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 minutes[1]) 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 2025[2], 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 Government[3] to provide a Capitalisation Direction for as long a period as possible[4]. 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)

	Best Case		**Worst Case**		
Project	**UK Govt**	**Welsh Govt**	**UK Govt**	**Welsh Govt**	**Comment**
CENGS	20	3	0	0	No agreement on revenue
Homes as Power Stations (NPT)[5]	0	3	0	0	NPT project proceeding
Digital Infrastructure	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
Skills & Talent	0	2	0	2	
TOTAL[6]	**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**
Digital Infrastructure	6	0	5	**11**
Steel Science/ Innovation Centre	0	60	20	**80**
Factory of the Future	3.2	10.3	10	**23.5**
Skills & Talent	0.8	3.2	2	**6**
TOTAL[7]	**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 - <u>WITHOUT</u> 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 programme[8] - 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
Digital Infrastructure	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
Skills & Talent	n/a	n/a	n/a	n/a	n/a	n/a
TOTAL[9]	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 not[10].

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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