

Welsh Affairs Committee

Oral evidence: [City Deals and Growth Deals in Wales](#), HC 2095

Tuesday 2 July 2019

Ordered by the House of Commons to be published on 2 July 2019.

[Watch the meeting](#)

Members present: David T.C. Davies (Chair); Guto Bebb; Geraint Davies; Jonathan Edwards; Susan Elan Jones; Jack Lopresti.

Questions 32 - 63

Witnesses

I: Kellie Beirne, Director, Cardiff Capital Region City Deal, and Councillor Peter Fox, Vice Chair, Cardiff Capital Region Board

Examination of Witnesses

Witnesses: Kellie Beirne and Councillor Peter Fox.

Q32 **Chair:** A very good afternoon to Councillor Peter Fox and Kellie Beirne, who have come to talk to us today about the Cardiff capital region city deal. Thank you both very much for coming up.

Perhaps I could start off the evidence session. I have a feeling I know what the answer to this is going to be but I am going to put it to you anyway. What has been the total spend, actual and committed, on the south Wales metro and what are the different sources for its funding?

Councillor Fox: It is great to be here. Thanks for asking us to come up. You will probably recall that the city deal equates to a £1.229 billion deal, made up of £0.5 billion from the Welsh Government, £0.5 billion from the UK Government and the balance from 10 local authorities. £734 million has been pre-allocated to the metro project. The bulk of that is made up of the Welsh Government's £500 million and the balance from the UK Government, which also incorporates some European moneys. That leaves the £495 million for the likes of me, where we get involved.

That £734 million project will be administered by Transport for Wales, so there is an area we do not get so close to within the deal. It is managed by Transport for Wales, even though we do have a non-statutory transport authority made up from 10 cabinet members from councils who have some input into that.

Q33 **Chair:** I understand. We probably should put detailed questions on that point to Transport for Wales. Do you have any further idea of how much of that money has been spent so far or where the money has been spent?

Councillor Fox: I understand that we will see real, tangible trains on the tracks in 2022. On the Transport for Wales website recently there was an announcement—actually, only over the last few days—that £100 million has been committed to the first step of a depot at Taff's Well. That is where I think they are going to home all of the new trains, where a lot of the maintenance and the co-ordination of a lot of the projects will emanate from. I don't know any greater detail of what they have committed additionally to that. There have been certain works along the metro side but Kellie might have a deeper insight than me.

Kellie Beirne: Yes. There has been some early progress, so I know there has been renewal of some trains early on. As you will be aware, there is a commitment to 100% renewable energy as part of the metro rollout. I know some good progress has been made with that as well.

Of real significance is this £100 million investment in the command centre at Taff's Well, which is in Rhondda Cynon Taf. It is significant because it has potential to drive wider economic impact. I think that is



the real potential of the metro. Yes, it is a transport infrastructure project, it is about sustainability, it is about driving modal shift, but our specific interest, from the wider investment fund point of view, is how do we optimise and maximise the wider economic benefits so that we are not just moving people around but focusing on bringing people together. We are thinking about some of the links and the connections. For example, with a commitment to 100% renewable energy, how do we anchor that and grow a whole industry on the back of it in the region? I think that, beyond the technicalities, that is where our strong interest lies.

Q34 Susan Elan Jones: As the flagship project, are you confident that the south Wales metro will help bring about the positive impacts that the region has aimed for? As a north Walian I am interested in all your answers on all of this.

Councillor Fox: Yes. It was an absolute fundamental strand of the city deal that we negotiated. Connectivity was going to be fundamental to driving the economic change we needed to see across the region. Seeing four trains an hour—or whatever modal method of communication it will be—is going to be a massive change to the region. It is going to really drive opportunity, to try to readdress some of the balance that has shifted out of the region, where you are seeing all of the opportunities in the south and very little up in the valleys. Hopefully, that connectivity and the nodes of innovation and opportunity we can create around that connectivity in the valleys will really drive something.

We are absolutely hopeful that that will deliver what it is expected to deliver. Without that connectivity we will struggle to bring that real change that is needed in the region. You will remember that the Cardiff capital region is only about 60 miles across lengthwise. It is about 30 miles high but it has half of the Welsh population in it, and if we can help mobilise those young people and give them aspirations in all parts of the region we can certainly start redressing the balance.

That was some of the moral business case that many of us politicians had to try to address that imbalance there. I am absolutely hopeful it will do what it will do, but it is too early to say yet, because we are not seeing the actual physical stuff rolling out. We are seeing all of the ground work. If that question is asked again in 2022 we should be able to start seeing how it might really make an impact.

Q35 Susan Elan Jones: We know that the metro constitutes a significant proportion of the city deal's total spend. I think you have three-quarters answered this. I was going to ask about the rationale of putting so many eggs in one basket, but you have sort of said it in terms of connectivity and life chances so I will not ask for any further ones on that one, but if I could ask Councillor Fox: how will the metro ensure that areas—such as yours in Monmouthshire—benefit in addition to the hub area in Cardiff? Then if I could just ask Ms Beirne if she would like to make any other points in general.



HOUSE OF COMMONS

Kellie Beirne: Yes, of course.

Councillor Fox: It is a good question. It is a question I get asked many times by our own residents: how will the metro benefit Monmouthshire? It is very difficult to say at this time because my mindset right from the beginning has been that the 10 constituent councils have to start thinking of themselves as one—one with 10 constituent parts.

If we can benefit any part of that region, the whole region benefits. If we are focused only on our own patch, we may as well have stayed at home and not got involved in that regional picture if we really want to create change. If we can drive opportunities and create high quality jobs in, say, Blaenau Gwent, and they are accessible to people in Monmouthshire, where we have an aging population, and we can keep our skilled young people in our county and let them live and grow and bring their families up there, that is better than seeing them go to Bristol, Swindon and Reading and never come back, so metro, lots of opportunities and creating jobs will be really great.

Physically communicate, connectivity-wise, I think we are unlikely in a county like Monmouthshire to see rail tracks driven all the way across it. We are more likely to see other shapes of modal shift, such as rapid bus transit and similar opportunities that can give a high-quality, reliable service not on tracks but with integrated ticketing and those sorts of things. In a county like Monmouthshire, we will be a long way behind seeing the physical benefits of metro compared with somewhere like RCT or Merthyr Tydfil.

Kellie Beirne: To give you some confidence around the wider activity attached to metro, the Welsh Government are leading some really good work at the moment on strategic hubs, so using metro stations to drive different kinds of regeneration, opening up areas that perhaps need a bit of love, care and attention, and thinking about the kind of investment that we can bring in. We are aligning different sources of investment. We are not just relying on a single source.

There is some stuff on strategic hubs and makerspaces, which is a concept that we have spoken about previously, thinking about the metro as a real driver of data. Generating data of patterns of behaviour can really drive different kinds of behavioural change, to understand what it takes to get cars off the road, to get people thinking about active travel and sustainability. That data in itself, both in terms of data analysis and data science could be a real economic driver for the Cardiff capital region, and we are doing some work with our university colleagues on that at the moment.

In terms of the wider impact of metro, one of the significant things that the regional cabinet has signed off recently is a scheme called Metro Plus. What we are trying to do is to ensure that every single place in the Cardiff capital region—those 10 local authority areas—has a modal shift transport scheme, whether it is park and ride or a new bus depot, to



HOUSE OF COMMONS

drive different kinds of behaviour and to think about electric vehicle charging infrastructure, on-site renewables, digital connectivity, car sharing, taxi sharing and home-to-school transport. It has given us a real impetus to think about the big challenges that we have to respond to. In solving some of those challenges, we can drive new kinds of economic ambition.

Chair: Do you have a supplementary, Jonathan?

- Q36 **Jonathan Edwards:** Councillor Fox partly answered the question. I was going to say that it takes about two hours on public transport to travel between Merthyr and Abergavenny, so can we expect improvements or is it just going to be about driving people into Cardiff?

Councillor Fox: I would sincerely hope that we will see a system that joins at the top as well, so we will see it coming across the heads of the valleys down to Monmouthshire.

I met Professor Stuart Cole, who came to look at what a later phase of metro could look like. It could create a high-quality rapid bus transit that could run across the top and join us all up, pick up Monmouthshire and circulate the region. Absolutely, it cannot be just taking people up and down the valleys; there needs to be connectivity across the top. At what stage we will see that develop? The key areas at the moment are going to be to do those lines up through the valleys.

- Q37 **Guto Bebb:** Just a quick supplementary and it follows on from the hearing we had in north Wales, a week and a half to two weeks ago, where obviously the main arguments were presented by the north Wales growth bid. We asked them why they thought they would be very successful. The answer was that they came together before any opportunity to access funding was in place. To what extent is the metro—which is obviously the flagship project within the capital city region growth deal—actually gluing the 10 counties together in terms of your reasons for being involved?

Councillor Fox: It is a good point because I would say that the metro, while it is going to be fundamental for the wider region—I believe it was one of the key things laid down—as I said earlier, Transport for Wales will be dealing with that. What we are left with is: how do we utilise the £495 million left? How do we create or lever in the £4 billion additional inward investment and create the lion's share of the 25,000 jobs? That is the challenge that the 10 leaders are mainly engaged with.

Apart from that we have cabinet members who may be in the transport authority who are working with Transport for Wales. The focus of the 10 leaders, which has gelled us together and driven us, is our work around the £495 million and how we can unlock innovative opportunities, things like the advancement of compound semiconductors and those sorts of things. I think that is what gels us more.



HOUSE OF COMMONS

Obviously, it is intrinsically linked to the metro because all of this stuff has to fit together. It cannot be something happening over there and something happening over here. That is what has brought us together and bound us together. The speed it emerged—the city deal emerged quite quickly—has been a catalyst to pull 10 authorities together. There is a great trust base built across the 10 authorities. We have had changes of political leaders as well over the last few years but we have kept solid to those principles of trying to drive up the benefit for the area. The GVA in our region is the second lowest in the UK alongside South Yorkshire. Is it South Yorkshire?

Kellie Beirne: Yes, it is.

Councillor Fox: It is really low and we can see the massive imperative—it does not matter what political party you are in—of actually doing something here. The tools we have now and the creation of a joint cabinet have gelled us together in a strong partnership. That enables us to do things outside of the city deal now, to take forward more of a regional agenda on other things as well.

Chair: Any more supplementaries? If not we will move on.

Q38 **Jack Lopresti:** In March Ken Skates claimed that a no-deal Brexit could impact on the south Wales metro if the transfer of track to the Welsh Government wasn't sped up. Is this a legitimate concern or is it the usual nonsense?

Councillor Fox: It has not been put to me that Ken Skates said that. I have not been part of any conversation where he shared that and I am not quite sure what is driving that perspective. I can only make a stab. As I talked about earlier, originally the package around the metro was predicated on having about £106 million of European money. I suppose if there was a no deal and there was no substitute for those moneys, could a deficit in the global package threaten the delivery of metro? I don't know if that is where he is coming from or not.

As 10 leaders, we have not considered the effect of a no-deal Brexit on the outcomes of metro or, indeed, any of our projects. We are marching ahead believing very strongly that, whatever happens, this country is strong enough to come through it. We are focusing hard on driving up the opportunities we have in our area but, like I say, I have not been part of a conversation with Ken where he has explained that to us.

Q39 **Jack Lopresti:** Rail projects in particular do tend to run over time and over budget. Are you convinced or comfortable that the metro will be completed on time?

Councillor Fox: It is very difficult—and Kellie will have a perspective as well—as with any of these projects there is so much ground work and so many people think, "Oh, this is never going to happen", but there are pieces to put in place and I suppose the announcement that some



HOUSE OF COMMONS

tangible stuff will be going on the ground and the £100 million commitment to that new depot.

As we see these tangible things roll out, it will give me and fellow leaders the confidence that those things are happening, because sometimes, as 10 leaders, we do get a bit frustrated at not being close enough to understand what is happening with Transport for Wales and the progress it is planning to make. Indeed, you try to hunt down the timeline of stuff and it is not very clear, but I am an optimist and I am confident that things will move forward at a pace.

Kellie Beirne: I think it is a really good point. We have been working very closely with Transport for Wales and that has developed very quickly, in a short space of time, a good engagement strategy and strong communication. We have seen the £100 million commitment to the command centre in Taff's Well. The stuff around renewable energy is great. It is inspiring loads of confidence.

From what we see, I think we have high degrees of confidence. An area that has been much more uncertain is that with our £500 million wider investment fund we are subject to a gateway review. I think what we are saying is: how does the metro aspect of the project also get evaluated and assessed? I believe that is under discussion at the moment.

It is important that the whole of the package is considered as one and that evaluation is right across the piece. I think that will start to give confidence that things are running to time.

Q40 **Jack Lopresti:** Do you have confidence?

Kellie Beirne: Based on what I have seen, yes, I do.

Jack Lopresti: That is good. Thank you.

Q41 **Jonathan Edwards:** Another major project is the IQE semiconductor cluster. The cabinet allocated around £38.5 million to start it off. It is highly ambitious, isn't it?

Kellie Beirne: It is, yes.

Q42 **Jonathan Edwards:** To bring it about they need £400 million of public investment and to create 2,000 high-tech jobs, which is exactly what we want to see from these city deals. Can you give us a brief outline of progress so far, especially in drawing down the private money? Also, what do you hope that the cluster will achieve?

Kellie Beirne: This is a project that I was very closely involved with, as was Councillor Fox as the portfolio holder for innovation. The reason that this project was brought forward is that it has the potential to be a game changer. We are not talking about semiconductors here; we are talking about next generation advanced compound semiconductors. The chips that you have in all of your smart phones, in all of your devices, the chips that are central to the operation of 5G telecommunications, energy



HOUSE OF COMMONS

portals, everything you see in the environment around you, are powered by next generation power electronics.

The chip that IQE makes is totally unique. It is world leading. The regional cabinet was so attracted to this project because we could have the only place in the world that could boast the first compound semiconductor cluster, which is the significance of this investment.

The proposition was that for nearly £39 million we would invest in purchasing the old LG building in Newport, which was provided originally for semiconductors. We would buy the building from the Welsh Government. That building has been kitted out with clean rooms, into which IQE are spending—and they are about halfway through—nearly £411 million in kitting that building out with reactors, which are about £3 million apiece. Those reactors are the things that generate the end product, which we can clearly sell and commercialise to wider markets.

It is a fantastic project. The foundry in itself, which is the building that the Cardiff capital region has invested in, will create about 550 jobs. We are up to 60-something already in the very initial period, and we are in the process of capturing all of the other jobs indirectly formed in the supply chain. I think the significance of the project is that the foundry is a manufacturing building where this activity goes on.

We have other companies in the region that form part of this cluster, so IQE are in the foundry in Newport. They are also in St Mellons. They have a compound semiconductor centre of excellence with Cardiff University. They have a compound semiconductor institute as well with Cardiff University. There is SPTS, a semiconductor company in Newport. There is Microsemi, which is based in Caldicot. We also have the Compound Semiconductor Applications Catapult, also based in our foundry, which the UK Government were the major investor in with £50 million.

All of a sudden you can start to see that there are key anchor companies here that have real potential to grow the cluster on a globally significant scale. What we are working through at the moment is how we can create the conditions to develop that cluster.

One of the things that we have done, which we have been working on, is a bid to the industrial strategy challenge fund. We are seeking a package of £44 million under the strength in places fund to create the conditions to properly grow that cluster, to give it an international profile, to make sure it can do FDI and inward investment, because every day we are picking up the phone to people who want to be part of this cluster, whether it is graphene or different chemical compositions. The new one is a silicon product that they can do on compound semiconductors. I know that sounds boring but believe me it is really interesting because it has lots of capabilities.

We are trying to drive skills in this area to make sure that we are growing the technicians, the engineers, the apprentices and the trainees, because



it is quite difficult to recruit to the skill level that we need at the moment. It is about: how can we grow the whole package that will bring this cluster to life?

Q43 Jonathan Edwards: The other question I was going to ask on top—you have just answered in your last bit about the skills and education pathways—is: are educational institutions identifying this as a clear pathway? Is it joined up?

Kellie Beirne: Yes. It is starting to be, I think, because it is quite a new area. The ambition of the cluster is to grow the 550 jobs in the foundry. The independent economic impact assessment said that we could grow up to 7,000 jobs in this industry if we get it right. It is really important that those pathways are co-ordinated. It is harder than it sounds. The universities have developed a master's degree in compound semiconductors and there is some talk about PhDs.

What we are trying to do at the moment is get, at the other end of the scale, the apprenticeships in place, because the contention that the regional cabinet has—a very strong one—is that this has to be about inclusive growth. It cannot just be for the best engineers or the brightest graduates. It has to be about some of the young people that have innate technological skills but may not have the academic grounding or training. The difficult bit, but the thing that is really important, is to make sure that we are doing it at all levels and that we are creating opportunities right across the piece.

Councillor Fox: IQE is very conscious of the need to engage with local people as well and with the schools. I think it will be doing a lot of in-house training, because there are some skills that are required within that business that we do not have provision for. It has to be in-house grown. Talking to the chief executive, it is very keen to grow some of that talent locally and within the organisation itself.

However, I know from talking to the chief executive only a few days ago that, with the terrible situation in Bridgend, for instance, there are going to be a lot of high-skilled engineers there who could probably adapt to many of the roles that are growing in some of that modern technology and other areas. I know he is already looking at how he can talk to some of those people to see if there are opportunities.

The skills gap is one of the biggest worries for all of us in the region, especially seeing how far this cluster could grow and the requirement to service all of that growth. How can we make sure that local people or Welsh people manage to satisfy those jobs? We may not be able to do all that straight away. It could be a lot of people coming in from all over the place, but eventually I would be hopeful that a lot more of our local people could have what they are talking about as being £45,000 jobs on average. If we can anchor those high-quality jobs in the south of Wales, we could anchor a lot of young people we would otherwise lose. That is what we have to aspire to.



HOUSE OF COMMONS

Q44 **Guto Bebb:** Just quickly, I was very pleased to hear that you are currently bidding in for the industrial strategy challenge fund, with a £44 million bid. I take it that that bid has gone in but it is not yet decided? That is not my question, by the way.

Kellie Beirne: We got through the first stage. We have been awarded some seed core funding and we have to develop a full business plan for 15 September.

Q45 **Guto Bebb:** That is great. The question I was going to ask is you have been successful in extracting money, £6 million from DCMS in terms of digital connectivity and so forth.

Kellie Beirne: Yes.

Q46 **Guto Bebb:** To what extent are you looking for these opportunities to bid into Welsh Government or, indeed, UK Government funding streams, and how important is that for the partnership?

Kellie Beirne: Absolutely. I always say that our city deal is not £1.3 billion but £5.3 billion. It is just that £1.3 billion is coming from public contributions. We have to go out there and we have to be much more active in leveraging in not just other public sector investment but private investment. In the example of the compound semiconductor, for every pound we invested we got £8 or £9 back in terms of private leverage.

One of the things that we have done recently is to establish a proper investment framework for our investment fund. That investment framework is divided into three funds: an innovation investment fund, an infrastructure fund and a challenge fund because we have to find better answers to some of the questions that we have at the moment.

Every single one of those funds comes with an expectation that there will be returns on investment and that we will co-invest, leverage maximum investment and, where possible, create an evergreen environment, where we don't give grants but always look for returns that we can keep reinvesting, because this isn't just delivering a city deal. It is delivering sustainability and resilience for our economy. We have to be able to withstand future shocks. We can only do that if we can control our own destiny.

Q47 **Guto Bebb:** I would not disagree with any of that. In terms of the fact that you are happily looking at other Government funding streams, in addition to private sector investment as well obviously, how easy do you find the whole process of bidding for public sector funding? Is it frustrating occasionally?

Kellie Beirne: Yes. What we really welcome—and the Welsh Government have adopted this approach with the economic action plan and the industrial strategy—is a challenge fund, which is great. It is more about the problems that we can solve rather than just applying for money to do more of the same.



Under the industrial strategy and the four grand challenge areas, what we are trying to do is not go for everything, to try to be really focused on our sectoral strands but be sympathetic to the needs of our place. That does not mean chasing everything that comes out. It means being quite considered and picking fewer priorities but going at them in a more strategic way.

Councillor Fox: One of the challenges that we have had in south-east Wales is to embody the understanding that the city deal is not a grant fund; it is an evergreen fund. There are not going to be any further city deals, so we need to keep that £495 million circulating and growing. I want to still see it there in a while because it is generating and it is drawing in that 8:1 ratio or whatever we accept in time. I think we have that mindset there.

When we were talking to the UK and Welsh Governments when we were setting this up, there was also an importance that we were to corral all of the various resources and get them focused in the same direction. Too often we see pots of funding trying to do the same thing, and we need to corral all these together as a greater good. Kellie is absolutely brilliant in pursuing these funds when they are there and hopefully we will continue to be successful.

Kellie Beirne: I would just add that one of the issues that we have had is around influence. Just thinking about the UK Research and Innovation Board, for example, we have not had a Welsh representative. We have struggled as well in terms of Welsh representation on the eight funding councils that sit underneath UK Research and Innovation, including Innovate UK.

We have raised this at a very high level because we believe that we should be around the table. We should be influencing. We should have a voice. We should have a perspective. It was gratifying to see that when UK R&I were recruiting two additional board members, it was trying in particular to target the regions and so was Innovate UK. We are working very hard at the moment to make sure that we can put some Welsh names into the hat, just so we have that representation, just so Wales is visible and we are able to articulate what we are about. That is quite important to that whole question around funding and seeking new investment. You have to be at the table in order to be able to attract it.

Councillor Fox: To add to that, we can contrast how well Scotland have done in managing to lever research and development moneys in; far better than we have in Wales, so—exactly as Kellie says—we have to get closer to that agenda and we have to start leveraging our fair share into Wales, or we are getting short changed.

Q48 **Chair:** The gateway assessments are due to take place every five years, to evaluate the impact of the investment fund and ensure value for money. Are you confident, Councillor Fox, that they will deliver on that and that they will be adequate to ensure that value for money is taking



place?

Councillor Fox: We are a couple of years off—is it a couple of years now?—from our first gateway review. I personally know the leaders have been interviewed about where we have been along our journey to date. I believe there is confidence in what we are doing. I have to take confidence that the gateway system, which has been agreed by Government, is going to be robust enough. I want it to be robust enough because I want confidence that we are doing the right thing.

Kellie might have a different perspective as she is a lot closer to how the gateway process will work, but I have to be assured that it is a robust enough programme and it needs to be. The interface I have had personally with it is via an interview. It is quite light really.

Kellie Beirne: The gateway review is scheduled to take place in March 2021 but the process has changed. Rather than having one watershed moment, the gateway review is now a continuous process. Between now and March 2021, three reports will be produced by SQW, the national consortium lead, which will inform the gateway review.

We have had our first report and I am pleased to report that I think it was a very good and very fair and accurate report. It illustrated real strengths in terms of our industrial growth plan, our sectoral analysis and our investment framework. There were some real positives around delivery of the compound semiconductor project being on target and ahead on things like job creation.

It highlighted some major strengths around industrial leadership, which is one of the things that we have really worked on. It did highlight that we need to do better in terms of broader business engagement, which is a priority for us now.

The one frustration that I have with the gateway review process—and I have tried to express this on previous occasions—is that the gateway review process assesses how we spend money, how money goes out of the door. Our investment fund is different. It is about money back in, and that does not form part of the criteria for assessment at the moment. As this is very much about mindset and culture and thinking about how we build resilience and sustainability in our economy, it would be good if that could be recognised as part of the gateway process. Not just how money has gone out and gone into projects. We are talking about investment here, which I think is a very different proposition.

Chair: Can I just pause for a moment? I know that you have very kindly said you could probably do an hour—between 45 minutes and an hour—and time is pressing. We are only about half way through the questions, so we might try to speed that up. Also, we are joined by Geraint Davies, a distinguished member of this Committee. With the consent of the other members, what I may do is suggest that you move to question 7 and then continue around the room with everyone being one question back, if



everyone is happy with that. It should make sense, hopefully, but I will gesticulate if it doesn't. Would you like to come in on question 7, Geraint?

Q49 Geraint Davies: There is a specific question I am going to ask but I want to add something in. The question that we want to ask as a Committee is: you aim to achieve a 5% gross value added uplift and create 25,000 new jobs with £4 billion of additional investment by 2036. Are you confident that you are going to reach these targets?

Councillor Fox: They are huge targets. When we originally brought the proposition up here and played it out to Ministers, we were suggesting at that point that we would still lift GVA by 5% but we were looking to lever in £3 billion of inward investment and create 17,000 jobs. On consideration of that evidence, the deal that was put back to us was that we create 25,000 jobs and lever in £4 billion, so that is what we have committed to do.

We do not know how all of that will manifest over the 20 years because some of the industries that are going to create those jobs have not even been created yet—you know, the technology. It is going to be technology based. A lot of them will be but many of those things are going to evolve quite rapidly.

One of the most important things was the anchoring of the compound semiconductor foundry and our relationship with IQE, because without that anchor and the creation of the cluster, which is going to grow around there, I think we would have been struggling to get towards 25,000 jobs. Of course, the expectation in the deal that we struck was to build strong relationships around compound semiconductors. It was identified early on that this was a growth area. Indeed, the Chancellor came to Cardiff after we had secured the deal and said that he wanted to put £50 million into the Compound Semiconductor Applications Catapult, which is now located in our foundry.

All of the ingredients that we were looking to pull together are coming together. We have the absolute foundations that will satisfy that growth, but I cannot—hand on heart—guarantee that 25,000 jobs will definitely be in place in 10 years or 15 years or 20 years. It may be a lot more than that because the thing is things move on so fast, don't they? The deal is a picture in time and it has some expectation around it, but how do we know how leveraging in other moneys through other opportunities that are going to flow could create even bigger opportunities and 25,000 jobs? I have to be confident. If I will see it out or not, I don't know, but I think we are on course to do what was expected of us.

Geraint Davies: When you spoke to the Assembly's Economy, Infrastructure and Skills Committee, you talked about alternative measures apart from the bottom line, which is about the quality and location of jobs. I guess the other thing is that there are certain things changing outside your control, not least Brexit and the prospect of a no deal and all this stuff, as well as the relative connectivity of Cardiff—



obviously I am speaking down the line again, in terms of electrification versus HS2—and the rebalancing of the UK's structural fund to the so-called prosperity fund, which again is bad news for south Wales. I am not trying to give you excuses here, but it seems to me that from the time of the original forecast there has been a change in the weather that may not bring out a lot of sun in your direction.

Councillor Fox: That is a fair challenge and assumption. There are some changes, and I concede there will always be changes as different things come along. We as 10 leaders have not sat down and had alarm bells ringing, saying, "Look, you are not going to be able to deliver on this stuff". Actually, as I shared just now, we are in a positive place, with all of those foundational bits coming together.

We need to see the metro element delivered. It worries me, the statement of Ken Skates saying, "Well, this is a threat perhaps if we have a no-deal Brexit". I hope that isn't the case because all of these pieces are intrinsic to that bigger picture. There will be challenges and burdens that we have to come over and we have to adapt to in our thinking and our review of our strategies as we move along. I think that is absolutely expected.

With all of this deal I have been driven by hope and lots of evidence around to say we are doing the right thing, but we keep optimistic that we are going to deliver on this. We have to because the economy of south-east Wales is in a poor shape and if we—

Q50 **Geraint Davies:** Do you feel that the overall deal is a coherent set of proposals that may be slightly bigger or smaller according to the conditions outside, or is it a mosaic of different ideas, like Swansea?

Councillor Fox: We are nothing like Swansea. Funnily enough, I read again—obviously, while preparing for today—our original document signed by Greg Clark and many others at the time, along with the Welsh Government and 10 leaders. I read through that to see if we were achieving every bit we laid down in that, the governance structures and all those elements, and word for word pretty well we have completed each bit of that, so I am really confident we are heading absolutely in the right direction.

Our anchor piece, alongside the metro, the compound semiconductor—which I outlined all through that—is taking shape exactly in line with what we were hoping it would be. While there are going to be things that are happening outside that will alter it, I am confident that we are heading in the right direction. What we have to do is embrace the opportunities of change and see if we can enhance the deal but, as it stands now, I am confident that we are heading in the right direction to deliver, but the gateway review will be the real challenge to us of where we have got to.

Q51 **Geraint Davies:** Do you have a comment, Kellie, on whether we get anywhere close to the 25,000 £4 billion mark, or will it be closer to the



17,000 £3 billion?

Kellie Beirne: I hope we exceed all of those figures. If you take the example of the compound semiconductor 9:1 intervention rate, we get all of our money back. We get a full return on investment plus compound interest, £230 million per year GVA payroll contribution. That is where we have set the bar.

Going back to your point about whether this a mosaic of projects, under our wider investment fund we only have three priorities: an innovation investment fund, an infrastructure investment fund and a challenge driven fund. That should give us coherence.

The point that I made previously about the targets that we have been set by the UK Government, around GVA, jobs and growth, is we could hit every single one of those targets but we could fundamentally miss the point. We still have to do the right thing and tackle the right issues in our region. We can have 25,000 jobs in call centres. We would hit the target but it wouldn't be the right thing, not just for our economy but for our communities. We have to have our own set of measures based on what really matters too.

Chair: I am going to appeal to everyone that we probably need to be quite concise now or we will be keeping you from your important work for longer than you expect.

Q52 **Susan Elan Jones:** I am going to be very concise. I just want to refer to a press statement on your website last month that labelled the proposed Ford closure in Bridgend as a "challenge for us all". Can I ask you, first, could the city deal do anything to prevent the closure and, secondly, if the closure does go ahead, what could you do to mitigate the effects?

Kellie Beirne: The press release did go out a couple of weeks ago. I think with changes in the automotive industry, advanced manufacturing, it is very difficult to see how that choice by that company could have been prevented or, indeed, mitigated and I was at the first meeting of the Ford taskforce yesterday.

What I think the city deal can do—to go back to my earlier point—is build resilience. We have to be able to withstand these future shocks. We have to develop the foresight so that we can see what is coming, what are the vulnerable industries and what the new industries of the future are.

To give you a very quick example, in our economy in the south-east Wales region in the last few weeks, some of the colleagues—some are part of the semiconductor cluster, while others work much more widely—won several contracts around EV and LEV transmissions and infrastructure. So if we are able to drive that link to Aston Martin and TVR—we also have an announcement on the advanced propulsion centre, which our catapult is project managing—we could do the whole value chain from R&D to production in our region. That is an economy of the future and that is exactly the kind of thing we need to get behind to



HOUSE OF COMMONS

make sure that we are resilient in the face of those shocks that will inevitably come.

Q53 Jack Lopresti: What was your reaction to the decision taken recently not to proceed with the M4 relief road and—I will just come in now rather than wait for your answer—will there be a negative effect on the region because of the cancellation?

Councillor Fox: I was very, very disappointed, certainly from my own council's perspective, but I think all 10 leaders across the region were equally concerned. I raised it directly with the First Minister, face to face in a meeting of WLGA Council recently. I think it was absolutely the wrong decision to make. It will hold back our economy significantly in the long term.

We have great news in the bridge tolls being released, but we are going to see probably by 2030—I think it is 2037 or something—they say 36% more traffic on the M4. It is all coming through the tunnels, and I think when he visited the tunnels David Cameron said they were like a foot on the windpipe on the Welsh economy. That is exactly what it is like. It really describes it well.

While we are in the region, we are all recognising a need for longer-term sustainable transport for all those things. We are not at the point where that can replace what roads can at the moment. We need to see further infrastructure to be able to unlock the opportunities in south-east Wales and yet we have seen that in place now.

The First Minister shared with me that it was due to costs as well as some environmental issues, because the cost was projected to head towards £1.6 billion. I put it to him, and I have made that point several times, that if it was a cost issue there could have been a toll put on that road for a period to alleviate some of that pressure. I never had a response to that challenge.

Now we have to move on and work closely with the commission that is being put into place to try to find some solutions. Many of us are really worried, especially within the business community, that that commission will take years to come forward with options that will not satisfy the big issues we are facing now. I believe that decision will have a profound effect on unlocking the opportunities in our region. We now have to work with that decision and find other ways to somehow compensate for that. It was absolutely a disappointing decision. I certainly think the majority of politicians in the south of Wales would agree with that.

Q54 Jack Lopresti: Do you have a view on that?

Kellie Beirne: I think the view was really set out in the press release. The important thing is the challenge back: okay, so if it is not an M4 relief road, what is it? We are talking about renewable energy and behaviour change. We have an industrial strategy that focuses on the future of mobility. It focuses on clean growth. The challenge that we have put back



HOUSE OF COMMONS

appropriately is: well, what is it then? We are happy to inform and contribute to that.

Q55 **Jack Lopresti:** Is there a realistic timescale maybe to get the decision reversed? Is there a mechanism?

Kellie Beirne: I am not sure at this time.

Councillor Fox: Elections are good times to change things, so—

Jack Lopresti: We might have one soon. That would be great. Okay.

Councillor Fox: We could say anything when they were talking about a Welsh Assembly in 2022 but that could change. Let's hope that there is some deeper thinking. We saw an admission last week that the Welsh Government did not know what they were doing on the economy for the last 20 years. That was a really interesting statement to be made. I think some of us are feeling that that decision played into that.

Susan Elan Jones: They made subsequent amendments.

Chair: Now this is getting lively. We don't want to get too lively.

Q56 **Jonathan Edwards:** How important is Cardiff International Airport as an asset in the region, and do you support the recommendation of this Committee that APD is devolved to the Welsh Government?

Councillor Fox: To have an international airport within the region has to be a massive selling point. How do we utilise that in the best way to drive up the opportunities for Wales? How do we get greater use of the airport? How do people start seeing it as a real benefit to fly in and out of Cardiff as opposed to going to Bristol, or up to Heathrow? We need to do that. The Welsh Government has it in their hands. I agree with your recommendation. Anything that can create more use of that airport and use it as a key selling point to Wales and the region, because if it benefits the region it will benefit all of Wales, I absolutely go with it.

Q57 **Chair:** There does seem to be a widespread cross-party view and, surprisingly, the Welsh Assembly, lots of Members of Parliament all say that we should devolve it. I am usually totally opposed to devolving powers to the Assembly but I can see very strong arguments on this occasion for doing it. Are you saying that you would tend to go with the consensus view on this?

Councillor Fox: I certainly would, if it can create more use of that airport—and that is what it needs. If you go to Bristol it is buzzing. You go to Cardiff it is not very busy.

Chair: No. Thanks for that. I think we all agree.

Q58 **Guto Bebb:** The city deal has received significant funding from the UK Government and the Welsh Government. Is it your view that the funding provided by the UK Government is sufficient in relation to the ambitions that you have for the region?



Kellie Beirne: No. Our ambition is much bigger.

Guto Bebb: I was almost bowling that one underarm at you.

Kellie Beirne: I think that is great. That is the challenge and it is also the opportunity. We have a £4 billion private leverage target and I hope that we will smash that.

Going back to my point about trying to build a more self-sufficient, self-reliant future, this city deal is just a platform to enable that. It isn't a programme. It is about building the future of a region and I think that is very much how regional cabinets see the opportunity.

Q59 **Guto Bebb:** Obviously the funding is one aspect of the support that you are getting from both Governments but, in terms of the practical supports that can be offered, is there any more that can be offered specifically by the UK Government? Obviously, we are in a position to influence the UK Government in a manner that is not quite the same in relation to the Welsh Government. What would you like the UK Government to be offering in addition to the financial support that has already been made available?

Kellie Beirne: A co-investment proposition on areas of shared interest would be very interesting. It is something we have been talking to Innovate UK and others about. If we have a sector of strength that aligns with one of the four grand challenges and there is an investment call, can we co-invest? Can we put our money together to have a much bigger impact in solving some of the problems that are of shared interest? This whole proposition around co-investment, being partners to the pot or enabling other means of delivery, is the key.

Secondly, I would say just sharing best practice because one of the areas that we are keen to develop is, beyond investment, what are the fiscal tools and incentives that we could put in place? For example, how creative can we be with our business rates? Can we look at pooling or redistribution? Can we do tax increment financing? If we are going to create additional benefits, can they be recycled into doing more and scaling more of the same? Can we look at enhancing R&D tax credits? What are the different levers that we could pull on to generate wealth in our region and to do so much more?

Things like R&D tax credits are undersubscribed at the moment. What do we need to do to get the message out there and to enhance them? Can we think about the pattern box in a different way? Things like tax increment financing happen in other places. What do we need to do to make them happen in Wales, across both the Welsh and UK Governments?

There are some very specific things but, in general, we need to do a lot better at sharing practice. We get together with the other cohort to city regions periodically to think about our gateway review and our evaluation processes, but that could be widened and expanded to talk about sharing



practice and sharing schemes, replicating the stuff that works. There is a saying that good practice isn't a good traveller, but how can we make some of this stuff around scaling and replicability much easier?

- Q60 **Geraint Davies:** That was a very interesting answer. I wonder whether you feel we are getting our fair share in Cardiff and, indeed, in Swansea versus Manchester, for example or elsewhere, given that we are going to see HS2 reduce the time from London to Manchester from two hours 10 to one hour 10, and the issues with speed of the rail. You have mentioned the issue about congestion and the fact that Wales has 70% GVA, low pay and all of that, so we need the money. Do you think there is a strong case that we should get more than we have relative to what other people have?

Councillor Fox: It is a challenge. At the time, our deal was the biggest deal that had been struck in the UK, but that disguises recognition that the £734 million is already spent. For the agenda, many leaders are focusing on that other £495 million. I would have loved to have seen £1 billion around that agenda, because £495 million is a very small amount of money to do what we are charged to do with it, but I don't know if Kellie has a better perspective.

Kellie Beirne: The money is there. There is £6.5 billion set aside for delivery of the industrial strategy. That is the combined annual budget of UK Research and Innovation. The difference for us in Wales is we have to compete to secure that investment, and I think the question is: do we have the resilience and confidence to go into that space and compete to secure resources rather than just have them allocated to us? That is the big challenge for us. We are engrossed in it.

Of course, we would like more resources and I think we have the scale of ambition to match that but I think the industrial strategy, the challenge fund and shared prosperity is where we have to try to focus our efforts for the future.

- Q61 **Chair:** The regional cabinet is the decision-making body for the city deal. Who scrutinises the regional cabinet? Also, given that it is made up of mainly Labour members, although it is cross-party, are there any issues with you working together across party lines on that?

Councillor Fox: I have to say the relationship we have within the 10 leaders has been great, even when we have had changes. I am the only Conservative leader at the moment. There were two. We have Independents and Labour and we all get on extremely well because we are united on that bigger goal. I don't think we have ever had to get to a point where there has been a vote and a majority has had to carry it. It has always been unanimous on every front and we find a way to get to that point.

Scrutiny is evolving, so there is a scrutiny committee now that is made up of other members from all of the 10 authorities. They are robust in



their challenge and we have been scrutinised—well, you have been scrutinised a lot more than I have—and they have a strong work plan and they are carrying out that function robustly.

Q62 Geraint Davies: The Auditor General for Wales has released a report on your first investment decision. Some aspects of it were quite critical. How have you responded to the report and changed your processes?

Councillor Fox: I accept the auditor's finding, and what drove that, I suppose, was that not every element of our governance structure was in place when we made that first investment opportunity. That is not to say it was made recklessly. It was done with all of the due diligence and everything we needed, but some of the elements of governance were not established.

If I come back to where we started, the fundamental anchor for our region being compound semiconductors, the investment opportunity was presented there at that time. The 10 leaders felt that it was so important that we did all we could to anchor that, because it was so fundamental to the rest of the deal. We were content with all of the due diligence that was done. We were content to make that decision.

However, we acknowledge that some areas of our governance structure and processes were not totally in place. They are now, as Kellie talked about. We do have the investment intervention framework for how we will assess all investment opportunities as they come forward. It was a hands up at that time, but it was a decision that I and the other nine leaders do not regret. We absolutely stand by and it has proven to have been the right decision, but we acknowledge where our shortcomings were and where they are right now.

Chair: We have pretty well run out of time, to be honest with you. We can ask that last question quickly if you want.

Q63 Susan Elan Jones: I will be very quick on it. Can I ask two parts very quickly? What did representatives of Cardiff city region learn on their recent visit to the business conference in Cannes? Can I also ask—I am very interested, Ms Beirne, on what you said about sharing practice, sharing schemes and things—have you drawn any lessons from any of the city or growth deals in England? I am happy for you both to chip in on both parts.

Councillor Fox: I will do the first bit. Yes, there was a bit of media coverage because a few of the leaders and chief execs and officers wanted to go to MIPIM. I am sure you will know it is an event that attracts probably upwards of 30,000 key investors across the world. If we are serious about selling our region and sharing what we have to offer, it is absolutely appropriate that we have a presence there. We learned a lot. Cardiff is a regular attendee and we went as a region, attached to Cardiff, to learn.



HOUSE OF COMMONS

We have since evaluated that and we have learned that it is a place that regions need to be. It is not a place where a city on its own, unless it is a very big city, wants to be. It should be a country or a regional presence there. What was conspicuous by its absence is that there was no Welsh Government representation there. That was missed by a lot of delegates.

We have agreed as a region that we want to participate in that event for the next three years. It is important that if you go there, you do it well. I have been challenged because it cost about £1,800 for each member to go there. I think that was absolutely money well spent. If the region doesn't look to sell its wares on the global stage, it is never going to succeed. We need to make Wales internationally recognisable and investable. That has not been done well over many years. Hopefully, we are going to break that mould.

Chair: Thank you very much. That is excellent. Thank you both for coming in. I am sorry we overran slightly, but it is a very interesting issue and I wish you a safe journey back.