

Welsh Affairs Committee

Oral evidence: [Broadcasting in Wales follow-up: S4C funding](#), HC 981

Monday 13 March 2017

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Members present: David T.C. Davies (Chair); Byron Davies; Chris Davies; Liz Saville Roberts; Craig Williams; Mr Mark Williams.

Questions 39-107

Witnesses

[I:](#) Professor Medwin Hughes, Vice-Chancellor, and Gwyndaf Tobias, Deputy Vice-Chancellor, University of Wales Trinity Saint David.

Examination of witnesses

Witnesses: Professor Medwin Hughes and Gwyndaf Tobias.

Q39 **Chair** (*Translation*): Professor Hughes and Mr Tobias, thank you very much for coming. We are going to ask a few questions about the Yr Egin project. You are welcome to give evidence in Welsh or in English, whichever you are most comfortable in. Can we start with Byron Davies, please?

Byron Davies: There are various views on the move from Cardiff down to Carmarthen. Can you give us an explanation of what the vision for the Yr Egin project is and what benefits it will bring to the local area down in Carmarthenshire?

Professor Hughes (*Translation*): Thank you for the opportunity to submit information about the course and the scheme. We are pleased to have the opportunity to do so. (*Continued in English*) Thank you for the opportunity to give more information about the initiative—[*Interruption.*]

Chair: We seem to be having a few problems with the translation equipment here. Do carry on, Professor Hughes. I apologise for that.

Professor Hughes: Perhaps with your permission, Chair, I will just set the context. I am very much aware that there has been so much interest in this initiative over the last couple of months and so many different stakeholders interested in the development.

You will recall that, as far back as 2012, S4C noted that they were interested in the option of perhaps moving from Cardiff. They noted that interest and asked for public statements of interest from different parties. At the time the university considered very carefully whether this was an appropriate activity that we should be involved in. As you know, at the end of that public process, 12 interested parties showed an interest in the engagement. The University Council considered very carefully whether it should engage at all. It came to the view that, if we were only offering office space of moving an authority from Cardiff to West Wales, why on earth would the university be involved in that context? Therefore, in coming to a decision with regard to whether we should be involved, we considered very carefully a range of policy issues, and I think it is important to state that to set the scene.

One of the key issues we considered was the evidence presented to this Committee by the chair of the Creative Industries Panel for the Welsh Government. You will recall that, when he gave evidence to you in November 2010, he made it very clear that “there is an unarguable case that more should be located in Welsh-speaking areas where quality jobs are at such a premium. The relative fragility of the production sector over the next few years is going to require S4C to use its commission to engineer the development of the sector. They need to build geographical



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balance, encourage new entrants to the market, help develop producers of new media content as well as put the structures in place to work with other Welsh language organisations.”

As the university, we took that as the premise of considering what the university could do. We also considered the priorities set by the creative industries sector itself with regard to developing infrastructure, developing skills opportunities and maximising the opportunities between the economy, language and culture, and to do that outside of the bubble of a Cardiff-centric activity, hence the decision of the University Council to make an application to invite S4C to come over to West Wales.

As I have said before, the invitation was based not to offer office space but to develop an initiative—the Egin—a creative hub that would allow us, with an anchor tenant, the opportunity of developing a creative new opportunity in West Wales that would focus upon the language, developing higher-level skills and also creating something where there was a real demand.

As you know from the context of the language, we have seen over the years a real demise of the Welsh language in West Wales and, while we have excellent community facilities, community initiatives, at the end of the day what we need are strong economic opportunities to develop new opportunities through the medium of the Welsh language, hence the decision to create the creative Egin. The idea is developing an opportunity focusing upon economic developments, cultural opportunities and maximising the opportunities of seeing one anchor tenant and then building upon that.

As our evidence base we took examples from Ireland: how does a creative digital hub work? Is there evidence that bringing companies together can make a difference? As you will know, the Cabinet Secretary received information from Ireland, from TG4, offering evidence that it does make a difference within the context of rural developments.

For us within the university the Egin was always seen as a key economic regeneration opportunity linking higher-level skills, offering our graduates in Aberystwyth, Carmarthen and Swansea the opportunity of developing new company opportunities through the medium of Welsh and prioritising this sector, which after all has been identified by the Welsh Government as a sector priority. We also noted that there was clear evidence in West Wales of private sector companies coming together and developing new creative opportunities. As we know, only 17 miles away from Carmarthen is one of the best examples of a very, very successful company, which has an international reach and took the opportunity of locating in Llanelli and developing a strong base.

The context, Chair, is that this is far more than just offering office space. It is bringing together, from a cultural, economic and social capital perspective, the opportunity of developing in Carmarthen a new creative industry hub. S4C is an anchor tenant, and I am sure we will have the



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opportunity to expand more on that later. It is merely an anchor tenant. The success of the initiative depends upon developing a strong ecosystem where the Welsh language can develop, where there are opportunities of new jobs, and hopefully we are creating together new economic impact opportunities within West Wales.

Chair: Thank you, Professor Hughes. Would you like to come back on that, Byron Davies?

Q40 **Byron Davies:** You mentioned the advantages to the university, to the students. Could you expand on what a student would gain out of this?

Professor Hughes: As you will be aware, all universities have a very clear commitment to support enterprise and innovation opportunities. At the heart of what we do within the University of Wales Trinity Saint David is a strong focus upon the creative industries, on developing new opportunities linked with creative industries. There is now the chance to consider what relevant skills are required for graduates in this area. How do we then encourage them to develop new innovative opportunities, of creating new companies focusing on digital content and on software? How do we encourage them to work together to take opportunities of creating companies, and of creating new opportunities that can be linked to the priorities of the Government in the creative industries?

Again, we took counsel from other examples—I mentioned before what has happened in Ireland and I could refer to what has happened in Scotland or in Salford—of bringing graduates together to work on initiatives, develop company opportunities and hopefully grow and develop new initiatives within the region.

Chair: Thank you. With the rest of the members' permission, may I go to Liz Saville Roberts next? You have just touched on a very important and key point and I think we might want to get clarification on where the initial idea came from.

Q41 **Liz Saville Roberts** (*Translation*): That is a part of one of the questions that I was going to ask. Where did the possibility of S4C being relocated to Yr Egin and to Trinity Saint David arise first and which organisation initiated discussions?

Professor Hughes (*Translation*): You will remember that S4C made a declaration of intention that they were considering moving out of Cardiff and they invited organisations to express an interest. As I have noted, I think 12 had expressed an interest, so there was a transparent and open process where organisations had to make declarations of intention. A declaration of intention was made and that was considered. Afterwards there was a need to prepare a detailed business case that had been considered by the authority. My understanding is that, after receiving 12 initial declarations, the authority worked through those 12 down to two and then two applications were considered, one from University of Wales Trinity Saint David and one application from the north.



- Q42 **Liz Saville Roberts** (*Translation*): In the meantime, one of the issues that has arisen is that, if there is £3 million in the form of rent from S4C available, were the other organisations that submitted applications—especially the application from Caernarfon, which was one of the last two that were successful—aware that £3 million of rent was available in the form of a deposit, to all intents and purposes?

Professor Hughes (*Translation*): From the information we have received from the authority, I can confirm that S4C shared with Trinity Saint David, and with the applicants from North Wales, that £3 million was available. (*Continued in English*) It was clearly stated to us when we were having those deliberations with the authority that they were minded to invest £3 million, in the context of this initiative. That statement was made not only to us but to our partners in North Wales. Therefore, as we prepared our business proposals, we were mindful of the policy decision taken by S4C that they would want to invest £3 million so that it would be cost-neutral. My understanding is that both parties were aware of that, but it may be wise for you to check that also with S4C.

- Q43 **Chair**: May I ask for a clarification that the offer of the £3 million investment came from S4C and was not asked for by you?

Professor Hughes: No, that is correct.

Chair: My statement is correct. That is very interesting. Thank you.

- Q44 **Liz Saville Roberts**: If I understand correctly, you have clarified. (*Continued in translation*) You have explained that that was known to the application from Caernarfon as well as to yours?

Professor Hughes (*Translation*): From my understanding of the discussion with the authority, it had noted that this information was available for both parties, but it would be good for you to have confirmation of that, of course, from the authority as well. (*Continued in English*) We went into this engagement with a clear understanding that the authority were minded that it must be cost-neutral. They accepted that we were not offering a proposal for office space alone, that what we were offering was something different, that the £3 million had to be cost neutral for them both. From talking with the authority officers, my full understanding is that our colleagues in North Wales were also aware of that.

- Q45 **Craig Williams**: Following that up, the £3 million upfront rent—rather than using the word “investment”—that S4C have offered, so they rent with you, could you clarify the term of 20 or 25 years? I can’t remember it off the top of my head. Can I ask you about the ongoing liabilities? If you have a building for 20 years, somebody is going to have to keep the maintenance updated; it is the liabilities for the building. S4C was very clear with us that it will be a tenant of the project. Who has that capital liability and who refreshes the building over those 20 years?

Gwyndaf Tobias: As you have just mentioned there, the S4C authority is merely a tenant within the building and paying upfront rent is not



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unusual in trying to seek and trying to cap on future liabilities for them, I would imagine. That was part of the assessment in coming to its decision that this was indeed cost-neutral. For the university, it was just as important to us to secure an important financial stream as part of the business plan for the project for the next 20, 25 years. As part of that, the university would then be liable for the capital upgrading of the building, if that is required over that period. There are certain maintenance obligations that every tenant will have to meet within a service charge, in the same way as happens for most buildings that are leased out.

Q46 **Chair:** To clarify this, the service charge is separate and additional to the rent?

Gwyndaf Tobias: The service charge is separate and additional to the rent. That is payable by all tenants to cover, for example, cleaning of the building, reception and so on. The rent itself is based on market rents for the Carmarthen area, as evidenced by independent valuation reports and evidence we have had from the local authority as well.

Q47 **Craig Williams:** Is there a sinking fund in that for refreshing the whole building?

Gwyndaf Tobias: Within the service charge, not for refreshing the whole building. There will be for future maintenance obligations, but for refreshing the whole building that will be a significant obligation over that period. There would be a certain sinking charge built into service charge payments.

Q48 **Craig Williams:** Whose liability would you see that as: the landlord or the tenant? Twenty years is a long period and we have seen S4C refreshing their building a number of times and, if it is not just an office block, it would probably have significant demands with new technology refreshing. How would you see that?

Gwyndaf Tobias: There are clear service charge obligations set out in any lease arrangement that any tenant would step into. Within that would be defined what would be the responsibility of the landlord and what would be the responsibility of the tenant within those buildings.

Q49 **Chair:** Are the service charges fixed for the next 20 years?

Gwyndaf Tobias: The service charges would not be fixed for that period of time. It would go up in line with inflation. For example, if it is cleaning costs and if you have increased inflation with salaries and wages then, clearly, that would be built into the service charge on an annual basis.

Q50 **Chair:** Is the service charge significant in comparison with the rent?

Gwyndaf Tobias: The current service charges that are planned for the building are estimated at about £6 per square foot in addition to the rental of the building. On an annual basis, that is reconciled with the actual costs of that service charge to cover, for example, utility costs,



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cleaning costs and so on. On an annual basis, that is reconciled fully and declared back to the tenants of the building.

Chair: We will revert back to where we were before. That was interesting.

- Q51 **Mr Mark Williams:** We have jumped a little on the critical issue of the costs but I want to, first, follow on from Byron Davies's original question. You talked about the vision and the aspiration. What detailed work has been done on quantifying the impact on the local economy for Carmarthenshire and the neighbouring local authority areas as well? What work has been done specifically on the economic gain?

Professor Hughes: As we were preparing the proposal for the authority we commissioned an external report to highlight what the economic impact would be. We were very mindful of the fact that when you consider the GVA per head in West Wales compared with Cardiff, in West Wales the GVA is about £12,000 compared with £21,000 in Cardiff. There was a major need, therefore, to develop opportunities where graduates hopefully could get good jobs. We know that there is the digital sector. The estimated costs of salaries in this area is about £40,000, and we need to develop those. As crafted, the project will deliver about 850 direct and indirect jobs within the region, with the gross value added sum of about £7.7 million per annum, or £230 million over a 30-year period. Without this sort of catalyst, I think it would be very difficult in West Wales to develop an economic opportunity that would bring digital infrastructure, the potential for new research and new products.

It should have a major impact not only on the economy but on the culture of the region. As I have said before, we desperately need new economic opportunities in the area to develop through the medium of Welsh. What we saw in this initiative was a great economic initiative that focused on new product development and new services, offering that bilingually.

- Q52 **Mr Mark Williams:** Thank you. We have talked specifically about the major tenant being S4C, but could you paint a picture for the Committee of the scale of the building itself, how many other companies are intended to be there, the interest level of other potential tenants? Could you reassure us, or otherwise, about the timetable for completion and whether any planning or construction obstacles have been overcome or may need to be overcome in the coming months, were things to proceed?

Gwyndaf Tobias: The size and scale of the building is around 3,700 square metres, with S4C taking around 25% of that space. That gives you a flavour of what else is going into the building. The other spaces for the tenants are going to be flexible, to try to generate creative thinking for business start-ups, incubation activities, with the heart space in the middle of the building to encourage networking between those companies during the working day and, hopefully, spin-off discussions coming from that.



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Over the last couple of years we have been holding detailed discussions with a number of companies—in excess of 20—who have shown an interest in the project. We fully expect to have about 60% of the lettable space taken up within 12 months or before 12 months of completion of the building.

In terms of the building itself and where we are with planning, we have secured full planning approval for the building, after an extensive consultation with the local community, who are clearly very positive about the development. We have gone through a procurement process to choose a contractor. The contractor has been working with us to finalise the work packages over the last few months and we are in a position now to move ahead with the project. We expect to prepare the site over the next week and building work to commence in April.

Q53 **Mr Mark Williams:** And building work to conclude?

Gwyndaf Tobias: At the moment we are looking towards late spring next year, in line with the timetable we have agreed with S4C.

Professor Hughes: Gwyndaf mentioned the importance of innovation and enterprise, and I think it is important to stress that it is at the heart of this development. What we want is—and we took evidence from Nesta reports on the creative industry—to inspire young graduates to take risks and new opportunities, to develop an enterprise culture and then co-work together. That is why, at the heart of the development, there will be an accelerator programme supporting graduates after graduating to develop new small business opportunities, where they can network and co-work together and hopefully build critical mass, linking and learning in the context of an anchor tenant that is there as well.

Q54 **Chair:** Would it be fair to presume, Professor Hughes, that if S4C does not come for some reason, then the other tenants would not come either, that their decision would be dependent on S4C's positive decision to relocate there?

Professor Hughes: That is a very difficult question to answer. What do we know for granted? We know that an anchor tenant that can create a halo effect has influence. We know that an anchor tenant that can maximise and pull people together can have enormous influence. If they do not come, the evidence that we have had, from talking with other possible companies that are very keen to come into this development, is that they see the vision, the opportunity of developing something much more than offering office space. It is impossible for me to answer your direct question.

Q55 **Chair:** But in your conversations with them, some of them must have said, "Professor Hughes, if you get S4C here then we would be really interested in doing this, but if there is no S4C then it wouldn't really suit us. We would be looking for office space elsewhere". Those sorts of conversations tend to go on, don't they?



Professor Hughes: Yes. In the conversations that we have had, we have presented the vision and we have offered the storyline of the development—and clearly in the context of our storyline, S4C are there—and they have all said, “We want to buy into this vision”.

Q56 **Chair:** Have any of the other companies actually signed on the dotted line yet and said, “Yes, we definitely want space there”?

Professor Hughes: As Gwyndaf has noted, we have been in detailed discussions over the last 18 months. You will respect the confidentiality of where we are with the different partners, but I can confirm that there have been very detailed discussions. Clearly they were very keen to see in the context of the initiative going forward.

Q57 **Liz Saville Roberts (Translation):** You have mentioned that you anticipate that 60% of Yr Egin will be businesses and tenants going there. What percentage do you require and within how long for the project to be viable?

Gwyndaf Tobias (Translation): Clearly, the university and the University Council have taken the stance—in terms of cash flow and so on—that we are now ready to go. That is positive in getting S4C to pay a rent deposit and that helps with cash flow. With any development—we have several developments this year—we get businesses to work across the university and close to the university, and you then, therefore, have to make a judgment and take a decision based on what you currently have.

We are certain that we will get over 60% very quickly into the building, and the cash flow is positive because of that. Then we will be working very closely with the other tenants. As I said, over 20 companies have expressed an interest. We have a building that is next door to this site that is full of local businesses at the moment, so we know that there is a demand for this type of establishment in Carmarthen.

Q58 **Liz Saville Roberts (Translation):** Forgive me, but you have not answered my question. I am trying to get the picture. You need several financial streams for Yr Egin to be viable in the future. The picture that I am trying to get is: where do you break even? Is 60% sufficient for the project as a whole to be viable, or do you need more than that?

Gwyndaf Tobias (Translation): Over a period of time, over two or three years, we will need to get more than 60%, but the rent deposit paid by S4C gives us a positive cash flow at the beginning of the project. We are certain that we will get companies in as part of the project. It is higher than 60%. I don’t have the actual figure at the moment, but it is certainly higher than 60%. Of course, the business plan of any such model works on an element of empty space within the building because of turnover of tenants and so on over the period of the project.

Q59 **Liz Saville Roberts (Translation):** As rent has been set by an appraiser for the area, will the others be paying rent similar to S4C?



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Gwyndaf Tobias (*Translation*): Yes. In our discussions with other tenants, we have been working on a rent figure that has been allocated by independent people and also in accordance with other companies paying rent to us at the moment within Carmarthen. We have received evidence from the county council about what that rent should be.

Q60 **Byron Davies:** In terms of value for money, how do the offices that S4C will be renting compare with those that are currently being rented by Coleg Cymraeg Cenedlaethol?

Gwyndaf Tobias: You have referred to a building that is adjacent to where the Egin will be built. It is a very different type of building. For example, it does not have the same sort of heart space that we are talking about in the Egin development. Again, the rents paid by Coleg Cymraeg Cenedlaethol are in line with market rents for the area and we do have a district valuer report for that particular building. We have to be very clear that it is not the same type of building as we are trying to achieve with the Egin development.

Q61 **Craig Williams:** Before we move on, on the timescale for construction, given the S4C upfront rent payment and given there was a guarantee or an indemnity on, "We are coming to you, but you are guaranteeing building it", I don't want to use the word "delay", because perhaps it was not a delay, but why didn't you start building it straight away, or have you done any groundwork or started along that path?

Gwyndaf Tobias: We have not yet started groundwork. We have been working very closely with the appointed contractor on a two-stage process. They have been working with us over the last few months on going out to tender for the detailed work packages that sit underneath the main contract. As I said, now we are in a position whereby we are ready to proceed after having confirmation from the Welsh Government about the £3 million grant funding that has been allocated to the project.

Q62 **Craig Williams:** That brings us neatly on to S4C who, if you are terribly unkind, you can say has been left holding the baby in terms of defending this more publicly. They are the anchor tenant and they have been headed with a lot of public criticism about how this development is ongoing and what public funds are going where. For clarity's sake, could you explain to us how the project will be totally funded, how much it will completely cost, which bits of public sector grants or projects you are pulling out of, and whether there was any European money anticipated or bid for or wanted? Just get it all clean on the deck of where we are and how much.

Gwyndaf Tobias: If I can start with the overall project cost, the overall project cost for Yr Egin is £14 million, including VAT. Within that, £3 million grant funding will be allocated by the Welsh Assembly Government and £11 million funded by the university. S4C will be paying upfront rent of £3 million, but that is only after the building has been



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completed and when they take their tenancy. Hopefully, that provides clarity on that part of the funding.

Q63 **Craig Williams:** Could you explain the Swansea City Deal, then, where that aspect comes into it?

Gwyndaf Tobias: Yes. The Swansea City Deal is a separate project to the initial Yr Egin project. It is not scheduled to start until 2019, 2020. We are part of the overall Swansea City Deal project, which includes about 11 projects altogether, to be considered by Westminster. Within that, we have put forward a £10 million project to be located next to the Egin in Carmarthen, £5 million to come from the City Deal and £5 million to come from the university and the private sector. But it is a separate project.

Q64 **Craig Williams:** What will be the make-up of that? Will you try to get £5 million from the private sector, and then the university makes up the difference?

Gwyndaf Tobias: At the moment, we have not anticipated any firm income from the private sector. We have assumed at the moment that that will need to come from university funds. In terms of the university funds, what has been put forward is cash generation over the next couple of years and income from property disposals, which we have already identified as surplus to requirements because of our capital developments in Swansea. Again, they will not be realised until after the Yr Egin has been completed.

Q65 **Craig Williams:** If I could take us to the European funding aspect.

Gwyndaf Tobias: If I can maybe rewind a couple of years to our initial discussions with the Welsh Government at the time in relation to the project, we were of the opinion that we could seek European funding through the Welsh European Funding Office through a particular stream. As we developed those discussions and developed the project, it became clear that the amount of funding available through that particular route was significantly lower than what we had originally anticipated. In discussions with Welsh Government, we then decided to put forward a proposal for property development grant funding through the Welsh Government, in line with the eligibility criteria for that funding.

Q66 **Mr Mark Williams:** May I very quickly ask something that is relevant to what Mr Tobias just said? Are you saying that the reason the European funding was not pursued at that point was the scale of the funding that potentially was available?

Gwyndaf Tobias: The scale of the funding originally we were led to believe was around £80 million for that particular route, and then it transpired that it came out at £8 million for the whole region. Clearly, that put pressure on the number of projects that were being put forward for that particular route.



Mr Mark Williams: Thank you. That answers question 12, Mr Chairman.

Professor Hughes: I am mindful that there has been a lack of clarity in that context of European funding. The university never did submit a claim for European funding. It was never rejected, although that has been stated in the press. As Gwyndaf has noted, we had detailed discussions with officers of the Welsh Government where we considered that at the beginning, but then—as Gwyndaf has noted—because of the size and the significant change in the context of that pot, through discussions it was decided that we should consider funding through the other routes of the Welsh Government.

Q67 **Craig Williams:** You can appreciate where the confusion has come from, because if you look at the Carmarthenshire Local Service Board minutes, you will see that it very clearly states different numbers from different organisations and the European aspect to it. I think there has been a fair criticism about clarity.

Gwyndaf Tobias: In terms of the overall figure, there is a figure reported that this is a £24 million project. That is clearly two projects: the £14 million Yr Egin project and then the City Deal aspect afterwards.

Q68 **Craig Williams:** But the City Deal aspect is complementary, presumably, to Yr Egin?

Gwyndaf Tobias: Yes. Based on the demand we are likely to see for this project, it would be a shame to miss out on that potential to increase activity even further in Carmarthen and encourage more spinout in incubation activities in Carmarthen.

Professor Hughes: Mr Byron Davies asked for clarification on the added value for the university and for students, but in addition to that there is the fact that there is so much interest from companies that wish to come to Wales. The evidence that we have seen is that there is great interest from digital companies, content, a range of software opportunities that are considering coming to Wales with investment, and it is good to see the Welsh pound drawing companies into Wales. I think this is the synergy of supporting local capital but also bringing new companies in as well.

Q69 **Craig Williams:** I don't think any of us would disagree with that wonderful vision, Professor Hughes, but I wonder if I could take us back to something we have talked about very briefly. I don't want to dwell on the service charge, but it is the refresh of Yr Egin and the fact that S4C are tied for 20 years, if that is correct. We have seen that, if you are going to attract world-class digital firms in this sector, you have to refresh quite a bit. I am not sure how many times they would have to refresh in 20 years, but certainly once. I don't see where the cost would come in. That is too big for a service charge, isn't it?

Gwyndaf Tobias: I think you are right. In terms of the overall huge refresh of the capital build, that is clearly something that the landlord



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would take on. But if there are specific requirements of individual companies around equipment, for example, that is clearly something that would have to be met through the service charge.

- Q70 **Craig Williams:** For clarity, so I have it right, of course the equipment—and HD at the moment is all the score, but you will no doubt have HD-plus in the next 20 years—would clearly sit with the operator, but the refresh of the building would be an ongoing capital need from the university.

Gwyndaf Tobias: As I say, the maintenance side of it is—

Craig Williams: Clearly a service charge?

Gwyndaf Tobias: Clearly a service charge, yes.

- Q71 **Craig Williams:** What about the other side, the bit I am asking for? Who is going to be re-cladding it in 15 years?

Gwyndaf Tobias: In terms of the university obligations and the major capital cost, clearly that will have to come from the university, but the service charge would cover the ongoing maintenance and so on.

- Q72 **Chair:** We have just been literally doing almost a back-of-an-envelope calculation of the service charges, based on the 3,700 square metres and the 25% that you said S4C will be taking and turning that back into square feet. I have come out with a figure of about £60,000 per annum in service charges. Is that about right?

Craig Williams: Plus inflation.

Gwyndaf Tobias: In terms of the model that we have at the moment, then I can confirm that that is not far away from our calculations.

Chair: That is not bad then, is it? Do you want to carry on, Craig? We have messed up our order a bit, but we are up to about question 8.

- Q73 **Craig Williams:** Let's gallop forward. Can I ask about the governance oversight of the project? Clearly, S4C has said, "Right, we are tenants only," but given that this is going to be a digital cluster and if we are going to develop your vision that you have so eloquently talked about, what is the governance of the project? For example, have the decisions been made by the University Council and so on?

Professor Hughes: I will take you through the structure of the governance framework that we have followed to date and then perhaps look also to the future. Clearly this is a university decision and, in the context of the university, it would have to follow the appropriate governance structures, so first of all a formal resolution of the University Council to engage in such an initiative. The council then were minded to set up appropriate sub-committees of the university and that has been structured. We have a key sub-committee of the estates committee that is charged with the strategic overview of looking into this development. There is a named governor who chairs that who reports back. That then



is tested in the context of our strategy committee and also of our audit committee. It is overseen by the resource committee as well.

We have also created a project board for Yr Egin. There are representations made and partnerships with S4C, so there is parity of engagement to make sure that there is also clarity and transparency in how we take it forward.

In order to maximise the vision, we have also secured an industry representative, which is apart from the authority, so, as we craft the vision, the building moving forward, that voice has been heard from day one. We took the decision that we would follow PRINCE2 methodology of best practice linked to governance. We have also made sure that there is a test and challenge and our university auditors have been involved. They have endorsed the process of governance.

There has been a very, very careful framework of governance and structures and accountability right through the project, from the initial decision right through to now, and that, of course, will continue.

- Q74 **Craig Williams:** How do you think the challenges will emerge then? This is very clearly part of the university and the governance is set there, but you are running a university and your students and your programmes must come first. You have seen a drop-off in international students—which I am sure we will come back to—but, in terms of funding challenges going forward, how do you envisage this balancing out, running this enterprising, visionary and really ambitious project, which we all support, but running a university as well? How does it tie together and what will the challenges and the stretches be on that governance?

Gwyndaf Tobias: I would start by saying that this is not the first type of activity we have had like this. We have a number of buildings, for example, in Swansea that are fully tenanted, so we are used to running that type of activity. This venture will stand on its own in terms of a business plan and, clearly, we have a commercial business plan as well, which I will not go into today, due to confidentiality requirements. Clearly, there is a business plan there as to how we will run the building, how it will operate in the future, and that is something that has been considered by our resources committee within the university.

- Q75 **Craig Williams:** It will be self-funding, self-standing, in a silo—not that anybody aspires to more silos—but defensible?

Professor Hughes: As you say, “silo” is a difficult word to engage with, but from due process of governance we must make sure that there are clear, defined areas of activity. The key for any university now is to maximise the opportunities of engagement in difficult funding times. There is no need for me to say that to you as a Committee; you will be aware of it. This is the type of innovative, new development that universities across the United Kingdom are engaging in. In the context of



Wales, there are some very exciting projects and initiatives that have been taken in other sector areas similar to this one.

- Q76 **Chris Davies:** I have been listening very carefully. Professor Hughes, the word you have used consistently has been “vision”. Some would say that the relationship between your university and S4C has had more fog around it than a clear vision. I don’t think somebody has handled this well. Whether that is you, S4C or a combination of the two, how do you think you have presented all this, because it has left not just a little bit of fog but a very untidy smell? That is how it is perceived.

Professor Hughes: The university and S4C have been very clear in their engagement right from the beginning in the context of the structure and the communication, and we have engaged in a consistent, structured manner and have responded. We have been consistent with our messages. Messages sometimes are not heard, but those messages have been very clear and consistent. We have answered and there has been clarity of those messages between S4C and the university.

Like any large, multimillion-pound initiative, there are commercial confidentiality issues. I am sure you will respect that there are times that one has to ask colleagues to respect the confidentiality of those discussions. I think in the main I can look at you and say that there has been consistency of messages, clarity of messages, and an engagement between S4C and us that has been very focused and structured. There has been a common understanding of the issues and we have presented them, hopefully, in an appropriate manner.

- Q77 **Chris Davies:** To take another one of your most eloquent words, if I may, namely “clarity”, do you think there has been enough clarity shown that public funds were being used appropriately in this matter?

Professor Hughes: In the context of public funds relating to the larger development, I articulated at the beginning that, if this was merely a project focusing on office space moving from Llanishen to West Wales, we should not be involved in that. Our involvement is to maximise economic and social cultural capital within the context of Wales as a higher education provider.

Our engagement there has to be linked to priorities, and one of the things that we were very keen on as a university was to consider, in the context of the Welsh Government, their published statements in moving Wales forward: what were the priority areas of investment for the next five or six years? Those included the development of digital infrastructure within university towns, the development of enterprise, the new opportunities for supporting the language, and developing rural opportunities. If those were the priorities of Government, I would hope that the university would have articulated a proposal that clearly demonstrated value for money from the Welsh pound in those areas. I feel that we have clearly shown, in the context of what we will deliver,



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that that will make a difference to the direction of travel of economic and cultural development in West Wales.

With regard to the £3 million in the context of S4C of value for money, S4C came to a decision that it had to be cost-neutral and they have been absolutely clear on that from the first statement they made. We also were very clear that this was cost-neutral, and I concur that the value for money on that part also has been clearly articulated and, hopefully, shown.

Q78 Chris Davies: Going back to a point that I don't think you fully answered earlier, would this scheme be going ahead without that 20-year compounded payment from S4C?

Professor Hughes: S4C noted at the beginning that they were minded to invest £3 million in the context of the proposal. What we then considered was what the appropriate model was in order to develop the wider vision, and—as Gwyndaf has noted—we would have taken that forward in the context of developing an initiative in West Wales. Do you want to expand on that?

Q79 Chris Davies: Can you stay where you are for a second? Was that a "Yes" or a "No"?

Professor Hughes: Yes, it would have developed.

Gwyndaf Tobias: Building upon the Vice-Chancellor's comments, clearly then it would have been a different financial model for us to consider with all the other things that we have referred to in terms of rents and service charges and of voids that we have built into that model, but that is not the position we were in. We were in the position where we put forward a proposal based on £3 million upfront rent, which hopefully provided S4C with some information in relation to securing cost-neutrality for them, but it also gave us commitment in terms of part of the financial plan. If that was not the case, we would have had to revisit that financial plan and would probably have amended the financial plan that we had in place.

Q80 Chair: I think the answer is neither "Yes" nor a "No", but perhaps a "maybe". What you are saying is that S4C offered you the £3 million so you built a proposal around that. Had they not offered you that £3 million, you may have put forward a different proposal, but we will never actually know. Is that a fair summary of your answer?

Professor Hughes: S4C issued a planning assumption to our colleagues in North Wales and to us: "We are minded to move. We are interested in you in West Wales. We are interested in you in North Wales. We are prepared to put in £3 million. This is what we are putting on the table". Then the appropriate parties would have to consider how that could be brought together within the context of an appropriate business model. I am sure that the two business models were very different, but we started from that premise.



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Q81 **Chris Davies:** For clarity, you think Caernarfon were treated exactly the same and that £3 million upfront was offered to them also?

Professor Hughes: To my understanding, yes.

Q82 **Liz Saville Roberts** (*Translation*): My understanding is that the application from Caernarfon stacked up, but, from what I understand from the Caernarfon application, the European funding was an integral part of your application. Looking back at the BBC story First Minister Carwyn Jones said that this was originally cost-neutral, but by now it is not. As I represent an area close to Caernarfon, I am concerned to see a situation that was meant to be cost-neutral, with one application that was meant to stack up and another with money that has now been withdrawn, namely European money.

Professor Hughes: I fully appreciate those statements. In the proposal that S4C received from the University of Wales Trinity Saint David, it was clearly stated, "In the context of you moving from Cardiff to West Wales, that is cost-neutral, but if you, S4C, are minded to come to West Wales, you are buying into something very different than just that, and that is the wider vision". In that initial proposal, which they considered and went through in great detail, it was clearly articulated to them that the university would be looking for additional funding to take it forward. They considered that when they took the decision. The cost-neutral element has regard to S4C moving from Llanishen either to Caernarfon or to Carmarthen, and that was the same. It was that added activity that we noted very clearly in that initial proposal and S4C were fully aware of that. They tested it, went through due process and scrutiny, and then they came to a measured decision.

Q83 **Craig Williams:** What would have happened if the Welsh Government had said "No", then? You offered assurance or indemnity to S4C for their cost-neutral proposal, which we could ask more questions about, but I am just focused on your offer and them taking it up. Would you have built it regardless?

Gwyndaf Tobias: Thank you for that. Clearly, if there had been no funding coming through from Welsh Government, we would have to revisit our financial plans. We do have capital projects across the university. We would have to reprioritise those capital projects and also bring forward certain disposal programmes that we have in place at the moment. We are pleased to be able to note that the Welsh Government did see the value of the wider project, in terms of the impact on the economy and the impact on the Welsh language, and we are not in that position.

Clearly, we would have still carried on. We had a vision that we wanted to realise and we were committed to that for the region and believed in it in terms of our students. Across the university, we have a colocation strategy with industry to enrich the experience for students and also to provide that skill pipe to industry. We would have had to just revisit our



financial plans across the university rather than just specifically on this project.

- Q84 **Craig Williams:** You can understand our interest, then. Essentially, S4C has done its due diligence with the market and picked an option. Then, subsequent to that, the funding stream for your case changed and you applied to the Welsh Government. Is that correct or is that me misunderstanding it? I am very happy to admit that I could have.

Gwyndaf Tobias: Right from the beginning, we were very clear that we would be making applications for grant funding, not just from European funds but other funds. We have bids in place for other parts of the project in terms of specialist equipment, for example, and kitting out some of the rooms. We were very clear right from the very beginning that we would be going down that route in terms of seeking those funds.

- Q85 **Craig Williams:** So there was always risk inherently in this?

Gwyndaf Tobias: At the end of the day, any project has inherent risk in it and it is about calculating and taking calculated risks.

- Q86 **Craig Williams:** I have no problem with risk. I am happy with risk as long as people acknowledge there is risk, if that makes sense.

I wanted to come in earlier. Anyone in a political profession knows you have your message and you say it over and over again. You have talked about the quality of jobs and the jobs that relocate. In parallel to this, S4C and the BBC are in negotiation on what remains in Cardiff and what goes into the BBC headquarters. Presumably, you have an agreement with S4C on the calibre and quantity of jobs coming to your site and, therefore, they know exactly what jobs they want to put in with the BBC in Cardiff. Are you content that you have what you want to make this digital cluster work?

Professor Hughes: We have not been involved in any discussions with regard to the BBC. Clearly, in the context of the staff that will be moving from Llanishen to Carmarthen, there have been detailed discussions. If I have understood your question correctly, on the interface between the staff that are coming from S4C and those that will be going to the BBC, I am sure that those discussions have taken place appropriately between those two authorities, but we have not been involved in those discussions.

- Q87 **Craig Williams:** You have said a couple of times that this does not stack up if you are just moving a backroom office.

Professor Hughes: No.

- Q88 **Craig Williams:** You are not moving a backroom office, then, and you are content that S4C is moving more. Equally, they are not moving a backroom office to the BBC headquarters in Cardiff city centre. How does this fit?



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Professor Hughes: From the information that we have, we are certainly content with the range of different skill sets that the authority will be bringing down and, I take it, the balance with what will be in Cardiff as well, which is also very important.

Craig Williams: That is exactly the answer I was looking for, so I am content with that.

Q89 **Chair:** Forgive me, but I am just discussing more back-of-the-envelope calculations. You say that S4C are looking to take about 25% of the office space. Presumably, the 50 jobs that will be coming from S4C will represent about 25% of the total, give or take?

Gwyndaf Tobias: Yes.

Q90 **Chair:** In total, we are looking at 200 jobs here. I hate to say this—and forgive me for doing a very quick calculation while I talk—but £14 million divided by 200 is something like £70,000 a job, isn't it? Am I getting this wrong here somewhere? We are talking about a £14 million project that is going to lead to 200 jobs.

Gwyndaf Tobias: I think what we referred to earlier, Chair, was 200 jobs directly within the building, but within the supply network in the region another 650 jobs, which comes then to the GVA calculation of just under £8 million per annum and £230 million over a 30-year period. We have an independent external report, which was commissioned in partnership with Carmarthenshire County Council.

Q91 **Chair:** An extra 650 jobs in the wider region?

Gwyndaf Tobias: Yes.

Chair: A total of about 850 jobs is £16,500 for each job created. That is if the 650 are created in the wider region. That is not so bad, mind you, I have to admit.

Q92 **Craig Williams:** You have just reminded me, Chair. S4C has given you 25% occupancy of your building and then your aspiration in 12 months is to get to 60%.

Gwyndaf Tobias: We hope to get to 60% 12 months before the end of completion of the building works, so within the next few months.

Q93 **Craig Williams:** So, 60%, and that is with S4C included, so that is only 35% extra?

Gwyndaf Tobias: Yes.

Q94 **Craig Williams:** From the market reaction you are happy with that?

Gwyndaf Tobias: Based on the detailed discussions and negotiations we have had with companies, which are very detailed and we are close to the end of those negotiations, we are confident that we will hit that 60% within the next couple of months.



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Q95 **Craig Williams:** If you see what I mean, once you take S4C out, you are only talking about 35% occupancy by the time you have opened.

Gwyndaf Tobias: Yes, but it is 60% of the entire lettable space within the building as we speak.

Q96 **Chris Davies:** Earlier on you were pushed and you were asked and you gave a very good answer, but you did not actually say “Yes” or “No” to whether any of these companies had signed on the dotted line so far, or even gone into a commitment with you. I take it they have not signed any form of lease review or proposed lease as yet?

Professor Hughes: There has been no lease signed yet.

Q97 **Chris Davies:** Okay. Do you feel in your detailed negotiations—which I think again was your word—that if S4C do not go in there, then they will not be going in there?

Professor Hughes: No, my measured view is that that is not the case. The interest has been such that companies see the value of the wider opportunity in the context.

Q98 **Chris Davies:** Even without their anchor tenant?

Professor Hughes: Of the discussions we have had, there is great excitement with the anchor tenant and then there have been discussions about, “Yes, we can see how this could work”. We are working on the basis, and firmly believe, that the anchor tenant will be coming to West Wales. They have taken the decision. The Government of Wales is supporting it.

Chris Davies: So does the anchor tenant.

Professor Hughes: Therefore, all our deliberations have been upon that planning assumption.

Gwyndaf Tobias: In addition to that, in terms of where we are in legal proceedings with discussions with prospective tenants, it will only be appropriate to be entering the formal process as we are finalising the building costs. A lot of work, as I said, has been done on that over the last few months. All the work packages have been tendered locally and we are now ready to go. Now the intense negotiations with those tenants will take place and the final paperwork put in place.

Q99 **Craig Williams:** Could I jump in again? We talked about the Swansea City Deal and the contribution there for Yr Egin part 2, or whatever you want to call it. Is that a very different aspiration? Given that you have 60% occupancy, where is the demand from project 2 that you have applied for?

Gwyndaf Tobias: I think the Vice-Chancellor said earlier that we have noted to Government significant interest in the City Deal process, in terms of companies writing formal letters showing that interest. We have got not just national companies but international companies who have



said that they want to come to the subsequent phase of that project in Carmarthen, and we have had to provide that evidence to Government as part of the City Deal process.

Q100 Craig Williams: I get that but—just in my head—if you have 60% occupancy in your primary building and then you are applying for public money to build part 2, is that not big enough?

Gwyndaf Tobias: Over the next few months, if the City Deal is announced, we will have to go through formal processes and formal business cases. It is not a case that we finish now and we just wait until the City Deal money comes through. There is a very detailed due diligence process on behalf of Government as well in taking that forward. I would imagine that that will feature as part of those discussions, in terms of where we are with the tenancies at that point in time. We are confident that the Egin project itself will be oversubscribed, based on the interest that we have had to date, but, in terms of detailed negotiations, at this point in time, if we had to say how much will be there within a month or six weeks, then 60% is closer to the mark and we are confident of that.

Craig Williams: I guess we will have to get you back in a year.

Chair: Chris Davies, did you have a final point to make?

Q101 Chris Davies: I do, Chairman. When you sold this pitch, when you sat down with S4C and discussed it all—I understand the benefits that are coming to Carmarthen, of course I do, and good luck to Carmarthen and to the university—in your eyes how was it going to benefit the rest of Wales? How can I go back to my constituents in northern Radnorshire and say to them that, “A 100 miles away S4C is moving to Carmarthen and it is going to benefit you”? Why should I be supporting this project?

Professor Hughes: It is a very good question. If you start to answer the question from the evidence presented to this Committee in 2010 by the chair of the Creative Industries Panel, his evidence to you noted that S4C has to consider change; S4C should go to the heartland of Wales; S4C needs to engage with its population; and S4C then has the opportunity to look to new opportunities to serve across Wales.

Let me give you one small example in the area of digital content and education. How can S4C, a university, a provider, develop new opportunities in partnership? How could that affect communities and families in your constituency? The development, the co-production, the co-development of new materials, new opportunities and digital opportunities could make a difference to those families. Clearly, there is a commitment to the Welsh language. Can we together develop new initiatives that then could be used in the context of your constituency?

Hopefully, the effect of a central hub, of having a hub and a virtual spoke, through new digital opportunities should make a difference across Wales. I would hope that that is what we would see in the fullness of



time. At the heart of the initiative is also cultural and linguistic development, and although, in the argument crafted, Carmarthenshire is a major area of investment for the Welsh language, the cultural capital of what can be created will hopefully be seen across Wales. I hope that is something that you could take back to your constituency.

Chris Davies: Good answer, thank you.

Q102 **Mr Mark Williams:** We are probably coming to the end, Mr Chairman. Through this process, you have articulated the vision very clearly. There has been some incisive questioning from my colleagues on some of the detail. Public funds are to be incurred, so those questions are appropriate. As a university, I wonder what lessons you feel you have learnt through this process. The link that you have articulated very clearly—that link between business and innovation and enterprise and the higher education sector—is something that we have experience of in Aberystwyth. We have plans for an innovation campus there. I was in Swansea at the weekend and, obviously, there is huge development in Swansea. What should we learn from this? Why do you feel, going back to Chris Davies's question, the spotlight has been focused on Carmarthen, which I believe is a very visionary plan?

Gwyndaf Tobias: What we learn from it is the importance of integrity of process, honesty of process and clarity of process. We have learned of the importance of clear frameworks of engagement linking private sector engagement with higher education. That is something that your colleagues in Aberystwyth and in Swansea would also reaffirm. What do we learn as a university? That, in a very changing world of funding, of European context, of future development, which affects research enormously, it is absolutely imperative that universities look to new, radical models of engagement, but always having the highest regard in the context of due process and structures of engagement and very sound governance.

Q103 **Chair:** Professor Hughes, I have a couple of quick questions to close. Are the other companies that you have been talking to, which are showing great interest at the moment, based in Cardiff or elsewhere in Wales?

Professor Hughes: They are based outside of Wales. They are also based in other parts of Wales. It has been asked whether this displacement is moving companies from Cardiff. There are companies that are located in Cardiff that wish to develop a wider reach, but we are not talking about moving any company from Cardiff and moving it west. It is a combination of developing offers of products of companies, but also, as I stressed before, looking outside of Wales. Personally, that is what excites me: can we attract new companies to Wales?

Q104 **Chair:** Would those companies, then, which are hopefully not coming from other parts of rural Wales—otherwise that really would not be positive—be paying the same in rent and service charges per square foot as S4C?



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Gwyndaf Tobias: Yes. In terms of the modelling that we have done, that is what the modelling is based upon. It is based upon the rents around Carmarthenshire—which are about £8.50 per square foot—with the service charge in addition. That is the modelling that we have been working with the companies that are coming in.

Q105 **Chair:** If anything, shouldn't they be paying more? You would expect the anchor tenant that was taking 25% to be paying slightly less per square foot than a smaller company taking only a few square feet, wouldn't you? In normal terms, that is what happens.

Gwyndaf Tobias: I think in our discussions with tenants we would have to charge market rents, and if we have evidence from a district valuer, for example, and from the county council as well that that rent is what the market rent is in Carmarthen, we would have to work that around. Obviously, if some of these themselves are public bodies or semi-public bodies, then they will look for the same evidence in their discussions with us.

Q106 **Chair:** Would S4C have any part of the governance of the whole project? Would they have any influence over which tenants might come and which might not? Would they be in a position to suggest that certain tenants be offered preferential rates in order to bring them in?

Gwyndaf Tobias: In terms of the governance processes, as the Vice-Chancellor referred to earlier, there is a project board, which S4C sit upon. In terms of taking governance decisions, those are taken by the university through the resources committee, estates development committee or, indeed, the University Council, if that is what is required in terms of the delegated powers we have in place. It is very clear that it is the university that steers that discussion.

Q107 **Chair:** Finally from me, I appreciate the way you have come and answered these questions. To some extent we feel an obligation to put these questions because, after all, this is quite a big project and it is going to have an impact on a lot of people. May I gently put to you again my scribbles on the back of an envelope? If that project is only 60% full, the implication is that there would be 120 jobs in there—S4C's 25% being 50, so about 120 jobs. At that rate, leaving aside the wider economic benefits that one hopes would accrue, that would suggest that public funds are being paid out at a rate of around £127,000 for each of those jobs created. That to me would not offer value for money and one would hope that that is a pessimistic outlook.

Gwyndaf Tobias: If I go back to the position we are actually in at the moment, in terms of our detailed discussions with some of those tenants, then, clearly, to have 60% of a building pre-let at least 12 months before that building is complete is a positive position to be in. If we manage to convert not even all of the companies that we have been discussing with to date as tenants, then we would be oversubscribed, as I mentioned earlier. We have been in discussions over the last few months as to how



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we would then decide which tenant would come into that project, if we had to turn others away. That piece of work has been ongoing over the last few months within the university. I would be very confident that, long before we get to the building completion stage, we would be oversubscribed within that building.

Chair: Mark?

Mr Mark Williams: I am happy with the answer.

Chair (*Translation*): In that case, thank you very much for coming here this afternoon. Obviously, there are other things happening at the moment in the Chamber, so I will bring the meeting to an end. Thank you very much.