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## ECONOMIC WELL-BEING SUB-COMMITTEE

15<sup>th</sup> May, 2026

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**TITLE:** North Wales Growth Deal – Cost Inflation Reserve

**AUTHOR:** Hedd Vaughan-Evans, Portfolio Director

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### 1. PURPOSE OF THE REPORT

- 1.1. The purpose of the report is to set out the proposal to establish a Cost Inflation Reserve to support the delivery of projects during the 2026-27 financial year.

### 2. DECISION SOUGHT

- 2.1. That the Sub-Committee agree to establish a Cost Inflation Reserve for 2026-27 and an initial £3.96m of Growth Deal funding to this reserve.
- 2.2. To approve the criteria set out in section 4.6 for the Cost Inflation Reserve and the delegated decision matrix set out in section 4.7.

### 3. REASON FOR THE DECISION

- 3.1. As stated in the report.

### 4. BACKGROUND AND RELEVANT CONSIDERATIONS

- 4.1. In December 2020, Ambition North Wales and the Welsh and UK Governments agreed the Final Deal Agreement for the North Wales Growth Deal.
- 4.2. The North Wales Growth Deal is an agreement between the UK Government, Welsh Government and Ambition North Wales to deliver a transformational £1billion investment in the North Wales economy. The aim of the Growth Deal is to build a more vibrant, sustainable and resilient economy in North Wales, building on our strengths to boost productivity while tackling long-term challenges and economic barriers to delivering inclusive growth.
- 4.3. As per the Final Deal agreement, business cases are to be developed for each project within the Growth Deal in line with the 'Better Business Case' guidance developed by Welsh Government and HM Treasury. Each business case includes five cases which address key questions and should be supported by workshops.
- 4.4. In December 2022 in response to cost inflation driven by the invasion of Ukraine, the Economic Ambition Board established a Portfolio Delivery Fund to support mature projects within the portfolio dealing with cost inflation or viability issues to move into delivery during 2023-24.

#### 4.5. Cost Inflation Risk

- 4.5.1. The Portfolio Management Office has identified in its latest risk review an increasing risk around affordability due to emerging cost inflation pressures as a result of the war in Iran. The war has already resulted in significant increases in energy and fuel costs with construction materials, particularly those heavily dependent on energy at risk of increasing significantly should the conflict continue.
- 4.5.2. At present this is an emerging risk, however, learning from the experience following the invasion of Ukraine it is important for the Growth Deal to be proactive and put in place the mechanisms to support projects in order to maintain the pace of delivery. The Portfolio Management Office is aware of some contractors already being reluctant to enter into fixed price contracts due to the uncertainty around costs and without the ability to respond flexibly and quickly to support projects, this risk could in a worse-case scenario result in significant delays across multiple projects.

#### 4.6. Cost Inflation Reserve

- 4.6.1. The Portfolio Management Office proposes the establishment of a Cost Inflation Reserve to support approved project (BJC or FBC approval) with increased costs that cannot be mitigated in order to ensure projects move into delivery during 2026-27.
- 4.6.2. £3.96m would be initially allocate to the Cost Inflation Reserve, to be reviewed in six months. This would leave £28m of unallocated funding available to Reserve List projects.
- 4.6.3. Projects that meet the following criteria could apply for funding:
- a) Project has an approved BJC or FBC.
  - b) Project has completed procurement, identified a preferred supplier and concluded negotiations with their preferred supplier to reduce costs where appropriate.
  - c) Project Sponsor has agreed to the terms of the Grant Funding Agreement with Ambition North Wales and the provision of additional funding would enable the project sponsor to enter into a contract for the delivery of the project.
  - d) The application for additional funding will be in line with the criteria below:
    - Where the Growth Deal is a minority funder in the project, the Growth Deal contribution towards the additional funding will be capped at the existing % intervention rate.
    - Where the Growth Deal is a majority funder in the project, the Growth Deal contribution towards the additional funding will be capped at 50% of the additional funding required.

#### 4.7. Delegated Decision Matrix

- 4.7.1. Taking into account the criteria above, the applications for additional funding are likely to be received by projects at the end of the procurement process and following negotiations with contractors. As a result, there will be a need to consider applications in a pragmatic and timely manner as agreed costs are likely to be time-bound.
- 4.7.2. The Portfolio Management Office are therefore proposing a scheme of delegation as set out below to enable certain decisions to be approved outside of the Economic Well-being Sub-Committee schedule. This is considered to be the most effective route to manage the process,

enabling timely decision to support projects into delivery and reduce the risk of additional cost increases that could be caused by waiting for schedules committee dates.

4.7.3. The following delegated decision matrix is proposed:

<b>Economic Well-being Sub-Committee</b>	All awards over £500k
<b>Portfolio Director in consultation with Chair, Vice-Chair, Chief Executive, Section 151 Officer and Monitoring Officer</b>	Individual project awards of up to 10% of original Growth Deal contribution capped at £500k
<b>Portfolio Director</b>	Individual project awards of up to £100k

## 5. FINANCIAL IMPLICATIONS

5.1. Approving the decision sought would allocate £3.96m to the Cost Inflation Reserve. The funding would come from the current unallocated Growth Deal funding of £31.96m, leaving £28m unallocated to support projects on the Reserve List.

## 6. LEGAL IMPLICATIONS

6.1. The reallocation of funding within the Growth Deal is a matter for the Economic Well-being Sub-Committee to decide upon within the agreed affordability envelope for the partnership and where the projects deliver against the objectives of the Growth Deal and its programmes.

6.2. Individual awards may require consideration of subsidy control, procurement compliance, grant funding agreement terms and whether the proposed additional funding would amount to a material change to an approved business case. These issues may need to be considered on a case-by-case basis.

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## STATUTORY OFFICERS RESPONSE:

### i. Monitoring Officer:

“The reserve is a reasonable response to an identified programme delivery risk. Each award should be supported by a written Decision Notice confirming compliance with the approved criteria.

As regards decision making, the Portfolio Director remains the decision-maker for delegated awards where applicable and, for reasons of operational agility, should consult by way of assurance only, and not in terms of a separate approval or further collective decision-making process outside the formal committee structure.

Subject to those safeguards being reflected in the decision-making process, I have no further observations from a Monitoring Officer perspective to the decision sought.”

ii. **Statutory Finance Officer:**

“The risk of cost inflation and the impact of this on the ability to deliver the North Wales Growth Deal is significant. The establishment of a Cost Inflation Reserve will contribute to mitigating these risks and therefore I support the decision sought.”