

 <b>Executive 13 November 2013</b>		<b>Agenda Item No.</b>  <b>8</b>
<b>Title</b>	Coventry and Warwickshire City Deal	
<b>For further information about this report please contact</b>	Bill Hunt 01926 456014  Mike Snow 01926 456800	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	Executive 14 November 2012	
<b>Background Papers</b>	City Deal Proposal Document, City Deal Negotiation Document, Papers to City Deal Steering Group and Leaders' Board	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	n/a

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Author
Head of Service		n/a
CMT	24/10/13	
Section 151 Officer	24/10/13	Mike Snow
Monitoring Officer	24/10/13	Andrew Jones
Finance	24/10/13	Mike Snow
Portfolio Holder(s)	25/10/13	Councillor Doody, Councillor Mobbs
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

## **1. SUMMARY**

- 1.1 This report updates members on the proposed Coventry & Warwickshire City Deal, including proposals for local authority funding contributions to the financing of specific proposals.

## **2. RECOMMENDATIONS**

- 2.1 That Executive notes the content of the Coventry & Warwickshire (CW) City Deal Negotiation Document, as set out at Appendix One.
- 2.2 That Executive notes that following the presentation of the proposals to Government by the CW City Deal's 'pitch team' it is Government's intention to conclude negotiations on the detail within the proposals as quickly as possible to enable the City Deal to be signed.
- 2.3 That Executive approves the cost sharing proposals to provide funding for the flagship Clearing House proposal, as recommended by the section 151 officers of the local authorities who will participate in the CW City Deal and notes that under these proposals this Council's estimated financial contribution would be in the range of £38 -52,000 per annum.
- 2.4 That Executive agrees to fund this Council's proposed share of the local authority funding for the Clearing House from New Homes Bonus (NHB) income during the remainder of 2013/14 (if required) and in 2014/15.
- 2.5 That Executive agrees to inform the Coventry & Warwickshire Local Enterprise Partnership (CWLEP) that, should the proposed future NHB top-slicing and transfer of an element of NHB to the CWLEP be implemented, it will require future funding of WDC's cost share contribution to the funding of the Clearing House to become the responsibility of CWLEP, financed from the income it received from the top-sliced NHB, with a future report back to Executive if appropriate.
- 2.6 That Executive agrees to also inform the CWLEP of its intention to propose that, should the proposed future NHB top-slicing proposals be implemented, the CWLEP should be formally requested to utilise all the funding it receives from this source to support the CW City Deal, with any excess remaining after this source of funding is used to cover the total funding contribution to the Clearing House, previously provided by the local authority sector, being used to create a local Business Investment Fund.
- 2.7 That Executive agrees that should the NHB top-slicing proposals not proceed the Council will continue to fund its cost share allocation from NHB beyond 2014/15.
- 2.8 That Executive agrees to explore a business case for this Council making a financial contribution to a local Business Investment Fund, regardless of the outcome of the NHB top-slice proposals.

## **3. REASONS FOR THE RECOMMENDATION**

- 3.1 After a long and iterative development process the final set of CW City Deal proposals were 'signed off' by the CWLEP Board and City Deal Leaders' Board in

September 2013. Subsequent discussions with Government led to one of these agreed proposals, regarding the provision of broadband connectivity to specific development sites, having to be dropped as it would not comply with state aid provisions. However, this was offset by the development, with Cabinet Office encouragement of a new proposal, relating to a request for capital funding for highway infrastructure improvements at a specific development site.

- 3.2 Following agreement of the proposals an accompanying narrative was developed the Project Team as Government requires their presentation within a proscribed format in a Negotiation Document. This document was submitted to Cabinet Office on 17 October 2013 and is attached as **Appendix One**.
- 3.3 The CW City Deal proposals are very simple and aim to promote significant economic growth within the Advanced Manufacturing and Engineering (AME) sector. Stimulating this sector, which has the potential to grow faster and furthest of all the employment sectors represented in the CW economic area, will create significant levels of new jobs and the additional productivity will benefit the overall aim of enhanced prosperity across the sub-region.
- 3.4 The CW sub-region has world leading AME brands, particularly in the automotive and aerospace sectors, expenditure on research and development (R&D) well above the national average, two universities with a world class reputations in engineering and advanced manufacturing research and unrivalled innovation centres (for example, the Motor Industry Research Association facility on the A5 corridor, the Manufacturing Technology Centre at Ansty, Warwick Manufacturing Group at Warwick University and the Serious Games Institute at Coventry University). Despite this all evidence suggests that, whilst economic performance and productivity is above the national average, the AME sector is underperforming against its potential capabilities.
- 3.5 The City Deal proposals are therefore aimed at delivering a significant improvement in AME productivity and sector growth with a particular focus on developing the growth potential of Small and Medium Enterprises (SMEs) within the sector. SMEs report that they face considerable barriers to realising their growth potential with skills gaps and shortages, a lack of suitable premises to sustain growth and a lack of accessible finance. These issues are further aggravated by the difficulties they face in navigating a complex, supplier led, business support environment and accessing national 'products' that should be readily accessible to them.
- 3.6 The flagship proposal to tackle these issues is the provision of a business friendly Clearing House to act as a Growth Hub for the AME sector through which companies can access the bespoke elements of support they currently lack and allow them to grow faster and further than would otherwise be the case. This is complemented by a secondary proposal that offers a series of specific 'offers' and 'asks' around simplifying the planning process for AME companies and developing a pipeline of major sites to accommodate the growth anticipated within the sector. Overall the City Deal aims to deliver a net growth of £745M in GVA (a measure of economic productivity) and the creation of over 15,000 new jobs across the CW City Deal area by 2025, both in the AME sector and the wider economy.
- 3.7 Having submitted the Negotiating Document a CW City Deal 'pitch team' met with ministers and officials from the Cabinet Office and the Department for Business, Innovation and Skills (BIS) on 24 October to seek agreement for the

proposals. The proposals were received favourably and Greg Clark MP has subsequently confirmed that Government will seek to conclude the final negotiations on the detail of the proposals as quickly as possible to enable the City Deal to be signed. It is anticipated that it may be possible to have concluded the negotiations before the end of the calendar year.

- 3.8 The flagship proposal of a Clearing House will require local funding. Given that the financial future of local authority funding is inextricably linked to the need for sustained growth in business rates it is considered reasonable that local authorities contribute to these costs. The City, County and District/Borough Councils within Warwickshire (although not Hinckley and Bosworth) already have an arrangement in place for the pooling of business rate growth. The ability to deliver future net business rate growth through this pooling arrangement, or directly to individual Councils, would be positively enhanced by the successful implementation of the City Deal proposals.
- 3.9 A high level 5 year business plan has been developed for the Clearing House, with assistance on costings provided by Grant Thornton LLP. These costings have been reviewed and challenged by the finance officers representing the Section 151 officers of all the participating local authorities. These cost estimates are presented in this report at **Appendix Two**.
- 3.10 Finance Teams have met regularly to ensure their understanding of the City Deal as it has developed and the Section 151 officers have developed a cost sharing methodology to apportion the running costs of the Clearing House across the 8 participating local authorities. The cost sharing proposals are set out at **Appendix Three** and considered in further detail in section 5.
- 3.11 This Council's contribution under the proposed cost sharing arrangement would be within the range of £38 -52,000 per annum. It is proposed that this is funded from the Council's NHB allocation. Depending on the outcome of the detailed negotiations needed to conclude the City Deal it is not yet known when the Clearing House will be established. Potential draw on this funding could be made during the final part of 2013/14 but it is considered more likely that the funding contribution will be required for all or part of the financial year 2014/15.
- 3.12 Government is currently proposing to top-slice local authority NHB allocations from 2015/16 onwards and allocate the top sliced funds to LEPs. Assuming these proposals are implemented it is recommended that the CWLEP is formally notified that this Council would cease to fund the Clearing House from that point in time with responsibility for that funding transferring to the CWLEP who will then have the new top-sliced income with which to fund it.
- 3.13 This is consistent with stance of all the other Coventry & Warwickshire local authorities who have concluded that, as the CWLEP will be receiving new income, removed from all the Warwickshire councils and the City Council that receive NHB through the top-slicing arrangement, all the local authority Clearing House funding contributions (with the exception of Hinckley & Bosworth's) should be therefore be met from this source. It is not anticipated that this proposal will be contentious but, if appropriate, a further report will be brought to Executive in the event that they are not received favourably.

- 3.14 However, if the NHB top slice proposals are not implemented it is recommended that this Council's contribution to the cost sharing proposals continues to be met from future NHB allocations.
- 3.15 Whilst the Clearing House proposals should make a significant impact on the wider prosperity agenda and the specific financial agenda of increasing business rate growth, economic growth could be further stimulated if it proved viable to establish a locally funded Business Investment Fund. Any such fund could be utilised to support job and business growth, inward investment and the regeneration of the physical (public and private) infrastructure across the CW City Deal area. If development of an 'evergreen' fund was possible this could provide a return on investment to supplement further investment or assist with the funding of essential services.
- 3.16 It is therefore recommended that officers investigate the business case for this Council to contribute to any such Fund and engage with any other council indicating a willingness to explore such an arrangement. It is known that Coventry City Council is establishing a £50m local Investment Fund through prudential borrowing, which has the potential to form the basis of a sub-regional Business Investment Fund subject to agreement on contributions from other partners.
- 3.17 It is recommended that this business case is developed regardless of whether the NHB top-slice proposals are implemented but that, if they are, the CWLEP are formally requested to make available to such a Fund any excess funding left from their NHB top slice income after the Clearing House costs have been met as described in 3.12.

#### 4. **POLICY FRAMEWORK**

- 4.1 **Policy Framework** – implementation of the City Deal proposals should significantly assist the delivery of the Sustainable Community Strategy's priority areas relating to Prosperity, Housing, Sustainability and Health and Well Being and contribute to the overall delivery of the Council's Vision of making Warwick District a great place to live work and visit.
- 4.2 **Fit for the Future** – Whilst it is difficult to be precise about the impact of a City Deal on the Fit for the Future programme the planned economic growth would assist the Council in meeting its financial challenges by directly delivering a higher business rates retention sum and indirectly through additional NHB monies and an increase in the Council Tax base as well as increased fees and charges income across the board.

#### 5. **BUDGETARY FRAMEWORK**

- 5.1 The summary of the financial implications of the Clearing House proposals are set out in Appendix 2. The Account Management Service will require new funding in the region of £1.8m per annum rising to £2.5m per annum. On the assumption that the 'asks' of Government for the funding of the Clearing House accommodation and fit out costs, wage subsidies and contributions to fund AME sector specialist staff are successfully negotiated the ongoing revenue running costs would need to be funded locally. This local funding could come from the local authority sector, CWLEP, private sector or other partners.

- 5.2 At this stage it has been assumed that the costs shown in Appendix Two would be met in full from the local authority sector. Clearly any contributions from other partners would reduce the overall cost to the sector and the individual cost share of any local authority.
- 5.3 A methodology for sharing the costs between the local authorities has been agreed by the section 151 officer in each of the 8 participating councils and is shown at Appendix Three. These cost sharing proposals are based on the following assumptions:
- The Government contributions as stated in the business plan are achieved
  - That NHB remains available as a funding stream after the next Comprehensive Spending Review in 2015/16. There is a risk that, along with other policy changes, of this funding being reduced or removed as a result of a future Comprehensive Funding review.
  - That, if the current proposals to topslice an element of NHB (currently assumed as underpinning the medium term financial strategies of all the Councils) for future payment to the CWLEP are implemented, the responsibility for the Clearing House funding would pass to the CWLEP through utilisation of the topslice funding they would receive.
  - That an agreed sharing of residual costs between the City, County and six District Councils is unlikely to be needed if the NHB topslice is allocated to fund the Clearing House as described above. However, for completeness, should there be residual costs these could be split on the basis of the average of Spending Baseline and Spending Power, ensuring that no one Council contributes more than 50% of costs.
  - That the quantum of New Homes Bonus topslice (based on the current Government consultation) is likely to exceed the estimated costs of the Clearing House which leaves potential capacity for the CWLEP to contribute financially to a local funded Business Investment Fund.
- 5.4 At this stage it has been assumed in principle support at a Council level to the concept of a locally financed Business Investment Fund. Section 151 officers intend to meet with the CWLEP's Access to Finance group to develop an appropriate business case and discuss the detail of interventions that could be made if such a Fund could be established.
- 5.5 Subject to confirmation that the City Deal will be approved the detail of legal form, procurement and staffing implications of the Clearing House will need to be defined and any financial implications to this Council assessed.
- 5.6 Future agreement will also be required on appropriate Exit Clauses and any cost sharing arrangements required were the Clearing House, need to be closed at any point post-establishment.

## **6. ALTERNATIVE OPTION(S) CONSIDERED**

- 6.1 The Council could decide not to remain engaged with the City Deal proposals or agree to any financial support of the Clearing House. These options have been rejected at this stage as they would squander a rare opportunity for additional investment and devolution. It would also be contrary to good partnership arrangements with neighbouring authorities.

## 7. **BACKGROUND**

- 7.1 In late 2012 the Government announced that Coventry was on the list of cities invited to make an application for a Wave 2 City Deal, following their introduction for London and the major 'Core Cities' earlier that year. Coventry City Council invited all the Warwickshire councils to participate in a sub-regional bid for an area coterminous with the CWLEP boundary. It was subsequently decided that the City Deal area should be extended to include the Hinckley & Bosworth Borough Council area given its strong economic links to the CW sub-region.
- 7.2 Members will recall that it was decided that the CW City Deal bid would be CWLEP led with a Project Team comprising of CWLEP and local authority staff. The Project Team would report to a Steering Group of local authority Chief Executives and a Leaders' Board of local authority leaders or their nominated deputies, with CWLEP representatives attending the meetings of both groups.
- 7.3 The remit of any City Deal is to stimulate economic growth through a combination of a set of local 'offers' enhanced by an agreement of specific 'asks' of Government to devolve freedoms or flexibilities to the locality in order to assist that growth. From the outset it was made clear that no new money would be made available to support a City Deal although it might be possible to agree a specific 'ask' involving an existing funding stream. However, Government has been consistently clear that its expectation was that a City Deal must be designed to tackle a specific evidenced need or barrier to economic growth and that any 'asks' had to be realistic, evidenced and demonstrate why they would enhance growth prospects.