

**REPORT TO:** Scrutiny and Overview Committee

3 April 2014

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## **GREATER CAMBRIDGE CITY DEAL – GOVERNMENT OFFER**

### **Purpose**

1. This report outlines the principles of the “City Deal” offer that Government has announced in the Budget 2014 statement. The offer sets out the scale and broad terms of financial support to local partners to deliver additional infrastructure to facilitate delivery of the homes and business space set out in the draft local plans for the Cambridge City Council and South Cambridgeshire District Council areas, and associated transport plans.
2. The Deal also sets out how the councils plan to work together on these issues in a more joined up way in the future through a combined governance arrangement.
3. The full details of the Deal will be set out in a ‘Deal Document’ that the Leaders and partners expect to be invited to formally sign in the next couple of weeks.
4. This not a key decision.

### **Recommendations**

5. It is recommended that the Scrutiny and Overview Committee indicate their support for the principles of the Greater Cambridge City Deal.

### **Background**

6. City Deals are agreements between central Government and local partnerships to address the key barriers to economic growth in an economic area. Cambridge City Council, Cambridgeshire County Council, South Cambridgeshire District Council, the Greater Cambridge Greater Peterborough Local Enterprise Partnership and the University of Cambridge have been working together on a City Deal since the Autumn of 2012.
7. The local partners were asked to identify the key barriers to economic growth in the local economic area (the area covered by Cambridge City Council and South Cambridgeshire District Council, which contains around 75% of the Travel To Work Area, and the greatest concentration of hi-tech businesses in the “Cambridge Cluster”). We identified the two intertwined issues of housing and transport, as well as issues of ensuring that local people had the right skills to engage in the successful elements of greater Cambridge’s economy.
8. **The original local proposal**  
The solution local partners proposed was investment in transport and housing infrastructure to help ensure that the homes and businesses envisaged in the draft local plans could be delivered. This would bring more homes into a commutable

journey to work, and would enhance the connectivity between businesses and clusters in the Greater Cambridge area. This would allow the Cambridge Phenomenon to continue to flourish, and lead to higher levels of sustainable economic growth than would otherwise occur.

9. We proposed a Deal to Government that would have seen the local partners borrow funding to invest in this infrastructure. We would have repaid the borrowing (and interest) by Government returning to us a proportion of the tax take that would have been derived from the additional economic growth unlocked by our investments. This would have been a form of “tax increment financing” that we termed GainShare.
10. We had also asked Government to increase the Housing Revenue Account debt cap for the two housing authorities by £100m each, to allow the councils to build more of the affordable housing envisaged in the local plans.
11. **The Government Offer – infrastructure funding**  
Government’s offer is different to our proposal in mechanism, albeit very similar in terms of intended outcomes. In terms of infrastructure, the Government offer on the table is for up to £500m of grant funding. We understand this would be payable in three tranches, with the second and third tranches dependent on achievement of certain outcomes.
12. The first tranche, covering 2015-19 would be for £100m. The second tranche for 2019–2024, would be for £200m and is dependent on achievement of a “trigger” yet to be defined but likely to include a certain number of housing completions and/or a retrospective assessment (“post-scheme evaluation”) of whether the infrastructure projects invested in by then have achieved their specific objectives. The third tranche of a further £200m would potentially be unlocked at a later date subject to achievement of a certain level of economic growth, for which we will be asked to commission an independent expert to develop a measure. The details of these triggers are yet to be finalised at the time of writing.
13. We have been reassured that this is “new” money, in which case the provision of up-to £500m for infrastructure would enable significant additional infrastructure than would otherwise be the case. Government is offering the local councils the flexibility to invest the £500m as they see fit, however, there will be a tough ‘Assurance Framework’ to manage the technical process by which those decisions are made, that will ensure investment goes to schemes that are good value for money. This framework has been agreed in draft form with the Department for Transport.
14. The two planning authorities have a strong track record of working with developers to ensure appropriate development proposals are brought forward. The Councils’ approach to this will be set out in a joint “planning charter” which will help explain the councils’ approach to the use of Planning Performance Agreements for instance.
15. The Councils also commit through the City Deal to work closely with the DEFRA Network to ensure that environmental considerations such as resilience to extreme weather events are fully considered. The Deal Document is likely to refer to the next Local Plan review process, which we expect to commence in 2019. The Deal document will also mention East-West rail, which the County Council is working to help develop options on.

16. **Housing**

In terms of housing, Government has chosen not to increase the HRA debt cap through the City Deal, but has announced a scheme whereby councils may be able to increase their HRA debt cap through the Strategic Economic Plan process through their LEPs, subject to certain conditions. The detail has not been set out at the time of writing this report, and is being pursued by officers, but is not formally part of the City Deal.

17. Instead, the local partners have tentatively started exploring whether there may be other ways we can co-operate locally to deliver more affordable housing. This might include pooling our resources (potentially including land owned and identified as surplus by the County Council, and potentially using the prudential borrowing powers of the councils, and possibly the University's funds, to raise capital) into a joint vehicle. If a business case can be developed that meets all parties' needs this will be pursued.

18. A thousand additional affordable homes are also targeted to be provided on rural exception sites (sites outside of village frameworks) in South Cambridgeshire.

19. **Skills**

In terms of skills, Government has agreed our proposal to "bend the spend" of the national skills funding agencies to meet the needs of the local economy. This means that if the local agencies generate sufficient interest in appropriate apprenticeships, Government commits to ensuring that funding (up to a certain limit) is made available as needed to meet additional demand within the skills system over the five years of City Deal from 2014-15 to support the growth in provision of Apprenticeships (for 16-23 year olds) brought forward by City Deal partners, i.e. up to an additional 420 Apprenticeships over five years in growth sectors.

20. **Governance**

In addition to these boosts to the local economy provided through the Deal with Government, the process of developing the Deal has brought the local partners closer together on a number of agendas. The Deal has been developed primarily by the Leaders of the three councils, the Pro-Vice Chancellor for External Affairs from the University of Cambridge and the Chief Executive of the LEP, acting as a "Steering Group". There has been agreement in the Steering Group that we need joint decision making on these issues to ensure that spatial and transport planning meets the needs of the Greater Cambridge economy, and that we should work together on strategic housing supply as far as possible.

21. The partners are proposing that decision making would be in a five-person Executive Board (containing one representative from each council, plus representatives of the LEP and University, although those non-council partners not voting on all issues). Steering Group Partners have said they expect decision making to be by consensus. Partners have proposed that the Board would be augmented by a twelve person "Assembly", formed of three members from each authority reflecting political balance in each authority, as well as three wider stakeholder members. It is proposed that the Assembly would hold the Executive Board to account and provide a "scrutiny" function.

22. To this end, under the terms of the deal the partners are committing to sharing certain planning and transport powers and funding together in a new shared governance arrangement. The strongest arrangement would be a new statutory vehicle called a "combined authority". This would be created by Government following a governance review, and would create strong, binding and unified decision making on transport

and spatial planning, and on investment decisions (i.e. how to spend the City Deal funding and other locally pooled funding such as a proportion of transport funding and other growth-related funding such as New Homes Bonus).

23. The legislation (on combined authorities) does not currently allow the County Council to join (and delegate its transport planning powers into) a body covering only part of its geographical area. Government has indicated that it intends to bring forward a consultation on possible changes to the combined authority legislation that would allow this. This would also would allow us to establish a combined authority for Greater Cambridge, subject to the outcome of a governance review and meeting certain criteria to be defined in the revised legislation, likely to include demonstration that the new arrangement provides value for money to the whole area currently covered by the transport authority.
24. In the interim before a combined authority can be established, it is the intention of the local partner authorities to establish a joint committee to take forward the work in the scope of the City Deal, including agreeing on the infrastructure projects in which we wish to invest the new funding. A committee or committees would be established to fulfil the roles intended for the Executive Board and Assembly, with the proposed membership as set out above. A joint committee is a more limited body than a fully combined authority. As such, partners will need to find ways to deliver as much of their agreed governance model as possible within the existing legislative framework, for instance through a memorandum of understanding.
25. The scope of a joint committee can be expanded over time. At the point at which decision-making powers or funding are to be delegated to the committee, this will be brought back through each council's formal decision-making bodies.
26. Before the Joint Committee is established, the City Deal "Steering Group" will continue to meet to lead this work as a "Shadow Board".

### **Considerations**

27. The deal before the Councils and partners at present therefore proposes:
  - Up to £500m of grant funding for infrastructure, to be released in three tranches subject to achieving certain outcomes
  - Flexibility over Skills Funding Agency spending to meet local business needs
  - Joint decision making between the local partners on the infrastructure projects, strategic planning powers and other matters
  - Pooling of powers and funding into a combined authority, subject to legislative changes and subsequent process; and creation of a joint committee to provide for joint decision making in the interim, before a combined authority can be created
  - Joint work between the partners to explore the business case for joint vehicle to deliver affordable housing
  - Delivery of 1,000 additional affordable homes on rural exception sites

### **Implications**

28. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

### ***Financial***

29. The Deal brings additional grant funding for infrastructure into the “Greater Cambridge” area to the value of up to £500m. This will be released in three tranches subject to certain conditions being met (i.e. a form of “payment-by-results”). Unlike the original local “GainShare” proposal, this does not require local borrowing of the full capital sum, repayment of interest on borrowing, or putting collateral at risk to cover capital and interest payments in the event of under-achievement of “GainShare” income. The Government’s offer is therefore in essence considerably less risky to the local partners than the mechanism we had originally proposed.
30. The local councils may still consider borrowing some of the sum to initiate the programme, depending on the detailed profile of, and conditions around, the Government grant. If this option is pursued, that decision would come back through the councils’ decision-making processes.
31. Local partners have indicated an intention to pool certain funding streams associated with economic growth, to support shared implementation of growth-related projects. The level of this funding has not been finalised yet, but for South Cambridgeshire District Council this is likely to include a proportion of the currently uncommitted New Homes Bonus and possibly some other growth-related funding, such as developer contributions. Again, each council will need to agree to any delegation of decision making over funding it holds, to the joint governance arrangement.

### ***Legal***

32. Local authorities may delegate the discharge of functions to a joint committee. This may be done under Section 101(2) and (5) and Section 102 (1) (b) of the Local Government Act 1972 and the Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012. Joint committees are committees of councillors with equal voting rights. Co-opted members may be appointed under S102(3) of the 1972 Act but cannot have voting rights (under Section 13 of the Local Government and Housing Act 1989).
33. The partners are likely to confirm further detail on the operation of a committee (to achieve the agreed forms of governance) through a memorandum of understanding, to be brought back through appropriate decision-making processes in each council as the committee is established.

### ***Staffing***

34. There are no immediate direct staffing implications. Work on setting up a joint committee and supporting it will be delivered by posts already within the establishment of the three partner councils.
35. In due course, it is possible that the partners may wish to merge services relating to functions for which the new combined governance arrangement becomes the decision-making body.

### ***Equality and Diversity***

36. An equality impact assessment has been conducted. It indicates no significant direct adverse impacts from agreeing this deal. It indicates some potential positive outcomes for groups if the deal leads to increased housing supply and affordability, greater connectivity and the provision of skills services that better prepare local people for the high-value sectors of the local economy.

### ***Climate Change***

37. There are no direct environmental implications of agreeing the City Deal. Infrastructure projects funded by the deal will be subject to the usual appraisals including environmental considerations. It is expected that transport investments will accord with the County Council's draft transport strategy, which promotes public transport, cycling and walking, which have a positive environmental impact compared to other modes.

### **Consultation responses (including from the Youth Council)**

38. The draft Local Plans and associated Transport Strategy which the City Deal in large part seeks to help deliver have been subject to extensive public consultation, eliciting thousands of responses from various viewpoints. Cambridge City Council and South Cambridgeshire District Council have both approved the draft local plans for submission to public examination.
39. The outcomes that the City Deal is seeking to achieve have been reported in the local media following previous committee and cabinet discussions. Local businesses have been engaged to provide feedback, and have overwhelmingly supported the analysis that additional investment in transport and housing infrastructure would benefit the local economy.
40. If the legislation on combined authorities is changed, it is expected that there would be a period of consultation as part of a governance review, as part of the process to establish a combined authority.

### **Effect on Strategic Aims**

41. The City Deal is intended to support the Council's Aim to 'work with partners to create and sustain opportunities for employment, enterprise, and world-leading innovation.' Its purpose is to enable the infrastructure that will unlock the potential of the Cambridge city region, build on its track record of success and launch a new phase of stronger and sustainable international competitiveness.

### **Background Papers**

The following background papers were used in the preparation of this report:

- 'Greater Cambridge City Deal – Expression of Interest' report to South Cambridgeshire District Council Cabinet, 14 January 2013

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