

Annex A

ECONOMY, INFRASTRUCTURE & SKILLS COMMITTEE INQUIRY: CITY DEALS AND THE REGIONAL ECONOMIES OF WALES JULY 2017

1. Overview and Context

- 1.1 This submission is an overview of the UK Government's position towards regional policy and its role within cities and growth deals in Wales.
- 1.2 For Britain to prosper every part of the country needs to fulfil its potential. However, no two places are the same and the people who live, work and do business in each place know best what their area needs to prosper and grow.
- 1.3 We believe that giving local areas powers and freedoms to help support economic growth, create jobs and drive investment is a key part of achieving a Britain that works for everybody. It is this principle which lies at the heart of our City and Local Growth policies, and why we are entrusting local areas with responsibility for decisions that affect their area.
- 1.4 The UK Government is presiding over an unprecedented shift in power, empowering local areas as engines of economic and civic renewal and radically transforming the landscape of local responsibility and decision making.
- 1.5 The work started in 2011 with the creation of the post of Minister for Cities, and has introduced City Deals, Growth Deals, and Devolution Deals to promote this policy.
- 1.6 When we started this journey the UK was one of the most centralised countries in the advanced world. The proportion of spending controlled by the centre was greater than in the US, Germany, Spain, Canada, and had been rising since 2006.
- 1.7 Economic evidence suggested that devolution of decision making may have real benefits by:
 - Developing better policies, by designing them to meet the needs of different places;
 - Allowing room for local partners to innovate and experiment with new ways of working
 - Providing better accountability by reducing the distance between decision makers and their electorates
 - Improving the alignment between complimentary policy areas that are currently owned by different arms of government – including planning, infrastructure, skills and business support.

- 1.8 The 2011 Localism Act included the Core Cities Amendment. This offered local councils the opportunity to submit plans on how they planned to promote local economic growth. If successful, councils would be invited to negotiate deals with central government for greater autonomy over planning and financial matters.
- 1.9 This was the basis for the consultation document, *Unlocking Growth in Cities* which spoke of a shift in powers available to cities. This led to the launch in December 2011 of the first wave of city deals focused on the eight largest cities outside London and their wider economic areas. Each deal was bespoke and reflected the different needs of the individual places.
- 1.10 Launched in October 2012, the second wave of city deals invited twenty cities and their wider areas to negotiate for their own package for growth.
- 1.11 A City Deal is an agreement between Government and a city or city region. It gives the city and its surrounding area certain powers and freedom to:
- take charge and responsibility of decisions that affect their area
 - do what they think is best to help businesses grow
 - create economic growth
 - decide how public money should be spent
- 1.12 A Growth Deal is very similar in purpose, but is less geographically restrictive.

2 City Deal in Wales

- 2.1 The Government has been clear that a one size fits all solution from Whitehall will not work. Every part of the country needs to fulfil its potential in its own way, and this is particularly true in Wales, Scotland and Northern Ireland where the Devolved Administrations are key partners in decision making.
- 2.2 In the 2015 Spring Budget we announced that we would open negotiations with the Scottish and Welsh Governments over City Deals in the Devolved Administrations as an opportunity for the UK Government and Devolved Administrations to work together. This has led to an expansion of Cities Deals, allowing all parts of Wales to benefit from the transformational opportunity of this key UK Government policy initiative.
- 2.3 The signing of the City Deal agreements between the Cardiff Capital Region and the Swansea Bay City Region have been the first results of this partnership and we now look towards a Growth Deal in North Wales, and potentially to a future deal in Mid-Wales.
- 2.4 Just as in England there is not a one size fits all approach to regional growth in Wales. Many businesses and communities in Wales don't just look North to South but also East

to West. It is therefore important to consider each region on an individual basis as to what interventions are needed to stimulate growth be it a growth deal, a concentration on sector deals through our Industrial Strategy, or a combination of approaches.

- 2.5 The emerging Cities and Growth regions across Wales are not in competition with each other and will need to work collaboratively to ensure there is sustained, balanced growth across all of Wales.

Responses to Specific Questions

3 The current position with regard to the signed Cardiff Capital Region and Swansea Bay City Deals and the next steps planned to take them forward.

Cardiff Capital Region City Deal

- 3.1 Signed on 15 March 2016, the Cardiff City Region Deal is an agreement between the UK government, the Welsh government and the ten Local Authorities within the region. As part of the deal, an £1.2bn infrastructure investment fund was agreed and funded by contributions of £500 million from both the UK and Welsh Governments and £120 million from the 10 local authorities in the Cardiff Capital Region over 20 years. As part of its contribution, the UK Government has committed to supporting the development of capabilities in Compound Semiconductor Applications and will invest £50 million to establish a new Catapult Centre in Wales.
- 3.2 The style of the deal which was agreed with the Cardiff Region means that it is for the local area to take responsibility for implementation of the deal. It is therefore for them to explain the progress which has been made so far and how they intend to use their Investment Fund to drive growth in order to benefit people living across the region.
- 3.3 Future funding of the deal beyond the initial 5 years is subject to the region demonstrating success, which will be tested via the Gateway Review process. These will be held at 5 yearly intervals throughout the deal term and will ensure that there is an appropriate balance between local freedom to deliver and proper scrutiny and accountability of public money.
- 3.4 Since the signing of the Heads of Terms Agreement a lot of progress has been made by the local partners on the structures and arrangements needed for delivery of a deal. For example the establishment of the Cardiff Capital Region Joint Cabinet, agreement of a Financial Assurance Framework and adoption of a Joint Working Agreement.
- 3.5 The challenge for local partners is now to engage with people who are living, working and looking to invest in the region to ensure they understand what the deal means to them, what opportunities there are, and how they can get involved.

- 3.6 I was delighted when the first project of the Deal was announced – an investment of £37.9 million to support the development of a Compound Semiconductor industry cluster in south-east Wales.
- 3.7 More new and innovative projects now need to be brought forward in collaboration with the private sector to drive growth in the region. The UK Government are hoping now that the Joint Cabinet have come out of shadow there will be a real push to engage with business and start to bring projects forward.
- 3.8 The UK Government is still working closely with the other partners on the implementation of the deal such as the co-designing employment support. This Work and Health Programme (WHP) will be delivered in conjunction with Local Authorities. The Department of Work and Pensions (DWP) has been engaging with the relevant Local Authorities, Welsh Government and other key stakeholders on the design of WHP and have regular meetings with the Devolution Deal Areas, such as Cardiff, to support implementation. With the new emphasis on partnership working they are worked closely with local partners and stakeholders to tailor the design of the national offer of the Programme to meet their local needs, building on local knowledge.
- 3.9 The Work and Health Programme hold monthly Business Engagement Forums (BEF) with Devolution Deal Areas (DDA's) and the Cardiff City Deal BEF includes Welsh Government Representation. They are working closely together to identify implementation activities within the area, how to integrate the Work and Health Programme with existing local provision and Performance Management in live running.

Swansea Bay City Region City Deal

- 3.10 On 20 March 2017, the UK Government, Welsh Government, and the leaders of the four councils signed the Heads of Terms for the Swansea Bay City Region City Deal. The Deal commits £1.2bn in funding, with £241m from the UK and Welsh governments, £360m from the public sector and universities, and an anticipated £673m in private investment.
- 3.11 The model for the Swansea Bay City Region Deal is different from the Cardiff Region, and reflects the evolving approach to City Deals. Local partners have already undertaken a lot of work to develop and prove the outline case for 11 individual projects which together will help to deliver their vision of An Internet Coast.
- 3.12 The partners are now pressing ahead with developing a detailed implementation plan setting out how deal commitments will be delivered. They will be supported by UK Government Officials throughout this process.
- 3.13 The first stage is a period of business case finalisation for the projects. The local partners are preparing a 5 Case Business Cases for each project, which will need to be

approved by both the UK and Welsh Governments. The timescales for approval very much depend on the speed and quality of work from the local area, but we believe they are on course to be able to access money for initial projects in the 2018-19 financial year.

3.14 Concurrently with this we are in discussions with the local area to finalise the Governance Arrangements and Joint Working Agreement. This was a key part of the Heads of Terms Agreement and will ensure that the private sector are able to provide a strategic business voice in a wide range of decisions. Achievement of the deal will be heavily reliant on investment from the Private sector and so it is essential that they are able to shape the strategic direction of the projects.

4 The intended impact of the City Deals and the way in which this will be governed, funded and monitored.

4.1 The impact of City Deals varies in each region and success will look different in different places, but it should mean:

- empowered local leaders that are able to drive real change in their city by looking outwards to the private sector, rather than up towards central government;
- businesses that benefit from dynamic new partnerships with civic leaders that yield new opportunities for investment and growth; and
- local people gaining access to new job opportunities, better local transport and a housing market that is more responsive to local needs.

4.2 Cardiff has projected that over the deal's lifetime it will deliver up to 25,000 new jobs and leverage an additional £4 billion of private sector investment.

4.3 Swansea suggest that the deal will boost the local economy by £1.8 billion, and generate almost 10,000 new jobs over the next 15 years.

4.4 Deal governance is essential and extremely important to the UK Government. It has to be agreed by regional deal partners the UK Government and the Welsh Government. Appropriate governance and locally owned implementation plans must be in place and agreed before funding can be released; and this should (within the Welsh local government legislative framework) provide opportunity for all partners e.g. business sector representatives, to influence decision making.

4.5 As each deal is bespoke and unique in nature, governance is tailored to the local areas and is therefore specific to each deal. We do not expect to see identical structures within each of the Welsh deals, but to see proposals which reflect the nature of the partnerships and specific stakeholders within their deal.

4.6 City Deals are long term partnerships, with Government funding being provided over a 20 year time frame. The oldest Welsh deal is only 18 months old and much of the

economic impact will only be fully seen in the mid to long term. Therefore we will need robust monitoring arrangements in place for each deal. We are currently considering ways in which all Welsh Deals can be jointly monitored by the UK and Welsh Governments looking to lessons learned in Scottish Deals.

4.7 There is also an important role for both the UK Parliament and the National Assembly for Wales to hold the deal partners, and the respective Governments, to account for deal implementation. It is for those bodies to decide how this can best be achieved.

5 The potential benefits offered by a possible Growth Deal for North Wales.

5.1 City and Growth Deals are not a 'top down' concept, it is a bottom up ask from the region. As such the specific benefits will be heavily dependent on 'the ask' which comes forward. However, we believe it has the potential to unlock significant economic growth across the whole of the region, strengthen current economic links with the North of England and help to ensure that the border between England and Wales does not become a barrier to business, education or communities.

5.2 The UK Government will meet its manifesto commitment on a North Wales Growth Deal. The Growth Deal is at the earliest stages, and we have not yet entered formal negotiations. However there is considerable momentum building around a deal. Since the General Election, Wales Office Ministers have visited North Wales three times to meet with a wide range of partners, underlining our support and to discuss emerging ideas. We have also begun early discussions with the Welsh Government to clarify their support and commitment for a deal.

5.3 A deal is not guaranteed. Deals agreed already have demonstrated that they are able to meet the following criteria and we will need to see the same from North Wales:

- stronger governance across the functional economic area, so decisions necessary for the growth of the area as a whole can be taken quickly and effectively;
- significantly greater private sector input, expertise and resources; and
- strong political commitment and readiness to put resources into delivering the deal.

5.4 To ensure that we can realise the full potential of a Growth Deal for this region:

- we must be prepared to be ambitious
- we must be prepared to be innovative
- And we must be prepared to work together – at all levels of politics and business - to make the right decisions for the local area and continue to drive political and economic renewal.

5.5 City and Growth Deals are local proposals, it is for North Wales to make the UK and Welsh Governments an offer we simply cannot refuse.

6 The extent to which a similar growth deal approach could be of benefit to Mid Wales.

6.1 There is not a one size fits all approach to regional growth and it is important for the local area to consider for itself whether a Growth Deal would be beneficial. This will involve consideration of how it could fit in with wider economic plans and interventions to stimulate growth. It will also be important to consider the role that sector deals, a key pillar of the Industrial Strategy could play in mid-Wales.

6.2 We understand that the Growing Mid Wales Partnership has developed their own framework for action and has been developing its cross border links with the Marches Local Enterprise Partnership. We are keen that they consider the benefits of close working cross border and the benefits of working with the Midlands Engine. There has not yet been any formal discussions with the UK Government on a potential deal.

6.3 My officials will now be working with the Mid Wales Growth Partnership over the coming months to discuss their plans and assess how the UK Government can support them effectively.

7 The degree to which the growth and city deals could solve or exacerbate existing inequalities, both within and between regions.

7.1 The UK Government is committed to ensuring that all areas of the country grow. Whilst growth and city deals negotiated between government and local stakeholders can only ever be one part of the picture, they do provide local areas with an opportunity to help ensure balanced growth.

7.2 City and Growth Deals are not a panacea. They will not solve problems which can only be considered on a national or all Wales basis. Deals will only be successful if they are complimented by cohesive economic strategies from both the UK and Welsh Governments and they are just one tool available. However we are committed to working with all partners to maximise their benefit by targeting appropriate investment and tackling specific barriers.

7.3 City and growth deals are generated and driven from the local area, so they are best placed to decide what projects can be delivered to promote inclusive growth. This will not always require funding, but can involve the devolution of powers to local partners and closer working together: we are committed to genuine devolution. For example, the Cardiff City Region Deal, includes partnership working to co-design future employment support for people with a health condition or disability and/or long term unemployed joining up local public services in order to improve outcomes to this group.

7.4 All the Welsh Deals will include a skills programme which is aimed at helping local people take advantage of the opportunities the city deal can bring and to ensure skills and employment provision is responsive to the needs of local businesses and communities.

7.5 There is scope for the current City Deals and emerging growth areas to learn from a variety of different ideas and experiences of other city deals or even look internationally at building and enabling access to growth opportunities. Importantly each city and growth deal needs to have a variety of projects, as well as a variety of skills, across the whole economy that not only builds on local strengths but also diversifying to meet the future needs of the area.

8 The degree to which the growth and city deals co-ordinate with Welsh Government strategy.

8.1 It would be for the Welsh Government to respond directly to this question. However the UK Government has been clear that local areas should consider the wider economic policies of both Governments in order to leverage the most benefit for their region.

9 We would also welcome comparative views on approaches taken by other growth deals and regions across the UK

9.1 Since 2012, the UK Government has agreed 32 city deals worth up to £4.42 billion across England, Scotland and Wales to support local growth and create jobs. £665 million (15%) of this spend has been in Wales.

9.2 Each city/growth deal is bespoke and negotiated with and relevant to the local area. It is therefore hard to draw comparisons re: approaches. Each city deal is also at different stages within its development and implementation making it difficult to draw a direct comparison.

9.3 However, what lessons learnt tell us is that city / growth deal interventions are more likely to be successful where:

- There is clear/strong governance, leadership and political buy in
- There is a strong and sector diverse partnership
- The business community has a strong voice and is fully engaged in decision making
- That all partners are committed to an agreed local/regional vision and strategy for driving economic growth.