EDUCATION AND ECONOMY SCRUTINY COMMITTEE 5/11/20

Present: Councillor Paul Rowlinson (Chair)
Councillor Elwyn Jones (Vice-chair)

Councillors: Freya Bentham, Steve Collings, Aled Evans, Selwyn Griffiths, Alwyn Gruffydd, Judith Humphreys, Gareth Tudor Morris Jones, Cai Larsen, Beth Lawton, Dewi Owen, Dewi Roberts, Elfed Powell Roberts and Mair Rowlands.
Ex-officio Member: Councillor Edgar Owen.

Officers present: Vera Jones (Democracy and Language Services Manager), Bethan Adams (Scrutiny Advisor) and Eirian Roberts (Democracy Services Officer).

Present for item 5:
Councillor Dyfrig Siencyn (Council Leader/Chair of the North Wales Economic Ambition Board)
Councillor Gareth Thomas (Cabinet Member – Economy and Community)
Alwen Williams (North Wales Economic Ambition Board Portfolio Director)
Sioned E. Williams (Head of Economy and Community Department)
Iwan Evans (Monitoring Officer*)
Dafydd Edwards (Head of Finance / Section 151 Officer*)
Dilwyn Williams (Chief Executive)
Sian Pugh (Group Accountant - Corporate and Projects)

*(*Ambition Board statutory officers)*

1. APOLOGIES

Apologies were received from Anest Gray Frazer (Church in Wales), Dilwyn Elis Hughes (UCAC) and Dylan Huw Jones (NASUWT).

2. DECLARATION OF PERSONAL INTEREST

No declarations of personal interest were received.

3. URGENT ITEMS

None to note.

4. MINUTES

The Chair signed the minutes of the previous meeting of this committee held on 8 October 2020 as a true record.

5. NORTH WALES ECONOMIC GROWTH

Submitted - the report of the Council Leader / Chair of the Ambition Board noting that a package of documents needed in order to reach Final Agreement for the North Wales Growth Deal with the UK Government and Welsh Government had been prepared. It was noted that the intention was to submit the report to Cabinet on 24 November 2020 and subject to the Cabinet's decision, a report would be submitted to the full Council on 3 December 2020, recommending for the Council:

- *To approve the Overarching Business Plan as the document that sets out the arrangements for delivering the North Wales Growth Deal as the basis for entering into the Final Agreement and acceptance of the Grant Funding Letter with the UK and Welsh Governments.*
- *To approve entering into Governance Agreement 2, and specifically, adopt the arrangements for Scrutiny of "Governance Agreement 2: Appendix 3" of this as the basis for completing the Final Agreement and acceptance of the Grant Funding Letter with the UK and Welsh Governments.*
- *To authorise that the Accountable Body, Gwynedd Council, signs the letter of the Grant Funding Proposal on behalf of the Partners.*
- *To recommend approval of the method used to calculate the cost of borrowing notionally required to facilitate the negative cash flow for the Growth Deal, and the corresponding annual partner contributions required to meet this cost as set out in GA2 (and in paragraphs 5.5 - 5.7 of the report); and*
- *That the Leader, in consultation with the Chief Executive, the Monitoring Officer and the Section 151 Officer, be granted delegated authority to agree minor changes to the documents with the Partners as necessary to complete the agreement.*

Prior to recommending that the Council take these decisions, the scrutiny committee was required to consider whether the Business Plan, Governance Agreement 2, the funding model and the operational arrangements were clear and robust to achieve the objectives of the Growth Agreement for the benefit of the businesses and residents of Gwynedd.

The Chair welcomed the Leader, in his capacity as Chair of the Ambition Board, the Portfolio Director and other officers to the meeting, emphasising that the report was the culmination of many years' work in developing the plan.

The Chair of the Ambition Board was then invited to set the context and give a brief update on the situation. He was also asked to comment on Wylfa B and Brexit during his presentation.

During his presentation, the Chair of the Ambition Board noted:

- That the work culminated in the completion of all the detailed and complex work of putting the package together, in the form required for submission to both Governments, and was presented and adopted by the Board on 23 October 2020.
- That this was the result of significant work by the Portfolio Office, which was established at the beginning of the year under the leadership of the Portfolio Director, and consisted of a highly capable and enthusiastic team of officers, who laid a very solid foundation for economic development issues in the north.
- That the team worked closely with the Welsh Government's team of economic development officers, and it was believed that others regarded us in the north as an example of good practice.
- That as statutory officers of the host authority, the Head of Finance and Monitoring Officer were instrumental in leading teams of officers across the north in undertaking the financial and legal work, and both were thanked for their outstanding contribution to the work of the Board.
- That there were financial and other reasons for signing the final agreement at the end of this year, and it was trusted that both Governments and councils would be ready to sign all before the end of the year, so that the first grant payment could be received in March 2021, and proceed to realise the projects.
- That a number of very exciting projects had been developed over several years in a variety of areas, whilst also ensuring that any economic growth or well-being was

distributed across the north as a whole, and not just in those areas where there was economic activity already.

- That circumstances had changed significantly over recent years, especially this year due to the pandemic, and there would have to be flexibility going forward.
- That Brexit was also a dark cloud hanging over everything, and although we had little control over that, we supported all the work that Jeremy Miles, MS, the Counsel General and Minister for European Transition, was doing to ensure that we in Wales get what we were promised as a result of Brexit.
- That although reports on the potential impact of Brexit on the north showed that areas such as Flint and Wrexham would suffer very significantly from any export problems due to their manufacturing base, the biggest threat would be to the north-west in terms of agriculture and the countryside.
- That as Wylfa was never part of the Growth Scheme, the decision not to proceed with Wylfa B did not directly affect the work, but the resulting side-effect of losing the huge investment that would otherwise have come to the north-west, was something that would have to be considered when developing the plans.
- That if there was a weakness in the Growth Plan, the weakness was probably that we were locked into those projects that had been developed over the last three to four years and longer. Therefore, it was necessary to be flexible and ready to adapt some projects as they came into operation, whilst also being alert to any opportunities that might arise from other sources.

The Portfolio Director was invited to give a slide presentation. During the presentation, the following points were highlighted:

- Who was in the partnership - the strength of the partnership was emphasised and how that had helped bring the documents together.
- The Growth Vision - it was noted that the vision would need to be revisited over the coming months, and regularly over the period of the plan, to ensure that it remained up to date and sufficiently ambitious for the north.
- Governance Structure
- Timeline
- Final Agreement - it was explained that this was a summary of the portfolio business cases, programme business cases along with a financial plan, action plan, communication plan, monitoring and evaluation plan, and quality and approval plan. The final plan was protected on the basis of a portfolio business case and five programme business cases, and those documents were already being scrutinised by the Governments over a five week period starting on 26 October. The first feedback was received from the Welsh Treasury that morning, and the Portfolio Office planned to respond weekly to the feedback, so that everything could be responded to in a standardised way in order to ensure final agreement by the end of the year.
- Final Plan Requirements - Business Cases
- Overarching Business Plan
- Growth Plan Portfolio - details were given on the aim, the size of investment for the plan as a whole, expenditure objectives and benefits.
- The five programmes - details were provided on the strategic objective, projects, investments and the expenditure objectives of each programme.

The Head of Finance was invited to present the Income and Expenditure slide. It was noted:

- That the Growth Plan grant funding of £240m was likely to be provided on a 'flat' profile over 15 years by the UK and Welsh Governments, while the expenditure profile for the first six years was by the UK and Welsh Governments. This meant that the partnership needed to borrow in the early years to facilitate cash flow for project expenditure, and the cost of this borrowing would need to be paid by the partners.
- That the Growth Plan project expenditure had been reduced to £240m, equivalent to grant funding received.
- That two grant income profiles had been modelled, i.e.:
    - Version 1 - was more favourable, with grant instalments in March 2021, and then annually from September 2021 onwards = £82,670 per year for Gwynedd Council.
    - Version 2 - receive a grant income annually starting September 2021 = £118,000
- That borrowing costs were spread over 15 years based on a notional and prudential borrowing rate of 2.2%.
- That all financial figures are indicative and prudent and would eventually be adjusted to reflect the true position.
- That it was expected to retain the equivalent of half of the business tax yield on new properties from the Growth Plan projects, which would be used to reduce the cost of facilitating cash flow.
- That the partners' annual contributions to facilitate the cash flow were in addition to the historic core contributions of £50,000 and supplementary contributions of £40,000 which needed to continue to fund the Portfolio Office's running costs.
- That the cost of borrowing was split between local authorities in proportion to population.
- That bodies that acquired an asset would carry their own borrowing cost.
- That GA2 protected the host authority and other partners, to the extent that partners could leave the partnership, but would still have to contribute over the full 15 years.

The Monitoring Officer was invited to present the Governance Agreement 2 slide. It was noted:

- That the bid was prepared through GA1, and that GA2 was primarily an agreement to proceed to deliver the Growth Plan. As such, the nature of the relationship was changing, although much of the original governance remained in place.
- That as the Joint-committee was not a corporation, a hosting authority was needed to be a legal entity to contract on behalf of the partnership and employ staff, etc. It was not an uncommon role in any partnership, and Gwynedd Council took on that role in this case.
- That in proceeding, the nature of the financial elements of the role of delivering the Growth Project meant that the Joint-committee had different shoulders and arms. Also, as an accountable body within the agreement with the Government, that we were operating at a financial intermediary level regarding the administration of the grant, etc.
- That it was important to note that there was considerable protection in the agreement for the partners, and for Gwynedd Council, as the host authority. The first element involved asking the partners to indemnify us against any costs that would fall on Gwynedd. If funding was required, the partners would contribute in accordance with the agreement, and if there were additional requirements, that would also be shared on the basis of the agreement across the partnership. Secondly, there was provision for the partners to be able to leave the partnership

after an initial period of six years, but any financial commitments would remain on the outgoing partner to ensure that the other partners would not suffer financial loss stemming from the departure.
- That the Business Delivery Board, established by the Ambition Board for collaboration with the private sector, be formalised within GA2. This was an element that the Governments had moved forward on, and emphasised.
- That the Delegation Plan reflected the move from a situation of preparation to a situation of delivery, and that that called for different decisions to be made and evaluated.
- That in terms of scrutiny, a joint-committee could be set up, or continue with a situation where the home scrutiny committees had a role in the work of the Joint-committee. As there was an expressed wish to retain a scrutiny role for the home committees, a protocol for administering that system was established. There were two elements to this, namely a programme of regular reports to scrutiny committees on the Growth Plan and the Growth Vision, and a procedure to ensure smooth call-in, given that six different scrutiny committees have the right to do so.
- That as a number of groups and sub-groups were being set up with beneficiaries from the private, third and education sectors, etc., a Conflict of Interest Policy had been established to ensure that public interest was at the forefront of all work, and that all participants were clear about any potential conflict. This policy was also being promoted by the Governments to ensure propriety.

The Portfolio Director presented the two final slides, i.e.:

- Draft Final Agreement
- Key Scrutiny, Cabinet and Council dates for each Authority and Ambition Board and Executive Officers Group.

Members were given an opportunity to ask questions and make observations. During the discussion, the following observations were submitted by individual members:

- It was noted that the role of the scrutiny committee was to ensure that Gwynedd in particular benefits from these plans, especially given the concern expressed in the past that areas such as Dwyfor and Meirionnydd would not benefit to the same extent as other areas in the north.
- Officers were asked to use the term *'Y Deyrnas Gyfunol'* rather than *'Y Deyrnas Unedig'* for the United Kingdom in the documents, and reference was made to the misspelling of the word 'gyrwyr' in the papers.
- It was noted that the principles and vision were approved, but that the major problem would be achieving the goal, as now was not a good time to set up this kind of plan bearing in mind Covid and Brexit and everything else we were up against.
- Concern was expressed regarding the delegated rights and how open-ended they were.
- Concern was expressed that the majority of the sector that contributed most to the plan, i.e. the private sector, was in the north-east. The Wylfa B scheme would have contributed to the sector in the north-west, but this would no longer be happening.
- It was noted that whilst there was talk of developing a small reactor at the Trawsfynydd Power Station site, the technology would not be available within the lifetime of this plan.

- It was noted that it was believed that the plan laid very firm foundations and that many of the projects were interesting and ambitious.
- It was noted that it would have been good to see some of the investment coming to the Llŷn Peninsula and south Meirionnydd, but best wishes were extended to the Board and officers as they worked together to ensure a thriving and economically prosperous north Wales.
- It was suggested that it would be beneficial to prepare a summary newsletter for the public approximately four times a year, in order to report on the progress of the Growth Plan and to demonstrate value for money.
- It was noted that funding from Cardiff and London would be coming through the Growth Plan in future, and that there was no purpose any longer in us standing alone.
- Concern was expressed regarding the Meirionnydd situation in particular, but the fact that the Cabinet Member for Economy and Community was part of the Mid-Wales Growth Plan was welcomed.

In response to the observations and questions from members, it was noted:

- That in terms of retaining an overview and monitoring of the significant work of preparing local young people for specialist posts, it was explained that an assessment had already been carried out against the Well-being Act, and that this would continue to be undertaken for all portfolios, and at the level of all programmes and projects. There was no specific skilling programme within the Growth Plan, but a stream of work was taking place in conjunction with the Regional Skills Partnership to ensure that we listened to the labour market and the skills needs of businesses. Capital investment could not be successfully achieved without a stream of very careful work looking at youth and future generations, and it was necessary to ensure that skills investments were aligned with Growth Plan capital investments.
- That the services provided by the host authority, i.e. financial, legal and Board meetings, etc., were jointly funded by all partners.
- That it was clear that there were risks with such a large and multifaceted project, but that all possible steps had been taken to mitigate that. There would be an attempt to mitigate any additional risk to the host authority as the project progressed through GA2.
- That the risk had not been quantified, but the agreement ensured that no partner could walk away without contributing.
- That there were also other risks, e.g. projects not completed or Governments not paying the grant, etc. These were equal risks between all partners, rather than just a risk to the host authority.
- That very robust provisions in the agreement regarding financial risk management meant that Gwynedd should not be exposed to more risk than any other partner. In addition, Gwynedd and the other councils were in agreement with bodies with strong financial status, and as part of project approval, there was a role to ensure that there was an agreement that would pass the risk of not delivering on to those who would be leading the project, etc.
- That it was not possible to set a figure for withdrawal from the agreement, but if someone left, the cost would be entirely commensurate with their financial or contractual commitments at that time. There was a provision within the agreement to give notice to those withdrawing, reclaiming the costs and commitments, with a view to ensuring that the other partners would not lose out financially because of this.

- That we had methods of being scrutinised by both Governments to ensure that we deliver the benefits against the portfolio and programmes. The projects themselves would be submitted to the Board for approval, and work was under way to establish a system of conducting an independent review every two to three years, which would look at the value of the investment in the north Wales economy. There was also an intention to report annually and quarterly. Although it would not be possible to demonstrate the benefits within the quarterly reports, this would be attempted if possible in respect of projects delivered. The annual report would include a summary of the increase in benefits and progress against the three key aims.
- That there were already several layers of scrutiny in the process. The Ambition Board would play a scrutiny role, Governments would scrutinise performance and business plans would be reviewed. With regard to the scrutiny arrangements, the aim of the quarterly reports in the protocol would be to inform scrutiny committees of progress in implementing the business plan and projects, etc. As the information developed, it would feed into the home scrutiny committees. Decision sheets would be produced and the Board's decision could be called in. There would be constant communication and scrutiny, with several keeping an eye on performance. Scrutiny committees were able to receive reports and call officers from the Portfolio Office before a scrutiny committee, and obviously, recommendations from a scrutiny committee could also go back to the Board. The alternative would be a joint scrutiny committee, but that would mean losing the other elements as scrutiny would also be regionalised.
- That if one scrutiny committee exercised its right to call in, another scrutiny committee could also call in the matter themselves, and all partners would be informed that there had been a calling-in. There was nothing to prevent another scrutiny committee from considering the matter and reporting back to the Board asking it to consider the recommendations. It was accepted that there were several scenarios here, but an attempt would be made to ensure that a system was in place that meant that the calling-in was done in an appropriate and orderly way which allowed the Board to respond to that and proceed with the matter or not, according to its choice.
- That there was a very good response from the private sector in the region to a session organised to guide them through the opportunities available. Many of the businesses were small companies who were keen to discover more about how they could benefit from the Growth Scheme. It was added that one of the main purposes of the Growth Plan investment was to get market failures to invest in those areas where it was not possible for private companies to come in to invest as it was not commercially viable for them to do so at present. The session was followed by responses from companies keen to move their businesses to the north, and it was thought that the pandemic had made people reconsider the future of their businesses. There was a need to look beyond the north for these private sector investments, but the procurement strategy and capital strategy could also ensure that opportunities for small businesses in the north remained local. Discussions were taking place with the construction sector to ensure that opportunities were put out to the market in the best way to create local employment and opportunities for local businesses to thrive. In going deeper to create business applications at the project level, these kind of questions would arise more and more, and in heading towards the final Growth Plan, there was a need to start creating these structures at the project level, considering how to keep this capital and money local.

- That in terms of delegated rights, a balance must be struck between ensuring propriety and an appropriate voice for the partners, while also ensuring that the delegated body could be agile and flexible to deliver on behalf of the partners. In the context of the Board, there were issues specifically reserved for the partners, things that the Board itself could not decide and things that each partner would have to agree to. The Board could not alter the partnership agreement, other than certain elements of it. But alongside that was the envelope the partners were giving to the Board, so the overarching business plan was one thing that defined the boundaries of the commission for the Board to operate. Therefore, there was an element of setting the framework in terms of implementation and plans, etc. The Board had the right to act within that and make changes or add plans, but it was also a regional body with everyone sitting around the same table to make decisions, and the flexibility was needed there. In terms of the financial element, the Board received a budget to run the Portfolio Office, etc., but a bid for more money would have to go back to the partners. Similarly, if the way the Board ran the Growth Plan meant that borrowing costs were increased, it would be necessary to go back to the partners to change this envelope.
- That there was no spending ceiling if an alternative source of funding was available, such as an ESF grant. There was a ceiling on unfunded expenditure, and the Board could not place additional financial demands on the partners without their consent. The contributions in the agreement were fixed with no recourse except for an element of inflation. Similarly, there were maximum loan contributions, and it would be up to the partners to agree to change this envelope.
- That in terms of administration costs over the period, the Board would approve the budget annually. If the expenditure was over the six years, it was unlikely that the whole team would need to be in place for the 15 years. However, what happened after the first six years could not be predicted. It was not thought that the Board would rest on its laurels and take in money, but would instead seek other opportunities, therefore the budget would have to be flexible. But that was the annual budget at the moment, and it was predicted to remain at about the same level for the first six years.
- That a significant amount of ESF grant funding was attached to the costs, and continued for a couple of years yet. This was in the region of £0.5m this year, and the nature of the application meant that it could be backdated. That would continue until 2023 when European funding would come to an end. After that, around 1.5% of the capital costs of the projects could be capitalised as jobs to run those projects.
- That the region was thought to be receiving very good value for money. In addition to the £240m Government grant, private funding, etc. was being attracted. There was mention that the plan would bring benefits of £1b to the region, so it was thought that running costs of £1.5m a year for six years, and less afterwards if more benefits could be derived from it, was quite a bargain.
- That from a publicity point of view, two communications officers have been appointed very recently, who would lead on the work of developing a comprehensive and exciting communications plan for the Growth Plan.
- That the whole direction of the Welsh Government in terms of economic development was based on the four regions of Wales, and that it was clear that Welsh Government investments would come to us through the regional boards. It was expected to hear from the Westminster Government about the distribution of post-European funding, and the possibility that those funds would also come to the regions, although we would wish for any money owed to Wales to come to Wales in the first place.

- That in terms of the Governments' flexibility, or lack of flexibility, to allow us to respond to a changing situation, it was noted that the bureaucracy between the two Governments was very inflexible. There was constant talk of devolving power to the regions of the Welsh Government, and although we as local authorities had a desire to take responsibility, as well as a willingness to make decisions based on our own local knowledge and experience, there was concern that Welsh Government was keeping a tight hold of the reins. It was not thought that the Westminster Government was being at all flexible.
- That in response to a question about the possibility of securing a bond for the loan, it was explained that the notional shortfall in this case was for a relatively short period, and that bonds were usually set for an extended period. It was not possible to predict at what point borrowing would be required to repay over the long term, and there was a need to be flexible and to borrow the money as inexpensively as possible at that time. There were many ways of obtaining this money, including lending our own reserves to the Board, which would reduce the risk to both parties. It was added that it was intended to discuss the possibilities at a seminar organised for members of the Audit and Governance Committee with the Airlingclose company in January.

The Chair thanked everyone for their presentations and for their answers to members' questions.

RESOLVED that the scrutiny committee was of the view that the Business Plan; Governance Agreement 2; the funding model and the operational arrangements are clear and robust to achieve the objectives of the Growth Agreement for the benefit of the businesses and residents of Gwynedd.

The meeting commenced at 10.00 am and concluded at 11.55 am

CHAIRMAN