

Mid Wales Growth Deal Heads of Terms Agreement



UK Government Wales
Llywodraeth y DU Cymru



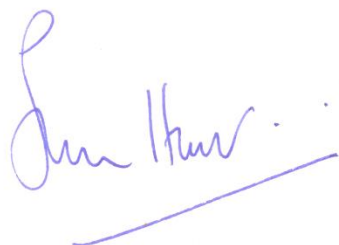
Llywodraeth Cymru
Welsh Government



Cyngor Sir
CEREDIGION
County Council



Our signing of this document confirms our joint commitment to achieve the full implementation of the Mid Wales Growth Deal.



The Rt Hon Simon Hart MP
Secretary of State for Wales
UK Government



Lee Waters MS
Deputy Minister for Economy and
Transport
Welsh Government



David TC Davies MP
Parliamentary Under Secretary of State for Wales
UK Government



Cllr Rosemarie Harris
Leader
Powys County Council



Cllr Ellen ap Gwynn
Leader
Ceredigion County Council

All Parties to this Heads of Terms Agreement have provided their signatures electronically.

BACKGROUND

1. The Mid Wales region comprises the local authority areas of Ceredigion and Powys. Mid Wales has a strong track record of driving regional economic growth in partnership. Ever since the creation of the Growing Mid Wales Partnership in 2015, public, private and voluntary partners across the region have developed leadership and voice to influence and strengthen the focus on growing the Mid Wales economy.
2. The Mid Wales region was invited by the UK Government and the Welsh Government (the Governments) in 2017 to develop a Growth Deal, and partners have since been working to develop the necessary evidence baseline through detailed commissions and engagement to build a credible proposal, alongside a broader vision of regional investment.
3. In December 2019, Powys County Council and Ceredigion County Council (the Local Authorities) entered into an Inter-Authority Agreement (IAA) to formalise the collaboration and governance required to bring forward the development of the Mid Wales Growth Deal (the Deal), and to agree a Heads of Terms document with the Governments.
4. The IAA set the foundations for establishing regional governance in the form of a Joint Committee (Growing Mid Wales Board (GMWB)) and a private sector group (Economic Strategy Group). It also sets out the lead functions and authorities to support the process required to provide the advice, co-ordination and decision making to develop the Deal.
5. In May 2020, the GMWB approved the publication and submission to the Governments of the “Vision for Growing for Mid Wales” documentⁱ, which outlined the ‘Strategic Economic Plan’ for the Mid Wales region, as well as the proposed pathway for the development of the Deal. The document built on extensive stakeholder engagement and input to help shape the strategic context and case for investment in the Mid Wales region – setting the potential Deal in context as a key catalyst to transform the regional economy as part of a broader funding mix.
6. The Local Authorities and the Governments have agreed to work with one another to conclude a Growth Deal for the Mid Wales region. These Heads of Terms set out the intended scope of the Deal, upon which a portfolio of investments will transform the Mid Wales economy.
7. Together, the Local Authorities, the UK Government and the Welsh Government are referred to in this document as the Parties.
8. The GMWB will appoint one of the Local Authorities to act on behalf of both Local Authorities in assuming responsibility for receiving and utilising the funds for the Deal; in that capacity, the relevant Local Authority will be referred to as the “Accountable Body”. This will be set out and agreed to as part of a second IAA (inter-authority agreement 2). A

Portfolio Management Office (PMO) will be established, and will act as the primary interface between the Local Authorities, the Governments and key stakeholders/advisers. The Accountable Body will hold the funds, and only use and release such funds in accordance with the terms of such funding (which will be set out in detail in the grant offer letters issued by the Welsh Government). The Accountable Body at present is Ceredigion County Council. The second Inter-Authority Agreement will confirm who is to be the Accountable Body for the delivery stage of the Deal.

9. The GMWB will be accountable for the overall delivery and success of the Deal, and for democratic, political and public accountability. The GMWB will be supported by the PMO and the Accountable Body (the latter will discharge its specific duties, on behalf of the GMWB, as set out in the then current IAA).
10. It is intended that the Deal will be documented in an agreement entered into by the Parties (“Final Deal Agreement”). The Parties aim to conclude the Final Deal Agreement as soon as practically possible following conclusion of these Heads of Terms.
11. Funding will be made available in the form of an award of funding letter from the Welsh Government; the award of funding will be made following the approval of a Portfolio Business Case underpinning the Final Deal Agreement, and only with compliance with the robust governance and assurance processes implemented.
12. Prior to the conclusion of the Final Deal Agreement, the GMWB will facilitate an arrangement whereby the two Local Authorities will enter into a more detailed governance agreement (i.e. a second Inter-Authority Agreement). This will further define the role, function, and membership of regional governance, as well as the relationship between the Accountable Body, the other local authorities, Governments and any key stakeholders/advisers to support the delivery phase of the Deal. It is intended that the second IAA will replace and supersede the first IAA.
13. Both Local Authorities have worked closely with the Governments and, to date, have appointed and utilised relevant expertise to ensure that the processes adopted are fully compliant with Treasury guidance and best practice of both Governments. The Local Authorities will be expected to continue to operate and co-operate in this vein, and with a view to collaborating and co-developing a portfolio approach (in line with emerging guidance from both Governments) that brings maximum value of the investment to the Mid Wales region.
14. The Governments will work collaboratively through the Welsh Cities and Growth Implementation Board as co-sponsors of the Deal. Both Governments recognise that embedding programme and project management in conjunction with formal assurance approval points ahead of signing the Final Deal Agreement will manage risk and improve delivery confidence. This approach will support all those responsible for successful delivery, whilst providing funders and other stakeholders with confidence that the portfolio can deliver on time, budget and quality.

EXECUTIVE SUMMARY

15. Mid Wales comprises the two local authority areas of Ceredigion to the West, and Powys to the East; combined, the largely rural region accounts for 34% of the total land mass of Wales. It is home to a population of just over 200,000 people and is well-known for its natural beauty, research and industrial expertise, strong cultural identities and heritage. The Mid Wales economy is a critical component in driving and supporting intra-regional growth across Wales and the UK, contributing ~£3.6bn GVA annuallyⁱⁱ.
16. Mid Wales is less well-known as a land of untapped economic opportunity. Where business survival rates outclass the Welsh average, and where the natural and academic assets offer an obvious choice for cutting-edge research, and combined with notable business strengths in key sectors, it provides strong opportunities to strengthen industry clusters. A region with a strong supply of talented and skilled labour, with strategic commuter links within and outside the region to other parts of Wales and cross-border into England.
17. The region's economy however has its challenges. Poor connectivity, lagging productivity, limited skills infrastructure, grid constraints and a lack of supporting business infrastructure currently hinder its residents and businesses. Proposals developed in the region designed to address these challenges, and harness the assets and opportunities, will be brought forward as a portfolio to secure capital investment. This will play a pivotal role in a broader investment strategy to realise the full extent of the ambition articulated in the Vision for Growing Mid Wales.
18. Both Governments will work collaboratively with the Local Authorities to deliver a Deal that will play a part in driving the recovery and future growth efforts across the Welsh and UK economies. It will follow a portfolio-managed approach over its 15 year timeframe. This will allow mature proposals to be brought forward as economic stimulus to support immediate recovery and longer-term renewal in the regional economy. The Deal is particularly well-placed to develop interventions that align with both Governments' ambitions to see the economy recover and prosper in the future.
19. Both Governments are committed to continuing their support for the region, and to harness its full economic potential. This "Heads of Terms" document defines the broad activities that the Governments will support, subject to confirmation that these activities are viable, offer value for money, and are deliverable, affordable and State Aid compliant (to the satisfaction of both Governments). It is understood by all Parties that this does not form a legally binding contract.
20. The Governments will commit up to £110m to the Deal. This will be expected to bring forward contributions from public and private partners in the region to maximise the leverage from the Deal, upon which the development of the portfolio will be framed.

THE OPPORTUNITY

21. In May 2020, following extensive engagement and collaboration, the GMWB articulated the case for change for the Mid Wales economy and set the Deal in the context of a broader regional economic strategy for Mid Wales, setting out the ambition to:

“take full advantage of the opportunities available to create and support economic and social growth by overcoming its challenges to become a fairer, smarter region that contributes to its full potential to address its productivity challenge.”ⁱ

22. Despite a succession of efforts to improve the regional economy over the years, Mid Wales continues to lag behind other Welsh and UK regions in a number of areas:

- **Lagging productivity:** Mid Wales continues to lag behind other Welsh and UK regions in real and per head terms due to the seasonality and structure of its employment base. Mid Wales contributes £3.6bn in annual Gross Value Added (GVA) to the UK economy. This is amongst the lowest in the UK and compares to £65.1 billion for Wales as a whole, with Mid Wales contributing approximately 5.5% of the GVA generated by the Welsh economy. This proportion has remained constant over almost the last twenty years. Notably, Powys records the lowest performance for GVA per hour worked of all areas across the UK.
- **Changing demographics:** reducing population figures and changing demographics, leading to a ‘pinched middle’ due to a relatively larger older population and a proportionately smaller working age population. Population projections for Mid Wales currently estimate a 16% decline in the working age population and 37% increase in the 65+ age group to 2039. Unless addressed, this predicted trend is likely to reduce the region’s workforce over the next 15 years.
- **Narrow and vulnerable economic base:** leading to employment and productivity imbalances. The largest GVA contributors are manufacturing, real estate and wholesale and retail. Whilst agriculture employs the most people, representing 37% of all businesses, it contributes comparatively less GVA. Seasonality also exacerbates the economic vulnerability, for with the tourism sector employing a significant number of people in Mid Wales (23,200 as of October 2019)ⁱⁱⁱ.
- **Projected employment decline:** Over the past five years, employment in Mid Wales has decreased by around 4%. Pre-Covid, the employment forecasts for Mid Wales were projecting significant reduction of total job numbers, which will now be in even sharper focus due to the lasting impacts of the pandemic on livelihoods.
- **Static and weakening labour market:** gaps in skills provision and infrastructure to meet industry demands – this leads to reduced accessibility and equality of opportunity for young people, reinforcing migration from the Mid Wales region. Powys’ commuting out of the region of ~3,495 especially highlight the need to improve employment opportunities in the region.

- **Market failure:** Underlying structural economic weaknesses mutually reinforce market failure; evidenced by weak and relatively static commercial and residential build rates, declining and narrowing business base and the lagging development of digital, transport and energy grid infrastructure. For example, approximately 81% of premises in Mid Wales have the capability to connect to Superfast Broadband (30Mbps+); this is significantly lower than the overall figure for Wales (95%) and the UK (96%). Only 19% of the region currently has access to Ultrafast Broadband (100mbps+), compared to Wales (39.5%) and the UK (60%).
- **The hidden nature of a rural economy:** the relatively strong employment, and low unemployment data masks issues of low pay and underemployment. Average full-time weekly earnings, for example, were 93% of the UK average in 2016, and 94 % of the Wales average in 2019.

23. Over a number of years, key stakeholders in the region have worked in a strong partnership to identify and respond to the needs and opportunities of the Mid Wales region; from the establishment of the Growing Mid Wales Partnership in 2015, to the recent work in establishing the GMWB and the private sector group. These arrangements have enabled the region to engage extensively and gather a significant evidence base to justify the need for investment in Mid Wales in the “Vision for Growing Mid Wales” document. This articulated clear opportunities to be exploited from existing drivers and assets in research, industrial and human capital to:

- **Attract and develop industries that drive regional productivity, earnings and employment growth** – capitalising on the strengths of our research, industrial and skilled assets.
- **Attract and unlock private sector investment** within the Mid Wales region by ensuring the right environment for growth.
- **Position Mid Wales as a rural powerhouse** that develops existing industrial strengths to generate new industrial and employment opportunity.
- **Reduce outward migration and retaining a skilled workforce** through industry-led employment and skills support combined with clear employment pathways.
- **Utilise Deal investments to influence and catalyse further investments** and policy changes to ensure equitable, inclusive growth across the whole Mid Wales region, positioning the Deal as a core component within wider regional economic recovery efforts.

24. A total of 8 strategic growth priorities have been identified in the regional strategy, upon which the Deal portfolio will be developed (outlined in the ‘Portfolio’ section of this document (below)).

25. The work of the GMWB and the implementation of the Mid Wales Deal should be a catalyst for wider co-operation to achieve the Deal, as well as both the Governments’

objectives to support the regional economy. This in turn will catalyse, support, and deliver future growth for the long-term benefit of the citizens and businesses of Mid Wales.

26. The GMWB will form a PMO to co-ordinate the development and delivery of strategic interventions, including the Deal projects. The PMO will be operational in time for the delivery stage of the Deal and will be the Centre of Excellence for Portfolio, Programme and Project Management, responsible for the development, implementation and monitoring of programme and project arrangements and processes. The standards and procedures adopted by the PMO will be based on best practice from both the public and private sector (as appropriate). It will support the activities of the GMWB, and its regional governance, including the private sector advisory group (the Economic Strategy Group). It will serve as the primary officer interface with both Governments in relation to the Deal, forging a close working relationship with its key stakeholders across and outside the region.
27. The Deal will be delivered as set out in the “Portfolio Business Case” and supporting implementation plan; it will be developed and agreed with both Governments and also in accordance with the commitments to be developed as part of the Final Deal Agreement. The consequences of any failure to fulfil these conditions and commitments will also be agreed and set out in detail in the Final Deal Agreement.
28. The GMWB will work with the Governments to agree a communications strategy and protocol. The document will set out how communications about the Deal and its associated activities are taken forward in a way that meets the needs of the regional partners as well as both Governments. Communications approaches and strategies will be implemented to maximise engagement and participation, including the use of the Welsh language.

THE PORTFOLIO

29. The Deal will be brought forward on the basis of a Portfolio Business Case, scoped and developed from the 8 strategic economic growth priorities identified in the “Vision for Growing Mid Wales” document:
 - **Agriculture, food & drink:** a strong and vibrant agricultural sector generating significant employment and produce to a nationally and internationally recognised standard, coupled with industrial and innovation strengths offers the opportunity to grow the economic base significantly and lead on new high-value food development.
 - **Applied research & innovation:** home to internationally-significant industries and internationally-recognised research and development assets and expertise that offer opportunities to catapult regional productivity growth.
 - **Strengthened tourism offer:** rich heritage, culture and outstanding natural assets underpin a vibrant tourism sector – offering a strong platform to drive new growth.

- **Energy:** the region is well-placed to lead Welsh and UK efforts in developing and generating solutions to address the challenges of a future energy system, and to contribute towards net zero carbon goals. The Mid Wales region has developed a comprehensive energy strategy^{iv} with the vision “To achieve a net zero carbon energy system that delivers social and economic benefits, eliminates fuel poverty, better connects Mid Wales to the rest of the UK, and contributes to wider UK decarbonisation”.
- **Supporting enterprise:** a vision for a strong, resilient and diverse Mid Wales economy requires enterprises to start, grow and prosper with the right support and infrastructure.
- **Digital:** connectivity is an essential part of modern life, influencing how individuals work, communicate and access services. Significant economic opportunities can be unlocked through investing in regional digital infrastructure.
- **Transport:** connectivity improvements will also be required to catalyse and further growth investment in the Mid Wales region, building on existing linkages to help deliver the transport network required to meet social and labour mobility demands of a growing economy.
- **Skills & employment:** an effective, functioning labour market with the appropriate supply of skills and a capable workforce to meet business and industry demands will be essential if the Mid Wales economy is to grow and prosper.

30. Whilst the detail of the investment objectives for the Portfolio will be developed as part of the business case – the Portfolio will be required to generate tangible growth in jobs and productivity in the Mid Wales economy over the lifetime of the Deal.

31. The Portfolio will also look to develop a wider set of primary and secondary outcomes and outputs for progressing the economic wellbeing of the Mid Wales region through measures to reduce carbon, retain talent, reduce inequality and develop the use of Welsh Language. The Deal will also explore the role it can play in driving a Green Recovery and play its part in levelling-up the UK economy.

32. The detail of activity within the Portfolio in the form of potential Programmes and Projects is currently being scoped as part of the development of the Portfolio Business Case (as defined by Treasury guidance of both Governments). The GMWB will work with both Governments to develop an approach to agreeing the mechanism and level of business case review and assurance that will be appropriate to the level of investment. The requirements shall be in line with best practice and guidance on portfolio management from time to time. This will be identified and set out in agreed assurance, governance and implementation documentation to be developed between signing of the Heads of Terms and the signing of the Final Deal Agreement.

GOVERNANCE AND ASSURANCE

33. Strong and effective leadership and governance is paramount to both successful implementation and providing assurance and delivery confidence to governments, local authorities and wider regional partners. The Deal's development to date has seen extensive engagement and input from a range of stakeholders, from the development of the strategy and proposals to date, to establishing new governance structures that ensure strong advice and input from the private sector. This has seen the establishment of an Economic Strategy Group, comprised of, and chaired by representatives from the private sector. The Economic Strategy Group provides independent expert advice, support and challenge to the GMWB to ensure that proposals made and decisions taken reflect the interests of the private sector.
34. To support the delivery and implementation of the Deal, the Local Authorities will build upon the current governance arrangements under the existing Inter-Authority Agreement by the implementation of a second Governance Agreement (which will replace the first IAA). As part of new investment in the regional economy, Ministers from both Governments expect effective engagement with relevant Government departments, tertiary education and third sectors, as well as meaningful input from senior business and industry leaders.
35. The governance & assurance arrangements for the Deal will be guided by the emerging City & Growth Deal Governance and Assurance Framework, and the Parties will agree to adhere to such arrangements that are in place from time to time.
36. Both Governments require the use of the Better Business Cases guidance, which utilises the Five Case Model methodology, for the development of a Portfolio Business Case (PBC) and its identified constituent programmes and projects. The SPBC will underpin the development and management of the Mid Wales Growth Deal Portfolio. The management and delivery of these business cases will be expected to follow the relevant guidance on the management of portfolios, programmes and projects.
37. The portfolio, and any constituent programmes and projects will be owned and led regionally by the GMWB, with the Accountable Body being responsible for the financial management of the Deal and specific functions as will be detailed in the second IAA, on behalf of the GMWB. It will be the responsibility of the Accountable Body to manage the financial implications of the Portfolio, and its constituent programmes and projects, within defined budgets and on behalf of the GMWB.
38. Deal funding committed by both the Welsh Government and the UK Government will be delivered on a flat profile over a 15 year period, with the commencement of this funding period only when the terms of release have been satisfied.
39. Over the 15 year lifetime of the Deal Portfolio, both Governments intend to provide funds to the Accountable Body on an annual basis. The release of funding will be subject to

agreeing assurance and monitoring of delivery of the Portfolio to the Governments' satisfaction. Initially, this will be based on demonstrating the feasibility, viability and value for money case of the Portfolio Business Case for the Deal. As such, all commitments in this document are subject to the approval of business cases. As part of this approval process, the Governments will need to be satisfied on numerous points, for example, that the relevant funding is in accordance with relevant departmental and government policies and the identification of relevant legal powers, and that the information provided is compliant with the extant governance and assurance framework.

40. The Parties agree that, on conclusion of the Final Deal Agreement, they will be engaged in a 15 year relationship, which will need to evolve and adapt. The Parties will use reasonable endeavours to develop and maintain an effective joint process to ensure that their relationships develop appropriately and in line with any agreed principles and objectives specified in the Final Deal Agreement or other relevant documents. Both Governments recognise the GMWB's "Vision for Growing Mid Wales" and its articulated case for change and its role as a partner in realising the region's long-term ambition for Mid Wales.
41. Both Governments and the GMWB commit to working to realise the economic potential of the Mid Wales region for mutual benefit and impact from public funds and for unlocking the potential of the private sector – ensuring the Deal can play its part alongside wider Government and regional investment in Mid Wales.
42. Nothing in these Heads of Terms is intended to, or shall be deemed to, establish any partnership of joint venture between the Parties, constitute any Party as the agent of another Party, nor authorise any of the Parties to make or enter into any commitments for or on behalf of any other Party.

WAYS OF WORKING

43. The Parties agree to work in partnership and work collectively to resolve any issues that arise during the lifetime of the Deal.
44. The Parties are committed to transparency in decision-making and activities, but also recognise that for relationships to operate effectively there are some circumstances in which Parties must maintain confidentiality, particularly where commercial sensitivities are involved.
45. The Parties undertake to provide all information required to enable both Governments to undertake the necessary analysis, assurance, and monitoring to release funding to the agreed timescale, and acknowledge that such information will be provided in a manner or format that is compliant with the extant governance and assurance requirements as prescribed by either Government.

NEXT STEPS

46. The Accountable Body and the Local Authorities will build on the existing relationship with the Welsh Government's Office for Project Delivery to ensure the appropriate level of governance and assurance required over the lifetime of the Deal. This will ensure proper management of public funds and the delivery of the desired benefits and outcomes. An Integrated Assurance & Approval Plan (IAAP), co-designed with both Governments will be developed – with specific consideration to guidance from the Infrastructure and Projects Authority, such as the OGC GatewayTM Review process. This will ensure the existence of an agreed assurance framework that will allow the GMWB to undertake a portfolio management approach. This will ensure that activity brought forward in the development of potential programmes/projects have clear arrangements in place for ensuring business case development in accordance with the Better Business Case guidance. This will ensure strategic fit, address business needs, optimise social value, deliverability, affordability and achievability – to reflect the Portfolio's critical success factors.
47. The Local Authorities will work with both Governments to develop a Final Deal Agreement on the basis of a Five Case Model Portfolio Business Case, a detailed implementation plan, an IAAP, a financial plan that takes account of affordability over the lifetime of the Deal, together with monitoring and evaluation frameworks.
48. Both Governments commit to communicating clearly the requirements, documentation and expected milestones for the Local Authorities to achieve Final Deal Agreement. In response, the Local Authorities commit to co-develop the required documentation in a timely and appropriate manner with both Governments.
49. The Parties commit to continue working together in close collaboration to progress the development of the Deal at pace, subject to meeting key requirements and pre-requisites that will be required to underpin a Final Deal Agreement.

ENDS

ⁱ Vision for Growing Mid Wales, May 2020 – copy available from www.growingmid.wales

ⁱⁱ StatsWales, December 2019 (The covid-19 pandemic will have impacted this figure, as it would the UK and Welsh economy figures for 2020).

ⁱⁱⁱ StatsWales, Workplace Employment, October 2019

^{iv} Mid Wales Energy Strategy, Summer 2020 – copy available from www.growingmid.wales