



CABINET

**IMMEDIATELY FOLLOWING THE POLICY AND
RESOURCES/CABINET SCRUTINY COMMITTEE
ON WEDNESDAY, 25th April 2018**

COUNCIL CHAMBER - PORT TALBOT CIVIC CENTRE

Part 1

1. To receive any declarations of interest from Members
2. To receive the Report of the Chief Executive on the Swansea Bay City Deal (*Pages 3 - 32*)
3. Any urgent items (whether public or exempt) at the discretion of the Chairman pursuant to Statutory Instrument 2001 No.2290 (as amended)

S.Phillips
Chief Executive

Civic Centre
Port Talbot

Thursday, 19 April 2018

Cabinet Members:

Cllrs. R.G.Jones, A.J.Taylor, C.Clement-Williams, D.W.Davies,
D.Jones, E.V.Latham, A.R.Lockyer, P.A.Rees, P.D.Richards and
A.Wingrave

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

CABINET

25 April 2018

Report of the Chief Executive

SWANSEA BAY CITY DEAL

Matter for Decision

Wards Affected: All

SECTION A

Purpose of Report

1. A further situation report and recommendations on the next steps, following the report dated 4 October 2017 (at Appendix 1).

Background

2. The rationale for City Deals; the history of the Swansea Bay City Deal (including it's signing on 20 March 2017) and the issues arising were set out in the previous report at paragraphs 2-11.
3. That report was discussed in the Regeneration and Sustainable Development Scrutiny Committee on 10 November 2017. Members raised a series of points (as recorded in the minutes¹) and broadly supported the position taken by the Council.

SECTION B

Key Legal, Financial and Risk Issues

4. These are set out in detail in paragraph 13 of the previous report and are covered below by way of an update (in the same order as previously listed). Essentially, there has been some progress but

¹ <https://democracy.npt.gov.uk/ieListDocuments.aspx?CId=319&MId=7823&Ver=4>

no definitive agreement with the UK and Welsh Governments on the key issues as yet.

- a) The local authorities have pressed for agreement from the Welsh Government to retain (or be reimbursed) 50% of any uplift in National Non Domestic Rates (NNDR) accruing from relevant City Deal projects, so as not to prejudice the national pooling arrangements. This is to help fund debt interest payments on borrowing to improve affordability. The rationale has been clearly set out by the Chair of the Shadow Joint Committee in five letters to UK and Welsh Ministers – listed as background documents - on this and other issues below;

Moreover, at the request of government, a model was provided which estimates net regional benefits of £2.6 million per annum or circa £20 million over the life of the City Deal. This Council also offered a form of words for inclusion in the Joint Working Agreement (JWA), via the Regional Office, in an attempt to resolve matters. Independently a think tank, WPS 2025², has published a paper on this issue more or less identical to the model we submitted. A letter was received on 11 April from the Cabinet Secretary for Finance indicating an “agreement in principle” and referring back to previous correspondence from him in August of last year. That is perhaps a step forward; but it needs to be translated into clear and unequivocal commitments in the JWA for the reasons outlined in Section D below;

- b) On the ARCH programme, there have been no further developments to our knowledge (including whether or not the Welsh Government intend to fund the programme); but as none of these projects are planned for Neath Port Talbot, this is perhaps now of secondary importance to this Council;
- c) On Capitalisation Directions, we have not yet been able to secure a firm commitment from both governments despite the correspondence and meetings mentioned above. We also offered a form of words on this issue to resolve matters.

² <http://www.walespublicservices2025.org.uk/>

To recap, a Direction(s) is required if the Governments do not provide revenue grants – see sub paragraph (e) below - to meet their contributions. Both governments had indicated previously that all their £241m was in the form of capital; but circa £40m of revenue is required across the region to progress some projects. The only way we can afford it is if the UK Government authorises the Welsh Government³ to provide a Capitalisation Direction for as long a period as possible⁴. These calculations are set out in more detail in Section D below. In any event, a Direction will be needed for any match funding that Councils may allocate for revenue expenditure on projects, if required;

- d) In terms of the JWA itself progress has been made at one level (e.g. the Implementation Plan highlighted previously has now been produced and officers are satisfied with its content). However, from our perspective, that sign off is conditional upon the key issues being resolved to provide Members with assurance that the arrangements represent a fair balance of risk and return for the Council. The reasons why are explained in detail in Sections C and D below.

Moreover, the two governments have also stated their intention to approve the content of the JWA. That is reasonable; but at the time of writing, they have yet to finalise comments and the latest comments declined to agree specific wording designed to address the financial issues. Their stated preference is for more “vague” language in the JWA and to address the issues at a later stage, probably in the grant offer letters; but officers do not believe that we should enter into a legally binding agreement without first resolving these issues. The latest draft of the JWA is available to Members from Legal Services upon request;

- e) The revenue/capital funding issue is linked to that on Capitalisation Directions – see sub paragraph c) above. **Taken together, these are the key issues for us and we are**

³ Welsh Ministers have powers to issue capitalisation directions to local authorities under 16(2) (b) of the Local Government Act 2003, subject to HMT controls on the level of borrowing.

⁴ There are analogous arrangements already in place in Wales. For example, under the Housing Finance Grant 2 scheme, organisations borrow 100% of the capital and are reimbursed 58% of the borrowing costs over 30 years.

hopeful of imminent progress. Discussions are ongoing; but the matters are not yet resolved definitively. This has direct implications for the delivery of one project in particular (CENGS) in Neath Port Talbot – explained in Section C below; and

- f) The Welsh Government dropped their insistence that no funding for any project would be released until the business cases for all 11 projects were approved. This was essential - and welcome.

SECTION C

The Projects

5. The background is contained in the previous report and its appendices. As then, it is important to read across from the issues in Section B above to the projects, particularly those where this Council was assigned the lead responsibility. Most of the 11 projects have been the subject of business cases submitted to the two governments; but many require significant further development. They are not yet ready to be put in front of Members for decision.
6. The position on the projects where we lead is as follows:
- The Centre for Next Generation Services (CENGS): delivery is more or less entirely dependent upon a resolution of the revenue issue described in paragraph 4 (e) above. This has been clear from day one based on the original bid. It may be possible to find a replacement; but this would be a second best solution set against the original “Internet Coast” vision;
 - Homes as Power Stations: a start on Phase 1 of this project (at the former Hafod Care Home site in Neath) is imminent. This phase will not benefit from City Deal support as a consequence of the unresolved issues; but that was no reason to delay a deliverable project. The business case for subsequent phases (across the region) is still under development. As Table 2 below illustrates, it potentially contains some big numbers;
 - Digital Infrastructure: this business case also remains under development. Under these arrangements the *de facto* lead on

this project overall has transferred from this authority to Carmarthenshire; but it has been split into three distinct parts: “Connected City”; “Rural” and the “Transport Corridor” (the lead rests with us on the last named).

Moreover, a related bid to the UK Government’s Local Full Fibre Network Programme submitted in August 2017 did not elicit any response. The region did not bid in a second round in January 2018, although there may be the opportunity to bid again; and

- Steel Science (or the National Steel Innovation Centre)/Factory of the Future: This is being taken forward primarily through an arrangement between Swansea University and Tata. A temporary facility has been established at the University’s Singleton Campus – opened by the First Minister in February - and a permanent site has been identified on Fabian Way for this and two other projects (one of which is within the City Deal: the Factory of the Future – a proposed academic research hub which will provide technology solutions for manufacturing).

The Council is assisting the University in seeking to acquire the site from the Welsh Government and meetings have been held with all parties. However, at the time of writing, the Welsh Government has not confirmed its willingness to sell (or at what price) following an initial approach in February 2018, although they appear to have confirmed a willingness to sell a parcel of land to facilitate the non-City deal project alluded to above. But our preference is to resolve all the issues simultaneously.

In any event a full business case would need to be submitted to Members for consideration and, as noted above, this is one where much further work is needed. For example, it currently anticipates a level of funding from the City Deal 50% in excess of the provisional allocation to the project; there is an issue on the procurement of the building and securing a rental stream from the University to service the borrowing (but alternatively the University could be funded directly by the UK Government) and several other issues - including VAT treatment.

7. Against this background, Table 1 below illustrates the potential impact of the allocations to projects in Neath Port Talbot under best and worst case scenarios i.e. where the key financial issues are resolved and where they are not. This is for illustrative purposes (and not an exact science); but it underlines the importance of a resolution – as does the rest of the analysis which follows.

Table 1: Indicative Funding Allocations for City Deal Projects in Neath Port Talbot (£million)

Project	Best Case		Worst Case		<u>Comment</u>
	UK Govt	Welsh Govt	UK Govt	Welsh Govt	
CENGS	20	3	0	0	No agreement on revenue
Homes as Power Stations (NPT)⁵	0	3	0	0	NPT project proceeding
<i>Digital Infrastructure</i>	5	0	0	0	No agreement on revenue
Steel Science/ Innovation Centre	20	0	0	0	No agreement on site/or University funded direct
Factory of the Future	10	0	0	0	As above
<i>Skills & Talent</i>	0	2	0	2	
TOTAL⁶	55	8	0	2	

SECTION D

Financial Implications/Economic Impact

8. In addition to the impact on the funding allocations (above), it is important to consider the impact on the headline figures for the City Deal outlined in the previous report.
9. These are captured in Table 2 below. Specifically, the contribution from the private sector totalling £637 million across the region over the life of the City Deal, worth an estimated £113 million in this

⁵ A regional project; but our situation is different because – unlike the other three Councils – we have no access to the Housing Revenue Account (HRA) following our stock transfer.

⁶ Projects denoted in italics are solely regional projects. Funding allocations based on notional NPT share of regional population split (20% of the total based upon mid-year population estimates: 2017).

County Borough - the lion's share of which is attached to one project - plus funding from other public sector sources (which are being brought to bear on the City Deal projects e.g. Social Housing Grant). The corresponding figures here are £396 million across the region and an estimated £102 million in the County Borough.

Table 2: Funding sources for City Deal Projects in Neath Port Talbot (£ million)

Project	Private Sector	Public Sector	City Deal (as Table 1 above)	Total Project Costs
CENGS	27	5.5	23	55.5
Homes as Power Stations (NPT)	76.6	23.84	3	103.44
<i>Digital Infrastructure</i>	6	0	5	11
Steel Science/ Innovation Centre	0	60	20	80
Factory of the Future	3.2	10.3	10	23.5
<i>Skills & Talent</i>	0.8	3.2	2	6
TOTAL⁷	113.6	102.84	63	279.44

10. As illustrated in Section C above, the first phase of one project is being delivered regardless in Neath Port Talbot; two others could be delivered outside of the City Deal framework and the other one is either undeliverable or the cost of doing so would be excessive without resolution of the financial issues (see immediately below).

11. Officers have therefore compared and contrasted the cost of borrowing/affordability of the two scenarios where the key financial issues are resolved and where they are not. A resolution of the NNDR issue also has a positive impact. Our detailed calculations are set out in Tables 3 and 4 on the next two pages. Again, not an exact science; but **they demonstrate a potential additional cost of borrowing to this Council over the life of the City Deal of more than £21million if the issues are not resolved.**

⁷ As above per Table 1, regarding regional projects and notional NPT share.

Table 3: City Deal - WITH Capitalisation Direction (Cash flow Cost over 15 years - £000)

	Project Cost	Year 1 Capital	Year 2 Capital	Year 3 Capital	Year 4 Capital	Year 5 Capital	TOTAL REVENUE
NPT Projects - Capital							
Homes/Power Stations	1,200	400	400	400			
Steel Science/Innovation	20,000	5,000	10,000	5,000			
CENGS	2,000	2,000					
Factory of The Future	10,000	2,000	2,000	2,000	2,000	2,000	
NPT Projects – Revenue as Capital							
Homes/ Power Stations	1,800			1,800			
CENGS	21,000	2,000	7,000	4,000	4,000	4,000	
TOTAL NPT Projects	56,000	11,400	19,400	13,200	6,000	6,000	
NPT Share/Regional Projects							
Skills & Talent	2,000	400	400	400	400	400	
Digital Infrastructure	5,000	1,000	1,000	1,000	1,000	1,000	
Total Capital & Revenue	63,000	12,800	20,800	14,600	7,400	7,400	
		Year 1 Capital	Year 2 Capital	Year 3 Capital	Year 4 Capital	Year 5 Capital	
Cumulative Cap. Expenditure		12,800	33,600	48,200	55,600	63,000	
City Deal Funding (inc. regional share)		-4,200	-4,200	-4,200	-4,200	-4,200	
Cumulative Deal Funding		-4,200	-8,400	-12,600	-16,800	-21,000	
Cash flow Shortfall		8,600	25,200	35,600	38,800	42,000	
Interest Rate		3%	3%	3%	3%	3%	
Revenue “Cost” Shortfall		258	756	1,068	1,164	1,260	
		Year 6 Capital	Year 7 Capital	Year 8 Capital	Year 9 Capital	Year 10 Capital	
Cumulative Cap. Expenditure		63,000	63,000	63,000	63,000	63,000	
City Deal Funding (including regional share)		-4,200	-4,200	-4,200	-4,200	-4,200	
Cumulative Deal Funding		-25,200	-29,400	-33,600	-37,800	-42,000	
Cash flow Shortfall		37,800	33,600	29,400	25,200	21,000	
Interest Rate		3%	3%	3%	3%	3%	
Revenue “Cost” Shortfall		1,134	1,008	882	756	630	
		Year 11 Capital	Year 12 Capital	Year 13 Capital	Year 14 Capital	Year 15 Capital	
Cumulative Cap. Expenditure		63,000	63,000	63,000	63,000	63,000	
City Deal Funding (including regional share)		-4,200	-4,200	-4,200	-4,200	-4,200	
Cumulative City Deal Funding		-46,200	-50,400	-54,600	-58,800	-63,000	
Cash flow Shortfall		16,800	12,600	8,400	4,200	0	
Interest Rate		3%	3%	3%	3%	3%	
Revenue “Cost” Shortfall		504	378	252	126	0	10,176

Table 4: City Deal - WITHOUT Capitalisation Direction (Cash flow Cost over 15 years - £000)

	Project Cost	Year 1 Capital	Year 2 Capital	Year 3 Capital	Year 4 Capital	Year 5 Capital	TOTAL REVENUE
NPT Projects - Capital							
Homes/Power Stations	1,200	400	400	400			
Steel Science/Innovation	20,000	5,000	10,000	5,000			
CENGS	2,000	2,000					
Factory of The Future	10,000	2,000	2,000	2,000	2,000	2,000	
TOTAL NPT Projects	33,200	9,400	12,400	7,400	2,000	2,000	
NPT Share/Regional Projects							
Digital Infrastructure	5,000	1,000	1,000	1,000	1,000	1,000	
Total Capital Expenditure	38,200	10,400	13,400	8,400	3,000	3,000	
		Year 1 Capital	Year 2 Capital	Year 3 Capital	Year 4 Capital	Year 5 Capital	
Cumulative Cap. Expenditure		10,400	23,800	32,200	35,200	38,200	
City Deal Funding (inc. regional)		-2,547	-2,547	-2,547	-2,547	-2,547	
Cumulative Deal Funding		-2,547	-5,093	-7,640	-10,187	-12,733	
Cash flow Shortfall		7,853	18,707	24,560	25,013	25,467	
Interest Rate		3%	3%	3%	3%	3%	
Revenue "Cost" Shortfall		236	561	737	750	764	
		Year 6 Capital	Year 7 Capital	Year 8 Capital	Year 9 Capital	Year 10 Capital	
Cumulative Cap. Expenditure		38,200	38,200	38,200	38,200	38,200	
City Deal Funding (including regional)		-2,547	-2,547	-2,547	-2,547	-2,547	
Cumulative Deal Funding		-15,280	-17,827	-20,373	-22,920	-25,467	
Cash flow Shortfall		22,920	20,373	17,827	15,280	12,733	
Interest Rate		3%	3%	3%	3%	3%	
Revenue "Cost" Shortfall		688	611	535	458	382	
		Year 11 Capital	Year 12 Capital	Year 13 Capital	Year 14 Capital	Year 15 Capital	
Cumulative Cap. Expenditure		38,200	38,200	38,200	38,200	38,200	
City Deal Funding (including regional)		-2,547	-2,547	-2,547	-2,547	-2,547	
Cumulative City Deal Funding		-28,013	-30,560	-33,107	-35,653	-38,200	
Cash flow Shortfall		10,187	7,640	5,093	2,457	0	
Interest Rate		3%	3%	3%	3%	3%	
Revenue "Cost" Shortfall		306	229	153	76	0	6,486
Annual REVENUE Cost not funded from City Deal	Project Cost	Year 1	Year 2	Year 3	Year 4	Year 5	
Homes/ Power Stations	1,800			1,800			
CENGS	21,000	2,000	7,000	4,000	4,000	4,000	
Total NPT Projects	22,800	2,000	7,000	5,800	4,000	4,000	
Skills & Talent (Regional Project)	2,000	400	400	400	400	400	
Total Revenue Costs	24,800	2,400	7,400	6,200	4,400	4,400	24,800
Total Revenue & Cash flow Costs							31,286

12. **The difference (£21million+) between the totals at the bottom of both tables is very obviously significant. It represents an opportunity cost, set against our capital programme⁸ - particularly the delivery of all projects in Band B of our 21st Century Schools programme - and/or significantly increases the budget savings required, currently estimated at £58 million over the next four years.**
13. At the time of writing, there are ongoing discussions with the two Governments about a possible alternative approach involving the displacement or substitution of reserves and capital receipts to fund revenue expenditure. We currently estimate that this could result in the gap illustrated in Table 4 being reduced to circa **£14 million** and it would require the Welsh Government to change the Accounting and Financial Regulations.
14. This still represents a significant shortfall/gap and for the reasons outlined in this report, we would still need more revenue funding or capitalisation direction support than what is currently on offer to make this work for Neath Port Talbot.
15. Accordingly, there is a fundamental question of value for money and the factors identified in the corresponding section of the previous report remain relevant. In addition, on 21 February 2018, the Council set the revenue budget for 2018/19. This included an allocation of £50,000 for this Council's contribution in 2018/19. For the purposes of Tables 3 and 4, however, it is a neutral factor.
16. For completeness, we have also revisited the estimated economic benefits given the position described above. The original appraisal identified a permanent uplift in regional Gross Value Added (GVA) of £1.8 billion and the creation of 10,000 jobs.
17. Table 5 below attempts to break this estimate down to County Borough level:

⁸ See the report submitted to Council on 21 February 2018

Table 5: Projected GVA benefits (£million) and net job creation

Project	GVA 5 Years	GVA 10 Years	GVA 15 Years	Net Jobs 5 Years	Net Jobs 10 Years	Net Jobs 15 Years
CENGS	31	104	154	100	500	500
Homes as Power Stations (NPT)	10	19.2	50.2	72	234	361
<i>Digital Infrastructure</i>	n/a	n/a	n/a	n/a	n/a	n/a
Steel Science/ Innovation Centre	19	43	95	133	350	665
Factory of the Future	28	36	140	280	719	1402
<i>Skills & Talent</i>	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL⁹	88	202.2	439.2	585	1803	2928

SECTION E

Conclusions/Next Steps

18. Despite some advances, it is disappointing that swifter progress has not been made more than a year since the City Deal was signed and some eighteen months after the original City Deal projects were submitted. It is not for the want of trying and we are advised that a breakthrough may be imminent. Thus there are two alternative scenarios here: either these matters are resolved - and we are able to recommend that the Council sign the Joint Working Agreement or they are not and we do not¹⁰.

19. As noted above, it seems that a much needed break-through is imminent. Our last report apparently caused quite a stir in certain quarters and we are well aware of the critical comments surrounding the “negative” position that this Council has taken over the past year or so. However, there is no room for ambiguity on such a long term financial commitment of this scale and clarity is

⁹ As above per Table 1, regarding regional projects and notional NPT share.

¹⁰ As an aside, the latest proposals for local government reorganisation (published on 20 March 2018) include an expectation that City & Growth Deals will continue. However, the proposal for West Wales includes a merger of Carmarthenshire, Pembrokeshire & Ceredigion – but the last named Council is not part of the Swansea Bay City Deal. If implemented, reorganisation will take effect during the 15 year life of the City Deal.

required from all parties. Decisions are for Members; but senior officers have examined the issues exhaustively and are agreed that we will not be moved from giving what we believe to be the right advice on the balance of benefit and risk to the County Borough and the Council itself. As a precursor to this report, the Leader of Council wrote to the Chair of the Shadow Joint Committee (copied to the Secretary of State for Wales and the Cabinet Secretary for Finance) outlining our emerging position (at Appendix 2).

20. Thus we conclude that:

- Resolution of the issues discussed in this report are essential to provide greater certainty around the financial benefit from the government funding allocations for projects in this County Borough. But conversely, without agreement, the benefits could drop to virtually nothing;
- Some wider financial contributions (particularly other public sector funding) are evident; but the originally estimated quantum over the life of the City Deal is more uncertain as are the estimated economic benefits. However, it is too early to draw any definitive conclusions; and
- Critically, without resolution of the issues discussed in this report, the arrangements would not represent value for money (and could attract criticism from our external auditors). It would also represent a high risk in the context of the development of our Corporate Risk Register. The cost would also be unaffordable and the analysis summarised in paragraphs 11-14 above has proved decisive in drawing these conclusions. Put simply, why would we wish to enter into an arrangement that would cost the Council up to £21m more than it should do with the opportunity cost involved? A gap of this magnitude is too large and very difficult to justify.

Other Matters

21. There are two other developments to note. First, an announcement is expected imminently on an appointment of the Chair for the Economic Strategy Board (described in paragraph 11 of the previous report) and there is to be a “Welsh Cities and Growth Implementation

Board” established by the two governments to co-ordinate activity on Welsh City and Growth Deals.

Sustainable Development

22. As set out in the previous report at paragraphs 21-22 (in the context of the Future Generations and Wellbeing Act 2015).

Workforce Implications/Equality Impact Assessment

23. None/not required at this stage

RECOMMENDATIONS

That Members agree:

1. The Council reaffirms its willingness in principle to sign the Joint Working Agreement if (but only if) the issues identified in this report can be resolved satisfactorily and reflected in the JWA itself. This would be the subject of a further report to Members.
2. Alternatively - and in the absence of a resolution of these issues - the Council would decline to sign the Joint Working Agreement for the reasons set out in this report.
3. This report be referred for further discussion in the relevant Scrutiny Committees as Members see fit.

Reasons for proposed decision

To invite Members to provide direction on the conduct of further discussions on the City Deal and take a view on the balance of benefits set against the risks, affordability and opportunity cost of the City Deal.

Implementation of the decision

The decision is proposed for implementation after the three day call in period.

Appendices

Appendix 1 – Report of the Chief Executive: 4 October 2017

Appendix 2 – Letter from the Leader of Council to the Chair of the Shadow Joint Committee: 18 April 2018

Background Documents

Draft Joint Working Agreement (JWA)

Letter from the Leader of the City & County of Swansea (on behalf of the region) to the Cabinet Secretary for Finance and Local Government, 7 July 2017

Letter from the Cabinet Secretary for Finance & Local Government: 10 August 2017

Letter from the Leader of the City & County of Swansea (on behalf of the region) to the Cabinet Secretary for Finance, December 2017

Letter from the Leader of the City & County of Swansea (on behalf of the region) to the Cabinet Secretary for Finance, 12 January 2018

Letter from the Leader of the City & County of Swansea (on behalf of the region) to the Secretary of State for Wales, 12 January 2018

Letter from the Leader of the City & County of Swansea (on behalf of the region) to the Cabinet Secretary for Finance, 26 February 2018

Letter from the Cabinet Secretary for Finance, 11 April 2018

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NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

CABINET

4 October 2017

Report of the Chief Executive

SWANSEA BAY CITY DEAL

Matter for Decision

Wards Affected: All

SECTION A

Purpose of Report

1. A progress report on the City Deal and recommendations as to the position the Council should take on the possible next steps in the process.

Background

2. In brief, City Deals are bespoke arrangements between Cities or Regions and Government designed to promote growth, innovation and employment measured in terms of Gross Value Added (GVA) growth and jobs. In the devolved context, they are triangular arrangements between City Regions and the UK and Welsh Governments.
3. On 24 January 2017, Cabinet agreed to delegate to the then Leader of Council authority to sign an in principle City Deal agreement on the basis described in that report (listed as a background paper below).
4. The Cabinet also agreed that the City Deal should be referred to the then Economic and Community Regeneration Scrutiny Committee (or its successor) for further consideration and that officers should bring a further report to Cabinet on any definitive commitments following the local government elections. This report seeks to discharge those commitments.

5. On 20 March 2017, the Prime Minister, the First Minister and the four Council Leaders (Carmarthenshire, Pembrokeshire, Swansea and us) duly signed the Deal (at Appendix 1). The headline figures were a £1.3 billion deal to transform the economic landscape of the area, boost the local economy by £1.8 billion and generate almost 10,000 new jobs over the next 15 years based upon 11 projects (see Section C below).
6. The total investment package is made up of £241 million of UK and Welsh Government funding, £396 million of other public sector money and £637 million from the private sector. The other key partners are the two Health Boards - Abertawe Bro Morgannwg and Hywel Dda – plus the two Universities – Swansea and Trinity St David's.

More Recent Developments

7. A provisional governance structure has been established in shadow form (at Appendix 2). The main focus – led by Carmarthenshire County Council as the accountable body designate - has been on finalising the governance arrangements required to underpin the City Deal. There have been a series of meetings over the summer and in recent weeks at various levels: the Shadow Joint Committee (Leaders); the Programme Board (Chief Executives) and others (finance and legal officers).
8. The governance arrangements are to be the subject of a draft Joint Working Agreement (JWA) – and will include regional scrutiny arrangements. The work has been ongoing for some six months with external legal support; but is not yet complete. In terms of the draft itself, numerous versions and supporting documents have been produced over the summer. The document runs to some 70 pages; but is available to Members (from Legal Services) on request. Thus the process is proving very complicated and resource intensive – and that complexity potentially increases considerably the financial risk to the local authorities. At its most basic level, if Members were to ask for a simple explanation of how it all would work in practice, officers could not provide a clear one as things stand. In recent weeks, it has effectively been decided to start again on the JWA and search for a different, more practical, model.
9. The essential problem is that clarity is required on a number of key issues (detailed in Section B below). This is needed from the region itself and both governments before officers could recommend that the

Council sign it; but the necessary clarity has **not** yet been achieved despite intensive efforts, including discussions with Ministers.

10. The agreement signed in March commits both governments to work with the region to achieve this. This Council is one step removed from the discussions (as Carmarthenshire Council act as the main point of contact). Whilst there has been plenty of contact, there is insufficient evidence of joint problem solving in our view. One issue is that we get very little in writing – certainly by way of definitive commitments - from the two governments. This is important in the context of the financial issues and risk explored below.
11. Moreover, the March agreement also contains two arguably conflicting priorities. The Welsh Government wants the process led by a Joint Committee of local authority leaders (consistent with their approach to local government reform¹) whereas the UK Government has insisted upon a private sector led Economic Strategy Board (ESB) as part of the arrangements. It is worth noting that this is pretty much what we had prior to 31 March 2017 in the form of the Swansea Bay City Region Board; but the Welsh Government effectively abolished it. All this should not be an insurmountable problem; but it is indicative of the complexity as we are now required to go through a quasi-public appointments process to populate the new Board.

SECTION B

Key Legal, Financial and Risk Issues

12. These are all intrinsically inter-linked. At a basic level, local authorities in Wales have the powers to establish Joint Committees under sections 101 and 102 of the Local Government Act 1972 and sections 19 and 20 of the Local Government Act 2000. The JWA would be the legal vehicle for doing so. There has also been debate about whether the existing powers available to local government to promote economic and wider well-being such as the 2000 Act are sufficient in terms of delivering the City Deal – ahead of any general power of competence foreshadowed as part of the Welsh Government's plans for local government reform (but that requires legislation which is at least a year away) - or whether these are constrained to the administrative areas of individual local authorities.

¹ See the statement of the Cabinet Secretary for Finance and Local Government on local government reform of 18 July 2017

13. Crucially, there are a number of key financial issues that remain unresolved and are linked to the delivery of the projects and other material considerations – sections C and D below. What follows is by no means an exhaustive list and the current excess of ambiguity increases risk – a sentiment the Leader expressed clearly in a letter to his regional colleagues in June of this year and in discussion with the Cabinet Secretary (Mark Drakeford) in mid-July. The first three issues below were also the subject of an exchange of letters over the summer between the Leader of Swansea Council and the Cabinet Secretary; but the latter’s response provided no real clarity:

- The March agreement commits the Welsh Government to “explore” the retention of a proportion of any additional National Non Domestic Rates (NNDR) generated by City Deal projects. This has a direct bearing on the business cases under preparation and is a potentially vital means of servicing interest payments on borrowing. However, whilst the Cabinet Secretary has indicated that a scheme may possible, it would operate on a regional basis and it is unclear how that would operate in practice. Therefore the overall position remains unresolved and an early resolution of the issue seems unlikely, if at all. In a different context, there is equal uncertainty at the UK level where the proposed Local Government Finance Bill, which was to have provided for similar reform in England, was dropped from the summer Queen’s Speech.
- The City Deal includes £396m of public sector funding. We have received details of the indicative UK and Welsh Governments funding per project; but we need to see the equivalent for the public sector funding (how much, from what source and over what period etc.?) Without this, we cannot advise Members of the full financial impact. A major issue is the uncertainty around the so called ARCH (regional Health Collaboration) programme which is linked to the City Deal. A bid was submitted to the Welsh Government by the two health boards in the region in January of this year and we are well aware of the competing priorities for revenue and capital funding within the NHS. The ARCH programme has been asked to look at “alternative sources of funding”; but assumes more than £100 million from the City Deal. Increasingly, we do not believe that the ARCH programme will secure significant medium to long term funding from the Welsh Government. If so, there can be no question of Councils being invited to plug any gap. This uncertainty could, in turn, undermine

the ability of projects to attract the even larger required private sector match funding. These matters therefore remain unresolved.

- Local authorities can only capitalise expenditure on the basis that they have long term assets on their balance sheets. In relation to City Deal capital projects, some will be developed and built by Councils; but others may need capital grant payments from a Council(s). Thus local authorities will need Welsh Government (and possibly UK Government) approval to capitalise both the revenue expenditure and capital grant payments made to third parties. This applies to both the Government and the public sector funding streams and without the capital direction, the full extent of the revenue cost and capital grant payment will have to be funded from the Council's revenue account in the year of spend. This is unaffordable unless it is spread over as long a period as possible – up to 40 years. Moreover, unless Capitalisation Directions are provided then our external auditors will not allow us to spread the repayment over time which would place an unsustainable cost on the Council taxpayer and could possibly be judged to be in breach of our fiduciary duty. Again, this matter remains unresolved.
- The March agreement includes a reference to contribution/funding conditions to be imposed by the two governments; but these have yet to be married up with the JWA in final form. Also, there is the issue of who approves these conditions (this must be a matter for individual Councils, not the Joint Committee in our view). We also need the ability to veto flawed business cases or we automatically lose financial control; but if one business case does not proceed, this potentially presents its own set of problems as things stand (see final bullet point below). These conditions also have a bearing on the content of the Implementation Plan required as part of the March Agreement; but one has yet to be produced. Thus the position here again remains unresolved.
- The March document can also be read two ways on the nature of the funding. For some projects, we will require both capital and revenue funding (at least short term) e.g. CENGs – see below. That seems possible on one construction; but elsewhere the document suggests that the funding will be capital only. Once more, the position remains unclear.
- Most importantly, at a meeting in July the Welsh Government indicated that no funding for any project would be released until

business cases for all 11 projects were approved. This position was confirmed in correspondence from the two Governments received during August, commenting on the draft JWA. Given the issues identified in this report, that would effectively mean that no funding could be accessed in the short to medium term and we would be condemned to moving at the pace of the slowest. It could also result in the local authorities taking all the risk by funding projects up front with no absolute guarantee that the Government funding will follow immediately or at all, if one considers how they have been trying to re-write the clauses in the JWA. That would be unacceptable (and not part of the original Deal). As things stand, we cannot envisage circumstances where we would advise Members to sign up on this basis and we have been clear with all parties on this. In recent weeks, there have been indications that the two governments are prepared to drop this requirement; but their stated position has yet to be retracted in writing.

14. Carmarthenshire Council (as the lead body) is doing its best to resolve these issues; but there seems to be an absence of capacity and/or will to resolve key issues. For example, the UK Government seems fixated with the minutiae of how the ESB will function in relation to the Joint Committee; but in truth this is a peripheral issue.

SECTION C

The Projects

15. A description of the full list projects across the region is contained at pages 10-14 of Appendix 1.
16. This Council was assigned the lead on four of them. The picture on progress is mixed (here and elsewhere in the region):
 - **Centre for Next Generation Services (CENGS):** we are in the process of completing a full business case on this project, with a proposed site at Baglan. The aim of CENGS is to bridge, through data analytics, the gap between research and innovation and the commercialisation of products and services to anchor in the region the next generation of global communication services.
 - **Homes for Power Stations:** This project is already well advanced. A site in Neath has been chosen to demonstrate the concept where buildings can generate, store and release their own

energy, to reduce fuel poverty and impact positively on health and wellbeing. The proposed development will provide 16 new homes on the site of the former Hafod Care Home: eight 2 and 3 bedroom homes and eight 1 bedroom apartments.

The application was made by the Council's partners Pobl Group supported by SPECIFIC (a Baglan-based Swansea University/Tata joint venture) and planning consent was granted on 8 August 2017. The project can be rolled out across the region in subsequent phases (perhaps under a different model as, unlike this Council, the other three local authorities have retained their housing stock and access to the Housing Revenue Account).

- **Digital Infrastructure:** This was to be the centrepiece of the strategy – as set out in the “*Internet Coast*” proposal submitted to the two Governments in February 2016. However, that focus has been diluted since. Also, the digital infrastructure agenda was very dependent upon the active engagement of the former City Region Board Chair and his wider senior level network; but the Board was abolished and that opportunity put at risk. The simple truth is that the necessary expertise (or contacts) exists neither in the Welsh Government nor local government. As a consequence, little work has been done in recent months to progress the project, although a part time external advisor has now been appointed. However, it is also worth noting that the region has submitted a circa £30m+ bid to the UK Government’s Local Full Fibre Network Programme. This is not part of the City Deal per se; but is very much complementary to it in terms of enhancing digital connectivity. The UK Government has received some 100 bids (including four from Wales – Cardiff, Gwent, North Wales and ourselves); but, at the time of writing, we do not know whether our bid will be successful.
- **Steel Science:** the original concept - born during last year’s turmoil around Tata – was a project designed to assist the company realise value to their bottom line in the short to medium term to mitigate against the financial and market pressures which the company were facing, as well as to anchor in the region research and development in the steel and related manufacturing sectors (which we are doing regardless of the City Deal).

This was very much the Council’s focus and at one stage government was very keen on the idea (as a possible response to the crisis); but their interest subsequently cooled. We have also

had differences with Swansea University over their approach – to the extent that the University want to lead on the project. Essentially, they are more interested in research based capacity and projects, which have their place; but did not seem to us to be a sufficient response to the situation at Tata. Ultimately, it is the value of any project to Tata that will be decisive. We have also made it clear that we are not in the business of borrowing cash to fund University projects. The uncertainty has been compounded by discussions over a potential merger between Tata and ThyssenKrupp; but on 20 September 2017 it was announced that the two companies had agreed to the “first stage” of a deal to merge. At the time of writing, the full implications of the announcement remain unclear; but officers are re-engaging with Tata, Swansea University and others to identify a way forward.

SECTION D

Other Material Considerations

17. There are several which Members may wish to consider:

- Members will recall the Budget seminar on 19 July where the Director of Finance and Corporate Services outlined the acute pressures facing both the capital and, particularly, the revenue budgets over this Council term. The City Deal featured as a potentially significant financial pressure in that presentation (albeit largely unquantified at this stage), so this begs the question of competing priorities for prudential borrowing and finance.
- There are other priorities for Members to consider including Band B of the Welsh Government’s 21st Century Schools Programme to be launched in 2019 (we have done very well out of Band A); demands to maintain and improve the infrastructure of the County Borough (roads, bridges, etc.); the proposed rollout of the national childcare programme by 2020 and emergency provision for issues such as the Ystalyfera landslip. Accordingly, officers believe that Members should have the opportunity to consider the financial implications of the City Deal set against all of these priorities and during the forthcoming Budget Round.
- There are limited resources (human and financial) available to the Council to promote economic growth and job creation. This raises another question of priorities. Over the past five years or so, we

have devoted huge effort to the City Region/City Deal; but the Welsh Government cut the support funding to the region by 75% when the City Region Board was abolished and failed to deal with proposed secondments to assist in the work. We have agreed to contribute £50,000 during the current financial year provided the other Councils, the two Health Boards and Universities do likewise; but put simply, one could ask whether our time is best spent on this complex process with uncertain outcomes or should we concentrate upon securing funding (as we are currently doing) for the immediate delivery of regeneration schemes in the County Borough, particularly European Funding in advance of Brexit?

- As indicated above, there are (potentially at least) other vehicles for delivery; but outside of this complex governance framework. Moreover, the Valleys Taskforce provides a means of promoting City Deal related activity more locally and, possibly, delivering it more swiftly on the ground² given that the complexity of the framework actually risks delaying the delivery of projects.
- Finally, there may be doubts about the UK Government's commitment to the process given the gap between the rhetoric and the reality on large projects in South West Wales. In July of this year, rail electrification to Swansea was scrapped and UK Ministers have dithered endlessly over the Swansea Bay Tidal Lagoon. Thus it is reasonable to ask why we should currently believe that the City Deal would be any different and why we should carry the substantial risk identified in this report, particularly given the position that both Governments have taken hitherto on the release of funding (see the final bullet of paragraph 13 above).

SECTION E

Next Step Options & Conclusions

18. There are three scenarios (and other possible variations):

- First, officers do not favour establishing the Joint Committee formally in advance of finalising the Joint Working Agreement because we would effectively be committing ourselves to a legal entity which is not currently underpinned by robust governance

² See statement from the Minister for Lifelong Learning and Welsh Language (chair of the Ministerial Taskforce for the South Wales Valleys): 20 July 2017

arrangements and where too many important issues remain unresolved (as described in Section B above). A Joint Committee would also be a legal commitment, making it more difficult for the Council to subsequently withdraw if not satisfied with the position and, in our view, it would not be best practice to sign up on the basis of hoping that fundamental issues are resolved at a later stage. Moreover, it is arguable that as things stand, the arrangements do not meet the tests set out in the Welsh Government White Paper³.

- Second, we could withdraw now. That would not be well received either in the region or by the two governments; but officers do not at present recommend this course of action either. It would be premature. However, it seems to us that the Welsh Government's policy direction of mandatory regional working cannot extend to requiring local authorities to sign up to flawed/incomplete arrangements nor those which might put the Council taxpayer at risk and/or fail to satisfy our external auditors.
- Instead, we recommend a third way. The Council indicates that it is prepared to engage in further discussions; but not yet as a party to a formal Joint Committee should others wish to establish one. In our view, the JWA must be finalised first (including a resolution of the issues identified in Section B above) so as to provide clarity, remove ambiguity and reduce risk. In practice we hardly think the absence of a formal arrangement matters because, as things stand, there is little or nothing that the Joint Committee cannot do in Shadow form compared to a formal entity.

19. This approach has three main advantages. It provides more time to get the job done properly; it reduces the legal and financial risks if progress can be made and it provides Members with the opportunity to consider the advantages and costs of City Deal participation set against the competing priorities identified in this report and any others that Members may wish to consider.

20. The proper place for that is in the Council's 2018/19 Budget Round and it is at that point that we would recommend that final decisions on the City Deal be taken. It should also be noted that a recent meeting of the Shadow Joint Committee agreed in principle that a report to all

³ White Paper - Local Government Reform: "*Resilient and Renewed*": Welsh Government, 31 January 2017

constituent Councils would be made before Christmas if the JWA could be finalised. Meanwhile, the approach outlined above also provides the opportunity for the Council's scrutiny committees to make recommendations as they see fit and tie the process in to the production of our Well Being Plan/objectives (see immediately below).

Sustainable Development

21. The Future Generations and Wellbeing Act aims to make public bodies think more about the long-term, work better with people and communities and each other, look to prevent problems and take a more joined-up approach. The Act places a duty that the public bodies will be expected to carry out. The well-being duty states:

Each public body must carry out sustainable development. The action a public body takes in carrying out sustainable development must include:

Setting and publishing objectives (“well-being objectives”) that are designed to maximise its contribution to achieving each of the wellbeing goals; and

Taking all reasonable steps (in exercising its functions) to meet those objectives.

22. Given the scale of the City Deal it is important that the Future Generations and Wellbeing Act is given due consideration in the development of any proposals, specifically in relation to the well-being ‘goals’ identified in the Act. The Public Service Board (PSB) is currently leading the development of our Well Being Plan/objectives as a requirement of the Act. There is a statutory duty upon the Council to approve both the Plan and objectives and on the PSB to approve the Plan by May 2018. Thus the decision making on the City Deal should inform this process (and vice-versa), if properly aligned.

Workforce Implications

23. None at this stage.

Equality Impact Assessment

24. Not required at this interim stage; but the Council has to satisfy its public sector duties under the Equalities Act 2010 (including specific

Welsh public sector duties) having due regard the need to eliminate unlawful discrimination; advance equality of opportunity and foster good relations on the basis of 'protected characteristics'.

RECOMMENDATIONS

Members agree:

(1a) That the Council's position should be that the Joint Working Agreement (JWA) must be finalised (including a resolution of the issues identified in Section B above) before we could consider consenting to the establishment of a formal Joint Committee;

(1b) To request that officers bring a further report to Cabinet should a revised JWA be produced for decision, also to take account of any views expressed by the Scrutiny Committee [see recommendation (3) below];

(2) To authorise Cabinet Members and officers to continue to engage in informal discussions with a view to a decision on participation in the City Deal being taken by the end of the current financial year (in the context of the Council's 2018/19 Budget Round); and

(3) To refer this report to the Regeneration and Sustainable Development Scrutiny Committee for further discussion as Members see fit.

Reasons for proposed decision

To invite Members to provide direction on the conduct of further discussions on the City Deal.

Implementation of the decision

The decision is proposed for implementation after the three day call in period.

Appendices

Appendix 1 – Swansea Bay City Region City Deal – 20 March 2017

Appendix 2 – Provisional/Shadow Governance Arrangements

Background Documents

Draft Joint Working Agreement (JWA)

The Swansea Bay City Region “*Internet Coast*” Strategy – February 2016

Report to Cabinet, 24 January 2017

ARCH Portfolio Delivery Plan 2017

Letter from the Leader of Neath Port Talbot County Borough Council to the other Council Leaders in the region, 26 June 2017

Letter from the Leader of the City & County of Swansea (on behalf of the region) to the Cabinet Secretary for Finance and Local Government, 7 July 2017

Response from the Cabinet Secretary, 9 August 2017

Joint letter from the Wales Office/Welsh Government to Carmarthenshire County Council on the draft Joint Working Agreement, 17 August 2017

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Cllr Rob Stewart
Chair, City Deal Shadow Joint Committee
City and County of Swansea
(By email)

Dear Rob,

SWANSEA BAY CITY DEAL

At the Shadow Joint Committee on 11 April I outlined this Council's position in relation to the City Deal. I now write to confirm it.

The first anniversary of the City Deal's signing has come and gone. On the one hand, we were encouraged that there seemed to be progress at official level recently; but we remain disappointed that despite all of your best efforts, the key financial issues outlined your numerous letters to UK and Welsh Ministers remain outstanding. The letter from the Cabinet Secretary for Finance (received shortly before last week's meeting) is a step forward on the NNDR issue; but this matter and the availability of Capitalisation Directions and/or a split between capital and revenue funding remain unresolved definitively. As I made clear at the meeting, they must be resolved and mirrored in the Joint Working Agreement before my authority will sign up.

A further report is being submitted by officers to my Cabinet later this month. It will contain our full analysis of position; but what is decisive is the calculations made on borrowing costs. Essentially, if we can secure agreement on the financial issues, the cost to this authority is just over £10 million over the life of the City Deal (which is manageable in our view); but if we cannot reach agreement that figure rises to approximately £31 million on the same basis (which is not). This figure could reduce if some of the permutations under discussion are brought to fruition; but the gap remains significant and the need for capitalisation/revenue

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remains.

You will appreciate that there are basic underlying issues of affordability and value for money here, particularly perhaps in terms of adding significantly to our budget savings requirement which currently stands at £58 million over the next four financial years and/or the risk to the delivery of our capital programme, particularly our Band B projects under the 21st Century Schools Programme.

This Council remains committed in principle to signing a Joint Working Agreement on the right terms; but only on the right terms. I fully expect my Cabinet to confirm support for this position shortly.

I am sending copies of this letter to the Leaders of Carmarthenshire and Pembrokeshire County Councils as well as directly to the Secretary of State for Wales and the Cabinet Secretary for Finance at the Welsh Government. I think it is important that no-one is under any illusions as to our position.

Yours sincerely,



Cllr R G Jones
Leader of Council

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