government and city regions that seek to empower local areas to drive economic growth by providing them with additional freedoms and resources.
- 1.28. This process was later extended to Scotland when Glasgow became the first (and to-date only) non-English city to secure a City Deal in August 2014. Its deal was with both the UK and Scottish Governments.
- 1.29. Four of these deals (Greater Manchester, West Yorkshire, Glasgow, and Greater Cambridge) go further than the rest in their ability to generate economic growth through the establishment of full scale city region infrastructure funds. These Fund based City Deals have a number of common features:
- Economically-focused infrastructure investment where money is targeted at maximising net economic growth (jobs and productivity) at the city region level;
  - An approach to programme design that ensures the fund delivers balance in terms of improved economic opportunities across the city region and in terms of disadvantaged communities;
  - Investment at a scale that can make a real difference to a City Region’s growth path;
  - A significant degree of local ‘self-help’ funding in terms of the overall cost of the fund;
  - Payment-by-Results (PbR) mechanisms which links additional central funding to the delivery of additional national growth and thus tax receipts. This means in addition to committed local ‘self-help’ funding there is also local risk if the investment delivers an insufficient contribution to national growth; and
  - Gateways at five yearly intervals with independent expert assessments of performance as part of the PbR approach, with the first gateway focused on programme delivery (outputs), and the subsequent gateways being more focused on the demonstration of additional growth and thus fiscal benefits at the national level (outcomes).
- 1.30. The scale of the impacts these Infrastructure Funds are expected to have on their city region economies is significant:
- Greater Manchester’s £2.75bn Transport Fund is expected to deliver up to £3.6bn in annual GVA and 37,000 jobs (an increase in city region annual GVA of 1.3 per £ invested);
  - Leeds City Region’s £1.45bn Transport Fund is expected to deliver up to £2.6bn in GVA p.a. and 23,000 jobs (a GVA return of 1.8/£);
  - Glasgow City Region’s £1.13bn Fund (which incorporates all types of economic infrastructure) is expected to deliver up to £2.2bn in GVA p.a. and 28,000 jobs (a GVA return of 2.0/£).

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**The Cardiff City Region economy – overview, drivers and issues**

- 1.31. GVA per capita in Wales is the lowest in the UK. Productivity (as measured by GVA per job) is also the lowest in the UK. These figures underline the scale of the untapped potential and the need for a new approach to improving the overall economic outcomes in Wales, one where every £ invested is objectively targeted towards economic returns based on analytical evidence.



- 1.32. A City Deal offers a mechanism to help the Cardiff City Region begin to unlock its growth potential through targeted investment. Without this type of investment, infrastructure bottlenecks (e.g. in transport and housing) created by population growth, along with skills gaps, will stifle the region's economic growth and leave the potential represented by the 'Tier 1' and 'Assisted' areas untapped. The right kind of infrastructure is also essential to promote productivity by improving connectivity (e.g. between businesses) directly and by enabling greater agglomeration through increased economic density.
- 1.33. Against this background, and drawing on the forecasts of what other cities expect to achieve in terms of economic returns from their funds per £ spent, the CCR wants to set an ambitious target of a permanent improvement to the fiscal bottom line of the 10 authorities of at least 5% through an initial 10 year programme. Although detailed modelling of potential projects and pilot schemes, which is essential if returns are to be maximised, have yet to be undertaken the metrics from other Infrastructure Funds suggest that this is an achievable ambition.
- 1.34. At this stage, the programme will cover the following themes:
- Connectivity;
  - Digital;
  - Innovation;
  - Skills and Worklessness.
  - Business Support and Regeneration;



## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

- 1.35. It is accepted that **connectivity** has a sizable impact on the economic performance of an area. Research undertaken for the Welsh Government<sup>1</sup> has provided evidence on the factors responsible for the relatively poor performance of both Wales as a whole and the Cardiff Capital City Region in terms of productivity (as measured by GVA per hour) and pay. The evidence showed that, in common with many other regions, there was an imperative to address skills deficiencies, particularly as they affect those with the lowest levels of skill. In addition to this, however, the lack of effective “economic mass” within Wales, in combination with relatively long travel times to the largest centre of economic mass in England, reduces the scope to exploit so-called agglomeration economies. Carefully chosen investments in connective infrastructure could serve to increase effective economic mass and thereby generate improvements in productivity and pay. In addition, research undertaken on the reasons for relatively low rates of labour market attachment in parts of Wales<sup>2</sup>, including the less well connected parts of the Capital City region, has demonstrated that improving connectivity between areas of employment growth and locations where inactive people live could be expected to increase employment rates, thereby generating social returns alongside the economic benefits.
- 1.36. **Digital** technology is also widely recognised as a driver of productivity, innovation and trade. An October 2015 research paper published by the ONS shows Wales as having the lowest turnover in the digital sector in Great Britain at £3.5 billion, with Scotland at £10.5 billion and England at £231.5 billion. Wales also shows the lowest rate of increase over the period 2008-2013. Despite this the city-region has also shown significant potential – as outlined in the recent Tech City UK ‘Tech Nation’ report showed that South Wales was ranked in the top five fastest growing tech clusters in the UK.
- 1.37. Investment in **innovation**, despite a skilled workforce and high performing universities, has also remained low in the CCR. Innovate UK expenditure in Wales is less than a third of the average UK per head figure and government expenditure on R&D in Wales also stands at just 1% - a third of the expected pro-rata spend. A more innovative city-region is essential to the future of the CCR. If the economy is to develop and compete internationally and make a real contribution to UK plc it must build on its diverse innovation assets.
- 1.38. In terms of **skills and worklessness**, the CCR has a greater proportion of its workforce qualified to degree level or higher than any of the English Metropolitan areas. Higher education is also a significant local asset, with Cardiff University ranked 5th in the UK in terms of the quality of its research. However, there are clearly still disparities in the skills available in the workforce and the skills required by employers. Fundamentally this is a critical determinant of both productivity and worklessness, and ensuring that the skills of the workforce meet the needs of the economy will play a big role in addressing both issues in the Cardiff Capital Region.

<sup>1</sup> Understanding productivity variations between Wales and the rest of the UK. Report to the Economic Research Advisory Panel, Welsh Assembly Government. University of the West of England, Bristol and the University of Bath. Update in progress.

<sup>2</sup> Identifying Barriers to Economic Activity in Wales. Report for the Welsh Assembly Government. University of Swansea and Welmerc.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

- 1.39. Whilst the Cardiff Capital Region has seen growth of business starts in recent years, there is a clear need to improve. The region currently has the lowest number of FTSE listed business of any of the UK Core City-regions, business R&D expenditure, at £369m in 2013 is just 2% of the UK figure, equating to half of the expected level on a pro-rata basis. Investment in **business support and regeneration** will seek to address these issues and support a more entrepreneurial economy across the Cardiff Capital Region.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

**Vision for a competitive Cardiff City Region**

- 1.40. Realising more of CCR's economic potential would not only mean better employment and income prospects across the 10 capital region authorities, it would generate additional tax receipts for both the Welsh and UK Governments and reduce UK dependency costs that are today in the region of £4bn pa. There is a very significant prize to play for in the development of a City Deal. Both aspects of the strategy – growth and reduced dependency – translate into fiscal dividends for the Welsh and UK Governments.
- 1.41. The first call on these dividends should be the costs of the initial investment necessary to generate them. Reflecting this, the CCR authorities wish to explore a City Deal that delivers a 10-year plus programme of additional economically-focused infrastructure investment to be partly paid for out of the additional tax and dependency cost savings it generates for the two Governments.
- 1.42. This is an ambitious and demanding agenda. It is also one that involves risk, since inevitably the investment comes before the fiscal dividends, which are uncertain in both quantum and timing. It is recognised that a meaningful proportion of these risks must be borne locally if CCR incentives are to be aligned with the national fiscal imperative and there is to be a deal that works for the two Governments.
- 1.43. In order to manage the risks across the partners within the CCR, appropriate governance structures will be established that support the delivery of the desired outcomes. They will be built upon the range of regional initiatives already underway including the City Deal Project Board that comprises the 10 local authority leaders (with a Welsh Government observer).
- 1.44. In practice this means that, as with last year's Glasgow and Clyde Valley Region deal, there will need to be some form of Payment-by-Results (PbR) mechanism.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

**Fit with local and national policy objectives**

- 1.45. The objective of improving CCR's infrastructure is in line with both national and devolved government objectives:
- The UK Government's 'Plan for Growth' establishes infrastructure investment as a key priority alongside supporting local growth through City Deals.
  - Additionally, the Welsh Government's 'Economic Renewal Strategy' sets investment in infrastructure as its top priority. It is supported by the 'Wales Infrastructure Investment Plan (WIIP)', which prioritises national infrastructure investment to stimulate the economy and support jobs.
  - Lastly, the Cardiff Capital Region Advisory Board's recent report 'Powering the Welsh Economy' highlights the case for change in the region, but also the role of connectivity and transport infrastructure as a key drivers of the city region economy.
- 1.46. Again drawing on analysis of the City Deal infrastructure programmes in other cities, the potential benefits of this investment to the UK and Welsh Governments would be significant. A 5% improvement in the bottom line of the combined economies of the 10 CCR authorities could be expected to deliver net improvements worth over £200m a year based on a net fiscal deficit of around £4bn pa today.
- 1.47. On the Glasgow precedent (as well as others), the maximum annual payments from the two Governments combined (i.e. assuming the PbR metrics were met) would likely be in the range of 10-20% of this, meaning that under success 80%+ of the total fiscal benefit would be retained by the Government(s).

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

## City Deal objectives

### A competitive Cardiff City Region for the 21st Century

- 1.48. CCR has embarked on an ambitious City Deal programme to deliver a step change in economic performance of the city region. Integral to this will be a fund designed to boost connectivity and productivity across South East Wales.
- 1.49. Critical elements of this 'Fund approach' are being developed, but are likely to include:
- Established, pre-agreed prioritisation metrics, focussing on the net impact of infrastructure at the city region level subject to social/distributional and environmental minimum outcomes at a programme level;
  - Local risk taking and significant financial 'self-help' (potentially to be supported by new and existing funding arrangements, for example as a precedent CCR is examining Greater Manchester's agreed increment to the Transport Levy on the ten districts to support local borrowings);
  - A disciplined approach to programme governance and an associated reform programme detailed below; and
  - Long-term funding baselines with Government, such as GM's indicative funding line for local major transport schemes.

### Defining success and innovating

- 1.50. Identifying the lead objective of the City Deal (and the metric for measuring the performance of potential interventions against it) is a critical step in the process. The CCR is fully committed to an economic outcome, rather than to any single project, with this commitment reached before decisions on particular schemes or the scale of local funding contributions.
- 1.51. A rigorous prioritisation process, which assesses projects against the net gains to the city region, will set the City Deal apart from previous grant funding arrangements.
- 1.52. The CCR has agreed on the lead metric of net fiscal bottom line / £ whole life cost to the fund. This will increase the fiscal receipts in the region, and reduce welfare and dependency.
- 1.53. This metric represents an innovation that advances the approach used in other city region Infrastructure Funds (which have opted to measure economic output, or GVA, per £). It also recognises the unique context of the CCR and the need seek new approaches to address long standing issues of deprivation.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

**Ensuring that benefits are widely and equitably distributed**

- 1.54. Secondary metrics will be used to complement the primary metric – they will be applied to the programme of investments as a whole, rather than to individual projects. This will ensure that the programme delivers the best economic outcome for the city region, subject to minimum outcomes on other social and distributional objectives.
- 1.55. Two secondary metrics have been agreed in principle for the CCR:
- Geographic balance: ensuring each council receives an appropriate minimum share of the benefits in terms of increased accessibility to jobs.
  - Targeting need: ensuring those communities with the greatest amount of need receive also benefit from the investment. Analysis will use the Welsh Index of Multiple Deprivation (WIMD) since it has been identified as the optimal means of identifying areas of 'need'.
- 1.56. In addition, reducing carbon emissions will be treated as an aspiration rather than a stringent criterion, with the CCR pursuing this objective where it is not in conflict with improving the net fiscal bottom line and overall economic outcomes, supported by secondary criteria, as outlined above.

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## Project themes

- 1.57. Work has been undertaken to provide detail in terms of the interventions required in collaboration with the Welsh Government and UK Government. A high level summary of the work is provided below. This will act as a basis for providing a more detailed response, as well as engaging with other partners including business, the third sector and higher education.

### Connectivity

- 1.58. Despite recent investment, a historical legacy of under investment in post-war industrial South East Wales has left it lagging behind much of the UK in terms of infrastructure. It is accepted that connectivity has a sizable impact on the economic performance of an area, particularly in terms of transport where people often live and work in different areas. This is particularly important in the CCR, where 210,000 people move from one local authority to another every day to get to work and substantial disparities exist in job creation, average wage and unemployment rates within the city-region. To address this the Cardiff Capital Region (CCR) will:
- Provide dedicated, and pooled, resources to deliver a Cardiff Capital Region Fund,
  - Support the development of Cardiff Capital Region transport infrastructure, harnessing investment by the Welsh Government to make a step change in regional transport infrastructure
  - Improve co-ordination of city-regional transport investment
- 1.59. In delivering this, as part of the City Deal proposition, we will seek to regionalise elements of transport expenditure and planning, and to seek further investment from the UK Government for investment in infrastructure. This would also include working with the private sector to ensure that the investment is predicated on delivering and supporting employment growth and investment in housing infrastructure.
- 1.60. To deliver this, Cardiff Capital Region (CCR) will require regional control of appropriate funding to deliver investment, based on an economic prioritisation framework. To support regeneration we would also seek to explore methods of value capture to lever further investment off the back of initial investments in infrastructure.

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**Digital**

- 1.61. Digital technology is widely recognised as an enabler of productivity and driver of innovation and international trade. An October 2015 research paper published by the ONS shows Wales as having the lowest turnover in the digital sector in Great Britain at £3.5 billion, with Scotland at £10.5 billion and England at £231.5 billion. Wales also shows the lowest rate of increase over the period 2008-2013. In addition, there is still a need to improve infrastructure, skills and support for overall development of the digital agenda across all sectors – including the public sector. To address this the Cardiff Capital Region (CCR) will:
- Establish a 'Digital Leader' role that will lead a network to leverage the combined know how and capabilities of universities, digital entrepreneurs, industry experts and technology companies to support the exploitation of existing and new IP.
  - Establish and develop a new digital startup accelerator program which will align private and public sector funding across the city-region.
  - Enable the transformation of the Public Sector by consolidating the demand and brokering the supply of redesigned digital services, placing the citizen at the heart of everything we do.
- 1.62. In delivering this, as part of the City Deal proposition, we will seek to regionalise resources to deliver a programme to support investment in infrastructure, skills and sector development. This will include the development of facilities to demonstrate, promote and support digital business development, the implementation of a regional accelerator programme, and the establishment of Smart City-Region projects in the fields of mobility and healthcare. It will also include investment in our digital infrastructure so that the Cardiff Capital Region can compete with the most digitally connected city-regions in the world.
- 1.63. To deliver this, Cardiff Capital Region (CCR) will require alignment of relevant city-region resources within digital development across the Cardiff Capital Region. We will also seek capital investment in areas such as Digital Demonstrators and Smart-City Region hubs. Fundamental to this approach is a partnership with the private sector to maximise the impact of funding.



## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

**Innovation**

- 1.64. Investment in innovation, despite a skilled workforce and high performing universities, has also remained low in the CCR. Innovate UK expenditure in Wales is less than a third of the average UK per head figure and government expenditure on R&D in Wales also stands at just 1% - a third of the expected pro-rata spend. A more innovative city-region is essential to the future of the CCR. If the economy is to develop and compete internationally and make a real contribution to UK plc it must build on its diverse innovation assets. Underpinning this approach is the need for our economy to be more productive, more adaptable, and more sustainable in the long-term.
- 1.65. This will be based on developing a more innovative 'whole economy' across all sectors, including higher education, further education and the public sector. We will also take steps to increase R&D expenditure to UK average levels. Ultimately this will lead to a step change in the city region's economic output, and levels of GVA. To address this the Cardiff Capital Region (CCR) will:
- Designate the Cardiff Capital Region as an 'Innovation Zone'
  - Provide risk capital for new ideas through the development of an Innovation Investment Fund working alongside the private sector and EU funding streams.
  - Establish a new Catapult Centre for the Cardiff Capital Region
  - Establish a more innovative public sector by the development of a 'Public Sector Alacrity' that would embed innovation in the planning of public services.
  - Develop an expanded South Wales Software Academy
- 1.66. In delivering this, as part of the City Deal proposition we will seek to regionalise resources, and to seek further investment from the UK Government in innovation activities. This would also include pooling resources, alongside private and other finance sources, as part of an Innovation Investment Fund for the Cardiff Capital Region.

## Cardiff Capital Region City Deal: Appendix to UK Government letter - Autumn 2015

**Skills and Worklessness**

- 1.67. The area benefits from a skilled workforce. The CCR has a greater proportion of its workforce qualified to degree level or higher than any of the English Metropolitan areas. Higher education is also a significant local asset, with Cardiff University ranked 5th in the UK in terms of the quality of its research. However, there are clearly still disparities in the skills available in the workforce and the skills required by employers. Fundamentally this is a critical determinant of both productivity and worklessness, and ensuring that the skills of the workforce meet the needs of the economy will play a big role in addressing both issues in the Cardiff Capital Region.
- 1.68. This means making workers more skilled, but also getting people into work. If activity rates were to rise to the UK average, this would lead to an additional 31,000 people entering the labour market. Tackling inactivity will require a co-ordinated response to worklessness, tailored to meet local demand and targeted at those who need support the most. Helping those currently seeking a job would, for example, make inroads in reducing the costs of out of work benefits to the city-region, which total around £4bn per annum. To address this, the Cardiff Capital Region (CCR) will:
- Create a regional skills delivery mechanism, to align skills funding, advice and support to the demands of the regional economy, delivering better outcomes for industry and those in the labour market.
  - Develop a regional strategic plan for employment and skills based on clear evidence of need, underpinned by an effective skills (data) observatory, improved regional LMI and primary research activity to ensure an effective regional response
  - Create a regional 'Skills Innovation Hub' to connect industry to education, employment and skills initiatives and support.
  - Create a network of virtual academies with industry, to co-design, develop and deliver programmes in response to demand that benefit from the expertise of both institutions and industry professionals to ensure the learning is current and fit for purpose.
- 1.69. In delivering this, as part of the City Deal proposition we will seek to pool budgets to support the creation of a skills hub and strategic skills fund, including co-investment by employers. This will include engagement with post 16 education budgets in areas such as further education and work based learning to drive a demand led response aligned to the regional economy. It will also require funding alignment and support to enable new models of skills delivery to be piloted including the development of virtual academies in response to economic priorities.
- 1.70. To deliver this, Cardiff Capital region (CCR) will deliver a regional strategic plan for employment and skills, which will include elements such as working collaboratively with Welsh Government on the co-commissioning of the Work Programme to promote local flexibility and ensure support is tailored to meet regional needs

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**Business Support and Regeneration**

- 1.71. Whilst the Cardiff Capital Region has seen growth of business starts in recent years, there is a clear need to improve. The region currently has the lowest number of FTSE listed business of any of the UK Core City-regions, business R&D expenditure, at £369m in 2013 is just 2% of the UK figure, equating to half of the expected level on a pro-rata basis. As part of the City Deal proposition and in partnership with the business community, we will seek to regionalise local resources in relation to business development, marketing and tourism, with a dedicated fund for promotion. The rationale behind this is to ensure:
- Business support and promotional activities are undertaken on the basis of the functional economic geography.
  - That business support and regeneration activity is undertaken on a complementary basis – moving away from the sub-optimal position of regional competition in developing and attracting business - to maximise net economic impact.
  - A collective response that delivers economies of scale.
  - Businesses across all sectors (including social enterprise) are encouraged to grow and increase productivity.
- 1.72. To deliver this, Cardiff Capital region (CCR) will require alignment of relevant city-region, Wales and UK resources, greater control over commissioned business support for the city-region, and a collective revenue budget to staff and resource the new regional function – based on a neutral fiscal proposal.

**Cardiff Capital Region Powers**

- 1.73. To support the delivery of the above, the Cardiff Capital Region will also seek new powers and fiscal flexibilities. This will include exploring:
- Establishment of Regional Strategic Planning arrangements that ensures that development takes place on a complimentary basis for all in the city-region, and links in with other investment such as that in transport infrastructure.
  - A Programme of Tax Increment Finance (TIF) projects agreed by CCR and overseen by WG.
  - A Regional Investment Fund that will provide funding and finance through Payment by Results for regeneration activities across South East Wales, linking in with revised regional planning arrangements.
  - The ability to lever Supplementary Business Rates to support investment.

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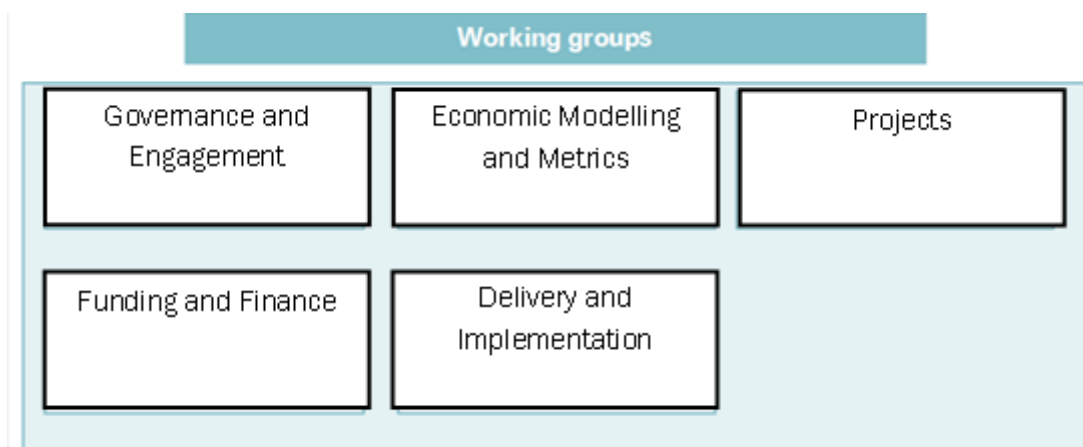
## Funding and financing proposals

- 1.74. CCR partners recognise that local risk-taking has been a key component of all city region deals agreed to date. CCR has taken note of this in developing outline proposals for its deal, and in particular has considered the Glasgow precedent, under which a commitment of £500m from both UK and Scottish Governments was complemented by partners contributing £130m of capital (excluding debt service requirements) in order to be able to fully fund the £1.13bn programme.
- 1.75. CCR has engaged with Welsh Government to determine the extent to which WG would be willing to contribute to a PbR deal. The Welsh Government is proposing to provide £580m of capital - supporting the development of regional transport infrastructure - as the basis for a Payment by Results (PBR) contribution from UK Government and to support the establishment of a Cardiff Capital Region fund.
- 1.76. The split between regional transport infrastructure and other elements of this PbR deal will be agreed in accordance with the rigorous and detailed prioritisation procedures outlined in this document. An indicative scenario is as follows:
- A £1.28bn total 10 year programme
  - Up to £700m of additional investment prioritised by CCR;
  - £580m of HMT PbR funding over 20 years (with 15% or more of the funding paid in the first 5 years as part of a gateway process);
  - A local capital contribution of £120m.
- 1.77. Local Authority partners recognise that the cost to them of this scenario will be require local capital and borrowing commitments over 20-year period, and that funding this requirement will be met either out of existing budget allocations, via new funding sources, or a mixture of the two.

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## Governance and Stakeholder Management

- 1.78. The CCR partners recognise the importance of a robust and transparent governance framework in binding partners together, maintaining momentum, ensuring accountability and creating conditions in which funding decisions can be devolved to the CCR with all partners (Local Authorities, UK and Welsh Governments) understanding the mechanisms that will be used to make decisions.
- 1.79. A Combined Authority, of the type used in English City Region deals, is not possible in Wales at present since certain powers relied upon by some English Authorities in connection with City Deal governance arrangements are not available in Wales (e.g. Combined Authority established pursuant to Section 103 of the Local Democracy, Economic Development and Construction Act 2009). Partners have therefore paid close attention to the Glasgow precedent in developing their proposed approach to programme governance.
- 1.80. Outlined below are proposals for developing the governance arrangements, as between the 10 Local Authorities, for the CCR City Deal. Interim governance arrangements are already in place to facilitate the initial work required to develop the detail of the City Deal proposal and deal. The initial arrangements include the establishment of:
- a Cardiff Capital Region City Deal Project Board (membership 10 LA Leaders);
  - a Cardiff Capital Region City Deal Chief Executives' Group; and
  - a Cardiff Capital Region City Deal Project Officer Group.
- 1.81. At present, decision making rests with each authority.
- 1.82. A number of working groups are being established to develop the detail of the deal, as summarised in the diagram below. Any decision required will be elevated to the appropriate body of the three outlined above.



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- 1.83. Outlined here are the proposed governance arrangements between the ten authorities, rather than specific governance arrangements that may be put in place by others, for example Welsh Government.
- 1.84. The authorities' governance arrangements would sit alongside and potentially form part of any wider governance arrangements that Welsh Government and UK Government may put in place.
- 1.85. When considering, 'which model' of governance should be adopted, it is important that 'form should follow function'. That is, a model is chosen which best fits the authorities' objectives to ensure robust, transparent and accountable governance, rather than choosing a model for its own sake.
- 1.86. Such governance arrangements have been put in place across all UK city regions that have successfully secured a City Deal with central government.
- 1.87. The authorities have indicated that the most suitable governance model is likely to be that of a Joint Cabinet, underpinned by a detailed agreement ('The Joint Working Agreement'), which would set out the detail of the governance arrangements. This is similar to the governance arrangements being followed by Glasgow and Clyde Valley partners.
- 1.88. The potential merits and disadvantages of all models available will however be examined, to ensure that the Joint Cabinet model is indeed the most appropriate route, given the authorities requirements for the City Deal and likely requirements of UK and Welsh Governments.
- 1.89. In brief, the rationale for recommending the Joint Cabinet model ('JC') is that this model allows for certain functions (a range of activities) to be carried out jointly by the authorities and therefore on a collaborative basis. The JC model provides for member representation and decision making. It is a well-established model, which is familiar to the 10 authorities and is a model of governance that has been adopted for the Glasgow and Clyde Valley City Deal.
- 1.90. Key issues to be examined in detail during development of the deal will include:
- powers to be delegated
  - membership and voting rights
  - decision making -majority votes, chair, quorum,
  - funding and financing
  - sub committees/ officer working groups; and
  - third party attendees.
- 1.91. Any governance structure proposed will be subject to the approval of each of the participating authorities. It is anticipated that the governance structure will require approval of UK and Welsh Governments as part of any funding arrangements.

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## Next steps and outline timetable

- 1.92. CCR, together with WG, will invest in the development of analytical tools that are required to properly identify projects, prioritise them in terms of their predicted contribution to the net fiscal bottom line, and optimise them into the investment programme (taking account of displacement issues and other factors that mean the programme will not simply be the sum of its constituent projects).
- 1.93. Key amongst these tools will be rigorous economic and financial modelling frameworks, cost validation, and further development of governance and supporting mechanisms that will be required to deliver the programme.
- 1.94. Workstreams will include:
- Programme Leadership – City Deal Officer Group, Chief Executive and Leader meetings;
  - Project identification, development and prioritisation;
  - Economic modelling, including agreement of methodology/criteria, development of economic model, modelling of candidate projects, identification of programme, optimisation of programme components (to take account of issues such as displacement);
  - Funding and financing – financial modelling, gathering cost data for projects, cost validation, funding scenario development, resolution of issues with Section 151 officers (including elevation where necessary) and agreement on financing principles and detail amongst partner authorities, and with Welsh and UK governments; and
  - Development of governance, monitoring and oversight mechanisms and arrangements.
- 1.95. In high-level terms, a provisional timetable is set out below:
- Week commencing 9 November - Letters to UK Government from CCR partner authorities and Welsh Government, committing to principles and outlining plans for development of deal details
  - 25 November – Chancellor’s Autumn Statement and Comprehensive Spending Review
  - December – March – Project identification and development
  - January – March – Further development of funding and financing principles
  - Spring – Chancellor’s Budget Statement
  - Spring – Agreement of CCR City Deal Document
  - April – June – Development of economic model (with WG), project prioritisation and development of programme
  - June – August – Programme optimisation, and agreement of funding and financing details between CCR partners and UK and Welsh Governments
  - Late summer – Finalisation of programme financial, governance and delivery arrangements

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