

REPORT TO:	Extraordinary Meeting of Council
REPORT NO:	CE/08/18
DATE:	24 October 2018
LEAD MEMBER:	Councillor Mark Pritchard (Lead Member for Organisation – Finance, Performance, Health & Safety and Governance)
CONTACT OFFICER:	Ian Bancroft (Chief Executive) 292130
SUBJECT:	A Growth Deal for the Economy of North Wales: Proposition Document
WARD:	N/A

1. PURPOSE OF THE REPORT

To seek Members support for the Proposition Document setting out the economic ambition for North Wales and providing the basis for the development of a Growth Bid; and to seek approval for the Leader of the Council to commit the Council to enter into Heads of Terms with both the UK and Welsh governments.

2. EXECUTIVE SUMMARY

- 2.1 The Executive Board adopted the *Growth Vision for the Economy of North Wales* in October 2016 (Report ref: HHE/34/16). The vision sets out a collective and strategic ambition for North Wales for infrastructure development, skills and employment, and business growth. The five partner Councils in the region similarly adopted the strategy at that time.
- 2.2 North Wales was then formally invited to open negotiations for a Growth Deal with both the UK and Welsh Governments for additional resources and powers to pursue the priorities set out in the *Growth Vision*. A number of City Deals and regional Growth Deals have been adopted across the UK. Further updates were considered by the Executive Board in March 2017 (Report Ref: HHE/16/17) and October 2017 (Report Ref: HHE/47/17).
- 2.3 In July of this year Executive Board adopted a Governance Agreement for the planning and development phase of a Growth Deal (Report ref: LR/04/18). The Governance Agreement empowers and regulates the regional partnership between the six local authorities, the two universities, the two further education colleges and the North Wales Mersey Dee Business Council. The partnership operates through a

joint committee called the North Wales Economic Ambition Board. All partners have similarly adopted the Governance Agreement.

- 2.4 The target date for entering a Heads of Terms Agreement for a Growth Deal with both the UK and Welsh governments was set as autumn/winter 2018. A Proposition Document, which sets out the priority programmes of activity for the region and for which national funding is being sought through the Growth Deal, has been approved by the North Wales Economic Ambition Board. The Growth Deal will fund selected programmes and projects from within the *Proposition Document*; ones that meet shared objectives of both the UK and Welsh governments for economic growth. The document constitutes the regional bid which will lead to a deal, (a copy is provided for reference at appendix 1).
- 2.5 The Proposition Document has been developed over a period of time with significant input from the business sectors in the region and the partners themselves and in close liaison with civil servants from both the UK Government and the Welsh Government. The Proposition Document builds on the Growth Vision and proposes a range of interventions for economic growth under a series of priority programmes.
- 2.6 The Executive Board agreed at the meeting in July that a further report be presented with the final draft Growth Deal Bid prior to the stage of reaching Heads of Terms with both the UK and Welsh Governments. The Proposition Document sets out the programmes and projects to be considered for inclusion in a Growth Deal, at Heads of Terms stage, by both Governments. The region is now on the verge of reaching Heads of Terms.
- 2.7 During October, the regional partners are being invited to endorse the Proposition Document and to authorise their respective leaders to enter into a Heads of Terms Agreement with both Governments. Post Heads of Terms, the region would then enter the final stage of Bid development and negotiation with Governments.

3. RECOMMENDATIONS

That Members:

- (i) That Council adopts the *Proposition Document* as (1) the basis of a longer-term regional strategy for economic growth and (2) the regional bid for the priority programmes and projects from which the content of a Growth Deal will be drawn at the Heads of Terms Agreement stage with Governments. Adoption does not commit the Council to any financial investment of its own at this stage and is subject to the financial risks and benefits of the final Growth Deal being set out in detail, for full consideration, when the final Deal is presented for approval at a later date.
- (ii) That Council notes that the Leader is authorised by the Executive Board/Cabinet to commit the Council to entering Heads of Terms with Governments alongside the political and professional leaders from the nine other statutory partners represented on the North Wales Economic Ambition Board, and the North Wales Mersey Dee Business Council, with the *Proposition Document* setting out the parameters for the Heads of Terms agreement.

REASONS FOR RECOMMENDATIONS

To enable the Council to continue to support the development of the Growth Bid for North Wales and to be an active partner in the governance and delivery.

4. BACKGROUND INFORMATION

Progress in reaching a Growth Deal for North Wales

- 4.1 Executive Board adopted the Growth Vision for the Economy of North Wales in October 2016. The vision sets out a collective and strategic ambition for North Wales for infrastructure development, skills and employment, and business growth. The five partner Councils in the region similarly adopted the strategy at that time. North Wales was formally invited to negotiate a Growth Deal with both the UK and Welsh Governments for additional resources and powers to pursue the priorities set out in the Growth Vision. A number of City Deals and regional Growth Deals have been adopted across the UK. The target date for entering a Heads of Terms agreement for a Growth Deal with both the UK and Welsh governments was set as autumn/winter 2018.
- 4.2 A Growth Deal is a formal agreement between a regional partnership and governments for additional investment in the region and the conferment of devolved powers. Bidding regions are required to have a legal, resilient and accountable governance model for the planning and implementation of their strategy. For North Wales, the Cardiff Capital City Region and the Swansea Bay Region the bidding process involves both the UK and Welsh governments.
- 4.3 In July 2018, the Executive Board adopted a Governance Agreement for the planning and development phase of a Growth Deal. The agreement sets out in detail how the regional governance arrangements will work and are to be regulated. The agreement is between the partnership of the six local authorities, the two universities, the two further education colleges and the North Wales Mersey Dee Business Council, (which has a place on the Board without voting rights and is not a signatory to the agreement as it is a membership organisation and not a constituted corporate body). The partnership operates through a joint committee, as the preferred governance model, called the North Wales Economic Ambition Board. All statutory partners similarly adopted the Governance Agreement in the summer 2018.
- 4.4 In the interim, the Ambition Board has worked up its priority list of programmes and specific supporting projects, to accelerate economic growth in the region. All projects are underpinned by an Outline Business Case which is summarised in the Proposition Document. The Proposition Document (attached as Appendix 1), which sets out the details of these priority programmes and for which national funding is being sought through a Growth Deal, has been approved by the North Wales Economic Ambition Board. The Proposition Document constitutes the regional bid. The Growth Deal will fund selected programmes and projects from within the Proposition Document – ones that meet the UK and Welsh governments objectives for economic growth.
- 4.5 The Proposition Document has been developed over a period of time with significant input from the business sectors in the region and the partners

themselves and in liaison with civil servants from both the UK Government and the Welsh Government, in an intense and iterative process. The Proposition Document builds on the earlier Growth Vision and proposes a range of project interventions for economic growth under a series of priority programmes.

- 4.6 There are two stages to securing a Growth Deal. Firstly, the Heads of Terms stage, where the UK and Welsh governments will set out which programmes and projects they are prepared to fund and to what level via an outline agreement with the bidding region. Second is the stage of agreeing the final deal with the detailed content and financing arrangements. In between these two stages, all selected programmes and projects have to pass through the five-case business model evaluation process (as required by the UK Government's Treasury). Those projects selected at the Heads of Terms stage which meet the tests of evaluation will be funded through the finalised deal.
- 4.7 The Proposition Document is based on the following strategic priority programmes:
1. Land and Property Development;
 2. Smart Access to Energy;
 3. Adventure Tourism;
 4. Smart Technology and Innovation Hubs;
 5. Regional Growth Business Fund and Hubs;
 6. Pathways to Skills and Employment;
 7. Skills Centres of Excellence;
 8. Digital Connectivity; and
 9. Strategic Transport.
- 4.8 The scale of the strategy is summarised below:
- The total cost of investment proposed is £670.65m, with £109.19m of direct private sector contributions and £219.46m of contributions from partners. The region is seeking £334m of capital funding and £8m revenue funding from the Growth Deal;
 - 5,408 direct jobs will be created, and the value of private sector investment achieved as a direct consequence of the projects being delivered (private sector leverage) will be £3.13billion; and
 - The over-riding aim is to increase the value of the North Wales economy from £13.6 billion in 2016 to £26 billion by 2035.

Balancing Risk and Opportunity

- 4.9 A Growth Deal will give the region access to capital funds provided by both the UK and Welsh governments. The funds will be allocated to the approved projects included in the final deal. The projects might be implemented and overseen directly by the Ambition Board itself, or dispersed to partner organisations, such as the universities, on its behalf.

4.10 All projects will have robust project planning and management arrangements in place to manage exposure to the risks of cost and liability (e.g. the risk of capital cost over-runs). The capital funds are expected to be in equal instalments over a 15-year period. To make the biggest impact on the economy the region is likely to plan to invest a high proportion of the capital in the early years and ahead of the UK and Welsh governments payment schedule. If this is the case, then there will be additional costs from the payment of interest on the capital borrowed. This would be at a cost to the regional partners and is therefore a financial risk. The Ambition Board is working to the principle that it will minimise the risks to the region of entering a Growth Deal. To reduce or eliminate this financial risk the Ambition Board would:

- aim to keep the Growth Deal at a manageable and affordable level;
- share the risk amongst the partners;
- retain a proportion of the net growth in National Non-Domestic Rates (NNDR) across the region, to contribute to any borrowing costs, by agreement with the Welsh Government;
- recoup income from certain projects to contribute to any borrowing costs and reinvest in the region e.g. energy production income and digital connectivity income from users; and
- explore with the UK and Welsh governments options for sharing financial risk.

4.11 The recommended final deal will be presented to all the regional partners for their individual review and approval as a reserved matter (as set out in the Governance Agreement to which the Council is a party) at a later date. At this point partner organisations will be fully able to evaluate risk and opportunity before deciding whether to formally commit to the deal in the form presented. When the recommended final deal is presented for approval, the financial arrangements, and benefits and risks, will be set out in detail. The partners will be able to advise the North Wales Economic Ambition Board on their views on the cost-benefit analysis of the deal on offer. The Ambition Board will not have the authority to sign the final deal without the individual agreement of the partner organisations.

4.12 The partnership arrangements for the implementation stage of the deal, which will follow the conclusion of reaching agreement on the final deal from 2019 onwards, will be regulated by a second Governance Agreement. This second agreement will specify the financial implications for the collective partnership and for the individual partners.

4.13 There will be a need for a regional resource to manage the implementation of the Growth Deal and the wider strategy, to be called the Programme Office. Following the principle of minimising financial risk and cost to the region, the Programme Office will be financed through a combination of:-

- considering capitalised salaries drawing on the capital resources provided by the UK and Welsh governments (subject to a capitalisation direction);
- management fees for project management similarly drawn from national resources;
- drawing down other national funding streams such as the remaining European Social Fund resources available to Wales;
- secondments and in-kind contributions; and

- financial contributions from partners.

Next Stages of Growth Deal Negotiation and Approval

- 4.14 The target date for agreement of Heads of Terms for a Growth Deal with both the UK and Welsh governments is autumn/winter 2018. As explained in 4.6 the Heads of Terms agreement is the first stage of securing a deal. Under this agreement the scope, priority content and scale of the potential final deal will be set out. Detailed work has then to be concluded on the prioritised programmes and projects through the five-case business model evaluation. The final deal will be reported back to the regional partners for review and agreement, as a reserved matter requiring the individual authority of each partner, in 2019. Once agreed by all partners the Ambition Board would then be authorised to commit to accessing the resources offered by the UK and Welsh governments to begin to implement the projects supported.
- 4.15 The Growth Deal is not the only intervention to support the aims and objectives of the wider vision and strategy for the region. Welsh Government is already committed to significant capital investment in transport infrastructure and strategic sites in the region and UK Government is supporting the region through the sector plans which underpin the national *Industrial Strategy*. Further investment programmes might be negotiated separately and a memorandum of understanding with Welsh Government for future joint working is being proposed; one which will complement the recently published *Economic Action Plan* for Wales. The unity of the region behind the vision and adopted strategy is an important factor in having negotiating purpose, credibility and leverage.

5. IMPLICATIONS

- 5.1 **Policy Framework** – supporting the Growth Vision for the Economy of North Wales (E2) and the Economic Prosperity Strategy (2012 – 2017), which seek to make significant improvements in the performance of the local economy.
- 5.2 **Budget** – As set out in the report there is likely to be an interest cost of borrowing which will need to be serviced. Until we have the detail of the final Growth Deal, to be negotiated with the Governments, and the capital grant payment arrangements to finance the Deal, the regional partners will not know the number and the combined cost of the approved projects. The combined cost of the approved projects and how they are to be phased over a period of years, will have a bearing on the contributions to the borrowing costs each partner might be expected to make.

In approving the recommendations of this report the council will not be making any commitment to financial investment of its own and will only be authorising the submission of a formal Bid for consideration by Governments. As explained above the financial risks and benefits of a final Growth Deal will be reported at the second and final approval stage, along with the model for sharing any borrowing costs amongst regional partners.

- 5.3 **Legal** – The power to discharge functions through a Joint Committee is provided by Section 101 of the Local Government Act 1972. The Governance Agreement sets out the constitutional arrangements for the Joint Committee. External solicitors have provided legal support and advice on the appropriate governance model for

both this initial phase of developing the Growth Deal Bid and further legal support will be required on the appropriate governance model for the implementation and delivery stage.

- 5.4 **Staffing** – officer input has been used to help develop the bid so far. Support for the second Governance Agreement and the creation of the Programme Office will be required going forward.
- 5.5 **Equality/Human Rights** – Members are advised of their duty to consider the full Equality Impact Assessment which is available at <http://vmwinsqld/equalityisalive/Menu.aspx> report number [SMT/EIA00020/2017]. Members of the public can request a copy of the full Equality Impact Assessment from the Contact Officer named in the header box of this report. A summary of the Equality Impact Assessment is attached as Appendix 2.
- 5.6 **Risks** – Once the potential extent and content of the Growth Deal is known, following agreement of Heads of Terms, a full risk assessment and cost-benefit analysis can be undertaken. This would be available to inform decision-making before the region entered into commitments at the stage of the final Growth Deal agreement later in 2019. Risk analysis is built into the business case modelling for the programmes and projects which make-up the developing Bid. All projects listed in the Proposition Document have an Outline Business Case to demonstrate their worth and value.

6. CONSULTATION

- 6.1 There has been extensive consultation across the public and business sectors in the development of the Proposition Document. Members have been engaged in each of the six local authorities through briefings and workshops. A regional conference has been organised for partner bodies on 1 November 2018. Engagement with the private sector has been continuous, primarily through the North Wales Mersey Dee Business Council and through the Confederation of British Industry (CBI). Intensive challenge sessions with selected business leaders by sector, consultation with the newly formed Business Leadership Stakeholder Forum and latterly engagement with the Business Services Association (BSA) have been undertaken.

BACKGROUND PAPERS	LOCATION	WEBSITE INFO.
Executive Board report (Report ref: HHE/34/16) – 11 October 2017-	SAM	http://vmmoderngov/mgListCommittees.aspx?bcr=1
Executive Board report (Report ref: LR/04/18) - 10 July 2018	SAM	http://vmmoderngov/mgListCommittees.aspx?bcr=1
Council report (Report ref LR/05/18) – 12 July 2018	SAM	http://vmmoderngov/mgListCommittees.aspx?bcr=1
Executive Board report (Report ref: HHE/47/17) – 24 October 2017	SAM	http://vmmoderngov/mgListCommittees.aspx?bcr=1