

12 FEBRUARY 2018 MEETING

THE WIDER INVESTMENT FUND 2017/18 ANNUAL BUSINESS PLAN - MONTH 09 MONITORING UPDATE

REPORT OF CARDIFF CAPITAL REGION PROGRAMME DIRECTOR

AGENDA ITEM: 5

Reason for this Report

1. To provide Cardiff Capital Region Joint Cabinet (Regional Cabinet) with an update of actual expenditure, commitments and projected full year out-turn as at 31st December 2017 (Month 09), against the Annual Business Plan for the financial year 2017/18.
2. To provide Regional Cabinet with a general update on the position against the Wider Investment Fund for the five year period to 2020/21, when the first gateway review is scheduled to take place.

Background

3. Between 25th January and 9th February 2017 Council approval was received from the ten partnering local authorities within the Cardiff Capital Region for the establishment of the Regional Cabinet to deliver the commitments set-out in the Joint Working Agreement dated 1.3.17 ('JWA') in respect of the Cardiff Capital Region City Deal.
4. The Cardiff Capital Region Regional Cabinet is responsible for preparing the Joint Working Agreement (JWA) Business Plan in respect of the Wider Investment Fund totalling £495m. The JWA Business Plan will then be considered by the ten local authority partners in order to discharge the 'Reserved Matter'.
5. Until such time as the Reserved Matter is discharged, Regional Cabinet is only authorised to commit up to £50 million pounds of HM Treasury funding in respect of 'Initial Project Investments', as set-out section 2.4 of the Joint Working Agreement.

6. At its meeting of the 2nd May, Regional Cabinet approved its Annual Business Plan for 2017/18. The Annual Business Plan covered expenditure amounting to £20 million pounds, and reflected the first two years of HM Treasury funding.
7. The Month 05 monitoring position against the approved Annual Business Plan was reported to Regional Cabinet at its meeting of the 20th November 2017, which detailed an overall projected underspend of (-£9,432) at that time.

Issues

8. Clause 7.4.1 of the Joint Working Agreement states, “progress against each JWA Business Plan and Annual Business Plan should be regularly reviewed at the Joint Committee Meetings”. Whilst the JWA Business Plan is in the process of being developed, Regional Cabinet have taken the opportunity to make a number of decisions in respect of ‘Initial Project Investments’. Table 1 summarises the commitments arising from decisions taken to date.

Table 1. 2017/18 – 2020/21 Wider Investment Fund Budget

	Year 1 2016/17 £m	Year 2 2017/18 £m	Year 3 2018/19 £m	Year 4 2019/20 £m	Year 5 2020/21 £m	Total £m
HMT Funding	0.00	-20.00	-10.00	-10.00	-10.00	-50.00
<u>Planned Expenditure & Commitments</u>						
Wider Investment Fund ‘Top Slice’	0.00	0.74	0.74	0.74	0.74	2.97
Compound Semi-Conductor Project	0.00	19.26	9.26	9.26	0.73	38.50
Uncommitted Sums	0.00	0.00	0.00	0.00	-8.53	-8.53

Wider Investment Fund (WIF) ‘Top Slice’

9. The Update on Accountable Body Arrangements report approved by Regional Cabinet on 17th March 2017, set aside 3% of the total investment fund (£495m) to be used to fund the activities of a number of Regional Bodies and for Programme Development and Support.
10. This decision equates to setting aside £742,500 of resources annually and is referred to as the Wider Investment Fund ‘Top Slice’. Around 45% of the annual Top Slice (£331,297) has been allocated to progress the work of the Regional Bodies. In part, this sum was based on discussions with key stakeholders earlier in the year, regarding their proposals for taking forward the work of the Regional Bodies during 2017/18 and beyond. Details of actual costs and the full year projections at Month 09 are set-out in Table 2.

11. The balance (£411,203) will be used for Programme Development and Support and reflects the need to discharge the Reserved Matter before detailed work on bringing forward projects can 'ramp up'. The details at Month 09 are set-out in Table 3.

Table 2. Month 09 Position – Regional Bodies

	Budget	Mth 09 Actual	Projected Year End	Variance
	£s	£s	£s	£s
Regional Transport Authority	99,066	81,355	84,202	-14,864
Regional Skills Board	67,231	0	4,275	-62,956
Economic Growth Partnership	75,000	17,000	32,000	-43,000
Regional Business Council	90,000	2,620	10,000	-80,000
Total	331,297	100,975	130,477	-200,820

Regional Bodies: (-£200,820)

12. The Council approval received from the ten partnering local authorities included the need to progress the set-up of a number of regional bodies to support the work of Regional Cabinet.
13. Budgets have been established to cover the costs and/or financial contributions to the following regional bodies: Regional Transport Authority, Regional Skills Board, Economic Growth Partnership and the Regional Business Council. These budgeted sums assumed that Regional Bodies would be formally set-up during the first half of the year and would commence their programme of work during the second half of the year.

Regional Transport Authority Budget: (-£14,864)

14. The JWA committed to establishing a new non-statutory Regional Transport Authority (RTA). Whilst the RTA met several times during the year in shadow form, their first formal meeting only took place recently on the 25th January.
15. A budget has been allocated to meet the cost of two posts that have taken forward the work of the Regional Transport Authority during 2017/18. At Month 09, an underspend of (-£14,864) is projected which reflects the net position of the costs associated with the Technical Engineer and the Strategy Development posts.

Regional Skills Board: (-£62,956)

16. The Cardiff Capital Region is committed to strengthening the existing Learning, Skills and Innovation Partnership (LSKIP), which is to be re-launched as the Cardiff Capital Region Employment and Skills Board. The Board represents a wide range of stakeholders, including: business organisations; higher and further education; local authorities and the Welsh Government.

17. A budget has been allocated in 2017/18 to commence the aims of developing a skilled workforce and reducing unemployment. However, meetings continue under the existing LSKIP arrangements as discussions continue around the most effective way to take forward the work of the new Cardiff Capital Region Employment and Skills Board. For this reason, there are no actual costs at Month 09 and based on the information available at this time, a relatively small spend of £4,275 is projected to the year-end. The projection relates to the appointment of a Business Industry Liaison Officer from the 1st March. On this basis, an underspend of (-£62,956) is projected against the approved full year budget.

Economic Growth Partnership: (-£43,000)

18. A Cardiff Capital Regional Economic Growth Partnership has been established, as a multi-agency advisory board to help shape the development of the wider city-region economic development agenda. The board held its inaugural meeting on the 23rd January, where it discussed its Terms of Reference, the Economic Growth Strategy, and the Metro Central Investment Proposal.
19. At Month 09 development and support costs of £27,000 are projected as part of the work required in the commissioning of a wider economic growth strategy for the region. In addition, costs of £5,000 are projected in respect of the chairperson support and expenses. This projection will be kept under review as the partnership commences its work and the position will be updated as part of future reports to Regional Cabinet.

Regional Business Council: (-£80,000)

20. The fourth regional body that will advise and support the work of the Regional Cabinet will be the Regional Business Council. This will consist of key business stakeholder representatives from across the capital region, creating a single voice for business to influence the implementation of City Deal projects and initiatives.
21. An informal meeting of key stakeholders took place recently on the 25th January, where discussion took place on the strategic objectives of the Business Council. In addition, the group discussed matters such as the prioritisation of its proposed functions and its proposed Business Plan. The latter will be central to Regional Cabinet's consideration of any formal requests for financial support that are to be met from CCR City Deal funds.
22. The first formal meeting of the Regional Business Council is expected to take place before the end of this financial year. At Month 09 the actual spend amounted to £2,620 and relates to work undertaken in respect of website design and builds on the work started in 2016/17.
23. In summary, at Month 09 there is a projected underspend of (-£200,820) against the approved budget for Regional Bodies and is largely due to the fact that the bodies have only just commenced their work 'formally', although as noted, a number of informal meetings have taken place throughout the year. The projections will be kept under review as we

progress through the latter part of the financial year and updated accordingly.

Table 3. Month 09 Position – Programme Development & Support

	Budget £s	Mth 09 Actual £s	Projected Year End £s	Variance £s
Programme Dev' & Support	411,203	0	100,000	-311,203

Programme Development & Support Budget: (-£311,203)

24. This budget covers a range of professional advice and support that is needed to ensure that the work of Regional Cabinet (including any projects taken forward) is robust and has undergone the necessary level of challenge and independent verification to comply with requirements of the Assurance Framework.
25. A significant element of the budget has been set aside to fund the development of emerging projects as these are brought forward by the various 'Theme Leads'. At its meeting of the 12th February 2018, Regional Cabinet are due to consider a number of reports regarding proposed programmes and projects being brought forward by Theme Leads. Each of these proposals will require resources in order to develop the initial work undertaken and bring back detailed business cases in support of formal project funding.
26. At Month 09, a spend of £100,000 is projected against the Programme Development & Support budget. This projection assumes that some spend on the proposals highlighted above may be incurred in the latter part of the financial year, although it is acknowledged that the majority of the spend is expected to take place during 2018/19 and beyond.
27. The budget is projected to be underspent by (-£311,203), and is largely due to the requirement for Regional Cabinet to prepare and approve its JWA Business Plan and seek approval from partnering Councils in order to discharge the 'Reserved Matter', which it is intended will be done by 31st March 2018.

Compound Semi-Conductor Project

28. The balance of the Wider Investment Fund will be used to support projects as set out in the JWA Business Plan, when approved. However, as set out above, Section 2.4 of the Joint Working Agreement restricts Regional Cabinet to committing funds up to £50 million in advance the Reserved Matter being discharged.
29. At its meeting of 14th July 2017, Regional Cabinet received and approved proposals in respect of the Compound Semi-Conductor (CSC) Project. This is the only project which has been approved to date and Table 1 above sets out the position in respect of planned expenditure and commitments against the £50 million HMT Treasury funding, currently available to Regional Cabinet.

30. However, the overall CSC project budget approved in 2017/18 amounts to £24.66m, as set-out in Table 4.

Table 4. Month 09 Position – Compound Semi-Conductor Budget

	2017/18 £m	Month 09 Actual £m	Projected Year End £m	Variance £m
<u>CSC Foundry Ltd Project:</u>				
Project Delivery & Implementation	0.45	0.30	0.45	0.00
CSC Foundry Investment	24.21	11.68	20.52	-3.69
Total	24.66	11.98	20.97	-3.69
<u>Funded By:</u>				
HMT Revenue Grant	-19.26	-11.98	-19.26	0.00
RCT Council Bridge Loan	-5.40	0.00	-1.71	3.69
Total	-24.66	-11.98	-20.97	3.69

31. The planned expenditure requirements of the CSC Project in 2017/18 exceeded the availability of HMT Grant, as set-out in the approved Annual Business Plan by £5.40 million. Therefore, Rhondda Cynon Taf (RCT) Council has agreed to meet the funding shortfall through the provision of Council Bridging Loan.
32. At Month 09, funding amounting £11.98 million has been approved for drawdown by the CSC Project's Board. The sums are based on progress made against approved contract costs, planned phases of work carried out and the approved Project Delivery & Implementation budget.
33. At Month 09 the funding requirements for the full year are projected to be in the region of £20.97 million, and includes the drawdown for the final quarter of the year. This will utilise the remaining HMT Grant balance available in 2017/18 and will also require a Council Bridging Loan facility amounting to £1.71 million.

Month 09 Summary

34. At Month 09 an overall underspend of (-£512,023) is projected against the Wider Investment Fund Annual Top Slice budget of £742,500. The remaining sum approved as part of the Annual Business plan is fully committed in the current and future years to 2019/20. £8.528 million of the £50 million HMT Treasury funding remains uncommitted at this time, which will not be available until 2020/21 at the earliest.
35. The projected underspend is a result of the need to discharge the 'Reserved Matter' before project activities and detailed support work can ramp up. The budgets will continue to be monitored and reviewed through the rest of the financial year and reported back to Regional Cabinet at regular intervals.
36. Subject to the final out-turn position, Regional Cabinet may wish to consider the setting-up of an 'Earmarked Reserve' in respect of the Programme Development & Support budget. The purpose of the reserve

would be to provide additional resources in future years to supplement the annual budget value which is limited to 3% or £742,500.

HMT Grant – Revenue/Capital

37. At its meeting of the 15th January 2018, Regional Cabinet approved:
- “the use of part of its Local Authority £120 million capital funding (referred to in the Joint Working Agreement as the Councils’ Contribution) to meet part of the CSC project funding requirements as set-out in this report, thereby preserving part of the HMT revenue grant funding to support projects which come forward that have revenue funding requirements;”*
38. The approval is subject to the Reserved Matter being discharged by the 31st March and is aimed at preserving the £50 million of UK Government revenue funding for future revenue based projects. Therefore, in the event that the Reserved Matter is discharged in time, the HMT Funding line in Table 1 will be largely replaced by Council Contributions.

Reasons for Recommendations

39. To inform Regional Cabinet of the actual expenditure, commitments and the projected full year out-turn as at 31st December 2017 (Month 09), against the Annual Business Plan for the current financial year.
40. To provide an update against the Wider Investment Fund covering the 5 year period to the first gateway review in 2020/21.
41. To seek agreement from Regional Cabinet for the establishment of an “Earmarked Reserve” for the balance of any unspent Programme Development & Support budget, in order to provide additional resources in future years to develop investment proposals and undertake due diligence work.

Financial Implications

42. The financial implications are set-out within the main body of this report.

Legal Implications

43. This monitoring report does not raise any direct legal issues, given the information set out in the body of the report.
44. In respect of recommendation C, the Joint working Agreement (in relation to the delivery of the Cardiff Capital Region City Deal) provides that the Regional Cabinet (the joint committee) may delegate any of the powers which are conferred on them to such person, to such extent, in relation to such matters and on such terms and conditions as they think fit.
45. Legal Services are instructed that the creation and operation of an Earmark Reserve will not conflict with any of the Welsh Government or HMT funding conditions.

Recommendations

It is recommended that Cardiff Capital Region Regional Cabinet:

- a) Notes the actual expenditure, commitments and projected full year out-turn as at the 31st December 2017 (Month 09) against the approved Annual Business Plan;
- b) Notes the position against the Wider Investment Fund over the 5 year period to the first gateway review due in 2020/21 and the intention to preserve HMT grant funding in the event that the Reserved Matter is discharged by the 31st March 2018;
- c) Delegate's authority to the Joint Committee's Section 151 Officer in consultation with the Regional Cabinet Chair, Lead Chief Executive and Programme Director to establish and operate an "Earmarked Reserve" in respect of the Programme Development & Support budget, subject to the final out-turn position, compliance with the Accountable Body's financial policies and procedures and the use of the Earmarked Reserve being monitored and reported to Regional Cabinet in accordance with the provisions of the Joint Working Agreement.

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06 February 2018