

## **Evidence submission – City Deals and the Regional Economies of Wales**

### **Current position Cardiff Capital Region City Deal and next steps**

City Deal has a clearly articulated ‘ten point plan’ that sets out a direction of travel for the Cardiff Capital Region. This depicts the inflection point we are at, and some of the key principles emerging that are shaping the course of the Deal, and arguably more significantly, the economic future of the region. The ‘ten point plan’ is aimed at fundamentally evolving the City Deal and has now been converted into City Deal’s new work programme and conveys the success factors critical to the future viability, relevance and legitimacy of City Deal.

In brief, the ‘ten point plan’ outlines contextually issues of under-competitiveness, low productivity and dependency on government and other forms of assistance. The data shows clear trends and patterns – not just around sectoral and industrial issues – but social and place-based ones too. There are some big cultural issues to front up to, especially around the ways in which ‘failure’ and ‘risk’ are perceived and managed. There is also a key differentiation to make in the future around value/ wealth creation and extraction and ensuring we are able to distinguish between the two. In the light of the fact there are unlikely to be future City Deals at UK Government-level, (with all new investment to be channelled through the UK-wide Industrial Strategy and competitive-based funds such as the ISCF, Global Research Fund, Industrial Fellowships and Shared Prosperity), there is a strong need to ensure the Cardiff Capital Region City Deal investment fund remains ‘evergreen’ and is able to live off its interest and not its capital. City Deal is a significant programme – but it is not a panacea. By itself, it is not enough to move the needle in the way needed. However, seen as a first stepping stone on the path to greater economic self-reliance and self-sufficiency, it can indeed be a powerful force for good.

The ten point plan in summary sets out:

- 1. The need to be data-rich and evaluation ready.** Generation, understanding and application of data is a key area of focus. Insight and foresight is critical to answering key questions about what to invest in, where best to invest and are we making a real difference? CCR is a data rich region and data, Artificial Intelligence and ‘Fintech’ have a strong research base and could emerge as a key competitive strength. The use of open data in particular, will be fundamental to new types of problem solving and in unlocking the value of public procurement. Cardiff University has been commissioned by City Deal to work with WG’s Chief Statistician and other partners (ONS, Nesta) to carry out sectoral analysis with a place-based overview. This will be translated into a visual data dashboard, building upon tools such as Arloesiadur. This will be of critical importance in informing our contextual economic baseline and progress for the Gateway Review process in 2021.
- 2. Setting out our stall – a Regional Industrial Plan.** It is imperative that CCR sets out how it will engage with the WG Economic Action Plan and UK-wide Industrial Strategy. This will provide a key context to City Deal’s five year business plan and provide a ‘strategic sell’ that sets out the region’s USPs in terms of investability, liveability and comparative advantage. Our aim is for ‘good growth’ – growth that is genuinely sustainable and inclusive and takes people with it. It will further provide a sense of focus and granularity and present our ‘moonshot’ ideas drawn from insight and foresight. The Regional Economic Growth Partnership has taken an industrial lead on this and a draft version of the Economic and Industrial Plan has been

approved by Regional Cabinet. There is potential to now work with WG and UK Government to convert this into a formal local industrial strategy.

- 3. Delivery pipeline that builds an eco-system.** A series of one-off transactional projects spread across a wide range of themes and issues will not see the region move the dial. Instead our focus is increasingly on the big problem we are seeking to solve. Our emphasis on delivery is one which aims to ‘tell a story’ and connects, aligns and creates key interdependencies. We like the example of California 2045 and the aim for zero carbon and the way in which all sectors, industries and layers of government – although different and distinctive – know the individual contributions they must make to responding to the collective target. ‘Donut Economics’ principles are helping to connect our themes and strands and plans are afoot to position our Wider Investment Fund as three sub-funds – an Innovation Investment Fund, an Infrastructure Fund and a Challenge Fund.
- 4. Good governance.** Achieving a sense of balance across process/ governance and delivery is key. Our ‘Three Fund’ approach described above, starts to build more of a governance network and utilise the key strengths and assets of individuals from across our networks and partnerships, in an optimal way. For example, the proposed creation of an expert Investment Panel. It is important that whilst assurance and risk assessment processes remain robust, we consider wider issues such as opportunity cost and the risks of ‘doing nothing’. We are also updating some of the assurance documentation, with the assistance of business colleagues to ensure it is user friendly and the appropriate mechanisms are in place to show how we plan to go about doing business – but not in a ‘business as usual way’!
- 5. Expert Panel for Influence.** £1.3bn is not a great deal of investment and we need to stop badging our City Deal as just a £1.3bn investment programme. Our leverage target is £4bn and so our City Deal is a £5.3bn investment opportunity. This laser focus and sense of ambition is critical. We have to get better at leverage and ROI and bringing in new and different large sums of investment (i.e. Venture Capital, Innovate UK, sovereign wealth and so on). We have to have a plan for formally engaging with the new non-departmental UKRI with their £6bn annual budget. Currently, we have little if any representation at UKRI Board level and only one representative on the 8 funding councils that sit below it. Wales’ showing was poor on Wave Three ISCF Expressions of Interest and it is on record that c3% of Innovate UK’s historic investment programme has come to Wales. There are 6 expert panels for influencing Research Councils – but none for Innovate UK. Building upon the Reid Review recommendations and the example of Scotland – we are gaining proximity to UKRI through the Chief Scientific Advisory Panel for Wales and mechanisms such as Ser Cymru.
- 6. Create an Office for the City Deal.** We are creating a City Deal Office that changes up our language and naming conventions and speaks more to our ambitions and global positioning. This will include a front of house function, core emphasis on data, contemporary marketing and communications and a focus on investment that is innovation-led, challenge-based and infrastructure-rich. This will be built around brand identity that connects, inter and multi-disciplinary ‘pop-up’ teams supported by a blend of change agents, deal makers, community workers and datavores.
- 7. Strong local and industrial leadership.** City Deal is defined by democratic legitimacy – but must also exhibit strong industrial leadership and delivery. The work of the Regional Economic Growth Partnership is advancing the regional plan, data

knowledge and knowledge transfer and the new Investment and Intervention framework (three fund approach). There is a rapidly increasing awareness that the role of public sector is more than just about convening and enabling – or even de-risking and trouble-shooting. Examples such as the Compound Semiconductor investment demonstrate a real understanding of risk-reward-responsibility and the role of the public sector in making things happen and shaping a new future. The potential to unlock the purchasing power of local government as one example, through a new approach to ‘problem-led procurement’ is something which we are actively exploring through an emergent institutional capacity building proposal.

- 8. Being challenge-focussed and mission-led.** The new way to access investment is through responding to grand challenges and acting on missions. This new competitive environment represents a departure from conventional practice. The focus is not just on economic gain – this is the means – the focus is on social betterment and the realisation of public value – the true end. We have to engage more with the big societal and industrial problems of the day, show that we can frame challenges correctly and mobilise people and resources to respond to them effectively. Our draft Economic and Industrial Plan subscribes to the values and principles of the Economic Action Plan and intersects with the four grand challenges of the Industrial Strategy. The work and business plan of the Regional Business Council is now geared up to supporting the fostering of this competitive approach within the business community. The opportunity is for a co-investment mechanism bringing together investment from City Deal, UK and Wales Governments and industry and HE/FE. This proposition is under active consideration.
- 9. Internationalisation and competitive advantage.** The City Deal has to quickly move beyond a domestic focus and build a function around investor relations and readiness. We are developing our focus around the things we believe matter most to people – interlacing the economic issues with those around social justice and reducing inequality, leveraging our heritage and natural abundant assets. Our view is that ‘good growth’, seen against a backdrop of a liveable, investable region, in which economic advancement is made without compromising the life support systems of the planet, could be a strong USP. Leveraging the value of the Wellbeing of Future Generations and following the example of a number of small countries that have converted economic advancements into improved quality of life, remains a key goal.
- 10. Building a self-reliant Cardiff Capital Region.** Moving beyond just a City Deal focus will open up new opportunities and choices. Tackling dependency and the patterns of low competitiveness in key areas, will be critical to accelerating wellbeing and wellness. The goal is not to move from one programme to the next – the goal is to use City Deal as a platform to build towards greater economic self-sufficiency, demonstrating the ability of City Deal to live off interest and not its capital. There is an opportunity to shape our own destiny and in so doing lend greater support to public-purpose organisations such as B Corps, Mutuals and co-ops and to introduce new fiscal tools, measures and incentives that will set us apart. We need to work hard to make key principles such as the Circular Economy, a hallmark of our work.

## **The degree to which the growth and city deals could solve or exacerbate existing inequalities, both within and between regions.**

As stated above, a key goal of the CCR City Deal is 'good growth' or growth that seeks to do good. This is the kind of economic advancement that is genuinely inclusive, sustainable and regenerative. The City Deal has three major targets – to increase GVA by 5%; to create 25,000 new jobs and leverage an additional £4bn in private sector investment. Whilst these targets are important – we don't want to hit targets that could potentially miss the point –or do the easy things and not the right things. There is always a danger that 'growth strategies' exacerbate inequality and so being clear about the kind of 'growth' we wish to see in the region is important. The tide of change takes people with it, but leaves too many people behind and whilst innovation, knowledge growth and R&D intensity are of real significance to competitiveness and productivity – by themselves they are not enough to spread generalised prosperity. We also need to focus on more foundational economics and the things that we can make, create and do sustainably, at a local level. Prosperity for all has to be the goal and it will be interesting to see how some of the emergent dialogue on the Shared Prosperity Fund will play out and how this can be better focussed to shift from a conversation about inputs ('how much money will we get?') to a focus on outputs and outcomes ('what difference do we need to make and how do we get there?').

This is where the need for a widespread cultural shift is important. Sometimes funding programmes have undermined our ability to fund programmes. The objective of City Deal to make investments that can be recycled, regenerated and redistributed is critical to sponsor and support if we are to move beyond City Deals and single sets of programmes and initiatives. Should other partners agree to the need to break out of this 'funding reliance' then there should be a set of principles and an approach that is shared and widely subscribed to. City Deals or Growth and Devolution Deals are relatively small in the grand scheme of things – it is what they leverage, catalyse and open up that is most significant and therein lies the opportunity to more structurally, systematically and sustainably address inequality.

Trickle down economic and agglomeration theories have their place. However, our region is polycentric and so the focus on place and the unique role, functions and contributions of different spaces and places is key. Recognising that places such as Caerphilly, Blaenau Gwent and Merthyr remain at the very bottom of the UK Competitiveness Index, will be as important as recognising and supporting city based developments. Rural areas also have a distinctive role to play as testbeds for emergent technologies and developments that could alleviate some of the big challenges of isolation, mobility, ageing and data.

In regard to how City Deals might exacerbate inequality within and across areas, presents a key challenge to both Welsh Government and the City Deal Cabinet and 10 LA areas. How do we better connect economic advancement and gain with more progressive social policy? How do we better understand the connection between creating public value and prosperity, with the means and ends of public service provision?

Good practice is a bad traveller as the saying goes. More work could be done to provide a better means for co-operation and collaboration across regions (and beyond regions within Wales). If for example, the principle for 'evergreen' fund development was a good one, how best do we go about creating the structures and processes for adoption, scale and replication?

## **The degree to which the growth and city deals co-ordinate with Welsh Government strategy.**

WG, along with the UK Government is a key partner to City Deal. It is therefore important our strategy, direction and outcomes reflect the challenges and goals set out in the Economic Action Plan and Industrial Strategy. It is good to see the progress being made by the Chief Scientific Adviser for Wales through the Foundation for Science and Technology and supported by the Royal Society, to connect the strategies and develop the synergies around place based industrial strategy. We subscribe fully to principles such as the Economic Contract and sustainable growth, recognising that the first goal must be wealth creation – as the region must first be able to generate the value to support wider impact. We are also seeing connections developing through projects and programmes of activity:

- Work to establish the Compound Semiconductor cluster through the development of the CSC Foundry, Catapult and bid to the Strength in Places Fund
- The development of a co-investment model for the proposed Housing Investment Fund
- The Metro, active travel and Metro Plus

We must take care however, to ensure that as regional teams and structures are out in place at City Deal and WG levels to reflect shared functional economic geography, we join up, align and connect and do not needlessly duplicate and replicate processes, structures and systems.

In order to develop more meaningful connections and alignments, the following reflect some areas for stronger potential collaboration and consideration:

- Co-commissioning of data insight and foresight and the joint development of tools with Nesta and Universities such as Arloesiadur;
- Co-development, across the government triumvirate, of a Regional Industrial Plan;
- Co-investment model to align resources and funds behind solving the common societal and industrial challenges of the day. This could include pooling capital budgets for infrastructure to optimise impact and added value; integrating and connecting ‘challenge funds’ and prizes – such as SBRI, Smart Cymru and Govtech (potentially alongside the Industrial Strategy Challenge Fund);
- Developing our presence and influence within the wider investment and global community – joint attendance and participation at major international events and working to establish joint marketing and strategies for extending reach; and,
- Meaningfully joining-up approaches to investor relations and readiness and in particular activity around promoting and managing investment packages.

Kellie Beirne

Director, CCR City Deal