House of Commons

Welsh Affairs Committee

Oral evidence: City Deals and Growth Deals in Wales, HC 2095

Tuesday 3 September 2019

Ordered by the House of Commons to be published on 3 September 2019.

Watch the meeting

Members present: David T. C. Davies (Chair); Tonia Antoniazzi; Geraint Davies; Jonathan Edwards; Ben Lake; Jack Lopresti.

Questions 117 - 154

Witnesses

I: Councillor Rob Stewart, Leader of the City and County of Swansea, and Phil Roberts, Chief Executive, City and County of Swansea Council

Examination of Witnesses

Witnesses: Councillor Stewart and Phil Roberts.

Q117 **Chair:** I offer a very warm welcome and p'nawn da to Councillor Rob Stewart and Phil Roberts. Thank you very much indeed for coming down here this afternoon. There are a few other matters that seem to be exercising minds here so I am afraid we don't have quite as many people in the audience watching us as I might otherwise have expected. I welcome you both and thank you for coming down to give input into this Committee session. We will ask some of the MPs with direct interests to start, perhaps starting with Tonia Antoniazzi.

Tonia Antoniazzi: It is lovely to see you both here, Councillor Stewart and Phil Roberts. As an MP for Swansea, I really appreciate the ambition of the city council and I think there is a lot that we can be doing in the future, and also Gower being an area of outstanding natural beauty, the first in the UK. It is really important that we move forward with a lot of the proposals that we have. I welcome you here today.

Starting with my question, Sir Terry Matthews's original proposition document is quite different from the 2017 City Deal agreement. Why did the deal move so far away from the original proposal?

Councillor Stewart: The external view of it probably does look a bit different but the core of the City Deal remains exactly the same as the original Internet Coast vision. It is important to remember that we started the process of trying to secure a City Deal for south-west Wales at the time of the Cameron-Osborne Government.

When Theresa May and Philip Hammond took over, the nature of how City Deals were arranged was very different. Specifically, we were marshalled into making sure that we fully defined the 11 constituent projects of the deal upfront. If you look at what happened in the Cardiff Capital Region, it was allocated a seven-layer quantum but was not required to define all of the projects that it would deliver, and of course in that respect it still hasn't. We made sure that Internet Coast became a core central project, a golden thread, if you like, that ties a lot of the other projects together. That Internet Coast vision is still there.

Q118 **Tonia Antoniazzi:** The dynamics changed when the Government changed. Do you feel that the UK Government were reluctant to provide funding unless it was tied to these specific projects?

Councillor Stewart: I don't think the Government were reluctant, necessarily. It is just that the process to get money released changed. We were very keen to make sure that we worked within whatever rules or processes were set down by the Government or Governments, but it was an extremely intensive process compared to what we understand the Capital Region went through under the previous Administration. It meant that we had teams of people in rooms, on videoconferences or together, working up those projects to a point where we gave sufficient assurance that not only did we have the vision for the Internet Coast but that all of the 11 projects that sit underneath that were a coherent set of projects in order to deliver the outcomes. Within that, we worked with Treasury on the Green Book analysis. Things like the GVA, uplift in the productivity, the numbers of jobs created were worked up with the Treasury, so they were not just our figures.

Q119 **Tonia Antoniazzi:** The absence of any funding to support the proposed installation of the new transatlantic cable from North America into Oxwich Bay was described as "worrying". Why didn't the City Deal support this project?

Councillor Stewart: We did and if it happened we would still seek to make use of it, but our 5G digital project or our digital project within the City Deal is not entirely reliant on that transatlantic cable. I think that is one of the most important points here because if that delivery does not happen we still want to be able to provide the best fibre, the best connectivity, the best internet to our south-west region, which includes some of the rural areas.

Q120 **Tonia Antoniazzi:** I want to lead on this, because you have mentioned it, Councillor Stewart. I have raised in Parliament the issues around 5G and there are concerns, particularly in my constituency, about the rollout of 5G. What work has the council done to look into this to validate the concerns of the people of Swansea?

Councillor Stewart: I am fully aware of the concerns and I know you have raised them. We have looked at the advice from Public Health Wales and we continue to watch for any further advice that comes out. The advice at the present time is that these frequencies present no significant additional risks to those already in use.

We are keen to make sure that Swansea and the south-west region get the use of the best technologies, whether that is fibre or telecommunications capabilities, because we have to catch up. We have an economic gap with the rest of Wales and the rest of the UK, but what we would like is for the UK Government and the Welsh Government to ensure that there is the best advice available so that any new technologies rolled out are safe and the public can have that comfort from the new technologies.

Q121 **Tonia Antoniazzi:** Again going a little bit off-piste, would it be a possibility for the council to be able to look at protecting certain areas of the peninsula in particular that are more rural from any of the 5G? Is that a possibility?

Phil Roberts: That is a good question. There is an assumption that 5G is required everywhere and replaces everything, which I think is not necessarily right. There is still a role for 2G, 3G and 4G, and it depends on the applications and the locations. Cities and city centres will be a lot more dependent for their functioning than rural areas because there is no reason why an awful lot of things can't be done under 2G, 3G and 4G. What we have to deal with at the moment is the best available advice. The best available advice we have had, analysed through our own public protection team from Public Health Wales, is as Rob said but the reality is it would be really helpful if there was a national approach because it will help us in constructing planning policy, protecting equalities and so on.

Tonia Antoniazzi: I will be in touch and we can continue this conversation. Thank you.

Q122 **Geraint Davies:** Welcome from Swansea; I hope there was no delay on the train.

I want to ask about the financial structure. In simple terms, the situation is that the UK Government and the Welsh Government are putting money down over time and they are hoping that the private sector will gradually increase its stake but really the lion's share of risk is taken by the local authority upfront. Do you feel that your MPs in particular should put pressure on the Government to change that balance? My concern is that frontline services, education or whatever it is, may end up having to pay a contribution towards this when really the money should come forward from the UK and Welsh Governments.

Councillor Stewart: My own council's position is that we have had to make over £100 million worth of savings over the last few years due to the austerity agenda. At the same time we are having to make provision for our contribution towards the City Deal projects. We don't shy away from making that contribution because we do want to make sure that we diversify and revitalise the economy of the region to the benefit of the citizens. However, you are quite right to point it out.

At the moment there is £241 million coming from the two Governments over a period of 15 years and as a quantum it is a very small amount of money in the overall scheme of Government spending over a pretty long period of time. Certainly we would welcome—and have already raised with the Ministers of both Governments—an accelerated release of that Government contribution. If the money comes out of Government over a shorter period of time that reduces the amount of money that council will have to borrow or provide from elsewhere in order to deliver its contribution to the City Deal.

Any help that the MPs can give to get the Governments to do that would be really helpful. I can report that we have had a positive move forward on the Pembroke Dock Marine project on the specific issue of accelerated release of funds but I think it is something that needs to be applied across the whole deal.

Q123 **Geraint Davies:** I was going to ask you about who bears the risk. My children went to Swansea schools and the oldest one is about to move out and the youngest one is about to go to university. For future children in the schools, if you have a situation where some of the projects might not work quite the way we hoped—and I know there has been issues with a wellness village, for example—and as a result of problems there is, for example, a change in confidence in the private sector and less money comes in from that end, or if there is a change in Government sentiment due to a hard Brexit or whatever it is and that money is a little less certain, to what extent are you basically left holding the baby? Is there an opportunity if things don't go as planned that you can reduce your risk or is there a real danger that you have to put it down upfront and you have to keep on borrowing and paying from money that would have gone to services on borrowing for projects that don't fully materialise?

Councillor Stewart: I will use the Swansea Digital Waterfront project, because that is one that we are most familiar with its delivery at the moment. We are getting about £1.5 million of City Deal funding a year over 15 years, so £20 million-odd over the period of the first 15 years of the deal against a £130 million project. It is not a large part of the project, but I would be appalled if there was a situation where a future Government decided to unilaterally remove that funding. If we could get that funding out earlier and over a shorter period of time it protects the council from having to borrow so much, it gives greater assurance and it allows us to do more with the resources we have. But to answer your question directly, I guess the council, as the project sponsor delivering it, then carries the risk.

Q124 **Geraint Davies:** If I am a parent with children at a Swansea school, is it the case that in essence a strategic decision has been made to have a little less paid on the education and a bit more on job creation? I think that is what this is about, isn't it?

Councillor Stewart: It is not that simple a choice. Imagine if we didn't have a City Deal at all: what would our plan be to try to make sure that we diversify, create jobs in the economy, create a city that is vibrant? The council is doing a huge amount outside of the City Deal to address that but it is not saying, "We are spending the money over there and not in education". We are still pumping huge amounts into education every year, over and above what we are getting from the Welsh Government, and obviously the Welsh Government are depending on the UK Government for that funding.

It is not a binary choice, but the point here is that if we don't get the City Deal money we will be left with a gap in our future finance that the council will be required to fill. It is at that point you then get into a choice about how you find that money.

Phil Roberts: If I can broaden it a bit more, because I think it is a very important point given the pressure on local government and the other duties that face councils over and above regeneration. If you think about Wales and the implications of the wellbeing of future generations, you have to weigh the risk that is being taken in investing in the Swansea economy and the regional economy now against the risk in not doing so.

If I go back, one of the benefits that we do have is a longstanding working relationship between the four south-west Wales councils that oversaw more than a decade of structural fund investment through collaboration. About eight years ago, we commissioned a piece of work that tried to look at what would happen in south-west Wales and what the big challenges were. The lesson was very simple: there was a huge problem with productivity, having fallen from around 93% of the UK average to 77% within the space of 30 years. That was the big challenge and that related to problems with restructuring an economy that was principally based on primary and manufacturing industries and some of the problems of rurality across south-west Wales. The challenge, therefore, was to deal with the issues that related not just to productivity but—given the skills gap in south-west Wales, and despite having two universities, educational achievement is quite polarised between different parts of the population—we faced the prospect of growth but jobless growth.

We had to think very carefully about the components of the City Deal so that it related not just to digital and the other sectors that were relevant but also addressed the issues of skills and infrastructure that would be required to ensure that the population benefited. The risk of doing nothing—which is the evidence base that we have and supported by a huge amount of evidence, for the region and not just the city—is very high and that is the essence behind the political decision that has to be taken.

Q125 **Geraint Davies:** I respect what you have said on that, but one of the difficulties is that at the time you were making these decisions there were some sort of assumptions maybe that there would be rail electrification, there might a lagoon, there might be a new motorway link, there would be convergence funding of that. We were not assuming Brexit and all these things.

Within that context, the local authorities said, "We will be part of productivity-enhancing funding" and as some of these other bits have fallen off, which are the UK Government's responsibility, you are still left with your investment. I am a bit concerned that the risk is with you and you are now trying to do the heavy lifting when you were meant to be part of a team that is falling away and the private sector may not come rushing in if the public sector global investment is not there.

Councillor Stewart: For clarity, neither the tidal lagoon nor electrification were City Deal elements, but I do absolutely agree with you that they were ones that we really wanted to happen. To be clear, we have continued the work with Transport for Wales and a proposal for a south-west Wales metro will be going back to Welsh Government within a month.

We have had extremely positive discussions as part of the reporting back from the taskforce on how we could resurrect the tidal lagoon and that has gone to Welsh Government and we are anticipating an announcement from the Welsh Government in the autumn. By no means have we given up on either of those options and if the opportunity arises for one or more of those projects to add to the City Deal with some additional funding, that is absolutely what we would seek to do.

Chair: That is an interesting point to stop on. We do have a question on tidal lagoon, but I am also aware that one of the MPs directly connected has not had a chance to speak yet. It is a democratic chair. We definitely want to come back to tidal lagoon, but in fairness the other two MPs with a direct link have spoken, so I will hand over to you.

Q126 **Jonathan Edwards:** Thank you, Chair. Just returning to the business of the financial structure, my understanding of the situation is there was far less UK Government and Welsh Government funding for the Swansea City Deal compared to other City Deals, so therefore they were far more reliant on local government public money but also private sector money. Is that your understanding of the situation and do you feel aggrieved?

Councillor Stewart: It depends how you measure it. If you look at the money for the Capital Region you have 10 local authorities and a much bigger population area. We have four local authorities and we were provided with £241 million. Our original ask was closer to £500 million but we were directed heavily by the UK Government that that would be too big an ask for the region that we have. Part of the work that went on during the period before signing the City Deal was about making sure that the projects were focused into a local level.

You are quite right, though: if you look at the structure of the £1.3 billion deal, it is £241 million from both Governments, £396 million from the public sector partners in the area, including the local authorities, and the remaining £600 million-odd from the private sector. Prior to signing the deal, we had numerous meetings with the Secretary of State and other officials where private sector partners were brought in to be questioned about their full commitment to the deal. Before the deal you could not get to a point where you signed a contract with them on a project because the money had not yet been agreed with Government, but it was to give the Secretary of State and others a high level of confidence in the private sector commitment to the deal.

Q127 **Jonathan Edwards:** Essentially you have both Governments saying they have an all-singing, all-dancing £1 billion economic acceleration package for the Swansea area, yet over half of that depends on private sector money. The question then is how successful have you been in being able to draw down that money? Based on previous questions, have both the UK Government and the Welsh Government been releasing the money as you would like?

Councillor Stewart: It has been obvious that the process has not been an easy one. At the present time we have a commitment for a release of up to £36 million from that total quantum. Just to be clear with people, once the deal was signed in March 2017 we ended up in a snap general election and that took up a period of time. Following the general election, we had to work between the four local authorities and the two Governments' lawyers to put in place all of the governance plus all of the other arrangements that were required. Finally, by August 2018, about a year or 18 months later, we got to the point where we could move from shadow form into a formal joint committee to start making decisions. We were starting at that point to look at final approval of the projects.

It has been quite a long time but it matches what Cardiff Capital Region also did. We then got into the independent reviews and the other reviews that I commissioned and that has led us to a point this summer where the Governments announced the release of the first round of funding. Would I have liked funding released much earlier? Yes, of course, but I think we were working between the region and the Governments in an imperfect process.

It is part of the way in which it was set up under the new Government in that you had 11 very defined projects but you then had to work through another set of proposals with multiple Departments of both Governments. Getting one Government and all its Departments to agree to something is difficult. Getting two is very challenging. It was not helped by the fact that many of the personnel changed during that period as well. We have come out with a much more streamlined, much more sensible process and that has helped us get to the point where money can now be released.

I think there is an opportunity to do more, more quickly, and the sooner the Governments can release further resources the quicker we can deliver the projects. If you go around any of the four local authorities now you will see work on the ground delivering those projects ahead of the money being released from Government and we are taking the risk across the four local authorities to do that.

Q128 **Jonathan Edwards:** How do you respond to the suggestion that the City Deal moved away from "investing in infrastructure and people" towards just "building more buildings"?

Councillor Stewart: That is simply not true. You have to put in the buildings if you are going, for instance, to create an arena. The reason for the arena is well documented. It is about making sure that we create a modern city centre that will attract visitors to it, that Swansea reinvents itself for the 21st century. We can no longer have a high street in a city that is built for the 1970s shopping experience. People have moved away from that. As Phil has mentioned, this was not about a "back of a cigarette packet" view of the economy. This has been a long, strategic decision or set of decisions.

The thing that we were trying to address here is if you look at the detail in the evidence that underpins this, we educate a lot of people in our universities in Swansea but then they have to move away out of the region to find the jobs or the careers for the salaries that they want. We have a significant amount of evidence that we have companies that can grow but once they get to a certain size they can't be accommodated in the city centre in quality accommodation, so they are leaving the city or the region. Part of our strategy is about addressing that, keeping people in the region so that they can pursue the career they want, but also part of what we are doing is creating growth space, creating innovation space so that people can grow their companies and can be supportive to that so that we get the economic benefit within the region after the investment.

Q129 **Tonia Antoniazzi:** You are talking about these companies in Swansea that do not have the potential to grow now. What examples can you give of companies that you may have on a list that have expressed an opinion to you and the council that would say, "When this happens, we will—"? There is the thing of we can build it but will they come and that is the kind of concern that is being raised.

Councillor Stewart: As you may know, TechHub in Swansea is the biggest in the UK. There are a couple of companies in there at the moment that have really started to grow quite quickly. One is involved in air monitoring and technology that can go on top of lamp posts. They are already getting to the point where they are going to be employing 100 people. They are having to look outside of the city because we don't have accommodation in there.

We have another company—I don't want to name it at this point because it is commercial in confidence—where we are looking at creating space within the civic centre in Swansea for that company in order for it to be able to even come to Swansea because there is not accommodation available for them to come in. That could potentially lead to 900 quality jobs in the city centre. The point I am making is that it is not the "build it and they will come". It is if you don't build it more people are going to leave.

Q130 **Tonia Antoniazzi:** Is there a forecast for numbers?

Councillor Stewart: Yes. In the city, directly associated with the projects there is about 10,000 direct jobs and over 30,000 indirect jobs. In the council, in the mapping of the demand that we have, there is a significant pipeline of interest that we are putting together for our development on the Kingsway, development down the SA1 and development on the Swansea Central phases 1 and 2.

Q131 **Jack Lopresti:** Is there any scope for the City Deal to be amended or changed in a significant way? How strict are the UK Government that it adheres to the original agreement that was made back in 2017? Colleagues have said about how they would like some amendments on the edges, but what about any strategic changes?

Councillor Stewart: Up until the reviews last year, there was very little room for changing the projects and that was one of the real issues. Since the review we are moving to more of a portfolio approach and that has allowed the sort of flexibility that the Capital Region has enjoyed since the start of its deal.

A tangible example of that is one our partner councils in Port Talbot has taken the opportunity now to look at the projects that it is leading on and to refresh and refocus them. It is due to submit its revised proposals to the joint committee at the end of the month and they look like a really good set of proposals. You will understand that given the challenges that Carmarthenshire has had on the wellness village, it is now looking at a revised, repackaged proposal for the elements of that scheme that it wishes to take forward, and Carmarthenshire is busy in the work with that.

I think the very good thing that we have now is a flexibility to not only amend some of the projects that may need amending within the deal but, as I have said from the start of this, if things like the south-west Wales metro or tidal lagoon or other opportunities come along, there is a mechanism, a structure, to help deliver them. We should certainly be looking to add to the City Deal and continue to use that as an ongoing way of delivering economic benefit to the region.

Q132 **Jack Lopresti:** That is good. Initially there was talk about an investment fund being set up. What is your view of that? Is that a likely prospect? You have talked about things that could be added on to the existing deal, but how does that sound?

Councillor Stewart: In principle, we are very interested in doing that. The challenge for us was that all of the available money that we have in the City Deal was allocated to the 11 projects and we had to find a way to free up some of the capital that we had. There is always an opportunity for other funding to come in, from both the Welsh Government and UK Government or from other funds like WIF or elsewhere, or even the shared prosperity fund when that becomes available.

We will certainly be pursuing the setting up of an investment fund. I have had discussions with the Cabinet Secretary and the First Minister in Wales about their support for that. I know Capital Region has already been successful in securing, I think, £15 million to start their investment fund. Yes, we are very interested in doing that.

Q133 **Chair:** I have a few questions—I am afraid I am jumping around a little bit—just based on a few of the answers we have had. Perhaps I could start with Mr Roberts. You made an interesting point, just summarised, that objective 1 funding came about partly after the powers that be had identified a problem in Wales, first with the change in the economy from primary industry and the lack of skills, which I think is a fair comment.

But the obvious follow-up question is: do you think that objective 1 resolved those problems? What I am getting at is that I am not sure it has and I wonder whether there are lessons to be learned from that—I don't like to say the word "failure"—lack of absolute success in addressing those fundamental problems in the Welsh economy.

I am going to hand it to you, Mr Roberts. You have been very good, Councillor Stewart, but you have made your point and it was a fair comment. It is not a trick question but what I am getting at is that I think everyone agrees those were serious problems. Whether or not objective 1 solved them I think is up for question and whether we can learn something from that is an important point going forward.

Phil Roberts: I think the problems were probably worse prior to the objective 1 funding. The work I am talking about took place probably four or five years into the first two rounds of structural funding and it was in response to, "We have achieved this much but we need to achieve a lot more". It took us to a particular place and it helped us provide quite a lot of the infrastructure. When I am talking about infrastructure I don't mean just physical infrastructure but through the European Social Fund a certain number of projects that were the foundation for where we are now.

We are in quite an interesting position—and I was going to interrupt before—because one of the other things around the fact that we are investing in buildings is the way that we have invested in buildings. Through the way that we managed structural funds we made that connection between ESF, ERDF in matching skills in the skills pipeline to the actual delivery of projects by the people who live in the region. That really helped us because that was part of the productivity problem as well, the fact that if we were not careful and we did not create that skills base, particularly within the construction industry, it was very likely we would be importing those skills into the city, and that had been the case historically.

Through the way in which we administered the funds, we made sure that all major projects had to have social benefit clauses, they had to have a certain proportion of local labour, apprenticeships and training days within it, and not just for our projects but for our partners' projects. It created a foundation and a learning for us. You can look at the outputs of what was achieved, because obviously that is recorded and a requirement of the grant funding. I think it took us to one place but helped us understand that unless we really ramped things up we were going to slip further behind on the productivity thing. It is not the only economic indicator but people often think it is the proxy for wellbeing.

Councillor Stewart: Chair, may I add a political comment to that, with one eye on the future? We are a significant net gainer of structural funds of the money that comes in from the European Union. I know there have been statements that we will be no worse off under new arrangements and the shared prosperity fund.

I was at a Brexit meeting this morning with the Secretary of State where he reiterated the Treasury guarantee on that. The issue for us is that we need to understand very quickly how that shared prosperity fund is going to work. I will give you an example. Our region applied to get some money from DCMS to roll out some of our digital project. We were at a disadvantage because of our population size in the region and were struggling to meet the threshold at which we were allowed to bid. It is really important that whatever is set up not only allows us the quantum of fairness from what we currently get but the process for drawing down that money and how it is distributed.

Q134 **Chair:** That is a very topical point, because we were discussing an inquiry into that very issue earlier on. I think everyone has made a note, but let's not go off at a slight tangent towards the European Union right now, if that is all right.

I have another quick question. One of you, probably Councillor Stewart, mentioned earlier on that so far only £36 million of private sector funding has been secured out of—

Councillor Stewart: Sorry, that is Government money.

Chair: Okay. How much private sector private money has come in at moment? There is a target of £637 million.

Councillor Stewart: Yes. I don't have any current figure on private money spent because in the current deal you have 11 projects and only two projects have been approved. That is the Yr Egin project in Carmarthenshire and the Swansea Digital Waterfront. Both of those projects are largely public sector driven and don't require private sector investment. It is the other nine where the majority of the private sector money comes in, so of course that money will not be drawn down until those projects are signed off.

Q135 **Chair:** How much are you expecting has been guaranteed for those other projects?

Councillor Stewart: As I said, over £600 million. Those are the commitments at the time of signing of the deal.

Q136 **Chair:** You have no reason to doubt that that money will come?

Councillor Stewart: No. I guess the major change will be the wellness village in Carmarthenshire where they have now changed their delivery partners and they are working up a new proposal. We will need to make sure that that new proposal meets the aims of the original proposal or whatever it is substituted with continues to contribute in the same way to the overall aims of the City Deal.

Coming back to the question I was asked earlier, that is where the flexibility controls need to come in. While we would want to have some flexibility there, what we don't want to do is to unravel the overall aims of the deal with any changes we may seek to make.

Q137 **Chair:** In short, no private sector money has gone in as yet?

Councillor Stewart: Not yet because those projects are still awaiting signoff.

Q138 **Chair:** Okay. You mentioned earlier on that there was a possibility that the tidal lagoon might come back in some form and you have had discussions about that. Could you tell us a bit more about that?

Councillor Stewart: Yes. Following the decision by the UK Government not to support the proposal on the tidal lagoon that was there, we had a discussion at the city region and we agreed that we, with the support of the Welsh Government, would set up a taskforce to look at how we could come forward with a set of proposals that sought to deal with any of the issues that the previous proposal had. That taskforce looked at how you could construct it differently, procure it differently, operate it differently and fund it differently to try to make sure that—in terms of an exam question—if you have a proposal, how do you make it investable so that investors would be keen to agree to the terms of the proposal.

Q139 **Chair:** That would presumably mean taking equity in the project in some form.

Councillor Stewart: As you will know, the Welsh Government originally made an offer of up to £200 million. Our understanding is that quantum of money remains on the table to support tidal lagoon development in Wales.

Q140 **Chair:** Could that be increased?

Councillor Stewart: Yes, the Welsh Government have said it is not a limit and on the basis of a proposal coming forward from the Welsh Government for support that may be more than £200 million but that will depend—

Q141 **Chair:** Can you use City Deal money?

Councillor Stewart: There is no available City Deal money at the present time, but of course if both Governments were to make more funds available to the city region then there would be a potential for us to invest in that.

Q142 **Chair:** Could you use pension money?

Councillor Stewart: Yes. A significant amount of work was done to look at whether pension funds would be interested in a tidal lagoon proposal. They are positive about it but it is about the business model and what returns they would get from an investment and what risks they would be asked to take.

Where we have got to on that is that the tidal lagoon taskforce provided a report back to Welsh Government. There is definitely interest out there from a series of multinational companies who believe they have both the capability and the will to deliver the project. We believe we can make up to 30% savings on the original proposal for the cost of delivering the lagoon as well as exploiting the revenue opportunities in the cost of electricity, how it is used, what the electricity is used for, with potential things like hydrogen generation that will give you bigger revenues.

There is the opportunity to use the bowl of the lagoon itself—about 11 square miles of water—with the potential for sinking data centres in there, putting floating solar on there, which would give you greater energy generation, and the potential for delivering floating housing on there.

Q143 **Chair:** Why not push all this back to the Government? The problem last time round was the cost and if you have found a way to build it for 30% less and to generate more revenue from it, surely the Government might take another look.

Councillor Stewart: The position at the present time is that we had an obligation to conclude this work with the taskforce and feed that back to the Welsh Government, which we have now done. The Welsh Government have received that and are considering what we have said. We remain open, absolutely committed to trying to find a solution that will allow us to support the delivery of the lagoon.

The Welsh Government, with their recent declarations on climate emergency, are keen to see tidal technology developed in Wales and that could include the lagoon. We await an announcement from the Welsh Government in the autumn, but we have certainly not closed the door on the UK Government supporting this if that is what the Government chose to do.

Q144 **Geraint Davies:** Maybe the Committee can be kept up to speed on what you are saying and doing so that we can make our own submissions on the basis of latest evidence to Government.

Councillor Stewart: We are very happy to do that.

Q145 **Chair:** I think we have touched on this, but you have talked about the Yr Egin proposal and there has been an announcement of £18 million in funding from the UK and Welsh Governments for that and the Swansea City and Waterfront Digital District project. What are the timelines for these two projects going forward and how much private investment do you expect to be provided alongside the £18 million?

Councillor Stewart: If I just quantify that, our understanding is that the £18 million is the first phase of Government money to be focused on those two projects solely.

If I take the Swansea Digital Waterfront first, we are already on the site constructing the arena, the new multi-storey car parks, the new bridge crossing, the new housing, the new retail units, which will be the first phase of what we call Swansea Central. There is not specific private investment required for that phase. It is council and Government funded, although for phase 2, which we have already issued a notice on, we do anticipate a significant amount of private investment as a result of the public investment on phase 1. There will be a supplementary draw, we believe, an investment from the private sector as part of that.

On Yr Egin, the building is already up and is more than 90% occupied, so the first phase of that is already done. Phase 2 will be taken forward now by Carmarthenshire Council as part of the delivery of that project.

Q146 **Chair:** There has been a number of well publicised issues about the Llanelli Wellness Village. I don’t know whether you would be able to tell us anything more about that, but do you still expect the scheme, the first phase of it anyway, to be completed on time by 2021?

Councillor Stewart: As you know, given the issues that were identified, the wellness village and the processes within the deal went through a number of reviews, four reviews in total. We had a series of recommendations out of those reviews, which we have implemented and we have written to both Ministers earlier this week outlining how we have implemented those recommendations.

I think we are in a very good position to move forward. As part of that, the wellness village obviously could not go forward in its previous form. It needed to be reformatted, repackaged, rethought by Carmarthenshire Council, and that is what it is currently doing. I know it has had some discussions with alternative private sector partners as well as potential alternative public sector partners, such as university partners, to deliver the ILS elements of that.

We are anticipating a revised wellness proposal coming forward from Carmarthenshire Council in the next few months. It is with them as the lead authority to come forward with a new proposal and the economic strategy board and the joint committee will have a look at that new proposal when it comes before us.

Q147 **Chair:** Can you say how viable that would be if Swansea University pulls out?

Councillor Stewart: My understanding is that the new vice chancellor of Swansea University has met with the new chief executive of Carmarthenshire Council and they have had productive discussions. I know that Carmarthenshire Council has also talked to other major universities in Wales. I think there may be an opportunity for more than one university to participate in the new proposal, but until I see the new proposal I can’t absolutely say that.

Q148 **Tonia Antoniazzi:** More than two years from the heads of terms being signed only two projects have secured funding. That is what we have been talking about. Can you discuss each of the other projects in turn and provide us with timescales for funding and implementation?

Councillor Stewart: Yes, you are absolutely right. If we consider the two that have been approved as tranche 1, we were always looking to make sure that the projects came through in logical tranches. The second tranche could contain two or it could contain five projects. It depends on when they are ready.

There have been some productive discussions about the Pembroke Dock Marine, so I would expect that project to come forward in due course. Neath Port Talbot, NPT, has a series of projects that it has put together in a programme. You have Steel Science, and obviously a steel project is very important in Port Talbot. You have Homes as Power Stations, which is a hugely important project that I am very keen to see.

I should say a little bit about the Homes as Power Stations. It is something that all four councils will participate in or could participate in. There are already demonstrator versions of new homes being delivered by each of those authorities. In Swansea you can see them in Milford Way where the council has delivered its first council housing in over 40 years with energy bills of less than £100 a year. That is great not only in providing really energy efficient homes but homes that reduce the burden on people who maybe don't have the resources to pay large energy bills every year, so it is a great social impact as well.

Each of the councils will be delivering a pipeline of projects and we will come together as part of the project to define what the technologies are that we settle on as we deliver the larger scheme. At the moment the aim is 3,000 new homes as power stations with about 7,000 potential retrofits to existing homes. That is the aim of the project, so that will be cross-cutting. I would expect Homes as Power Stations to come forward as part of that.

The Centre of Excellence in Next Generation Services—sorry, it is a bit of a mouthful—was built up on Terry Matthews's very successful model of how you took a very good idea from an innovative set of people and helped to not just commercialise that idea but to globalise it. What NPT has proposed to do is to take that model and focus it more on decarbonisation, which I think is very apt for where we are going as the Welsh Government and as local councils in Wales in decarbonising the economy. I would expect those three elements, or three projects, from NPT to come forward as a programme.

Outside of that, the digital project will be the other one that is probably likely to be ready. I don't know where we are with the detail on the Carmarthenshire wellness proposal. If Carmarthenshire is ready to bring that forward soon, we will consider it as quickly as we can. I would say that potentially you have another five or six projects there that are ready now to start their way through the final approvals process with the two Governments.

Phil Roberts: Could I just add that there is the Skills and Talent Initiative, which is the other project that is based on the footprint of the current regional learning partnerships, the same as the City Deal footprint. That will be coming through to business case very shortly.

What I am more anxious about is that we align that with the work that we are doing through skill improvement through ERU to make sure that we are treating education all through regionally and supporting the introduction of the new curriculum, because there are elements of the new curriculum that are an absolute requirement.

We are talking about a 15-year deal, so there is a whole generation going to come through that we need to be thinking about now. Previously the weakness in the approach was that the regional learning partnership almost started at FE and HE rather than further down. I am anxious that we not only get the business case approved for that particular initiative but we link it much more closely, because those authorities are on the same footprint for ERU. There is a real opportunity to think about skills from preschool all the way through to further and higher education.

Tonia Antoniazzi: I think also having the co-ordination of that will be key to its success.

Chair: Yes, and rolling out the curriculum effectively.

Q149 **Jonathan Edwards:** Your statement on 15 July announced the £18 million for the Yr Egin and the Digital Waterfront, but there was a further £18 million. You have updated some of those projects that may fall into that £18 million but there were also terms and conditions attached to the release of that money. What were those terms and conditions and are they being met?

Councillor Stewart: If we take the first £18 million, which was for the two projects that you mentioned, we are expecting those terms and conditions from the Welsh Government in the next couple of weeks. We are led to believe that they are largely standard terms and conditions that you would expect: you can't do anything illegal with the money; you have to use it for the purposes for which it is being released. We expect those to be largely pretty simple and straightforward.

The second £18 million, which would apply to any project that is approved in the City Deal, would be related to our ability to implement the recommendations in the independent review. That is why it is important that we went back to both Governments now to say that we have updated the joint working agreement, the governance structure, to incorporate the things that were identified in the independent review.

We are also out to advert on the managing director/programme director role. We have started to receive applications from people interested in taking on that role and we would like to get that person appointed as soon as possible. Also we are out there seeking people to go on to the economic strategy board, so private sector individuals with sector expertise to help us not only deliver the deal but to horizon scan further opportunities.

That in itself should be sufficient to largely meet any additional recommendations for the other £18 million but until we see those we don't know if there is anything further that the Governments would like to add into that. That is what we are led to believe are the differences in the terms and conditions for the two sets of £18 million.

Q150 **Geraint Davies:** Once you have secured the funding for a project, can you remind us how you review these projects to deliver value for money? In the case of a project that does not really deliver what it was meant to deliver, is there an option of switching funding to another project or do you lose the funding?

Finally, to what extent do you feel that you can build in ambitions for a Swansea metro and railway system? If you can talk about value for money and maybe moving your focus of what flexibilities you have for this.

Councillor Stewart: As you can appreciate, there is a huge amount of due diligence and governance that you need to go through. We have a five-case business model and each of those cases needs to be robust in order for you to get the Governments to agree to release the money. There is a huge amount of upfront work to do that.

I will use the Swansea example. We are into the process of delivering the arena and the other elements of that scheme. We have a significant amount of independent advice and evidence as to why that is the right thing to do. Once we have spent that money, that is what we have created. It will be the new car parks, the new arena, the new retail units and the new living accommodation. There will be an opportunity then to switch that to something else because we believe that is absolutely the right scheme to do it.

On your second point about flexibility in the scheme, if you get a project that as you go through the due diligence you feel it is not meeting what you originally thought, of course you can have the opportunity to amend that project or to substitute it. That is what the new portfolio approach allows us to do. That is part of the process before you get an approval.

On your third point about the metro and the flexibility, yes, absolutely. I can't repeat enough if we just stop at the 11 projects we will not have done as much as we could do and I always thought the 11 was just the start of this. As Jack said, if we have the opportunity for us to establish an reinvestment fund and to have additional projects with additional funding from the UK and Welsh Governments, there is no reason why the metro and other projects can't be added to the deal as they come along if it is the right structure to manage large, cross-regional economic projects to enhance the economy.

Q151 **Geraint Davies:** I am aware, as you are, that in the Cardiff City Deal there is more to involve linking up the Cardiff metro. We have a situation now where you have an electrified railway to Cardiff, investment around the station. What are your feelings about trying to up our game in building the Swansea metro and a quicker line speed? Are you thinking about the so-called shared prosperity fund in that respect? What is your thinking on doing that? There is the danger of Cardiff again getting the lion's share and us not, when our need is greater.

Councillor Stewart: I fully agree. There are some risks and some complications in this. The work that I have seen that has been done by Transport for Wales is in mapping out how you would create a Swansea metro, how you would link to the Neath valleys, how you would create and take advantage of the journey times to west Wales and try to improve those and add shuttle services into the capacity of the lines, do some tactical changes to connect the freight lines that are already in existence so that they can run passenger services.

All that looks really good, but it will come at a cost and at the moment the only new money we have is an offer from the Secretary of State and the Department for Transport of £20 million to establish a station at Felindre. I would be very happy to take the £20 million as part of the start of the funding, but if you look at Crossrail and HS2, it is £20 million compared to nearly £100 billion, it is not a fair share.

We will need a significant amount of new additional funding and that can't be shared prosperity money because shared prosperity money in itself is a replacement for European structural funds. This has to be new, specific investment to create a metro and a transport network in our region that is a fair share of the money that is being spent elsewhere in the UK. It is no more complicated than that.

I think we have a really good proposal coming from Transport for Wales. It aligns very nicely to much of what the Secretary of State and Professor Cole have done in their work. Let's get the two Governments to—

Geraint Davies: If those recommendations and proposals in some detail could be provided to the Select Committee, we would be in a position to support what you want to do rather than leave you on your own, because obviously we have some influence here.

Q152 **Chair:** I think you are making a very fair point. If HS2 goes ahead at an increased cost—what is it now, £80 billion? It seems to go up every time I look but it is well up from £53 billion anyway; I think it is in the 80s but possibly higher—one would have thought that Wales ought to be entitled to 5%. Whether that should be spent on the scheme that I am well aware of, it seems a reasonable one, or something else in Wales I don't know, but I think the Committee would probably agree that Wales should have its fair share of that. If that is what you are suggesting, I suspect we might be—

Councillor Stewart: Chair, can I make one further point on that? It is really important for the economics. You mentioned in the discussions with my chief executive earlier acknowledging the productivity gap and some of the disadvantages that we have had. If HS2 does go ahead, it will mean the Northern Powerhouse is less than an hour away from London while Swansea and the region will be three hours away from London. It will take three times the amount of journey time to get to Swansea than to the Northern Powerhouse. That will be a significant disadvantage unless we get investment.

Chair: I think that is a very powerful point and we might even have two minutes after the meeting to discuss that. I think we have more or less come to the end. Maybe I can just ask about the recommendations.

Geraint Davies: Chair, on that point, so that the witnesses understand, we are open to submissions and we do really as a Committee need to look at infrastructure investment in rail in the context of HS2 drawing investment out of Wales. I think there are some studies by KPMG and others that show it loses 100,000 jobs and we really should be batting for Wales here. If we have detailed proposals from Professor Cole or Mark Barry or whoever it is, we can put them on the table and say, "These are our proposals. HS2 is still half-baked and is using a lot more energy than we thought to cut the cake. Let's get on with it", we might be able to add some momentum.

Q153 **Chair:** I think we can have two minutes afterwards, because we might not be a million miles apart on this. It is a very good point you make, Councillor Stewart.

Can I ask quickly about the rapid independent review that was commissioned? One of the recommendations, recommendation 7, has now been achieved. What about the other six? We are told that they should be in place by the end of June. Are you confident that will happen?

Councillor Stewart: My understanding is the majority of the recommendations have now been completed. They were about making sure the governance was appropriate, that it was something that worked for the region and, as I said, progress on appointing an independent managing director and expanding the economic strategy board. All of those have been done. The revised joint working agreement has been agreed by the joint committee and a copy has been sent to both Ministers for information. I believe we are pretty close to achieving the entire list of recommendations from the rapid review.

Q154 **Chair:** The last question really, it is an obvious one, but if everything goes to plan, or more or less to plan, a large amount of money will have been spent within the area and one would hope that that could be returned. Playing devil's advocate, some might suggest it might have been better to have given a business rate holiday to every business in the area and use that as a means to attract investment in. Are you confident that the projects that go ahead—and we hope they all do—will generate as much value for the region as you could have generated by simply offering some kind of reduced business rates to every company there already?

Councillor Stewart: I don't think the comparison has been done to say that option versus that option would be better. Certainly we are the first region in Wales to be able to retain 50% of the business rates for anything new we might build or acquire for reinvestment, so that is something that we were very grateful to agree with the Welsh Government. I just go back to the point that the numbers that we are using for both GVA and job creation weren't ones that we did in isolation. They were worked up with the Treasury using the Green Book, so those figures are as solid as they can be for what we believe the output of the 11 projects that have been chosen will provide to the economy—job creation and productivity. I think we can have the highest level of confidence we possibly could have, given that we worked with the Treasury to agree them.

Phil Roberts: The City Deal is one set of projects but the ambition is a much broader ambition. The Leader and I have been involved in a huge number of discussions with inward investors and the ease with which those discussions can take place has ramped up. There is a lot more interest by virtue of the fact that we are on the ground at the moment and have a very credible plan. We took a forensic approach to analysing what I would honestly describe as a failing planning service 10 years ago into one of the best planning services, I would argue, in Wales and possibly the UK in its efficiency and much more candour and joined-up attitude to different parts of the authority approach to the delivery of regeneration and a welcoming front door for people who want to invest in the city.

What the City Deal does is help by generating a level of confidence that the funding, the plan, the commitment is there and the people who are talking about it are actually delivering. That is the key, not to talk about it. The private sector always has to see evidence of delivery and I think we are seeing the knock-on effects of that already in the programme.

Chair: That is excellent. Thank you very much, diolch yn fawr. I am sure some of the local MPs may wish to say hello as well and more informally, but I am going to bring this meeting to an end now.