



APPENDIX 1

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

CABINET

25TH FEBRUARY 2021

THE CARDIFF CAPITAL REGION CITY DEAL – FIVE YEARS ON

REPORT OF THE CHIEF EXECUTIVE

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1. PURPOSE OF THE REPORT

The purpose of the report is to provide an update of the progress of the Cardiff Capital Region ('CCR') Joint Cabinet (the 'Regional Cabinet' - a joint committee), to oversee the Region's economic growth and to deliver the commitments set out in the CCR City Deal.

2. RECOMMENDATIONS

It is recommended that Cabinet:

- 2.1 Note the information provided within the report, and the progress made by the Cardiff Capital Region Joint Cabinet in respect of the agreed commitments set out in the CCR City Deal.
- 2.2 Reviews and considers the UK Government commissioned report on the progress of the Cardiff Capital Region City Deal to inform the forthcoming Gateway Review of the CCR City Deal Wider Investment Fund over the past five years, as set out in Appendix A.
- 2.3 Requests that the results, conclusion and recommendations of the forthcoming Gateway Review, to be completed before 31 March 2021, are presented to a future Cabinet meeting, as soon as it becomes a public document.

3 REASONS FOR THE RECOMMENDATIONS

- 3.1 To provide an update of the progress of the Cardiff Capital Region City Deal, nearly five years after the Deal was signed by the ten South East Wales local authorities, Welsh Government and the UK Government.

4 **BACKGROUND**

4.1 To remind Members, on 15th March 2016, each of the ten constituent council leaders in South East Wales, the First Minister, the Welsh Government Minister for Finance and Government Business, the Secretary of State for Wales and the Chief Secretary to the Treasury signed the Cardiff Capital Region ('CCR') City Deal Heads of Terms Agreement. The City Deal is an agreement between the UK Government, Welsh Government and the ten leaders of the CCR. It includes:

- A £1.2 billion investment in the CCR's infrastructure through a 20-year Investment Fund;
- The creation of a non-statutory Regional Transport Authority to co-ordinate transport planning and investment, in partnership with the Welsh Government;
- The development of capabilities in Compound Semiconductor Applications;
- The creation of a CCR Skills and Employment Board;
- A CCR Business Organisation will be established to ensure that there is a single voice for business to work with local authority leaders; and
- The Welsh Government and the CCR commitment to a new partnership approach to housing development and regeneration. This will ensure the delivery of sustainable communities, through the use and re-use of property and sites.

4.2 To ensure the right investments are made to achieve significant economic growth the CCR City Deal has set a small number of key targets, which are: the creation of 25,000 new jobs by 2036; and leveraging £4 billion of private sector investment as a result of the £1.2bn public sector investment.

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

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

- *management of the Cardiff Capital Region Investment Fund;*
- *additional devolved funding provided to the Capital Region;*
- *the Cardiff Capital Region Transport Authority;*
- *contracting with Transport for Wales on prioritised Metro projects;*
- *control over devolved business rate income above an agreed growth forecast, subject to Welsh Government agreement;*
- *strategic planning including housing, transport planning and land use;*

- *influencing skills and worklessness programmes;*
- *an inward investment and marketing strategy; and*
- *considering the scope for strengthening Capital Region governance further.”*

4.4 The £1.2bn CCR investment comprises two distinct elements:

4.4.1 **£734m – METRO scheme** – this is focused on delivering the first phases of the South East Wales Metro principally focused on electrifying and improving the Core South Wales Valleys Lines. This element of the CCR Investment Fund is the direct responsibility of Welsh Government.

4.4.2 **£495m – Regional Cabinet Wider Investment Fund**, comprising the ten constituent councils’ commitment to borrow £120 million over the 20 year period of the Investment Fund, together with the £375m from UK Government, for investment in infrastructure, housing, skills and training, innovation, business growth and “Metro plus” transport proposals. This element is the responsibility of the CCR Regional Cabinet.

4.5 In addition, the Joint Cabinet has established:

- A CCR Transport Authority;
- The CCR Economic Growth Partnership that brings together business, higher education and local government in supporting the Joint Cabinet to set, monitor and evaluate the future economic strategy for the Region;
- The governance and accountability structures to support the decision making of the Joint Cabinet, which includes an Investment Panel that includes successful and experienced business leaders; and
- An independent Growth and Competitiveness Commission, which set the initial economic baseline for the Region, and to provide an evidence base to support the Region’s economic and investment strategy by reviewing the evidence about the CCR, its challenges and opportunities for economic growth and making recommendations as to how the CCR can achieve its full growth potential.

4.6 The independent Growth and Competitiveness Commission reported its findings on 16th December 2016, and it is important that Members reflect on the conclusions of the Commission:

*“The Cardiff Capital Region has the potential to **develop into a prosperous capital city-region for Wales**, with multiple benefits for the Welsh economy and all the people of Wales. The Capital Region can be a decision-making centre, a global gateway for capital, trade, and visitors, a knowledge hub, and a major population centre and business*

cluster for Wales, providing opportunities and resources for other regions to develop. There are many points of progress in the capital region over the past 20 years but more is needed in the next cycle to take it forward. In particular, an integrated economic strategy that is sequenced with increased investment in infrastructure and place renewal is now required. This should focus on:

- *Improving inter-connectivity within the region to increase opportunities, choices, and mobility of people, jobs and investment, to foster a region with multiple locations of growth that play to those area's strengths.*
- *Investment in education, skills and employability to improve productivity and participation the economy.*
- *Enhancing the business climate for emerging sectors, enterprises and innovation that can spawn new sources of jobs and incomes into the longer-term future.*

Such a strategy should be complemented by enhanced governance integration, confident promotion and story-telling, and leveraging of private sector and institutional investment.”

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

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

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

- 4.8 This report sets out the progress made by the Joint Committee, in responding to the challenges set by the Commission:

- Ensuring the CCR governance arrangements are suitable, effective and robust in order to make the difficult decisions on strategic priorities for investment; and
- Utilising the £495m available over the 20 years to 2036, as a catalyst to attract additional funding and to drive economic growth and prosperity across the whole Region.

5. PROGRESS TO DATE

Wider Investment Fund - £495m

- 5.1 Under the terms and conditions of the Cardiff Capital Region City Deal, the funding programme is subject to a Gateway Review every five years. The Gateway Review is an assessment led by UK Government, supported by an independent National Evaluation Panel, which has commissioned SQW to undertake an evaluation of the impacts of the investments made to date by the CCR. SQW is a consortium of leading economic academics from Cambridge, Manchester, Sheffield and West of England universities.
- 5.2 The SQW independent evaluation into the impact of the CCR Wider Investment Fund of £495m is set out in Appendix A. The evaluation provides a clear overview of the strategic direction of the CCR, the governance arrangements, the economic context and the changes in this context over the course of the period up to the pandemic. The review, in particular Section 5 of the SQW report, focuses on the wider benefits of the CCR other than the investments, and Annex C considers a wide range of economic indicators within the Region.
- 5.3 Appendix B to this report includes the CCR Self Evaluation document, prepared to support the SQW evaluation of the CCR City Deal. This includes a further wealth of detail in respect of actions undertaken to date by the CCR in seeking to achieve its objectives.
- 5.4 The SQW evaluation also focuses on the CCR first investment of £38.5m in the Compound Semi-Conductor Foundry and considers the other investments that had been made when the evaluation was undertaken in the autumn and those potential investments being considered by the CCR.
- 5.5 The major investments to date are as follows:

Wider Investment Fund investments	CCR funding £'m	Other match funding £'m	Funding levered in as a result of investment £'m	Forecast total funding invested in the region £'m
Compound Semi-Conductor Foundry – this is a repayable loan	38.5	6.0	375.0	419.5
Metro Plus – a programme of public transport investments across the region to improve connectivity and complement investment in the South Wales Metro – In RCT this is a £5.33m investment in Porth Interchange.	15.0	35.0	TBC	50.0
Metro Central – redevelopment of Cardiff Central Station to increase the capacity of the Station to cope with the increased footfall as a result of the South Wales Metro programme and provides an improved interchange with the intercity network and the bus network.	40.0	145.0	1,000.0	1,185.0
Graduate Scheme – a programme to create graduate internships and roles with regional employer, retaining talent in the region and improving SME's access to skills.	1.5	0.0	11.0	12.5
Housing Investment Fund – Gap funding	31.5	15.0	750.0	796.5

Wider Investment Fund investments	CCR funding £'m	Other match funding £'m	Funding levered in as a result of investment £'m	Forecast total funding invested in the region £'m
<p>scheme to enable housebuilding to proceed on sites where the upfront infrastructure costs currently make development unviable – this is a mix of grant and repayable loans. RCT has submitted three applications to initiate the process, with applications for the sites of the former Cwm Coking works, the former Aberdare Hospital site and land at Moss Place/Nant Y Wenallt in Abernant</p>				
<p>CREO Medical – A loan to Creo medical plc to support the development of cool plasma sterilisation and decontamination technology to kill bacteria and viruses including Covid19.</p>	2.1	0.0	10.0	12.1
<p>CS Connected – an investment in partnership with UK Research & Innovation Strength in Places Fund that brings together the cluster of private and public sector organisations across South Wales to invest in collaborative</p>	3.3	40.4	300.00	343.7

Wider Investment Fund investments	CCR funding £'m	Other match funding £'m	Funding levered in as a result of investment £'m	Forecast total funding invested in the region £'m
R&D and new skills creating approx. 1,200 new jobs and levers in major capital investment in new facilities.				
<p>Challenge Fund – to find, develop and scale innovative solutions to major societal challenges. The programme, which will run over three and a half years, aims to build local wealth, creating commercial opportunities for local authorities, public service providers and organisations across the CCR by inviting them to propose solutions to challenges across three priority themes:</p> <ul style="list-style-type: none"> • accelerating decarbonisation; • improving the health and wellbeing of the region's citizens; • supporting, enhancing and transforming communities. 	10.0	6.0	3.0	19.0
<p>Pharmaintelligence – an equity investment in Pharmatelligence, a Cardiff-based healthcare data</p>	2.0	0.0	TBC	2.0

Wider Investment Fund investments	CCR funding £'m	Other match funding £'m	Funding levered in as a result of investment £'m	Forecast total funding invested in the region £'m
specialist. Pharmatelligence already has a world-leading reputation in the analysis of real-world data for healthcare organisations and major pharmaceutical companies.				
Zip World – Tower Colliery – a loan to Zip World to bring its very successful range of extreme and family experiences to South Wales and replicate the success it has achieved in North Wales.	4.4	3.0	TBC	7.4
Total to 31.12.20	148.3	250.4	2,449.0	2,847.7

- 5.6 A significant proportion of the investments are loans and where possible a financial return on the investment is expected in order that public funds are used effectively, and the Wider Investment Fund is sustainable after the 20 years period. Clearly, not all investments can be repayable, sometimes such as with the Metro projects, there is a requirement for public sector one-off investment.
- 5.7 The table evidences that the investments made to-date are enabling further investment from both governments, the private sector and other partners in the public sector such as the three universities in the region. The multiplier to date is for every £1 of CCR City Deal investment from the Wider Investment Fund has enabled a further £18 of other investment in the region.
- 5.8 There are also a range of other potential investments being evaluated by the CCR City Deal Office and these include major investments that seek to draw down other UK Government Funding. For example, potential

future projects include:

- UK Government Strength in Places Funding to bring in £70m to support the development of Cyber Security and Creative Industries Clusters;
- Creating a Strategic Premises Fund that provides predominantly loan funding to support the development of stalled commercial sites, on a similar basis to the Housing Investment Fund; and
- Creating an Innovation Investment Fund that seeks to support businesses in the CCR priority sectors of Artificial Intelligence, Compound Semi-Conductors, Creative Economy, Cyber Security, Energy & Environment, Fintech, Life Sciences, and Transport & Engineering, to scale up and grow;
- Skills development, such as shared apprenticeships and a cyber masters academy; and
- Full fibre connectivity across the region, which also considers rural connectivity.

5.9 In addition to the investments being made by the CCR, there is a wide range of other interventions being undertaken that bring together businesses and organisations across the region to facilitate economic growth, and to apply for other forms of funding that support the regional economy. For example:

- **Cluster development** – bringing together businesses across the region that operate in the same or similar markets stimulates business development and growth, and often has a very positive impact on other issues such as an organisations carbon footprint through procuring other services locally;
- **Economic data and understanding the regional economy** – developed a comprehensive data set that informs decision making and investments, and also supports measuring outcomes;
- **Influencing and promoting CCR** – the CCR has been able to secure seats on key UK Funding Councils and research bodies to raise the profile of the region and to help support funding applications;
- **EV Charging developments** – the CCR has led on a number of projects securing WG funding to help fund the expansion of the EV charging points, for example the CCR has secured funding to support councils to establish charging points for taxis across the region and has submitted a bid to fund EV charge points for public access in a number of public car parks across the region.

5.10 It is estimated that the approved £148m of investments, matched by c.£250M funds with projected leverage of other funding of £2BN, will create an initial 2,500 jobs. The Department of Transport has estimated that the Metro and Metro Central developments will create an additional 22,000 jobs both direct & indirect as a result of the investment.

5.11 We are also pleased to note that:

- Zip World is expected to create 58 full time and 20 part time direct jobs locally. Indirect employment is difficult to estimate at this point, but the expectation is that there will be significant local tourism and hospitality opportunities created. A 2018 study estimated that since its inception Zip World had generated over £250 million of tourist spend to the North Wales economy;
- The three Housing Investment Fund sites in RCT have an investment value of over £241 million and are anticipated to generate up to 190 direct jobs with a potential for over 250 indirect jobs.

5.12 As a result of the effective governance and working arrangements, South East Wales is well placed to introduce the Corporate Joint Committees being introduced by Welsh Government. The new CJC's can build upon the infrastructure and the working arrangements already in place, and also have the opportunity to take on more responsibilities, in particular functions of Welsh Government, such as from within the Economy and Transport Department, and its arms-length public bodies Careers Wales, and Natural Resources Wales.

South East Wales Metro

5.13 During 2020, the Core Valleys Lines were transferred from Network Rail to Transport for Wales and the transformational works in upgrading and electrifying 170km of track have started. The pandemic has had a significant adverse impact on public transport and Transport for Wales in particular. Recognising the low levels of usage, Transport for Wales has in the New Year started significant changes in the Core Valleys Lines to Aberdare, Merthyr, Treherbert and Rhymney.

5.14 The revised timescale for completion of the upgraded rail infrastructure and the deployment of new trains is now 2024, with the pandemic resulting in the receipt of the new trains being delayed by at least 6 months. The new Metro will be transformational for towns such as Porth, Aberdare, Pontypridd and Abercynon with high frequency fast trains running from four trains an hour in Aberdare and Porth, to eight trains in Abercynon and twelve trains an hour through Pontypridd to Cardiff.

5.15 The investment programme will also see improvements and upgrading of existing stations, signalling and facilities.

5.16 Within Rhondda Cynon Taf, good progress is being made in constructing the new £100m rail depot at Taffs Well, and the Council is currently exploring options with Transport for Wales to develop a new railway station that serves Treforest Industrial Estate.

5.17 Good progress is also being made in developing the Transport Hub. The

Porth Transport Hub is being substantially funded by a combination of Welsh Government, City Deal and Council investment as part of the £50m Metro+ Programme. It will see a modern bus/rail interchange being created at the rail station to enable seamless travel between bus and rail in a project that will also cater for cycles and taxis. The scheme will provide 7 bus bays, waiting and ticket facilities, together with a new access for buses. The project is the centre piece of the Station Quarter element of the Porth Regeneration strategy and will commence in the next few months and be available for public use during the spring of 2022.

5.18 There are also a series of WG funded studies which have potentially significant impacts for RCT are also progressing via the CCR Transport Authority and TfW with regard to:

- Extending passenger rail services beyond Aberdare to Hirwaun,
- Developing a mass transit corridor from Cardiff through NW Cardiff into RCT and on to Beddau and Pontyclun,
- Strategic rail-based park and ride proposals to serve the eastern end of the A473 corridor near Upper Boat,
- Improving regional east-west transport connectivity across the mid-valleys (i.e. Usk – Pontypool – Newbridge – Ystrad Mynach – Abercynon – Pontypridd – Pontyclun – Bridgend – Porthcawl).

5.19 Before Christmas, the larger office building at Llwyn Cadwyn was completed and handed over to Transport for Wales, as its headquarters bringing jobs and footfall into Pontypridd town centre. The Metro improvements are also the catalyst to support the Council's investment in the key transport hubs such as Aberdare, Porth and Pontypridd, with further developments in these towns planned to capitalise on Transport for Wales investment.

6. EQUALITY AND DIVERSITY IMPLICATIONS

6.1 An Equality Impact Assessment screening form is not necessary for this report as it is for information purposes only.

7. CONSULTATION

7.1 There is no requirement to consult on this report, it is primarily for information.

8. FINANCIAL IMPLICATIONS

8.1 The CCR City Deal Investment Fund comprises two distinct elements:-

1. **£734m – METRO scheme.** This will comprise £503m, Welsh Government funding provided over the first seven years of the

Investment Fund, from 2016/17 to 2022/23; £106 million from the European Development Fund, (which is committed and guaranteed following Brexit by both UK and Welsh Government); and £125m from UK Government. This element will be the direct responsibility of Welsh Government.

2. **£495m – Regional Cabinet Fund**, comprising the ten constituent councils’ commitment to contribute £120 million over the 20 year period of the Investment Fund, together with the £375m from UK Government, for investment in infrastructure, housing, skills and training, innovation, business growth and “Metro plus” transport proposals. This element will be the responsibility of the CCR Regional Cabinet.

8.2 The £375m of funding provided by the UK Government to the Regional Cabinet Fund, is funded on a staged basis over 20 years, £10m a year over the first 5 years, £22m a year over the following 10 years and £21m a year over the remaining 5 years.

8.3 The required council capital contribution is £120 million and this Council’s share is £18.925 million (at 15.8%).

8.4 Due to the timing differences between the receipt of HMT financing and investment outflows there will also be a need to for the councils to fund this temporary shortfall and this is called the “cost of carry”.

8.5 The s151 officers have regularly modelled a number of potential scenarios, agreeing appropriate assumptions in respect of variables such as the profile of likely spend, interest rates for borrowing, the split of capital and revenue funding and the treatment of inflation. The result of this detailed work provides a prudent funding model which allows each of the ten councils to plan ahead and budget for the additional costs. The latest forecast for the timing of required council contributions is shown below.

	Total	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£’000	£’000	£’000	£’000	£’000	£’000	£’000
CCR Total	120,000	24,210	12,308	0	4,200	26,428	52,854
RCT	18,925	3,818	1,941	0	662	4,168	8,336

8.6 The requirement for cost of carry is currently forecast to begin in 2022/23 and will be returned from 2031/32 but as referenced above this is subject to regular review.

8.7 The overall funding requirement remains within the Affordability Envelope originally set out and agreed by all councils.

- 8.8 This Council has set aside an annual revenue base budget to fund our required contribution and will utilise this in the most appropriate and financially beneficial manner in terms of revenue / cost of capital / borrowing and equalise the cost to this Council across the term of the investment fund. This includes our contribution to the running costs of the office of the Capital Region.
- 8.9 As part of the terms of the City Deal, the CCR Cabinet will be challenged to evidence the impact of the £495m Investment Fund in order to unlock UK Government funding. Every five years a gateway assessment will be undertaken, which consists of an independent review to evaluate the economic benefits and economic impact of the investments, including whether the projects have been delivered on time and on budget. The gateway reviews are to occur at Years 5, 10 and 15, with the first before 31 March 2021. Therefore, funding from Year 6 onwards will be subject to the agreed performance objectives being achieved at each of the gateway stages. If a future Investment Fund gateway is not achieved, leading to a reduction or cessation of City deal grant, then it will be the responsibility of the ten constituent councils to manage the financial impact of this within their existing council budgets.

9 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

- 9.1 There are no legal implications arising from the recommendations in this report.

10 LINKS TO THE CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT

- 10.1 This report is primarily an information report on progress in respect of the first five years of the Cardiff Capital Region. No significant policy change decisions are being taken in this report.

11 CONCLUSION

- 11.1 The economy of South East Wales has historically underperformed the majority of other regions of the UK, which is reflected in the high levels of poverty and deprivation across the CCR. The ten constituent councils need to act now, and together, to accelerate the economic growth of the CCR. The Growth Commission Report summed up the position very concisely:

“The international evidence shows us that those city-regions that adopt strategies that combine together economic development with spatial development, infrastructure development, improved sustainability and more effective human services can find a path to increased prosperity and inclusion. This evidence also shows us that such progress is

achieved over 5-10 year cycles and through integrated strategies supported by combined efforts between different governments. It will not be achieved in the short term, or solely by individual projects, and one-off or fragmented, actions. We encourage the leaders of the 10 Authorities, the Welsh Government and the UK Government to act in concert now, and for the long term, to create unified governance, an increased rate of investment and deeper delivery capability that can be sustained for the two to three cycles necessary to achieve success. We see an urgent need to make progress and achieve a rapid mobilisation of efforts.”

- 11.2 Four years on from the publication of the Growth Commission Report, the independent UK Government commissioned review is positive in respect of the progress the ten local authorities have made to develop a coordinated, economically focused, and well organised City Region providing an excellent foundation to deliver the next fifteen years of the City deal funding programme, with doubling of the available grant funding and creating a series of sustainable evergreen funds that can support economic growth for many years to come.