

Independent Evaluation of Local Growth Interventions

Cardiff Capital Region Wider Investment Fund
Final Overview Report



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1. Introduction

Investment Funds and the Gateway Review process

- 1.1** A series of Growth and City Devolution Deals have empowered local partners across the UK to design and deliver programmes to develop their local economies. This encourages partners within functional economic areas to work more closely together and to develop new governance arrangements
- 1.2** As part of this approach to local economic growth, city regions and other areas across the UK (referred to as ‘localities’) including Cardiff Capital Region were awarded long-term investment funds. Spend of these funds is allocated to locally appraised projects, providing localities with greater control over directing priority investment decisions. These projects are appraised in line with assurance processes agreed with central government.
- 1.3** Key features of the approach agreed between UK Government, the Welsh Government and Cardiff Capital Region included:
- a long-term funding commitment, with agreed overall (maximum) envelope: in the case of Cardiff Capital Region this is a 20-year commitment with a £1.2 billion investment fund, which consists of £734m investment into the South Wales Metro and a **Wider Investment Fund (the subject of this evaluation) worth £495m.**
 - the first five years funding confirmed, paid in annual instalments
 - a Gateway Review after the first five years, and then every five years subsequently; for Cardiff Capital Region, with the investment fund agreed in March 2016, this involves a Gateway Review by March 2021
 - the understanding that future funding beyond the first five years will be subject to the outcome of Gateway Reviews and Ministerial decision-making
 - agreement that the Gateway Review is informed by a review of the impact of investments, undertaken by an independent National Evaluation Panel; in November 2016, an SQW-led consortium¹ was appointed to deliver the work of the National Evaluation Panel.

The National Evaluation Panel

- 1.4** The purpose of the National Evaluation Panel is to evaluate the impact of the locally-appraised interventions on economic growth in each locality to inform the Gateway Review and Ministerial decision-making on future funding. This is specifically focused on the Wider

¹ The consortium includes Cambridge Econometrics, Savills, Steer, and an Academic Group (Prof Martin Boddy, University of West of England; Prof Ron Martin, University of Cambridge; Prof Philip McCann, University of Sheffield; Prof Peter Tyler, University of Cambridge; and Prof Cecilia Wong, University of Manchester).

Investment Fund in Cardiff and does not cover the investment in the South Wales Metro nor the wider Cardiff Capital Region City Deal.

- 1.5** The focus is on the impact of activities supported by the Wider Investment Fund, or the progress in delivery where it is too early for impact to be established. The work of the National Evaluation Panel has not covered the processes of decision-making and delivery mechanisms, and the Panel has not advised on what projects should be supported.
- 1.6** The work of the National Evaluation Panel to inform the first Gateway Review has involved:
- the development of a National Evaluation Framework
 - the agreement of evaluation frameworks/plans for each locality, and subsequent delivery of the agreed evaluation research by the consortium, informed by monitoring data collected by the localities
 - evaluation reports on impact and progress of the investment funds.
- 1.7** The National Evaluation Framework was approved by the Steering Group² of the National Evaluation Panel in August 2017. It established three principal strands of work:
- **Impact Evaluation:** assessing the extent to which interventions supported by the investment funds have generated economic outcomes and impacts for their locality.
 - **Progress Evaluation:** where it is too early to evidence outcomes and impacts, even at an interim stage, an assessment of the progress that interventions have made in their delivery, for example, against anticipated expenditure, delivery milestones, and in generating outputs.
 - **Capacity Development and Partnership Evaluation:** to provide qualitative evidence on the effects of the investment funds on local capacity development and partnership working.

This report

- 1.8** This is the Final Report for the evaluation of the Wider Investment Fund, to inform the first Gateway Review. It is the third and final output from the evaluation, following a Baseline Report in May 2019 and a One Year Out Report in April 2020. This Final Report draws on, and is accompanied by, two Evidence Papers, which provide more detailed findings from the evaluation. These Papers are:
- a Progress and Impact Evaluation Evidence Paper, principally covering the Compound Semiconductor Cluster project, which is the major investment committed and delivered

² The Steering Group comprises representatives from the 11 participating Localities (Glasgow City Region; Greater Cambridge Greater Manchester; Leeds City Region; Liverpool City Region; Tees Valley; Cambridgeshire and Peterborough; Cardiff Capital Region; Sheffield City Region; West Midlands; West of England) and the Cities and Local Growth Unit (CLGU) on behalf of the Government.

over the period of the evaluation; the Paper also sets out the other spending commitments made

- a Capacity Building and Partnership Evaluation Evidence Paper, which provides evidence on how the Investment Fund has contributed to local economic development capacity and partnership working.

1.9 The Compound Semiconductor Cluster project was the only intervention formally in scope of the evaluation. This was the only intervention approved **and** where significant Fund expenditure had been incurred.

1.10 The draft Final Report was reviewed and commented on by the Cardiff Capital Region, and the National Evaluation Panel's Academic Group.

Evaluation approach

1.11 The remit of the National Evaluation Panel was to provide evidence on the progress and impact of the funds in delivering local growth outcomes. The approach to evaluation consisted of the following elements:

- **A progress and impact evaluation of the Compound Semiconductor Cluster project:** this investment had a mix of short- and longer-term objectives, with the intent ultimately for this intervention to catalyse the development of the compound semiconductor cluster in South Wales. Given the time that it takes for clusters to develop, an early impact evaluation was undertaken alongside an evaluation of the progress of the intervention.
- **Local economic development capacity:** an evaluation of how, at a strategic level, the Wider Investment Fund has had an effect on partnership working and capacity building.
- **Intervention case study on partnership working:** an in-depth review of the design, development and early delivery of one of the more-recently agreed interventions as part of Metro Plus, a new integrated transport hub for Porth. This case study has examined, at an intervention level, processes of capacity building and partnership working.

COVID-19

1.12 This evaluation covers the period from April 2016 to end-June 2020, which includes the main period of disruption over March-June 2020 caused by the COVID-19 pandemic. The effects of COVID-19 on delivery of the Wider Investment Fund over this period, and the potential implications for outcomes in the future have been considered in the evaluation.

1.13 Key findings related to COVID-19 are summarised in this report and are set out in more detail in the accompanying Progress and Impact Evaluation Evidence Paper.

Structure

1.14 The report is structured as follows:

- Section 2. Policy and economic context
- Section 3. Overview of the Investment Fund
- Section 4. Assessment of progress and economic impacts of the Compound Semiconductor Cluster project
- Section 5. Wider contribution of the Investment Fund.

1.15 Three supporting annexes are provided:

- Annex A: Mapping and commentary on the Gateway Review indicators that are covered by the Final Report of the evaluation and its accompanying Evidence Papers
- Annex B: Peer Review comments from the Panel's Academic Group, and responses to these
- Annex C: Economic forecasts and out-turns
- Annex D: Other interventions supported through the Wider Investment Fund.

2. Policy and economic context

Summary of key messages

- The Cardiff Capital Region City Deal agreed in 2016 consisted of a 20-year, £1.2 billion investment package. It aimed to deliver up to 25,000 new jobs by 2036, leveraging an additional £4 billion in private sector investment.
- Alongside investment in the Metro, the £495 million Wider Investment Fund was a key element of the Deal, supporting investment in connectivity, innovation, skills and employment, housing and regeneration.
- The strategy for the City Deal (and the use of the Wider Investment Fund) was set out in a five-year business plan and in an Industrial and Economic Plan, agreed in 2019. The approach to investment is based on 'infrastructure, innovation and challenge', with an emphasis on securing leverage and return on investment (including financial return where possible).
- In governance terms, the City Deal is overseen by a Regional Cabinet, constituted as a local authority joint committee and supported by advisory boards and a small executive team.
- The City Deal has been developed in the context of an economy which has faced substantial industrial restructuring in recent decades, which has historically performed relatively weakly on measures of productivity and output, and in within which there are significant intra-regional disparities. Analysis of economic performance over the past four years suggests modest growth, driven mainly by increased employment rather than productivity gain.
- However, the region contains significant economic assets, including in its technology capabilities and knowledge base.

The Cardiff Capital Region City Deal

The original City Deal

2.1 The Cardiff Capital Region City Deal was agreed between the UK Government, the Welsh Government and the ten local authorities that make up the region³ in 2016. At the core of the Deal was the creation of a 20-year, £1.2 billion investment package, co-financed by the UK and Welsh Governments, the local authorities and the European Regional Development Fund. The City Deal sought to deliver up to 25,000 new jobs by 2036, leveraging an additional £4 billion in private sector investment.

2.2 The City Deal set out a series of priorities:

³ Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen and Vale of Glamorgan.

- **Delivery of the South Wales Metro:** The Metro is a transformational programme, involving improvements in the quality, frequency, and reliability of the 'Valley Lines' rail network, as part of a modern and integrated regional transport system. £734 million was 'pre-allocated' from the £1.2 billion investment package to support the delivery of the Metro.
- **Wider investment in connectivity,** complementing the Metro. As part of this, the City Deal committed to the establishment of a Regional Transport Authority to coordinate transport planning and investment, in conjunction with the Welsh Government.
- **Support for innovation.** As part of this, the UK Government committed to establishing the Compound Semiconductor Applications Catapult in the region, building on the region's significant capabilities in this sector. More broadly, the City Deal committed the region to prioritising investment in research and development and to supporting the growth of high value and innovative businesses.
- **Workforce skills and employment,** including measures to ensure that skills and employment provision is more responsive to business and community need, and including the establishment of an Employment and Skills Board (now the Regional Skills Partnership).
- **Housing development and regeneration,** including a partnership approach to strategic planning and support for the re-use of brownfield property and sites.
- **Support for enterprise and business growth,** including measures to ensure a stronger voice for business alongside that of the local authorities.

2.3 To support those priorities additional to the Metro, the City Deal allocated £495 million to a **Wider Investment Fund (WIF)**, which is the subject of this evaluation. The WIF is itself made up of £375 million from UK Government and £120 million in contributions from the local authorities.

City Deal governance

- 2.4** The City Deal committed local partners to developing "*stronger and more effective leadership across the CCR, enabling the ten local authority leaders to join up decision-making, pool resources and work more effectively with local businesses*".
- 2.5** Supporting this, the decision-making body for the City Deal is a Joint Committee consisting of the Leaders of the ten participating local authorities (referred to as the CCR **Regional Cabinet**). This is supported by a Regional Economic Growth Partnership (chaired by the private sector); three further advisory bodies, focused on transport, skills and business involvement⁴; and (since 2019) an Investment Panel established to advise on Wider

⁴ These are the CCR Regional Skills Partnership, the Regional Transport Authority and the CCR Business Council.

Investment Fund proposals. The Regional Cabinet and its advisory bodies is supported by an executive **Office of the City Deal**, including the CCR Director.

City Deal strategy

- 2.6** The Regional Cabinet adopted a five-year **Strategic Business Plan** in 2018. This set out a series of priorities, linked with the headings in the City Deal and including investment in the compound semiconductor sector (discussed further in Chapter 3) and in skills, housing infrastructure, strategic sites and the Metro Plus programme of complementary transport investments associated with the Metro.
- 2.7** In March 2019, the Cardiff Capital Region City Deal (CCR) approved an **Industrial and Economic Plan**, the development of which was led by the private sector Regional Economic Growth Partnership. The Plan aimed to “*make the CCR one of the most investable regions in the UK*”, containing a strong focus on raising productivity through innovation-led growth. Of relevance to the operation of the Wider Investment Fund, it set out three investment priorities, which sought to balance an **ambition for a recoverable, ‘evergreen’ fund alongside the need for infrastructure investment**.

Innovation, infrastructure and challenge: Key principles

Within the three investment priorities set out in the Industrial and Economic Plan, it is envisaged that:

- **Innovation** investments will “focus on opportunities where there is considerable competitive strength”, with the aim of establishing an evergreen investment fund and contributing to employment growth, investment leverage and GVA uplift
- **Infrastructure** investments will focus on infrastructure projects where the public sector creates the conditions for growth – with an indirect return on investment
- **Challenge** investments will focus on securing the solutions for challenges faced by the region, which may be commercial or within the ‘foundational economy’ (such as the health and care sector)

Source: CCR (2019), Industrial and Economic Plan

- 2.8** Following the *Industrial and Economic Plan*, an **Investment and Intervention Framework** was adopted in June 2019. This set out the basis through which proposals for CCR City Deal investment via the Wider Investment Fund would be sought and considered, outlining an approach based on leverage and return on investment, as well as a desire to invest at scale, with a limited number of strategic investments adding value to each other.

The wider policy context

The policy context informing the City Deal...

- 2.9** The City Deal is a central part of a broader emphasis on the role of city regions in economic growth, which has gained increasing traction over the past decade. The Welsh Government commissioned an **independent review of the case for a city-regional approach** to economic development in 2012⁵. This identified South East Wales (along with Swansea Bay) as areas with ‘city regional dynamics’ in terms of labour markets and knowledge sharing, which could be strengthened through a greater devolution and pooling of resources. This led to the establishment of a **Cardiff Capital Region Advisory Board** in 2013 and a series of studies setting out the economic case for a city-regional strategy focused on innovation, skills, connectivity and ‘identity’⁶.
- 2.10** In parallel, the case for the Metro as a core pillar of regional economic development was outlined in a concept study in 2011⁷ and the **Metro Impact Study** commissioned by the Welsh Government in 2013⁸. The latter highlighted opportunities to bring forward sites contingent on transport investment; scope for commercial and community regeneration around Metro stations; easier access to employment; and agglomeration impacts, setting the case for Metro as an integrated element of a wider investment strategy, as well as a transport strategy.

... and subsequent policy development

- 2.11** Since the City Deal was signed, the policy context has evolved further. **Prosperity for All**, the Welsh Government’s overarching national strategy, was adopted in September 2017. Following *Prosperity for All*, the **Economic Action Plan** set out a commitment to a regional approach to economic development, including a commitment to strategy co-production and joint working with the City Deal/ Growth Deal partnerships in Cardiff Capital Region, South West and Mid Wales, and North Wales. This approach is reinforced by the provisions within the Planning (Wales) Act 2015 to enable the development of regional **Strategic Development Plans** and the development of new powers to create Corporate Joint Committees, which could provide a more formal governance basis for the CCR Regional Cabinet. Recently, the OECD prepared a report for the Welsh Government on the future of regional development and public investment. The report recommended a more integrated approach to regional development, including the establishment of “effective, resourced and capacitated inter-municipal co-operative bodies” to drive larger scale regional interventions⁹.

⁵ Welsh Government (2012) Final Report of the City Regions Task and Finish Group

⁶ Cardiff Capital Region Advisory Board (2013), *Powering the Welsh Economy*; South East Wales Directors of Environment and Regeneration (2015), *Delivering a Future with Prosperity*, CCRC (2016), *Growth and Competitiveness Commission: Final Report and Recommendations*

⁷ Mark Barry (2011), *A Metro for Wales’ Capital City Region*, IWA/ Cardiff Business School

⁸ Mark Barry *et al* (2013), *A Cardiff Capital Region Metro: Impact Study – Report to the Minister for Economy, Science and Transport*

⁹ OECD (2020), *The Future of Regional Development and Public Investment in Wales*

2.12 Aside from the increasing importance of the regional dimension, four other policy considerations are relevant to Cardiff Capital Region and the development of the City Deal:

- **Future funding:** Historically, South Wales has been a major recipient of European regional funds (and ERDF is an important part of the City Deal funding mix, directed towards Metro). While the future scope and scale of the proposed Shared Prosperity Fund remains unclear, CCR's *Investment and Intervention Framework* consciously seeks to move away from a 'grant-based' system towards a more commercial approach based more clearly on the concept of return on investment (including financial return where possible). This could be an important influence on the direction of future funds.
- **Local policy and mutual benefit:** CCR is a diverse region, with significant disparities in economic outcomes. Nationally, the *Economic Action Plan* contains an objective of creating "better jobs, closer to home" and a strengthened emphasis on the role of the 'foundational economy' in supporting sustainable growth. A series of policy initiatives (most recently associated with the Valleys Task Force) have also sought to ensure that the benefits of growth are felt beyond the M4 Corridor. The concept of mutual benefit to the region as a whole is reflected in the *Industrial and Economic Plan* and the 'innovation, infrastructure and challenge' framework highlighted above.
- **The 'macro-regional' context:** Although the CCR is a geographically coherent region with a clear identity, there are strong links with neighbouring regions, especially in Swansea Bay and the West of England. The concept of the 'Western Gateway', extending from Swansea through to Swindon, seeks to recognise the benefits that could be gained from joint working across this wider geography. The CCR Regional Cabinet agreed in June 2020 that Cardiff Capital Region should become a partner in the Western Gateway initiative.
- **Wellbeing of Future Generations:** The Wellbeing of Future Generations Act 2015 places a duty on all public bodies in Wales to carry out sustainable development, listing seven wellbeing objectives. The City Deal is accountable for delivering against all of these, although of particular relevance, the objective of 'a prosperous Wales' aims to achieve "*an innovative, productive and low carbon society*". Impact assessments against the Wellbeing of Future Generations Act are carried out for all investments and policy measures undertaken by the CCR.

The economic context

2.13 Cardiff Capital Region has responded to significant economic restructuring over recent decades. Measures of productivity and output have historically lagged the UK as whole, while the region ranks relatively low (compared with other city regions and English local enterprise

partnership areas) on the UK Competitiveness Index¹⁰. Reversing the region's relatively weak economic performance is a long-standing policy objective and underpins much of the drive for a new approach to economic development. Around the time of the City Deal, Cardiff Capital Region's Growth and Competitiveness Commission noted that *"increasing the region's productivity performance relative to the rest of the UK is a priority to achieve economic growth"*¹¹.

- 2.14** Despite relative underperformance, the city region contains significant economic assets. These include established and advanced capabilities in semiconductors, especially around Newport (the subject of major investment from the Wider Investment Fund) and life sciences (especially medtech). There is a large creative and media sector, especially focused on Cardiff, and growing strengths in fintech and digital technology. More broadly, the region has a large manufacturing sector, which is widely dispersed, and which has recently seen some significant exits, as well as new investments¹². Alongside these sectoral strengths, Cardiff Capital Region has a strong higher education base, underpinned by three universities (Cardiff University, Cardiff Metropolitan University and the University of South Wales).
- 2.15** The region has a diverse economic geography: CCR's recent State of the Region Report notes that *"variability in economic performance is a key theme... there is clear evidence that the CCR's goal of tackling inequalities is imperative"*. Cardiff has expanded rapidly in recent years, supported by its role as the region's main commercial, cultural and administrative centre, and there has also been recent growth at Newport (especially linked with technology investment) and along the M4 corridor. However, significant challenges remain across much of the region, especially in the upper Valleys, where the consequences of long-term economic restructuring have been most severe.

Economic forecasts and out-turns

Approach

- 2.16** To provide context for the impact and progress evaluations, the National Evaluation Framework recommended that economic forecasting was used to identify how the economy in the Cardiff Capital Region was expected to develop at the point that the Deal and WIF was agreed in 2015, and comparing this to actual out-turns at the point of the final evaluation.
- 2.17** This involved the use of a projection from Cambridge Econometrics' highly disaggregated database of employment and GVA by industry using the data available in 2015, tailored to reflect local circumstances where key additional developments were known about at the time. This projection sought to be as consistent as possible with policy makers' expectations of the wider macro environment around the time that the Deal and investment fund was agreed, and

¹⁰ CCRCD (2019), *State of the Region Part 2: Competitive*

¹¹ CCRCD (2016), *Growth and Competitiveness Commission: Final report and recommendations*

¹² For example, in the automotive sector, the loss of Ford at Bridgend, and new investment by Aston Martin at St Athan.

excluded economic and policy contexts/circumstances that were not known at the time (e.g. Brexit).

2.18 The projections have then been compared to the latest information available on actual out-turns, including data to 2019. Further details regarding the approach, technical considerations and limitations, and the detailed data from the initial projections and analysis of out-turns are set out in Annex C.

Key findings

2.19 The headline projections and out-turn data for employment, Gross Value Added (GVA), and productivity are set out in Table 2-1.

Table 2-1: Comparison of projected and actual headline economic performance in Cardiff Capital Region

	2015 projection	Actual out-turn
Change in employment 2013-19 (% pa)	0.9	1.6
Change in GVA 2013-19 (% pa)	1.7	1.5
Change in productivity 2013-19 (% pa)	0.8	-0.1

Source: Cambridge Econometrics

2.20 The following points are noted:

- The actual growth in employment has been notably higher than the forecast, growing by 1.6% pa on average over the 2013 to 2019 period, compared to a projection of 0.9% pa. This was equivalent to 37,100 more jobs than were expected in the area by 2019. The growth rate was slightly higher than that for Wales as a whole (1.4% pa), and slightly lower than the UK (1.7% pa).
- Stronger-than-expected growth in employment was largely driven by the following sectors: Information & communication, Accommodation & food services, Transport & storage and Finance & business services. The Distribution sector saw a decline in employment of over 2% pa.
- GVA growth in the Cardiff Capital Region was slightly lower than the projection, at 1.5% pa compared to the projection of 1.7% pa. This GVA growth was slightly higher than Wales as a whole, which grew by 1.3% pa over this period, but slightly lower than the UK as a whole, which grew at 1.9% pa.
- GVA growth in Transport & storage, and Accommodation & food services were notably below their projected rates. GVA in Construction grew quite rapidly over the period (and slightly above the projection) at 4.7% pa. Information & communication, Finance & business services, and Distribution all had GVA growth rates of over 2% pa.
- Productivity in the Cardiff Capital Region slightly declined in 2013-19 by -0.1% pa. This was very similar to Wales as a whole (-0.2% pa) and the UK (+0.2% pa). This follows on

from the trend of stronger than expected employment growth at a time of slightly slower than expected GVA growth.

- Transport & storage, Information & communication, Accommodation & food services, and Finance & business services all saw notable productivity declines in the Cardiff Capital Region over the period. Distribution and Other services grew in productivity by 4.4% pa and 2.1% pa respectively.

2.21 As noted earlier, the baseline projections and the actual out-turn data do not include any consideration of Brexit or COVID-19 as these contextual changes predate the data and analysis. To provide further economic context, we note the following points:

- Forecasts of the impacts of COVID-19 are highly uncertain. With this caveat in mind, CE's latest forecasts suggest that UK GDP will fall by around 9% in 2020. This will be driven by a sharp contraction in private spending, with both consumer spending and business investment expected to fall sharply in 2020.
- The fall in output in 2020 is expected to be accompanied by a fall in employment, though this is not expected to be as strong as the fall in GDP. This is partly as a result of government support, and the expectation that firms will make adjustments by reducing output on lower average hours rather than through reducing employment.
- The recovery in 2021 and 2022 is expected to be muted. The UK economy is expected to stay below 2019 levels as upswings in activity remain modest. The persistence of COVID-19 and EU-exit are expected to dissuade businesses from accelerating (or reinstating deferred) investment activity. A continued depression of investment is expected to moderate prospects of productivity uplift over the long-term.

2.22 The economic backdrop for the Cardiff Capital Region indicates an economy that has grown relatively modestly over the period, driven by employment growth rather than improvements in productivity. Given that only one intervention has been delivered over the period, itself more sensitive to global rather than local conditions, this local economic context is unlikely to have had a marked effect on the performance of the WIF. Nevertheless, more generally for the local economy over the period, the employment growth may have contributed to increasingly tight labour markets in some sectors. The disappointing performance on productivity has been a national trend over the period, and for the local economy it points to possible imperatives relating to skills development, retaining/creating/ attracting jobs of high value, and the role of areas such as infrastructure and innovation in productivity.

3. Overview of the Wider Investment Fund

Summary of key messages

- The Wider Investment Fund is a 20-year, £495 million fund, supported with £375 million from the UK Government and £120 million in contributions from the CCR local authorities.
- The Wider Investment Fund is allocated according to the approach set out in CCR's Investment and Intervention Framework. This aims to invest across the three themes of 'innovation, infrastructure and challenge' and to achieve, where possible, a financial return on investment to maximise the sustainability of the Fund.
- WIF investments to the value of £88.5 million have been committed to date. This includes one intervention of £38.5 million in a new compound semiconductor foundry, which was largely complete, and a further four projects relating to innovation, transport infrastructure, housing and skills. In addition, there are two projects with an investment value of £43.3 million that have been approved 'in principle'.
- Based on commitments so far, it is expected that the Fund will obtain receipts of £40.6 million from its investments which will be recycled into other interventions.

Wider Investment Fund scale and coverage

- 3.1** The £495 million Wider Investment Fund supports the City Deal's non-Metro investments, and is made up of UK Government and local authority contributions as follows:

Table 3-1: Wider Investment Fund contributions

Source	Total funding contribution
HMT revenue	£50 million
HMT capital	£325 million
Local authority capital	£120 million
Total	£495 million

- 3.2** It should be noted that while the Wider Investment Fund is entirely financed by local authority and UK Government contributions, Welsh Government and ERDF funding is used to contribute to the £734 million package for the South Wales Metro, which makes up the remainder of the City Deal.
- 3.3** The great majority of WIF approved project expenditure has been on the Compound Semiconductor Cluster project. By the end of June 2020, around £2.8 million had been spent

on other fully approved projects, principally a loan to Creo Medical, a life science business, and costs associated with the CCR Graduate Scheme. Details of other approved interventions are set out below.

- 3.4** Whilst the CSC project was approved early on, it has taken more time to develop and commit funding to other interventions. The reasons for this are described later in this section, and are principally related to the partnership making a strategic decision to review the approach to the City Deal and investment of funds, alongside the development of the regional Industrial and Economic Plan. This has now been completed and commitment and spend has recently accelerated accordingly.

Table 3-2: Coverage of the Wider Investment Fund

Scope	
Maximum value of fund	£495 million
Length of fund	20 years
Number of interventions in scope of the evaluation	1
Value of interventions in scope of the evaluation	£38.5 million WIF £413.5 million total ¹³
Number of other interventions approved but not in scope of the evaluation	4
Value of other interventions approved but not in scope of the evaluation	£50.1 million WIF £90.1 million total ¹⁴
Funding type	Mixed capital and revenue
Spend to date	
Spend to end June 2020 on interventions in scope	£33.6 million
Spend to end June 2020 on other approved interventions	£2.28 million
National Evaluation Framework Thematic coverage (all interventions approved to date)	
Transport	Yes
People	Yes
Infrastructure	Yes
Enterprise & Innovation	Yes
Other	No

Wider Investment Fund approach

- 3.5** The City Deal set out the broad range of activities that the Wider Investment Fund would support, described in Chapter 2. These have remained consistent over time, although the City

¹³ Based on leverage of IQE funding.

¹⁴ Based on direct match funding.

Deal itself did not specify individual interventions or a detailed approach to the use of the Fund. The approach to the WIF has therefore evolved, as the wider CCR strategy has been sharpened and the partnership has learnt from the experience of its initial investment in the Compound Semiconductor Cluster (CSC) foundry.

- 3.6** The CSC proposal (described further below and in Chapter 4) came forward in the first year of the WIF. Although the CCR Assurance Framework and Joint Working Agreement had been adopted at this point, the first five-year business plan and assessment process had not been put in place. However, recognising the time constraints associated with the project, and its close alignment with the ambitions of the City Deal, the Regional Cabinet supported the proposal subject to the development of a Full Business Case.
- 3.7** Since then, the principles adopted in the development of the CSC intervention (focusing on a structured investment with a financial return to CCR) have informed the further development of the Wider Investment Fund. As outlined above, the framework for the WIF is set out in the Industrial and Economic Plan and the Investment and Intervention Framework, with the process involving an ‘open door’ to expressions of interest, the active management of a project pipeline linked with CCR’s strategic priorities and a ‘proportionate’ business case process to bring projects forward. This process is described in greater detail in Annex D.
- 3.8** To date, Wider Investment Fund monies have been awarded to four projects, relating to transport infrastructure, skills, innovation and housing and land development (in addition to two ‘in-principle’ approvals for transport and innovation schemes and a number of emerging ‘pipeline’ interventions). In all cases, consideration is given to the potential for funds to be recycled into the WIF, with co-funding and private sector leverage sought.
- 3.9** In addition, a revenue top-slice supports programme management costs, the activities of CCR’s advisory bodies and project and business case development work for interventions approved to SOC stage.

Intervention in scope for evaluation: the Compound Semiconductor Cluster project

- 3.10** The evaluation to inform the first Gateway Review is focused on interventions that had been approved formally within the first Gateway Review period, and where significant Fund expenditure has been incurred (potentially in full). In practice, this meant that interventions were in scope if they had started delivery and spend by the end of December 2019.
- 3.11** In Cardiff Capital Region, one intervention met these criteria. This is the **Compound Semiconductor Cluster** project, which involves **WIF investment of £38.5 million** (£37.9 million capital) towards the costs of a compound semiconductor foundry in Newport.

The Compound Semiconductor Cluster project

The CSC project involves an agreement between the CCR and IQE plc, a large commercial manufacturer of semiconductor wafers, which is headquartered in Cardiff.

The CCR Regional Cabinet agreed in 2017 to purchase a factory building at Imperial Park in Newport and invest, alongside IQE, in a new compound semiconductor foundry. This would involve the development of new cleanrooms, together with equipment and other fixtures and fittings. It was agreed that the building would be leased by IQE for 11 years, with an option to purchase at the end (although it was considered that IQE may exercise this right sooner than this).

To deliver the project, the Regional Cabinet established a special purpose vehicle (CSC Foundry Ltd) to acquire the building and to manage the lease.

The project aims to secure substantial commercial investment in manufacturing and development and to support the development of a wider 'cluster' of compound semiconductor activity in South Wales, linked with academic expertise at Cardiff University and a concentration of related firms.

Other interventions

- 3.12** The investment in the Compound Semiconductor Cluster is the only intervention in scope for evaluation at Gateway Review stage. However, **by the end of Quarter 1 of 2020/21, Wider Investment Fund allocations of £50.1 million had been approved to support four further interventions.** These are summarised in the table below and described in greater detail (alongside expenditure to the end of 2020/21 Q1) in Annex D:

Table 3-3: Other interventions supported by the Wider Investment Fund

Intervention	Summary	WIF allocation
Metro Plus	Programme of public transport investments across the CCR to improve connectivity and complement investment in the South Wales Metro.	£15 million
Graduate Scheme	Programme to create graduate internships with regional employers, retaining talent in the region and improving SMEs' access to skills.	£1.546 million
Housing Investment Fund (Viability Gap Scheme)	Gap funding scheme to enable housebuilding to proceed on sites where the upfront infrastructure costs currently make development unviable.	£31.498 million

Intervention	Summary	WIF allocation
CREO Medical	Loan to Creo Medical to support the development of cool plasma sterilisation and decontamination technology to kill bacteria and viruses.	£2.055 million

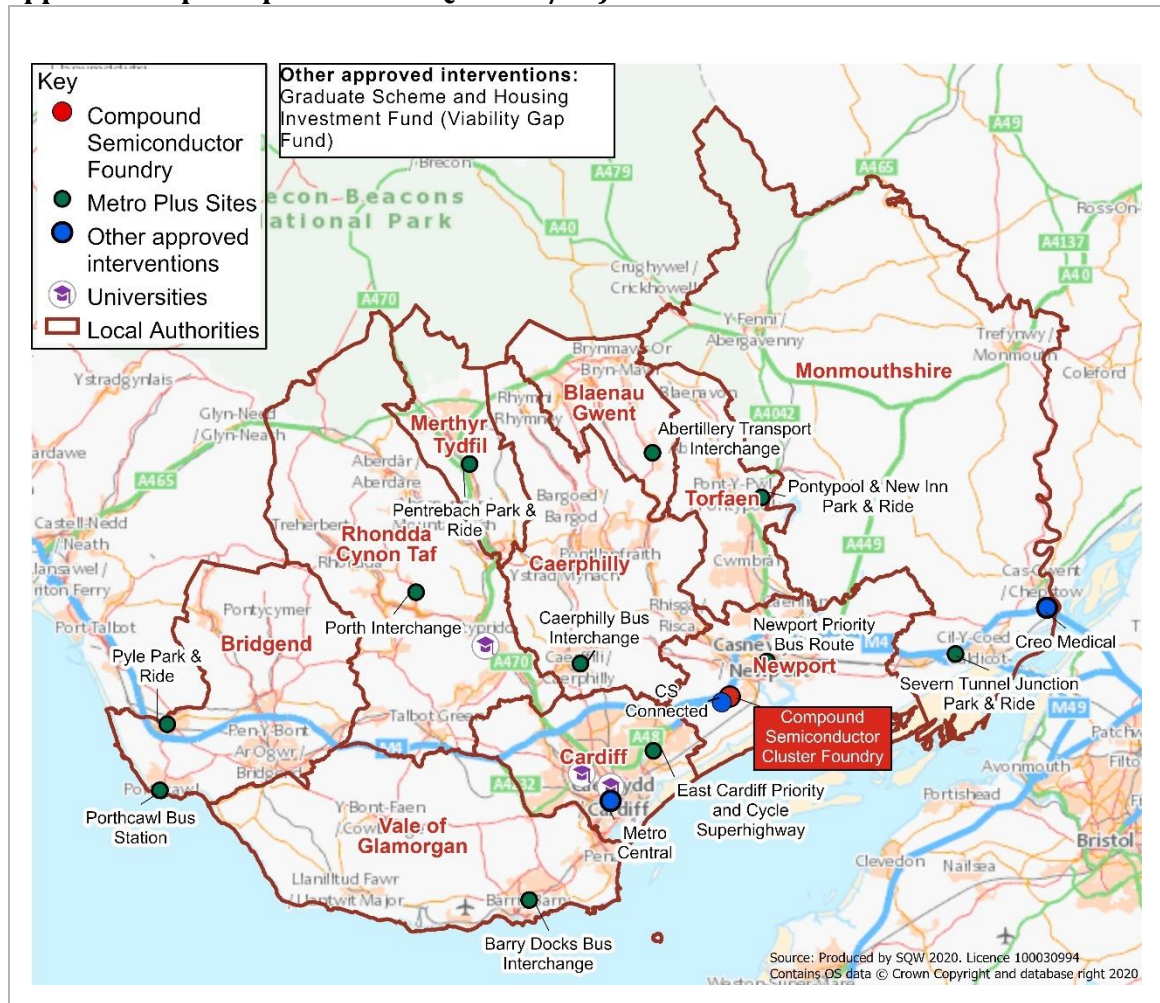
3.13 In addition:

- A Full Business Case was approved in October 2020 for £10 million WIF investment in a **CCR Challenge Fund for Rebuilding Local Wealth Post-Covid-19**. This is co-financed with European funding and seeks to drive innovative solutions to challenges related to decarbonisation, public services and community wellbeing.
- Two further interventions have also received ‘in-principle’ approval. These are:
 - **Metro Central:** redevelopment of Cardiff Central station to provide improved facilities, integration between the Metro and the intercity rail network and bus interchange (WIF commitment, subject to FBC: up to £40 million)
 - **CS Connected:** investment in a new ‘front of house’ facility for the compound semiconductor sector at the CSC Foundry in Newport, as part of an initiative backed by the UKRI Strength in Places Fund (WIF commitment, subject to FBC: £3.3 million).
- The wider investment pipeline also includes some 15 interventions currently at SOC or pre-SOC stage and include programme proposals (including the concept of a cluster support fund to invest directly in businesses, via an FCA-registered fund manager), infrastructure proposals and individual commercial propositions.

3.14 While the investment in the Compound Semiconductor Foundry was made at an early stage in the City Deal process (and spend proceeded quickly thereafter), spend on other approved interventions was relatively modest to the end of Quarter 1 of 2020/21. The reason for this was a strategic decision taken following the approval of the CSC Foundry investment to review the approach to the City Deal, in the context of a shared desire to focus on economic competitiveness and resilience and to move towards an investment (and, where possible, ‘evergreen’) approach. This informed the development of the Industrial and Economic Plan and the principles set out in the Investment and Intervention Framework, referenced above. Since the adoption of the Investment and Intervention Framework, commitment and spend have accelerated and there is a strong pipeline of interventions at varying points in the business case development process. Efforts have also been made on individual projects to utilise time-limited match funding first.

3.15 The location of the interventions that are approved in full or in principle is shown in Figure 3-1 (although note that the Graduate Scheme and the Housing Investment Fund (Viability Gap Fund) are programme allocations, covering the whole region).

Figure 3-1: Wider Investment Fund locations (projects fully approved and projects approved in-principle to end of Q1 2020/21)



Source: SQW

Reinvestment

- 3.16** CCR aims to ensure that where possible, a financial return on investment is secured, so that public funds are used most effectively, the sustainability of the Fund is maximised through reinvestment, and there is commercial discipline. This will not be possible in every case, and the Investment and Intervention Framework is flexible to accommodate a range of different funding types, depending on the nature of the project.
- 3.17** From the investments committed to date, it is anticipated that there will be a return to the Wider Investment Fund of £40.63 million (of which the majority - £38.5 million - will be through the Compound Semiconductor Cluster project).

4. Evaluation of the Compound Semiconductor Cluster project

Summary of key messages

- The Compound Semiconductor Cluster (CSC) project involves an agreement between the Cardiff Capital Region and IQE plc, a large commercial manufacturer of semiconductor wafers, which is headquartered in Cardiff. It involves WIF investment of £38.5 million towards the cost of a compound semiconductor foundry in Newport.
- Key aims of the project were to ensure that the operations of an existing high value business were retained in the region and to leverage further commercial investment in manufacturing and development at IQE.
- The project also aimed to act as an anchor to support the development of an emerging wider 'cluster' of compound semiconductor activity in South Wales, linked with expertise at Cardiff University and a concentration of related firms.
- Overall, progress in delivering the CSC project has been positive. The new foundry has been delivered largely to time and budget, and has started to deliver employment and wider benefits.
- A final tranche of WIF monies has not been drawn down, and some anticipated outputs (for jobs and leverage) have not yet been fully realised. This reflects market conditions; it is anticipated that these effects will be realised in time.
- WIF investment was important in securing IQE's investment in the region. There was a genuine likelihood that IQE may have located new production at an alternative site in the US were suitable premises not available in the UK.
- IQE reported that 70 additional jobs have been created at the Newport foundry and 156 jobs have been safeguarded at St Mellons. In addition, the foundry is a focus of IQE's photonics activities, which have seen year on year growth in the first half of 2020. The foundry is also important in attracting additional customers in the future.
- Wider effects have so far centred on the development of networks and linkages in the emerging cluster (including related to IQE and the presence of the CSA Catapult on the same site), stimulating further R&D and innovation activity, and profile-raising. In addition, there have been some further effects on inward investment, and jobs and skills.
- Within the context of a wider strategy to build a cluster, the new IQE facility at Imperial Park was described by consultees as a focal point for compound semiconductor activity in South Wales as well as a doorway to external parties. This had in turn contributed to the development of stronger networks and linkages within the emerging cluster and to outside.
- It is important to note that these effects are not necessarily directly attributable to the CSC project, though it was assessed to have played a key role alongside other factors, as part of a coordinated strategy to develop the cluster.

Coverage and approach

- 4.1** This section presents evidence on the progress and impact evaluation of the Compound Semiconductor Cluster (CSC) project. The CSC project involves an agreement between the Cardiff Capital Region and IQE plc, a large commercial manufacturer of semiconductor wafers, which is headquartered in Cardiff. It involves WIF investment of £37.9 million towards the cost of a compound semiconductor foundry in Newport. The CCR Regional Cabinet agreed in 2017 to purchase a factory building at Imperial Park in Newport and invest, alongside IQE, in the new foundry, including the development of new cleanrooms and purchase of new equipment. It was agreed that the building would be leased by IQE for 11 years, with an option for the company to purchase it at the end of the period. To deliver the project, the Regional Cabinet established a special purpose vehicle (CSC Foundry Ltd) to acquire the building and to manage the lease.
- 4.2** The key aims of the project were to ensure that the operations of an existing high value business were retained in the region, and leverage further commercial investment in manufacturing and development at IQE. The project also aimed to act as an anchor to support the development of a wider ‘cluster’ of compound semiconductor activity in South Wales, linked with academic expertise at Cardiff University and a concentration of related firms.
- 4.3** The evaluation has examined the progress of the project in meeting its milestones, and spend and output profiles, and how delivery has supported the achievement of objectives. This has drawn on monitoring data and interviews with the CCR team and IQE. The evaluation has also assessed the impact through the direct benefits associated with the foundry itself and the early effects of the project on cluster development. The overall approach was based on a theory-based evaluation, using mixed methods. The approach reflected inherent challenges in establishing a counterfactual for a single firm, IQE, and for assessing the early stages of cluster development. By collecting and synthesising quantitative and qualitative evidence from different interviewees, monitoring and secondary data, the evaluation has sought to build a ‘narrative account’ of cause and effect that takes account of the role of the WIF intervention and the roles of other factors.
- 4.4** It should also be noted that **the project complements a series of measures to support the growth of the compound semiconductor sector**. These include new academic institutions (such as the Institute for Compound Semiconductors and Compound Semiconductor Centre at Cardiff University), the creation of CS Connected as a sector-focused Research and Technology Organisation, and the decision to locate the Compound Semiconductor Applications Catapult in South Wales.

Overview of progress

Expenditure	
Anticipated expenditure by end-June 2020	£38.5m Investment Fund
Actual expenditure by end-June 2020	£33.6m Investment Fund

Expenditure

Investment Fund expenditure as % anticipated	87%
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Status of intervention

Intervention largely complete, with £5 million of WIF to be drawn down to support fit out of final 10 (out of 20) cleanrooms.

- 4.5** A detailed assessment of progress is set out in the accompanying Evidence Paper on the Compound Semiconductor Cluster project. A summary is set out in the table below.

Number of interventions: 1

Was expenditure on budget? NO

- WIF expenditure was lower than originally anticipated by the time of the Gateway Review (by £5m or 13% of the anticipated expenditure). Market conditions impacted on IQE's need for the final tranche of WIF investment that was needed to support fitout of the final 10 cleanrooms.
- Prior to this, WIF expenditure had been on track.
- It is anticipated that the outstanding balance of WIF investment will be made by around spring 2021 as market outlook becomes more certain.

Were agreed delivery milestones met? NO

- Additional commercial floorspace was delivered, and done so more quickly than originally anticipated due to the introduction of a more efficient design involving the creation of a mezzanine floor above every cleanroom.
- The project built out 20 cleanrooms in line with expected milestones; and WIF investment had enabled 10 of these to be equipped, ready for the installation of specialist tools by IQE. However, 10 have not yet been equipped as had been planned as a result of market conditions (as per above).

Were anticipated outputs delivered as anticipated? PARTLY

- Land and construction outputs have been delivered as planned, including: 4.52 hectares of land assembled and acquired for development; 5,898 sq m of additional commercial floorspace; an estimated 291 (gross) construction years of employment; and 8 construction apprentices.
- Job outputs are behind target so far: 70 direct jobs created at the foundry (vs. target of 125 by this point); and 545 jobs safeguarded at IQE at St Mellons and Newport Wafer Fab (vs. target of 700 by this point).

Were intermediate outcomes delivered as anticipated? YES

- Key intermediate outcomes have been achieved as planned, notably: retention/expansion of IQE's production capabilities in the region; leveraged investment from IQE; investment from the Compound Semiconductor Applications (CSA) Catapult; and indirect effects on the wider cluster through R&D and innovation activities, networks and jobs and skills.

Do interventions remain on course to deliver against their original objectives? YES

- The intervention aims to support the longer-term development of the compound semiconductor sector in the Cardiff Capital Region. This will rely on additional, complementary initiatives (and this has always been recognised), but there is evidence that the CSC foundry will support this, through the development and expansion of IQE itself and additional capacity to support collaboration and supply chain development (see below for more details).

Number of interventions: 1

- The intervention should make a financial return to the WIF of £38.5 million over 11 years. CCR is confident that this will be achieved.

Has COVID-19 influenced progress and/or will it influence expected outcomes? NO

- The physical delivery of the new foundry was complete before the pandemic. The pandemic has also not directly impacted operations at the foundry
- However, a Covid-related global recession and uncertainty may impact future investment decisions (and therefore the timing of the drawdown of the final tranche of WIF investment, additional private sector leverage and job creation).

Discussion

4.6 Overall, progress in delivering the Compound Semiconductor Cluster project has been positive. The new foundry has been delivered largely to time and within budget, has started to deliver employment benefits and is contributing to the development of the cluster more broadly. However, the final tranche of WIF investment remains to be drawn down, and some anticipated outputs (related to jobs and leverage) have not yet been fully realised. This reflects market conditions, though it is anticipated that these effects will be realised in time.

4.7 Consultations with the CCR team and wider consultees highlighted several factors that were important in enabling the delivery of the project:

- **Prior investment in the site and the strategic retention of an economic asset:** The Imperial Park site was originally built for a semiconductor manufacturer (LG) by the former Welsh Development Agency in the 1990s. The Welsh Government held it vacant as a strategic asset for over a decade before its sale to CSC Foundry Ltd. Long-term retention meant that refurbishment of a suitable building – at much lower cost than a new-build facility – was a viable option.
- **The structuring of the investment:** To enable WIF monies to be invested in compliance with state aid legislation, CCR established a special purpose vehicle (CSC Foundry Ltd, owned by the ten CCR local authorities) to acquire and refurbish the facility and enter into a lease arrangement with IQE. This was the first investment made through the City Deal and involved a complex and bespoke arrangement. The nature of the WIF investment is a ‘commercial’ deal, rather than a grant or soft-loan agreement, and this was seen as important to ensure the future success of the project. The agreement was structured so that public investment was matched with private, hence the decision to withhold the final tranche of WIF investment until market conditions are such that IQE will be able to co-invest.
- **IQE’s direct role in the management of the construction and delivery phase:** IQE was responsible for procurement and management, with CSC Foundry Ltd and the CCR maintaining an oversight role to safeguard the public investment. This was highlighted as being important given the highly specialised nature of the foundry and helped to lead to a more efficient design of the space than was originally envisaged.

- 4.8** The Board of CSC Foundry Ltd (and CCR more broadly) has taken a direct interest in the WIF investment and its repayment through IQE's purchase or continued lease of the foundry: this has included commissioning market analysis of the compound semiconductor sector to provide an independent view, and maintaining regular dialogue with IQE (including a quarterly meeting to review IQE's market performance and the impacts on future investment and repayments).

Overview of impact to date

Logic model

- 4.9** A logic model was developed to inform the impact evaluation as part of the Locality Evaluation Framework. Drawing on this logic model, a summary of the evidence from the impact evaluation, setting out what has been achieved at this stage in terms of inputs, activities, outputs and outcomes, and the evidence on 'additionality' is set out below.

What the intervention has achieved ...			
Inputs	Activities	Outputs	Outcomes
<ul style="list-style-type: none"> £33.6m of WIF expenditure has been made (£32.9m capital). Additional investment from IQE of £67m to date (with more to be leveraged over the next 8 years or so). 	<ul style="list-style-type: none"> 5,898 sqm of commercial floorspace has been delivered, including 20 cleanrooms. 10 of the 20 cleanrooms have been fit out through WIF and IQE investment. The project also involved digital and road connectivity improvements. 	<ul style="list-style-type: none"> 70 jobs created at IQE at the foundry facility (against a target so far of 125 and ultimate target of 501). 545 jobs safeguarded at IQE in St Mellons and Newport Wafer Fab (against a target of 700). 291 construction years of employment estimated. 	<ul style="list-style-type: none"> Retention and expansion of IQE's research and production operations in the region. Improvement in IQE's trading position, including growth in photonics, centred in Newport. Enhancement of linkages and networks within a potential compound semiconductor cluster, and major funding attracted from Strength in Places Fund. Increase in R&D and innovation activity, in particular linked to universities, CSA Catapult and Collaborative R&D. Individual examples of investment in the area from outside, including location of teams from

What the intervention has achieved ...

global compound semiconductor firms.

... and how additional this is i.e. what would not have occurred without the intervention?

Direct effects on IQE/its retention and expansion in the region:

- Whilst the Cardiff Capital Region may have been favoured by IQE as a location, IQE's expansion would likely have taken place overseas instead without WIF intervention. The firm had already internationalised production and there was a highly credible and viable alternative elsewhere.
- Even if IQE would have invested in Cardiff anyway, there has been a cautious approach to co-investment, reflecting high costs, suggesting that delivery would have proceeded more slowly without intervention.
- Therefore, the WIF investment is likely to have contributed to IQE's decision to invest and expand in the region, and to do so more quickly.

Wider effects on developing an emerging cluster:

- Assessing the contribution of the CSC project to the wider outcomes associated with cluster development is complicated. It is also important to note that the cluster was at a very embryonic stage at the time of evaluation. The CSC project is part of a wider mix of activities, including other industry actors and their investments, Cardiff and Swansea Universities and their commitments to research, and other funding into research and innovation.
- The CSC project has particularly contributed in terms of scale of capacity for manufacturing compound semiconductors in south Wales. This is a distinctive feature of the investment.
- The project has also provided confidence to others to invest more, supported co-location and networking activity, and helped to raise the profile of the area to external parties within the UK and internationally.
- On most of these aspects, the CSC project has made a difference to outcomes alongside the actions and interventions of others. The CSC project is a critical part of a jigsaw of activity supporting the development of a potential cluster in South Wales.

Source: SQW

4.10 The key findings underpinning this summary logic model are discussed below.

Key findings

Direct effects on IQE, and its retention/expansion in the region

4.11 WIF investment in the foundry helped to secure IQE's investment in the region. IQE could have located new production at one of its other sites in the United States: since this site had spare capacity, this could have been achieved at relatively low cost, and this was demonstrated during the due diligence process ahead of WIF investment. While IQE had been based in Cardiff since its establishment and was strongly rooted in the local academic and industrial ecosystem, the presence of a viable alternative and the gap between the costs of developing at Imperial Park and at the alternative site in the US was substantial. We therefore consider that the additionality of the WIF is likely to be high in retaining a major high-value employer. Subsequently, IQE has also sought to consolidate its international production facilities, recently announcing the closure of its Pennsylvania site in the light of capital investment at Newport and two other sites in Massachusetts and Taiwan.

- 4.12** In principle, it is possible that IQE could have acquired the Imperial Park site without WIF support. However, even if the additional costs over the US alternative could have been justified commercially, IQE would have found it challenging to raise the additional funds commercially: consultees highlighted the very high capital costs associated with the compound semiconductor sector, the cyclical nature of the industry and the lengthy timescales in building new customer relationships.
- 4.13** It is difficult to quantify the role of the investment on IQE's development. Nevertheless, photonics, which is centred around Newport and makes up around one-half of the company's revenues, grew by over 20% between the first half of 2019 and the first half of 2020. Clearly, markets are key here, but the facility has also helped to enable this. Consultees also considered that the new foundry is likely to be important in attracting additional customers for IQE by building confidence in the scale and quality of production and R&D capacity. This is important in the industry given the need for customer 'qualification' (i.e. approval) of production facilities in advance. Furthermore, IQE reported that 70 additional jobs have been created at the Newport foundry and 156 jobs have been safeguarded at St Mellons. IQE reported that the majority of post-holders have a local connection (especially linked with Cardiff University).

Wider effects on the development of a potential cluster

- 4.14** Wider effects have so far centred on the development of networks and linkages, stimulating R&D and innovation activity, and profile-raising. In addition, there have been some further effects on inward investment, and jobs and skills.
- 4.15 Networks and linkages:** Consultees noted that the Cardiff Capital Region has had strengths in the compound semiconductor sector for many years, but that interaction between businesses had been limited. Within the context of a wider strategy to build a cluster, the new IQE facility at Imperial Park was described by consultees as a focal point in South Wales as well as a doorway to external parties. This had in turn contributed to the development of stronger networks and linkages both in the region and to outside. Four aspects underpinned this, specifically the scale of the facility itself; the potential for further development at Imperial Park; co-location with the Compound Semiconductor Applications Catapult; and increased dialogue between businesses in the region.
- 4.16 R&D and innovation activity:** This has been enhanced since the CSC project commenced. It is important to note that these effects are not necessarily directly attributable to the CSC project, though it has played a role alongside other factors in bringing together the research base, industry and government (including the CCR City Deal) that has helped to expand activity. The scale of development marks a significant step change, notably for the universities, the CSA Catapult and CS Connected (as set out in the accompanying Compound Semiconductor Cluster Evaluation Evidence Paper).
- 4.17 Profile and inward investment:** The WIF investment was expected to support additional inward investment into the region. Examples were cited of interest from new investors at

Imperial Park and more widely, although these have yet to come to fruition. There have been two notable initial developments with international players, Rockley Photonics and Microlink both locating teams in Newport to benefit from links in the area, including IQE.

4.18 Jobs: There have been some modest additional employment effects (beyond IQE) that were linked in some way with the CSC project, including jobs safeguarded at Newport Wafer Fab, the location of company teams to the area (as above), and the recruitment of research and technical staff in the research base and companies (e.g. at the CSA Catapult). These were expected to increase in scale in the future.

4.19 Assessing the contribution of the CSC project to the wider outcomes associated with helping to development an emerging cluster is complicated. The project was always seen as one element of a wider strategy to support the development of the compound semiconductor sector. Consistent with this, **the balance of evidence indicates that the CSC project has made a key contribution alongside other activities and actors in South Wales**, including investments made by companies themselves, previous and ongoing commitments to research by Cardiff and Swansea Universities, and other funding into research and innovation. In considering the contribution of the CSC project to the wider outcomes of developing the sector and emerging cluster, consultees made the following observations:

- The CSC project has provided significant scale and capacity to the potential for compound semiconductors in the region. It was noted as an internationally significant facility.
- The investment had given confidence to others in the region to commit to R&D and innovation, including industry and the research base.
- The CSA Catapult would not be located at Imperial Park and co-located at IQE without the investment in the site through the CSC project.
- The development of the facility at IQE, together with other factors, were noted as being important in the attraction of over £40m Strength in Places Funding.

4.20 In considering the role of the CSC project, it was noted that there have been three phases of development of activity around compound semiconductors so far. The CSC project was viewed as having been important in scaling up, leading to the new phase signalled by the significant Strength in Places Fund project and the potential to develop supply chains:

- Prior to 2016: initial development of capability and ideas, especially through research activities in the universities, collaborative work between industry and the research base, and a range of pre-existing skills, capabilities and assets held by industry.
- 2016-20: scaling up in terms of capacity, networks, and attraction of more substantial investment, including through the CSC project, acquisition and investment in Newport Wafer Fab, establishment of the CSA Catapult, and building of a portfolio of CR&D projects involving industry and the research base.

- 2020 onwards: embedding and formalising networks, and developing the skills base and supply chains, marked by the substantial investment through CS Connected and the Strength in Places Fund project.

4.21 In addition, consultees noted that there are likely to be wider benefits to the UK as a whole resulting from increased compound semiconductor production capabilities in South Wales. Specifically, given the level of customer-producer interaction and the need for customer validation of production facilities, access to domestic production capacity was seen as presenting a competitive advantage to UK manufacturing and technology firms.

5. Wider contribution of the Investment Fund

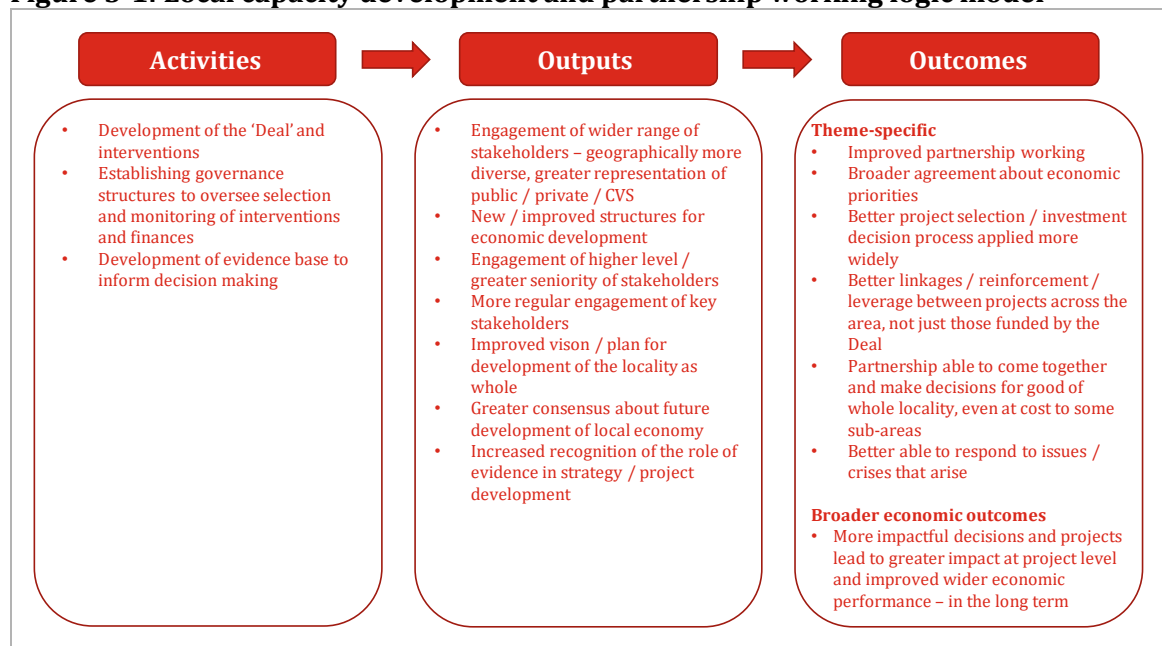
Summary of key messages

- Good progress has been made on most fronts in relation to local capacity development and partnership working.
- There was buy-in to the strategic approach, consensus on priorities and recognition that decision-making processes were sound. Underpinning this has been strong governance, the role of evidence and the development of an 'Investment and Intervention Framework'. The Framework was seen to be key to developing a balanced portfolio of investments through the WIF.
- The role of evidence has been increased and has been important at strategic and intervention levels. Regional data and a series of analyses were important to the strategic prioritisation process, and in setting an agenda that acknowledged the need for an holistic approach to address challenges and opportunities across the region. At intervention level evidence is a key element for business cases and bids to complementary funding.
- The engagement between the 10 local authority partners, and with some external partners has been strong. This has contributed to improvements in the effectiveness of partnership working.
- Consultees from public and private sectors recognised significant progress and the consolidation of the 10 CCR local authorities to work as a single group. The partnership arrangements were now seen to be more progressive and organised, with a regional mindset.
- Governance structures have been important in creating this ethos. There is equality of decision-making power on the Regional Cabinet (in which all leaders have a single vote, regardless of the size of the authority and its financial contribution). The Economic Growth Partnership (REGP) has enabled, and has been important to, collaboration with the private sector.
- The improvement in partnership working has contributed to a range of positive effects, including: sharing expertise and networks; and synergies with other interventions in areas such as transport and innovation.
- The City Deal as a whole has been important in contributing to these effects. In addition, consultees and survey respondents highlighted the influence of the WIF itself. In particular, the scale and nature of the long-term funding had focused minds, provided an opportunity to develop a new approach to investment, and helped to bring partners such as the private sector to the table.
- There were some areas for improvement. The engagement with the business base, wider public sector and the community were identified as areas that could be enhanced. There was a desire for clearer information on how decisions had been taken and what funding might be available. It was also commented that progress in agreeing and implementing interventions could be quicker and more ambitious, and a related point that such progress may require enhancing the capacity of the City Deal Office.

Introduction to evaluating the wider contribution

- 5.1** The National Evaluation Framework recommended evaluations to inform the first Gateway Review included an assessment of the effects of each fund on local capacity development and partnership working. This was expected to be particularly important for the first Gateway Review, where quantitative benefits may not yet have been fully realised, and where activity was ongoing, but where the design, development and delivery of the fund may have strengthened local partnership arrangements and boosted local capacity, leading to increased confidence about future delivery.
- 5.2** The type of activities, and the nature of the expected benefits – outputs and outcomes – for this assessment of the wider contribution of the fund is set out in Figure 5-1.

Figure 5-1: Local capacity development and partnership working logic model



Source: SQW

- 5.3** Evidence has been collected from two perspectives:

- at a **strategic level**, considering the contribution that the Wider Investment Fund as a whole has made to changes in the behaviours, perspectives, and decisions of actors across the economic development landscape, via an online survey and consultations with senior economic development stakeholders across Cardiff Capital Region
- at a **project-up level**, considering how the development and delivery of individual interventions (or groups of linked interventions) has led to changes in the behaviours, perspectives and decisions of actors across the economic development landscape, via consultations with managers of interventions, and in-depth case studies on specific interventions.

- 5.4** The detailed findings from the research is set out in the accompanying Capacity Development and Partnership Evidence Paper, including the results from two waves of the online survey, findings from the stakeholder consultations, and the case study write-up on Porth Interchange.

Evidence from the online survey

- 5.5** Online stakeholder surveys were carried out in 2018 and 2020. The findings presented here are based on 28 respondents: 14 stakeholders completed both surveys (group 1); and a second group of 14 stakeholders responded to the 2020 survey only (group 2). A range of organisations were represented by the respondents, including local authorities, universities, and business/industry representatives. Across the 28 respondents, views represent a senior and well-informed group, including Managing Directors, Chief Executives, Councillors, Service Directors, and senior university representatives. This gives us some reassurance of the credibility of views. That said, the relatively low number of responses means that the data should be treated with caution, as it does not necessarily reflect the views of all stakeholders in the region.
- 5.6** The survey responses indicated progress in capacity development and partnership working in the Cardiff Capital Region. **On all 10 aspects of capacity and partnership working tested there had been improvements based on the perspectives of survey respondents** (see Table 5-1). There are notable improvements on decision-making processes, governance and management structures, synergy and inter-relationships, consensus on thematic priorities, the evidence base, and partnership working.

“The partnership ethos created by the CCR has brought together people in the economic development field across the region to work together in a much more cohesive way, seeing their own local plans and priorities in a wider, regional, national and global context.”

- 5.7** Whilst there has been progress in engagement between 2016 and 2020, the areas for most improvement (relative to other factors) were in ‘engagement with the wider public sector’ and ‘engagement of the voluntary and community sector’.
- 5.8** Overall, respondents reported that the Cardiff Capital Region City Deal as a whole was the most influential factor on these changes in capacity development and partnership working. The Wider Investment Fund is part of this Deal and it was also notable from survey responses that the Fund specifically was also found to be influential.
- 5.9** The survey respondents also reported that the Wider Investment Fund had a ‘positive’ or ‘very positive’ effect on capacity development in the region. The three elements that scored most positively in terms of the effect of the Wider Investment Fund were: ‘strategic-level decision making and planning’, ‘operational decision making (i.e. project development/selection)’, and ‘overall local economic development capacity and partnership working’ (see Table 5-1).

“It has changed the mindset of local political leadership. The recognition that Local Authorities are not competing against each other but through co-operation, give and take, benefits for the wider region can be made.”

“The additional CCR funding towards infrastructure has strengthened the role of the CCRTA as a partner with Welsh Government and Transport for Wales and has enabled the CCRTA to influence development of wider transport programmes, strategy and policy development.”

“The CCRWIF is in its early stages but it is encouraging a range of businesses to consider investing or expanding their operations in south Wales, and is becoming a catalyst to encourage economic growth.”

5.10 In open responses, respondents highlighted several areas for development. These included:

- Ensuring transparency in decision-making
- A need to consider carefully how to tackle inequalities to a greater extent – in particular the spatial inequalities in the region and those brought about or exemplified by covid-19
- An appetite for faster progress given the relatively small number of interventions approved so far
- A desire to see wider actors involved to a greater extent – which links in part to the room for improvement on engagement.

5.11 Summary data from the online surveys are set out in the table below. More detail is provided in the Capacity Development Evidence Paper.

Table 5-1: Summary of online survey evidence

	Median score in 2020: where 0 is very poor, and 10 is excellent ¹⁵	Change in median score baseline (2016) to 2020 ¹⁶
Effectiveness of partnership working in the delivery of economic development strategy and activity	8	+2
Effectiveness of governance and management structures in the delivery of economic development strategy and activity	8	+3
Effectiveness of the decision-making process for economic development interventions	8	+3
Level of consensus on the key spatial priorities for economic development strategy and activity	7	+2

¹⁵ n=28

¹⁶ n = 28 for baseline and n=28 for 2020

Level of consensus on the key thematic priorities for economic development	8	+3
Quality of the evidence base underpinning economic development	8	+3
Level of synergy and inter-relationships between key economic development projects	8	+3
Level of engagement of the private sector in economic development strategy and activity	7	+2
Level of engagement of the voluntary and community sector in economic development strategy and activity	6	+1
Level of engagement of the wider public sector, in economic development strategy and activity	6	+1

Contribution of the Investment Fund

- The City Deal as a whole was the most influential factor on these improvements in local economic development capacity over the whole period from 2016-20, and in particular in the first couple of years.
- The Wider Investment Fund was also noted as a key influential factor on the improvements reported.
- It was commented in open responses that the City Deal as a whole had been key in getting partners to think with a collective and cooperative mindset. The funding itself had been important in supporting potentially significant projects that could have a catalytic effect, and in giving the Cardiff Capital Region more profile and influence with industry and wider government partners.

	'Net' positive effect of the development and delivery of the Fund since 2016 ¹⁷
Strategic-level decision making and planning	96%
Operational decision making (i.e. project development/selection)	92%
Local confidence to develop and deliver economic growth interventions	73%
Local commitment to develop and deliver economic growth interventions	84%
Understanding on what works in developing and delivering economic growth interventions	75%
Engagement of high level / senior stakeholders in economic growth interventions	88%
Overall local economic development capacity and partnership working	92%

¹⁷ n=26 (no response from two partial respondents)

Evidence from the consultations and case studies

5.12 The evidence from the in-depth consultations with stakeholders highlighted a series of key points that complement the findings from the online survey. These are set out as follows.

Strategic prioritisation and consensus

5.13 **There was buy-in to the strategic approach, and consensus on priorities and on how the WIF was to be allocated through the 'Investment and Intervention Framework'.** The approach recognises the need for balance. The CCR must build on areas of genuine strength and comparative advantage, and this is reflected in the decision to invest in the CSC project, as well as other activities around areas such as medical. There is also recognition of the need for inclusive growth and to consider the distribution of benefits.

5.14 **Key to achieving balance is the investment approach.** The 'Investment and Intervention Framework' was adopted in June 2019. This set out the process through which investment proposals would be sought, sifted, appraised and approved. It gave a broad indication of how the WIF would be used, with the aim of achieving a mix of projects that will yield a financial return (and so recycling monies back through the Investment and Intervention Framework) and those that will use grant funding to deliver social and economic benefit.

5.15 **The role of evidence has been important at a strategic level.** Early on, the CCR commissioned regional data for the first time from the ONS and a series of analyses from Cardiff University. This has been key to the strategic prioritisation process, and in setting an agenda that acknowledges the need for an holistic approach to address challenges and opportunities across the region. Evidence has also been important at intervention level, as part of the basis for business cases and for bids to complementary funding. For the Local Authority Leaders and CEOs, the evidence-based decision-making is key to obtaining and keeping buy-in when they go back to their local areas to explain and justify decisions. There is also evidence that the CCR has influenced consideration of economic development factors in partners' business case processes.

5.16 It was acknowledged that there would be debates going forward around strategic priorities and decisions. This reflected challenges in the region, notably around inequalities, which may be emphasised further as a result of Covid-19.

Engagement and partnership working

5.17 The engagement between the 10 local authority partners, and with some external partners had been strong. This has contributed to improvements in the effectiveness of partnership working.

5.18 **The CCR marked the start of a new partnership and there has been, and continues to be, effective engagement between the 10 partner authorities.** This was acknowledged by all local authority consultees and many business consultees. Businesses recognised

significant progress and the consolidation of the 10 CCR local authorities to work as a single group compared to previous working arrangements that were disparate and locally-focused (see quote below). The partnership arrangements were now seen to be more progressive and organised, and working from the perspective of a regional mindset. The WIF had been key to this, because the scale and nature of the long-term funding had focused minds.

“A big achievement is that we have got ten local authorities that have been working as a single group. This is a major development in a country that still has high numbers of local authorities... A game changer has been those relationships and trust being established through the local authority senior leadership teams”.

5.19 Governance structures have been important in creating this ethos. There is equality of decision-making power on the Regional Cabinet (in which all leaders have a single vote, regardless of the size of the authority and its financial contribution). Individual leaders also have thematic portfolios on the Regional Cabinet, which has helped to build a shared ‘regional view’ and sense of shared ownership.

5.20 The Regional Economic Growth Partnership (REGP) has enabled, and has been important to, collaboration with the private sector. The Chair of the REGP is from a private sector background, and other representatives are also from the private sector. The REGP has worked closely with the Regional Cabinet, and is responsible for reviewing the region’s economic strategy, making recommendations on the City Deal’s implementation, and providing advice on investment decisions. This improved engagement with senior private sector individuals was unlikely to have been possible without the WIF.

5.21 There were some gaps or areas for improvement on engagement. These were particularly noted with respect to parts of the business community. The CCR Business Council was developed to represent and articulate the needs of business, particularly in the appraisal of relevant project applications. However, to date, consultees reported that the Business Council has had limited engagement with the REGP or the WIF. At the time of reporting, the CCR was reviewing the role of the Business Council, and there is also evidence of direct engagement with business through cluster development initiatives (including in relation to compound semiconductors and through subsequent work relating (for example) to medtech).

5.22 Feedback from consultees suggested that wider engagement with businesses had been limited outside of some individual exceptions. It was reported that the communication of the WIF to the wider business population could be improved to better promote the opportunities and benefits of the WIF for the CCR. In terms of the funding directly available to businesses, representatives of business membership organisations reported limited awareness of the funds and how businesses could access funding. In part, this reflects the nature of the WIF: it is not intended to be a general business finance scheme, and there is a balance to be struck between openness to new proposals and ensuring a manageable and appropriate pipeline. The City Deal Office recognises this challenge and is developing proposals for a ‘cluster fund’

that could support small to medium sized proposals from business, where they meet the objectives of the Investment and Intervention Framework.

5.23 Whilst the CCR Team has delivered various regional engagement events for businesses in collaboration with the FSB and CBI, consultees noted various opportunities and ways in which the engagement of the private sector could be improved. This included engaging and utilising business membership organisations more effectively and drawing on private sector expertise to inform the design of suitable interventions.

Examples of the effects of partnership working

5.24 The improvement in partnership working has contributed to a range of positive effects. Some key examples described by consultees are as follows:

- **Sharing of expertise and networks:** Monmouthshire County Council provided expertise that enabled the development and implementation of the CSC project. Shared networks have also enabled reach into different parts of government, including UK government ministers and Welsh Government.
- **Synergies with other interventions:** the CCR has participated actively in networking and meetings to help drive forward the compound semiconductor cluster agenda, including with businesses, universities and other government partners. This has been linked to the WIF investment and has helped foster relationships with other interventions, something which is now becoming formalised through CSconnected. Relatedly, the development of the Compound Semiconductor Educational Group aims to identify and coordinate educational expertise in the region, and to work with industry to deliver the skills provision that is required, including through activities outside of the WIF.
- **Creating more joined-up approaches to funding:** in co-financing the Metro Plus programme, the CCR has influenced the use of the Welsh Government's Regional Transport Fund, and through the development of a Common Assessment Framework has enabled greater consideration of economic objectives in the project appraisal process. The approach to Metro Plus has also given a strengthened role to the Regional Transport Authority.
- **Regional mindset for local projects:** the principles that are being used to consider local projects are increasingly cognisant of regional priorities. For example, Torfaen's development of a medipark has sought to consider links to the wider medical technologies priority at CCR level. At the time of reporting, partners were considering a regional approach to strategic development planning.
- **Responding to crises:** Rhondda Cynon Taf was badly affected from Storm Dennis in 2020. Capacity from neighbouring authorities was more easily drawn upon than had been the case previously because of stronger relationships between the partners. The CCR also

responded quickly to the COVID-19 crisis in preparing an addendum to the Investment and Intervention Framework and investing in firms with innovative responses to the pandemic.

People and capacity

- 5.25 The role and character of the key people involved have been instrumental to partnership working.** A number of key individuals were identified as having helped to drive forward the partnership, including amongst Leaders, CEOs, the City Deal Office and externally. The consistent involvement of key individuals has meant that new people have been brought in easily when personnel or politics have changed. The CCR has been able to draw on external partners, notably from the private sector (through the REGP), to bring in new expertise. Consultees also referred to the group dynamic and the combination of different perspectives and political allegiances. These differences were ultimately seen as helpful, and have meant that different points of view could be considered as well as a varying set of networks.
- 5.26** It is also worth noting that when the Wider Investment Fund was established, there was no existing project pipeline, although a number of interventions were identified at strategic level in the City Deal and the initial business plan. On balance, this was seen as positive: while it has meant that commitment and spend has taken time to flow through, it has also provided space for the City Deal partnership to develop an investment framework and secure business and political buy-in. It has also helped with the development of the governance process, since project decisions have been considered by Regional Cabinet at every stage.
- 5.27** The City Deal Office has necessarily increased in size since the early days, the breadth of expertise and capabilities has been enhanced and the credentials and capability of the team are highly regarded. However, it is a lean team, which has to date been seen as commensurate with the scale of the investment pipeline. This has benefits in terms of flexibility and efficiency. However, some noted the need for additional capacity for engagement, bringing forward and managing the large-scale projects that the region needs, and managing an investment programme at scale. This challenge is recognised by the Office of the City Deal, and work is underway to increase capacity.
- 5.28 Looking to the future, there is an opportunity to develop a broader regional partnership, building on the success of the City Deal so far.** There are signs that this is already happening, and this is likely to be enhanced through the development of initiatives such as a regional Strategic Development Plan.
- 5.29** Shifting from a ‘city deal’ to a ‘city region’ might also mean some enhancements to governance arrangements. There is a high degree of confidence in current governance and oversight arrangements. However, a structure based on multiple accountable bodies for different functions and transactions can be challenging, especially as investments scale up. There is the prospect of a Corporate Joint Committee, which could help to address this.

Key messages from the assessment of wider contribution

5.30 At the final evaluation stage, the key findings related to the wider contribution of the fund in terms of capacity development and partnership working are as follows:

- Good progress has been made on most fronts in relation to local capacity development and partnership working – in line with the logic model.
- Engagement amongst the ten partner authorities and with other key actors in the region, such as senior private sector representatives, the knowledge base, skills and transport, has been enhanced.
- The role of evidence at a regional level (rather than local level) has been recognised and instrumental at strategic and intervention levels.
- Governance structures, in particular through the Regional Cabinet and Economic Growth Partnership, have been well-regarded, and there has been recognition that decision-making processes have been improved.
- These important underpinnings have resulted in significant progress in partnership working, which was acknowledged across consultees. It was noted that the 10 CCR local authorities were working as a single group and that partnership arrangements were now more progressive and operating with a regional mindset.
- Partnership working has contributed to a range of positive effects, including: consensus on priorities and strategic development; sharing expertise and networks; and synergies and alignment with other interventions in areas such as transport, strategic development planning and innovation.
- The WIF itself has been important in contributing to these effects. The scale and nature of the long-term funding of the WIF had focused minds, provided an opportunity to develop a new approach to investment, and helped to bring partners such as the private sector to the table.
- There were some areas for improvement. The engagement with the business base, wider public sector and the community could be improved further. For example, there was a desire for more engagement through business representative organisations so that businesses could understand how they might benefit and what funding might be available.
- Progress has been made in accelerating commitment and spend, following agreement to the Investment and Intervention Framework. There should be opportunities to accelerate progress further and extend the scope of activity beyond the City Deal itself to a wider city regional policy agenda. This may require enhancing the capacity of the City Deal Office.

Annex A: Gateway Review Indicators

A.1 The purpose of this Annex is to map the Gateway Review Evaluation Indicators developed by CLGU against the coverage of the final evaluation reports provided by the National Evaluation Panel. An assessment has been applied, where:

- ‘Covered’ means that the indicator is covered fully in the final evaluation reports.
- ‘Partly covered’ means that some evidence in relation to the indicator is covered in the final evaluation reports, but further information may be required from the Locality to respond fully (there are notes below to explain this partial coverage).
- ‘Not covered’ means that the indicator is not covered in the final evaluation reports (as it falls outside the scope of the work of the National Evaluation Panel)

A: Evidence of Investment Fund intervention progress (relevant for all projects assessed)

Indicator	Rating	Location of evidence in National Evaluation Panel (NEP) reports
1. Explanation of the approval process you followed for the intervention including:		
a) How the intervention was agreed by the CA, City Board or Cabinet, including a description of how challenge or disagreement being handled effectively, where applicable	Not covered	
b) How the views of stakeholders were considered during intervention development	Not covered	
c) How the intervention aligns with pre-existing investment programmes in the area	Not covered	
d) How the business case process was appraised (N.B. Robust appraisal should demonstrate value for money and potential for positive	Partly covered	There are references in the reports to the processes for developing and considering projects (see Overview Report Annex D and

economic impact, developed in line with the HM Treasury Green Book)		commentary on the approval of the CSC project (see Impact Evidence Paper). Business cases were reviewed as part of the research. However, no assessment has been made of the quality or robustness of individual business cases or the process followed.
e) How the intervention fits with pre-existing stakeholder frameworks, strategies and plans	Not covered	This is out of scope, but is considered in the Impact and Capacity and Partnership Development Evidence Papers.
2. Explanation of the delivery process to date, including:		
a) Intervention milestones agreed at Board level that are likely to result in successful delivery of the intervention	Not covered	
b) Delivery of the intervention against agreed intervention milestones with evidence of adjusting project/programme plans to mitigate the impact and to ensure value for money and successful delivery	Covered	This is explained in the Impact Evidence Paper, along with an assessment of the delivery effectiveness of the project.
c) An agreed spending profile for the intervention	Covered	This is set out in the Impact Evidence Paper
d) Evidence of keeping to the spending profile and mitigating overspend or delays including evidence of adjusting spending and project/programme plans to mitigate the impact and to ensure value for money and successful delivery	Covered	This is discussed in the Impact Evidence Paper. In practice, there were no significant issues in the physical delivery of the CSC foundry project.
e) Outputs generated to date by intervention activities	Covered	This is reported in the Impact Evidence Paper.
3. Local evaluation plans and commitment to Investment Funds evaluation activities including the Independent Panel evaluation beyond the first gateway review in line with agreed milestones	Partly covered	The concluding section of the Impact Evidence Paper notes suggestions for how evaluation may be undertaken in the future, for example by aligning with evaluation processes for the Strength in Places Fund bid. There is however no specific discussion of future evaluation plans for partnership and capacity development.

Source: SQW

B: Evidence of intervention impact (relevant where projects have been delivered)

Indicator	Rating	Notes
1. Evidence that all evaluation activities set out in the evaluation plan developed by SQW has been completed. Evaluation plans developed sets out a range of activities, such as surveys, and before and after data comparisons that would inform reporting against logic models	Covered	The process followed is set out in the Overview Report and in greater detail in the Evidence Papers
2. Evidence of delivery of the outcomes specified in the agreed logic model for each intervention	Covered	This is set out in the Impact Evidence Paper
3. Where possible, evidence showing a reasonable expectation that interventions will have long-term positive economic benefits	Partly covered	There is evidence that the CSC intervention will have long-term positive benefits, and this is set out in the Impact Evidence Paper
4. Where possible, a description of outcomes that are expected to be delivered in the future	Covered	This is specifically discussed in the Impact Evidence Paper
5. Delivery of information and data to SQW to evidence the outcomes of specific interventions	Covered	This is referred to in the narrative in the Impact Evidence Paper

Source: SQW

C: Evidence of capacity development and partnership working

Indicator	Rating	Notes
1. Description of leadership roles and responsibilities assigned within the locality	Not covered	This is not required, but is referred to in the Capacity & Partnerships Evidence Paper
2. A description of engagement between local authorities within the locality on development and decision-making, both in relation to specific interventions (where appropriate) and the Investment Fund as a whole	Partly covered	This is specifically addressed in the Capacity & Partnerships Evidence Paper
3. Evidence that the City, CA or Cabinet has engaged stakeholders of a wider range, greater seniority and, where relevant, greater	Partly covered	There is evidence to this effect, and this is specifically addressed in the Capacity & Partnerships Evidence Paper

regularity than under previous governance and funding arrangements		
4. Evidence that the City, CA or Cabinet considered stakeholders' views during decision-making	Partly covered	There is evidence to this effect, and this is specifically addressed in the Capacity & Partnerships Evidence Paper
5. Evidence that stakeholders felt it was easier and more beneficial to engage with the City, CA or Cabinet than with previous governance arrangements	Partly covered	There is evidence to this effect, and this is specifically addressed in the Capacity & Partnerships Evidence Paper
6. Description of how the new governance structures for economic development have affected decision-making across the locality	Covered	There is evidence to this effect, and this is specifically addressed in the Capacity & Partnerships Evidence Paper
7. Evidence of an improved plan for the development of the locality as a whole including evidence of consensus among stakeholders about the future development of the local economy compared to under previous governance and funding arrangements.	Covered	There is evidence to this effect, and this is specifically addressed in the Capacity & Partnerships Evidence Paper
8. Description of how evidence has been used in the development of strategies and projects	Partly covered	This is described in the Overview Report and the Capacity & Partnerships Evidence Paper

Source: SQW

D: Contextual economic forecasting and comparison to out-turns

Indicator	Rating	Notes
1. Forecast of economic growth in locality for GVA and employment to Year [5 or 10]	Covered	Set out in Overview, Annex C
2. Forecast of economic growth nationally for GVA and employment to Year [5 or 10]	Covered	Set out in Overview, Annex C

3. Out-turns of economic growth in locality for GVA and employment to Year [x]	Covered	Set out in Overview, Annex C
4. Out-turns of economic growth nationally for GVA and employment to Year [x]	Covered	Set out in Overview, Annex C

Source: SQW

Annex B: Peer Review comments

Context and purpose

- B.1** The Academic Group was sent the draft Overview Report and the two Evidence Papers at the same time that they were sent to the Cardiff Capital Region City Deal team. SQW hosted a virtual feedback session with all five members of the Academic Group on 20 October 2020; in addition, academics provided summary feedback via email. This annex provides a summary of the feedback received. This feedback has been incorporated into these final versions of the reports and a summary of the responses and actions taken by SQW to respond to the academic feedback is set out below.

Feedback from discussions

General feedback

- B.2** The reports are well written and informative, and the material is well presented. The evaluation approach is appropriate, given the stage that the projects and the partnership have reached. The impact and progress evaluation of the investment in the Compound Semiconductor Cluster foundry is especially interesting: most of the Academic Group's feedback related to this.

Impact and progress evaluation of the Compound Semiconductor Cluster

- B.3** The Academic Group discussed the investment in the CSC foundry, as a substantial investment associated with a specific firm as well as a contribution to the wider development of the compound semiconductor industry.
- B.4** **It would be useful to explain more about the history of the compound semiconductor sector in South Wales**, as context for the investment. In discussion, it was noted that the development of the industry had featured as an economic development priority before the allocation of Wider Investment Fund monies, and the WIF investment was one of several interventions to support sector growth. In addition, the investment in the foundry was coincidental with a number of other developments in the sector, such as the change of ownership of Newport Wafer Fab and a subsequent change in the firm's strategy.

SQW response: Additional background narrative is provided in Chapter 2 of the Impact and Progress Evaluation Evidence Paper.

- B.5** **The judgement on additionality could be more definitive:** The immediate case for investment was that IQE needed to expand its production capacity, but that it was unable to do so without suitable additional premises. There was a viable alternative in the United States, to which IQE could have established new production capacity had space at Imperial Park not

been secured. The proposition is therefore that the Wider Investment Fund secured this for the Cardiff Capital Region. The Academic Group noted the challenges in ‘proving’ this. However, it considered that the report could be more definitive in its judgement, based on the due diligence carried out at the time of the investment. The Academic Group also discussed whether a more definitive assessment could be made in relation to the effects on wider sector development.

SQW response: *Consultees reported that there was a strong prospect that IQE’s investment would have been lost overseas in the absence of intervention. This is self-reported, but evidence provided at the time of the investment decision demonstrated that IQE could have established production at its North Carolina facility “at marginal cost”, given that it had spare cleanroom capacity available. Given the appraisal of the proposition carried out by Cardiff Capital Region City Deal in 2017/18 and the gap between the additional cost of a new foundry at Imperial Park and the cost of expansion in the US, we consider the additionality to be relatively strong. We have therefore reflected this more explicitly in the Impact and Progress Evidence Paper and the Overview Report. Given the multiple factors at play in supporting the embryonic cluster we have not made the assessment of additionality in relation to sector development more definitive – it was clear that the CSC project was one of a number of factors contributing to this.*

- B.6 There was some discussion regarding the extent and definition of the compound semiconductor cluster.** In particular, this highlighted the need for some caution regarding the use of the term ‘cluster’, given the academic literature on the subject.

SQW response: *The cluster is at an early stage of development. This is described in the report and is acknowledged by partners – and the WIF investment should be seen as one of a series of measures designed to support its growth. The additional material added to Chapter 2 of the Impact and Progress Evidence Paper should help to reinforce this. We acknowledge the challenges associated with defining a ‘cluster’; however the programme of sector development aims to develop attributes associated with clustering (such as the development of linked R&D, innovation, anchor institutions and supply chain activity) and this is widely referred to as such by industry and by academic-led economic impact reports.*

- B.7 Perspectives on the compound semiconductor cluster from outside the region would be helpful,** to provide some comparison of its relative strength and concentration.

SQW response: *Our consultees were almost all regionally based. However, the decisions to award Strength in Places funding to the CS Connected consortium, and to locate the headquarters of the Compound Semiconductor Applications Catapult in Cardiff (prior to its subsequent relocation to Newport) provide external perspectives. We have also set out some additional references in the Impact and Progress Evidence Paper.*

- B.8** The Academic Group also discussed the risks that may be associated with investment linked with a specific firm. While this is beyond the scope of the evaluation, the reports outline the ways in which risks have been mitigated (for example, in the structuring of the special purpose vehicle to enable the investment, and in the regular industry monitoring reported to

the Board of CSC Foundry Ltd.). It should also be noted that while the specific WIF investment is directly associated with IQE, it forms part of a wider series of interventions that relate to the sector more broadly. Presuming that the cluster develops, the risks associated with any individual partners should be reduced.

Other comments

- B.9 Spend to date has been concentrated on the CSC Foundry project.** It may be helpful to describe more fully the wider approach to investment.

***SQW response:** Although the investment in the CSC foundry accounts for the dominant share of spend to date, it only accounts for around 8% of the Wider Investment Fund (and 3% of the whole £1.2 billion City Deal). There is now a strong pipeline of projects in place, and several recent commitments have been made: this is described in the Overview Report and the Capacity and Partnership Development Evidence Paper, and additional commentary has been incorporated.*

Annex C: Economic forecasts and out-turns

- C.1** This Annex provides further details regarding the economic forecasting workstream. This includes an overview of the approach, interpretation of the results including any limitations, and the detailed data from both the baseline forecasts and analysis of out-turns.

Approach

- C.2** As part of the Baseline Report, Cambridge Econometrics (CE) developed tailored baseline economic forecasts for Cardiff Capital Region (CCR) based on a version of CE's Local Economy Forecasting Model (LEFM) that was available back in 2015.
- C.3** Initial baseline forecasts were developed using economic projections from the LEFM, which were based on historical growth in the locality relative to the region or UK (depending on which area it has the strongest relationship with), on an industry-by-industry basis. It was assumed that those relationships would continue into the future, and no account was taken for any major interventions or activities that were known at the time, i.e. they were non-tailored.
- C.4** These non-tailored projections taken from the LEFM were revised to incorporate local information on major interventions, plans or events that were known at the time that the City Deal was agreed. This drew on desk-based research and a workshop with representatives from the Locality. The tailored baseline was developed within a version of LEFM calibrated to the local CCR economy, which incorporated GVA and employment adjustments to the non-tailored baseline as agreed by the local councils.¹⁸
- C.5** This annex compares the tailored short-term economic forecasts developed for the Baseline Report with the actual outcomes over 2013-2019¹⁹. The last year of historical data in the forecasts produced for the Baseline Report was 2013. The more recent actual outcomes data are taken from CE's updated historical database, which includes historical data to 2019. A sectoral comparison is also included, along with a comparison of the outturns at the levels of Wales and the UK.

Interpreting the results

- C.6** The forecasts set out in the Baseline Report and the more recent historical data to 2019 were both based on CE's historical employment and GVA databases, allowing a comparison to be made between the two datasets. While the method to process the data in the Baseline Report

¹⁸ Further details regarding the methodology and the effects of the tailoring are set out in the Baseline Report.

¹⁹ The local area employment data in 2019 are estimates based on actual regional data. While the local area GVA data in 2019 are projections and are not based on actual regional data, they have been included for comparisons.

and the actual outturn data were the same, it is important to note the following differences in the underlying raw data when interpreting the results:

- The last year of actual local area employment data in the most recent data was 2018. The local area employment data in 2019 were estimates based on actual regional data²⁰. Changes at the regional (Wales) level over 2018-19 were proportionately disaggregated across all local authorities in Wales. The local area 2019 employment figures are therefore estimates, allowing an additional year to be used in the analysis. It is important to bear in mind, however, that the actual 2019 local area figures could be higher or lower if changes at the regional level were concentrated in particular local areas in Wales. The local area GVA data used for 2019 were projections and not based on actual regional data. They are modelled results, based on CE's standard method to produce baseline economic projections²¹. They have been included for comparisons.
- The price base of the GVA data has changed from £2011 in the baseline forecasts to £2016 in the latest historical data. The absolute GVA levels, therefore, cannot be compared between the two datasets. In order for both datasets to be compared, an indexed series has been created for both datasets where the GVA data in 2013=100. This allows recent growth rates to be compared with forecast growth rates. A similar approach has been taken when analysing the employment and productivity data.
- ONS published new local authority, NUTS2 and NUTS3-level GVA estimates based on an improved (balanced approach) methodology in 2018²². This new data have been incorporated into CE's latest historical database. The raw GVA data used in the Baseline Report was based on the old (income approach) NUTS2 GVA data available at the time, as the NUTS3 GVA data was not considered to be as robust. Additionally, ONS have published the latest NUTS2 GVA data by more detailed sectors than were available when the LEFM used in the Baseline Report was updated. The incorporation of raw GVA data at lower spatial levels means that in some instances GVA has been redistributed between local areas and sectors within a NUTS2 area. This could lead to differences between the GVA data used in the Baseline Report and the latest GVA data. However, the effect on total GVA for a larger area, such as Cardiff Capital Region, and the effect on the growth rates by sector within the area will be limited, as this comparison focuses on broad sectors (not

²⁰ This is due to the ONS release schedule for data. While 2019 regional employment data has been published, the 2019 employment estimate for local authority districts will not be released until the end of September 2020.

²¹ Further details regarding the standard methodology for CE's baseline projections are set out in the Baseline Report.

²² Balanced approach data is created by combining income and production approach data – a summary of how these approaches differ at the aggregate level can be found here: <https://www.ons.gov.uk/file?uri=/economy/regionalaccounts/grossdisposablehouseholdincome/methodologies/regionalaccounts/regionalrealgvatcm77262085.pdf>. A summary of how these two data sets are combined can be found here: https://consultations.ons.gov.uk/national-accounts/consultation-on-balanced-estimates-of-regional-gva/supporting_documents/Development%20of%20a%20balanced%20measure%20of%20regional%20gross%20value%20added.pdf

the detailed sector level in the new GVA data). A comparison between the forecasts is, therefore, still valid when analysing the indexed growth rate.

C.7 These changes in the raw GVA data mean that any differences seen when comparing the short-term GVA forecasts from the Baseline Report to the actual outturns data could be due to the change in the GVA price base, improvements in the measurement and reporting of the GVA data, and/or differences in what was expected back in 2015 versus what actually happened. There could be cases when variation between forecasts and actual data are explained more by methodological issues. However, the impact on growth rates at the CCR level are likely to be limited. It is difficult to estimate the relative scale of importance between the factors that have caused possible differences between forecasts and actuals, as they will affect each local area and sector differently. For this reason, it is better to focus more on comparing forecast and actual *growth rates* (rather than absolute levels).

Detailed data

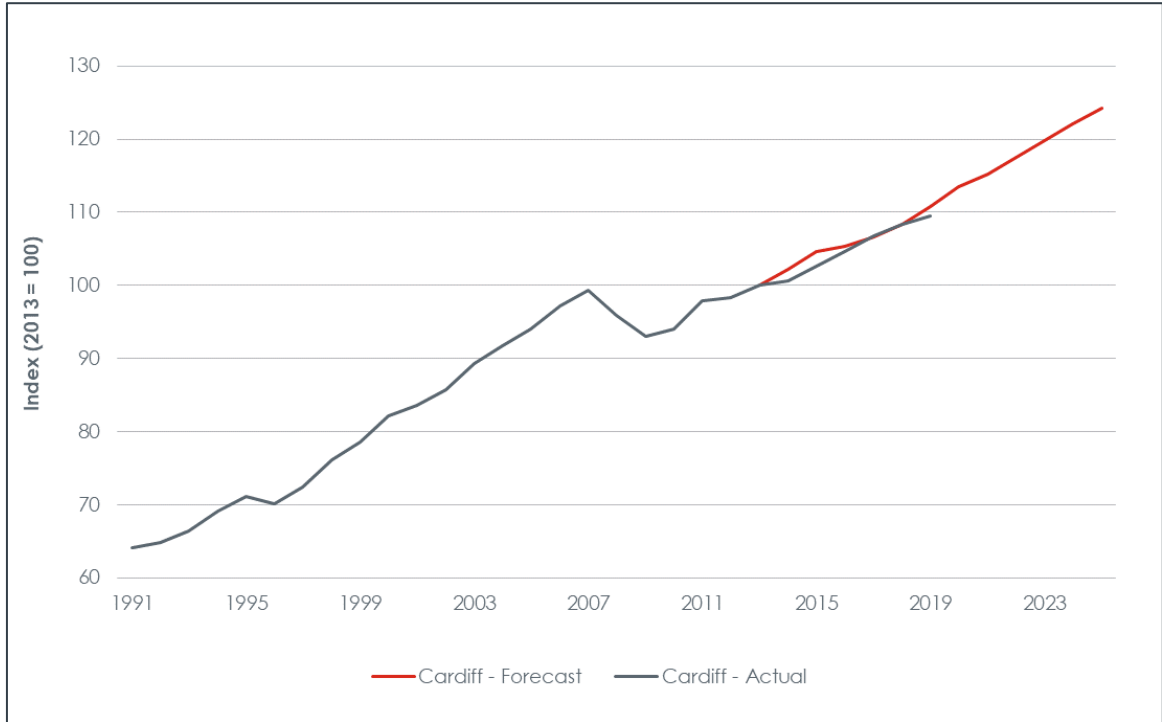
GVA

C.8 Actual GVA growth in CCR and Wales over 2013-19 was slightly slower than was expected (see Figure C-1 and Figure C-2). GVA in CCR grew by 1.5% pa over 2013-19. This was slower than the UK (1.9% pa), which grew broadly in line with expectations. GVA growth in CCR slightly outperformed Wales as a whole, which grew by 1.3% pa over this period. GVA in CCR initially grew below expectations in 2014 and 2015, after which the difference between the forecast and actual growth rate narrowed.

C.9 Actual GVA growth per annum in CCR over 2013-19 was 0.2 percentage points (pp) lower than was forecast in the Baseline Report (1.7% pa). This was in line with the trend for Wales, where GVA growth per annum underperformed the forecast by 0.3 pp. Overall UK GVA growth was broadly in line with expectations.

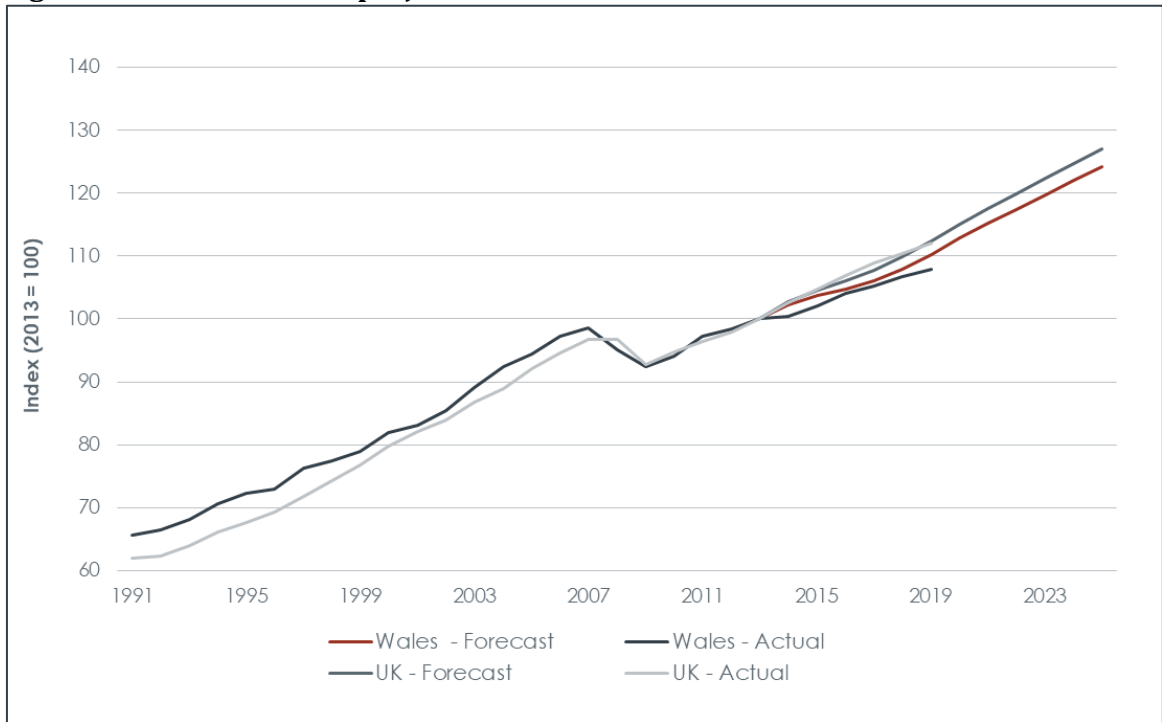
C.10 As set out in Table C-1, negative GVA growth in Transport & storage and Government services, as well as lower than expected GVA growth in Accommodation & food services were the main drivers of the underperformance in CCR relative to the forecast in the Baseline Report. These sectors together accounted for 29% of total GVA in CCR in 2019. Electricity, gas & water and Information & communications, which accounted for 8% of total GVA in CCR, outperformed the forecast by 1.9 pp and 0.7 pp respectively. Mining & quarrying and Agriculture also outperformed their respective forecast by 7 pp and 11 pp respectively, though these are both small sectors. GVA growth in the rest of the sectors were broadly in line with the forecasts.

Figure C-1: GVA actuals vs projections – Cardiff Capital Region



Source: Cambridge Econometrics

Figure C-2: GVA actuals vs projections – Wales and UK



Source: Cambridge Econometrics

Table C-1: Cardiff Capital Region GVA growth by sector, 2013-2019

	Forecast growth (pa %)	Actual growth (pa %)	Percentage point difference (actual minus forecast)
Agriculture	0.4	7.6	7.3
Mining & quarrying	-0.5	10.1	10.6
Manufacturing	1.7	1.7	0.0
Electricity, gas & water	0.8	2.7	1.9
Construction	4.4	4.7	0.3
Distribution	2.2	2.2	0.0
Transport & storage	2.8	-0.7	-3.5
Accommodation & food services	2.6	1.5	-1.1
Information & communications	1.6	2.3	0.7
Finance & business services	2.0	2.3	0.3
Government services	0.5	-0.2	-0.6
Other services	1.3	1.4	0.0

Source: Cambridge Econometrics

Employment

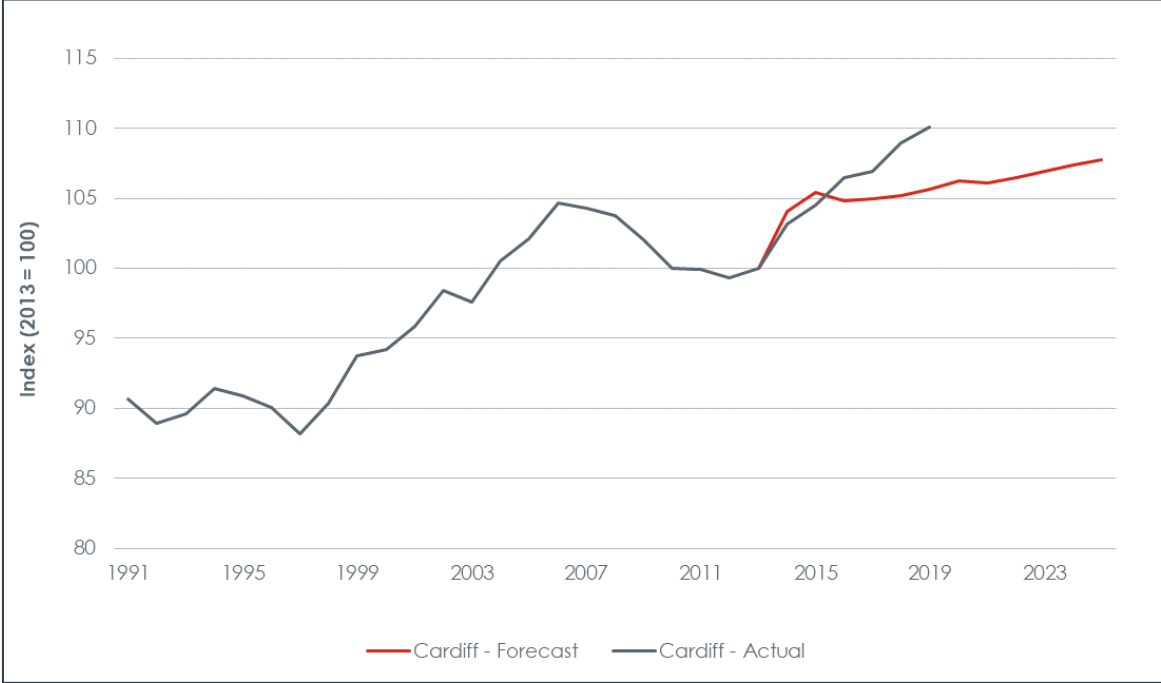
C.11 Employment grew above expectations in all areas over 2013-19 (see Figure C-3 and Figure C-4). Employment in CCR grew by 1.6% pa over 2013-19, compared to a forecast of 0.9% pa, meaning that there were 37,100 more jobs than expected in the area by 2019. In Wales as a whole, growth expectations were exceeded by 0.6 pp per annum (with employment growth of 1.4% pa achieved over 2013-19), meaning that there were 64,900 more jobs than expected in 2019. Hence, CCR accounted for over half of the additional jobs created in Wales over the period. Similarly, employment growth in the UK as a whole outperformed expectations by 0.7 pp per annum (with employment growth of 1.7% pa achieved over 2013-19).

C.12 Employment growth in CCR started to outperform expectations in 2016 and this gap continued to widen over the forecast period. Wales and the UK as a whole followed a similar trend as CCR, where the gap between forecast and actual employment growth widened over the forecast period.

Strong employment growth was driven by above forecast growth in Information & Communication, Accommodation & food services, Transport & storage and Financial & business services (see

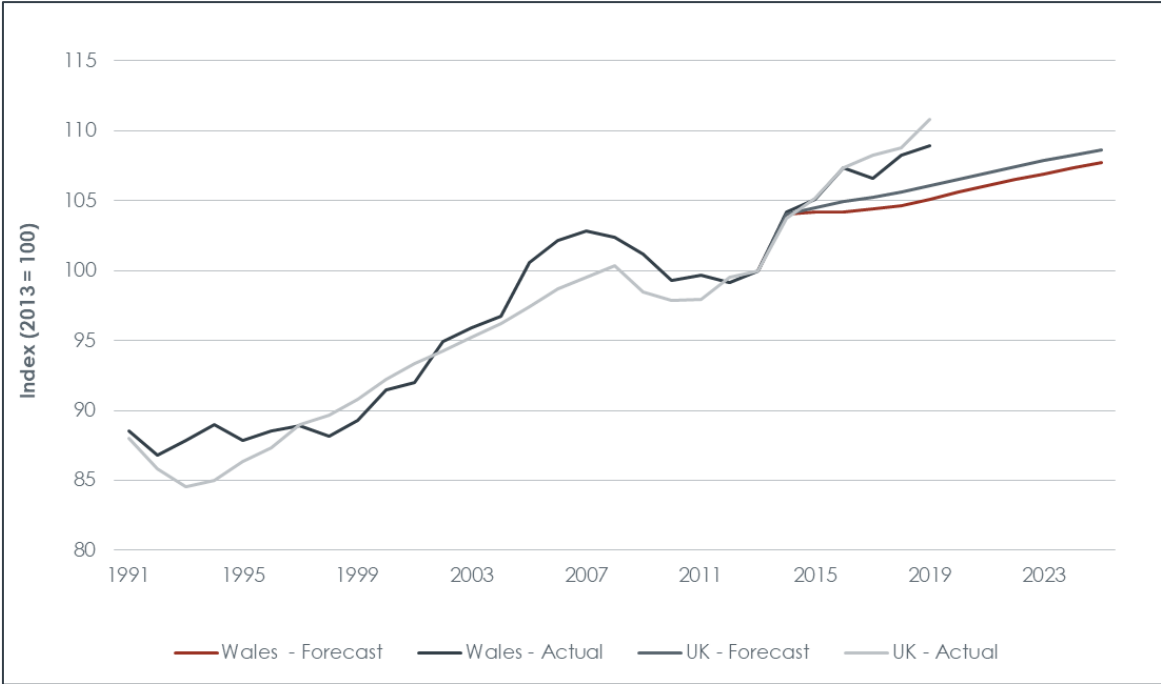
C.13 Table C-2). Mining & quarrying, Distribution and Other services experienced a decline in employment. These sectors were expected to decline or experience muted growth in the Baseline Report, but with Distribution accounting for over 10% of total employment in CCR, the decline in this sector resulted in a large number of job losses (over 10,000 jobs).

Figure C-3: Employment actuals vs projections – Cardiff Capital Region



Source: Cambridge Econometrics

Figure C-4: Employment actuals vs projections – Wales and UK



Source: Cambridge Econometrics

Table C-2: Cardiff Capital Region employment growth by sector, 2013-2019

	Forecast growth (% pa)	Actual growth (% pa)	Percentage point difference (actual minus forecast)
Agriculture	4.6	8.4	3.8
Mining & quarrying	-5.0	-2.9	2.1
Manufacturing	0.6	0.8	0.2
Electricity, gas & water	-0.6	2.4	3.0
Construction	5.3	3.6	-1.7
Distribution	0.1	-2.1	-2.2
Transport & storage	2.7	5.4	2.7
Accommodation & food services	0.1	4.4	4.4
Information & communications	1.7	8.2	6.6
Finance & business services	2.3	4.4	2.1
Government services	-0.2	0.2	0.3
Other services	0.0	-0.7	-0.7

Source: Cambridge Econometrics

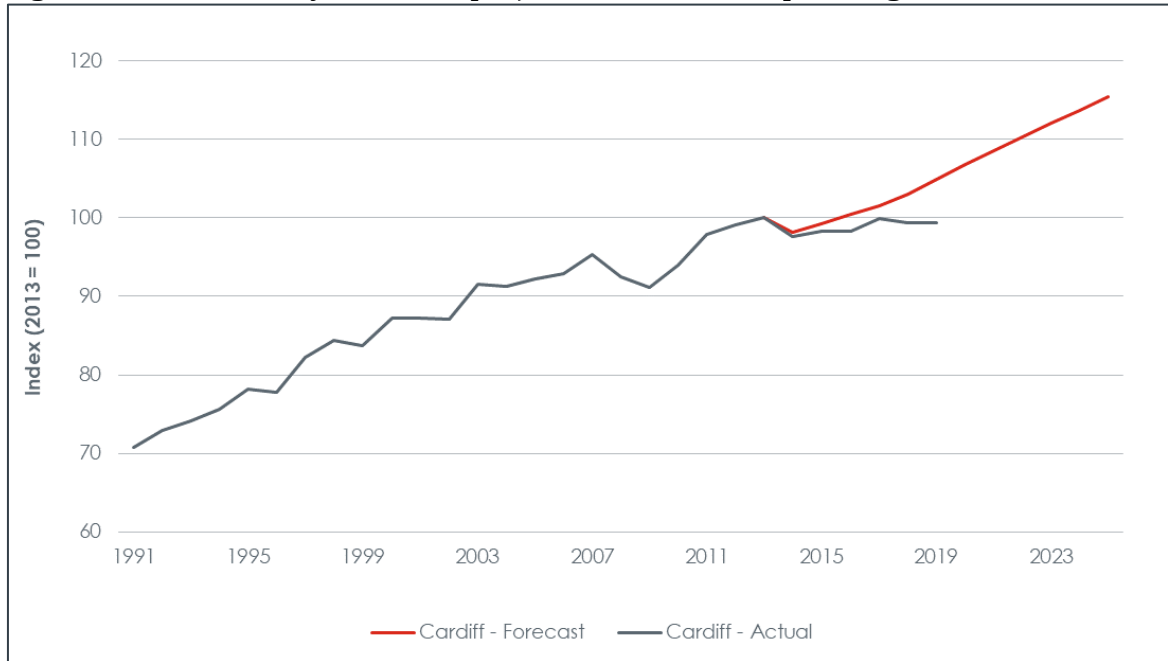
Productivity

C.14 Productivity growth in CCR was below expectations, which was a similar result to Wales and the UK (see Figure C-5 and Figure C-6). This follows on from the trend of stronger than expected employment growth at a time of slightly slower than expected GVA growth. The Baseline Report forecast productivity growth of 0.8% pa over 2013-19 in CCR, but actual growth was slightly negative (-0.1% pa). Similarly, productivity growth in Wales over 2013-19 was 1 pp per annum lower than forecast (-0.2% pa). Whilst the deviation between forecast and actual productivity growth generally increased for all areas over the forecast period, there was some fluctuation in annual growth rates, including a -2.4% decline in productivity in CCR in 2014, followed by a 1.7% increase in productivity in 2017.

Productivity growth underperformed expectations in more than half the sectors (see

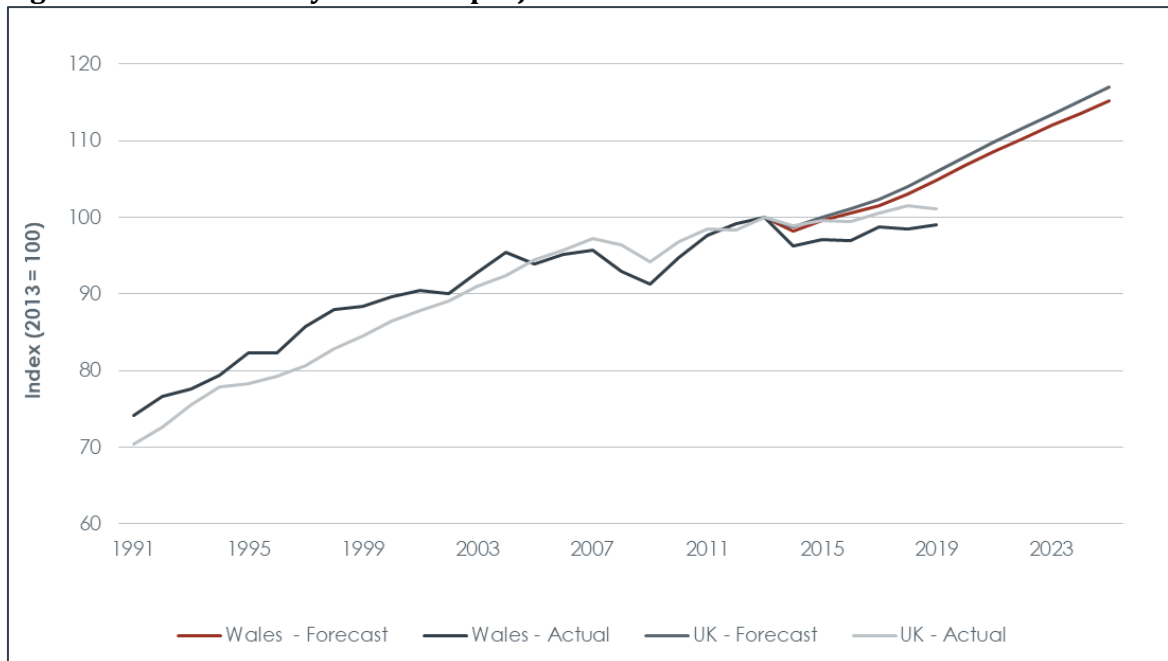
C.15 Table C-3). Transport & storage, Information & communications, and Accommodation & food services were the weakest performers relative to expectations. Productivity growth in Construction (1.1% pa over 2013-19) and Distribution (4.4% pa over 2013-19) were stronger than expected, outperforming expectations by 1.9 pp and 2.3 pp respectively.

Figure C-5: Productivity actuals vs projections - Cardiff Capital Region



Source: Cambridge Econometrics

Figure C-6: Productivity actuals vs projections - Wales and UK



Source: Cambridge Econometrics

Table C-3: Cardiff Capital Region productivity growth by sector, 2013-2019

	Forecast growth (% pa)	Actual growth (% pa)	Percentage point difference (actual minus forecast)
Agriculture	-4.0	-0.7	3.3
Mining & quarrying	4.7	13.4	8.7
Manufacturing	1.1	0.9	-0.2
Electricity, gas & water	1.4	0.3	-1.1
Construction	-0.8	1.1	1.9
Distribution	2.1	4.4	2.3
Transport & storage	0.1	-5.8	-5.9
Accommodation & food services	2.5	-2.8	-5.3
Information & communications	-0.1	-5.5	-5.5
Finance & business services	-0.3	-2.1	-1.7
Government services	0.6	-0.3	-1.0
Other services	1.4	2.1	0.7

Source: Cambridge Econometrics

Conclusion

- C.16** While employment grew stronger than expected, GVA growth in CCR over 2013-19 was slightly slower than forecast, though it outperformed Wales more widely. As a result of the trends in employment and GVA, there was slower-than-expected productivity growth (with a slight decline in productivity over the period). This underperformance in productivity was in line with the UK wide trend of flatlining productivity.
- C.17** Observed differences in expected GVA growth and actual GVA growth are likely to be largely due to deviation in actual growth from what was forecasted. It is difficult to estimate the extent to which improvements in the ONS GVA methodology caused possible differences between forecast and actual outturns, as each local area and sector will be affected differently. However, on the whole, the new ONS data are likely to have limited impacts on the deviation of actual GVA growth from what was expected in the Baseline Report at the CCR broad sector level.

Annex D: Other interventions supported through the Wider Investment Fund

Summary of key messages

- Although the Compound Semiconductor Cluster was the only intervention fully approved and incurring spend by the end of 2019, a further four interventions had been approved by the end of Quarter 1 of 2020/21, with a total WIF commitment of £50.1 million
- These comprise investments in Metro Plus (a series of local transport interventions to complement the South Wales Metro); the delivery of a four-year graduate placement scheme; the establishment of a Viability Gap Fund to bring forward housing on former industrial sites; and a direct business investment in a medtech firm linked with Covid-19 related innovation.
- In addition, in-principle commitments have been made to Metro Central (the redevelopment of Cardiff Central station and the surrounding area) and a 'front of house' facility for the compound semiconductor sector, as part of a Strength in Places Fund proposal. There is also a pipeline of emerging projects.
- While none of these interventions are subject to evaluation (or have been reviewed in detail), they suggest significant recent progress in bringing forward investment proposals, in line with the principles set out in the *Investment and Intervention Framework*.

Introduction

D.1 The Compound Semiconductor Cluster is the only intervention in scope for impact and progress evaluation at Gateway Review stage. However, by the end of Quarter 1 of 2020/21, Wider Investment Fund allocations of £50.1 million had been approved to support four further interventions, and 13 potential investments had been progressed to at least Strategic Outline Case stage. This annex sets out the process through which further projects have been approved, and summarises the approved and pipeline projects at the end of Q1 2020/21.

Investment approval process

5.31 The *Investment and Intervention Framework (IIF)* approved by Regional Cabinet in June 2019 sets out the process through which projects are considered and approved for investment from the Wider Investment Fund, in line with the strategic aim of securing a balance between the 'investment', 'innovation' and 'challenge' themes set out in the IIF. In summary, the process involves:

- An ‘open door’ to engagement on potential projects from the public or private sector, with interested parties asked to complete an **initial ‘sift’ questionnaire** to enter the pipeline. The sift questionnaire is essentially an expression of interest, which asks prospective applicants to set out the financial standing of the applicant; alignment with the objectives of the City Deal; an outline business plan; total investment to date and anticipated additional alternative sources; and the anticipated optimal structure for any funding from the Wider Investment Fund.
- Sift questionnaires are considered by an **Investment Panel** established in July 2019. The Investment Panel consists of members of the Regional Economic Growth Partnership and the (officer-level) Programme Board. The Investment Panel recommends to Regional Cabinet those proposals that should be taken to the next stage.
- This triggers a **business case development** process proportionate to the size and risk of the investment, with the Investment Panel and Regional Cabinet considering projects at the Strategic Outline Case and Outline Business Case stage, and investment decisions made by Regional Cabinet following the Full Business Case.

5.32 By the end of Quarter 1 2020/21, there were 20 projects in the pipeline (at various stages of development), in addition to the CSC Foundry and four other fully approved interventions.

Approved interventions

D.2 By the end of June 2020, Regional Cabinet had approved the following interventions (in addition to the CSC Foundry):

Table D-1: Additional approved interventions

Intervention	WIF commitment	WIF expenditure (to end Q1 2020/21)
Metro Plus	£15 million	-
Graduate Scheme	£1.545 million	£150k
Housing Investment Fund (Viability Gap Scheme)	£31.498 million	£60k
Creo Medical	£2.055 million	£2.055 million

Source: CCR, Quarter 1 Performance Report, September 2020

5.33 In October, a further intervention was approved for a **Challenge Fund**, with a commitment of £10 million from the WIF.

Metro Plus

Background

D.3 The South Wales Metro is a major infrastructure programme, involving transformational investment in the quality, speed and frequency of services across the Core Valley Lines

network, and the delivery of additional stations. However, the Metro proposition has always involved a multi-modal transport system, including integrated connectivity with the bus network²³. The *Economic and Industrial Strategy* (2018) set a priority of “embracing the Metro as a backbone to connecting the CCR” and to improving transport links across the region, linked with the Metro. Delivery of Metro Plus was also specifically set out as a priority in the 2019 Joint Working Agreement Business Plan.

D.4 In February 2019, the Regional Cabinet agreed a **Strategic Outline Programme** for a first phase of local transport schemes that would be complementary to the Metro investment. This identified an indicative programme of ten schemes across the region, with a total estimated value of around £50 million. The Strategic Outline Programme proposed Wider Investment Fund investment of £15 million, matched with £15 million from the Welsh Government’s Local Transport Fund²⁴ and £20 million from local contributions.

D.5 At strategic level, the benefits envisaged within the SOP included:

- Improved accessibility to work, learning and leisure opportunities (including through the role of transport interchanges in facilitating connections to the Metro ‘spine’ from communities further afield)
- Increased retail, leisure and other economic opportunities through the development of a range of uses at interchanges beyond transport
- Environmental benefits, through the incorporation of measures to support the roll-out of electric vehicles (e.g. new charging points)²⁵ and increased modal shift
- Promotion of active travel and support for walking and cycling.
- Skills development and training, with the intention for a targeted recruitment and training programme to be incorporated as part of all works contracts
- Scope for income generation and a financial return on investment that could be recycled through the WIF (although it should be noted that no future receipts are factored into the Wider Investment Fund’s future financial profile at the scale of the Metro Plus programme as a whole).
- Opportunities for digital infrastructure development (e.g. the development of apps and digital tools to help customers make the best use of improved connectivity).

D.6 Following the Strategic Outline Programme, the Regional Cabinet gave ‘in principle’ commitment to the use of the Wider Investment Fund for Metro Plus, subject to the adoption

²³ Mark Barry (2011), *A Metro for Wales’ Capital City Region*, IWA/ Cardiff Business School (<https://www.iwa.wales/wp-content/media/2011/02/iwa-metroreport.pdf>)

²⁴ The LTF is an annual grant. The expectation is that £5 million LTF per year over three years will co-finance the Metro Plus schemes, with a single regional bid submitted to the Welsh Government on behalf of all ten local authorities.

²⁵ Alongside the SOP, CCRCO commissioned a supplementary report into the scope for greater use of electric vehicles and charging options.

of a **Common Assessment Framework (CAF)** for individual projects, designed to assess the contribution of each scheme to meeting the economic objectives of the City Deal, as well as the transport considerations included in the WelTAG business case process. The CAF was approved by the Regional Transport Authority in November 2019, with authority to approve individual Metro Plus investments delegated to the RTA, up to the £15 million allocation limit.

Metro Plus projects

D.7 Phase 1 of the Metro Plus programme consists of ten projects, each of which have been allocated £1.5 million from the Wider Investment Fund, matched with the same amount from the Local Transport Fund and supplemented with local contributions as appropriate. These are set out in the table below:

Table D-2: Metro Plus Phase 1 interventions

Project	Summary description	Completion date
Pentrebach Park & Ride	Park and ride at Pentrebach station (south of Merthyr Tydfil), to be delivered in time for the doubling of frequencies on the Merthyr rail line. The site is linked with a mixed-use residential and business development on a former factory site.	December 2022
Pontypool & New Inn Park & Ride	Park and ride at Pontypool and New Inn station (on the Newport-Hereford line), accessible from the A4042 trunk road. The scheme includes improved station facilities and is intended to provide a rail interchange point for passengers in the Eastern Valleys not served by rail infrastructure (e.g. Blaenavon and Abersychan) and parts of Monmouthshire. It will also serve a new housing/ employment scheme at Mamhilad, north of Pontypool.	July 2021
Abertillery Transport Interchange	Development of a new transport interchange in advance of, and to accommodate a proposed new rail link to Abertillery from the Ebbw Vale line.	TBC
Barry Docks Bus Interchange	Bus and rail interchange in Barry town centre, extending the existing park and ride site, expanding to meet rising demand and to serve Cardiff Wales Airport.	March 2022
Caerphilly Bus Interchange	New transport interchange on the site of the current bus and rail stations, including improved facilities, electric vehicle charging and a larger park and ride facility.	2023
Newport Priority Bus Route	Priority bus route from east Newport into the city centre, linked with a new park and ride facility to support the Royal Gwent Hospital	March 2022
Pyle Park & Ride and Porthcawl Bus Station	Park and ride within an integrated transport hub serving Pyle and surrounding area, with a bus interchange at Porthcawl as part of the same scheme.	March 2022
Porth Interchange	Transport hub linked with Porth rail station (coinciding with improved frequencies as part of Metro), including	December 2021

Project	Summary description	Completion date
	improved station facilities and contributing to a regenerated Station Quarter.	
East Cardiff Bus Priority and Cycle Superhighway	Series of sustainable and active travel packages that will enable improved bus connections to Cardiff city centre and employment zones and deliver a 'Central Cycle Superhighway' connecting existing cycle routes to the city centre.	December 2021
Severn Tunnel Junction Park & Ride	Expanded park and ride facility at Severn Tunnel Junction station, enabling an improved bus/ rail interchange and potentially improvements to the station itself.	December 2021

Source: CCR Regional Transport Authority, September 2020; CCR

D.8 Construction work has started on two of these schemes – Porth Interchange and Pontypool and New Inn Park and Ride (in January and March 2020 respectively). As work is advanced on the Porth scheme, it has been considered further as an ‘intervention-up’ case study. This case study is included within the Capacity Development and Partnership Working Evidence Paper, which accompanies this report.

Wider Investment Fund expenditure

D.9 No Wider Investment Fund monies had been spent on Metro Plus by the end of Q1 2020/21²⁶. However, it is anticipated that £5.185 million will have been spent by the end of the financial year.

Future plans

D.10 A further ten schemes have been identified for a Metro Plus Phase 2 programme, alongside four ‘Metro Enhancement Framework’²⁷ projects. These are currently being developed via the Welsh Government Local Transport Fund: there is no commitment at present from the Wider Investment Fund, and any funding allocations will be dependent on an application and business case development process.

Graduate Scheme

Background

D.11 In December 2018, Regional Cabinet approved a **pilot Graduate Scheme**. This brokered internships and placements for graduates with SMEs in the region, in conjunction with

²⁶ Note that as the matching Local Transport Fund is an annual allocation, schemes are profiled to spend money from LTF first.

²⁷ The Metro Enhancement Framework (MEF) seeks to support improvements to those elements of the wider Metro strategy that are currently outside the Core Valley Lines Metro investment (e.g. on the Vale of Glamorgan and Maesteg lines).

regional universities. Following a review of the pilot, Regional Cabinet considered a full business case in March 2020, and agreed to support a full four-year programme from April.

- D.12** The rationale for the pilot scheme was to “reverse the ‘brain-drain’” associated with a net loss of graduates from the region, while improving the productivity and growth potential of businesses that historically would have had little engagement with the graduate jobs market. This built on the recommendations of CCR’s Growth and Competitiveness Commission (2016), which noted a need to focus on retaining graduate talent in the region, making efforts to match them with job and enterprise opportunities²⁸.
- D.13** A review of the pilot, based on 28 filled placements, found that the ratio of private leverage to WIF funds invested was around 5.8:1, based on actual graduate salaries and on-costs. It also found that the placements created were appropriate to graduate skills, that there was high business interest, and that of those completing placements, all had been offered permanent positions with the employer – although it was too early to identify any impacts on business growth or productivity. The review also set out several recommendations for future scheme design, including more innovative approaches to placement advertising and business engagement, better coordination of university involvement, and a more targeted approach to creating opportunities in specific sectors, in line with the *Industrial and Economic Plan*.
- D.14** Alongside the review, CCR commissioned Nesta to prepare a review of *The Future for Skills in Cardiff Capital Region*. This recommended (*inter alia*) the opportunity to align an expanded Graduate Scheme with Shared Apprenticeships within the priority growth sectors identified in the *Industrial and Economic Plan*, and the need to provide better coordinated labour market information and career pathways.
- D.15** Following this, CCR developed a ***Future Ready Skills Framework***, which was considered by Regional Cabinet in March 2020. This draws on the Nesta work and the Graduate Scheme review, and proposed (alongside seven other ‘pillars of activity’ a scaling up of the Graduate Scheme. This informed a Full Business Case for an expanded scheme.
- D.16** The expanded scheme will run for four years from April 2020, with the aim of supporting placements and internships for 500 graduates over that period. Key performance indicators include a 60% conversion rate from graduate placements into permanent roles and a target of £8.45 of private leverage for every £1 of CCR investment.

Expenditure

- D.17** Total WIF expenditure over the lifetime of the Scheme is expected to be £1.538 million, including £117k spent on the pilot scheme in 2018/19 and 2019/20, prior to the development and approval of the FBC.

²⁸ CCRC (2016), [Growth and Competitiveness Commission: Report and Recommendations](#)

Homes for All the Region (Viability Gap Fund)

Background

- D.18** Housing development was a key theme in the original City Deal, and there is a widespread recognition that there is a viability challenge in bringing forward stalled sites for housing development, especially on former industrial land. The JWA Business Plan noted that there could be a variety of mechanisms used to bring sites forward, and proposed the principle of a regional housing investment fund, the concept of which was discussed by Regional Cabinet in 2018.
- D.19** Developing the concept further, a business case for a housing investment fund was prepared, alongside a Housing Market Review. This led to a Full Business Case approved by Regional Cabinet in March 2020, which proposed a **Viability Gap Fund** and an **SME Finance Fund**.

Viability Gap Fund

- D.20** The Viability Gap Fund (VGF) is intended to provide ‘patient finance’ to support infrastructure development to bring schemes forward and to support land reclamation and remediation. Within the aims of the *Investment and Intervention Framework*, the return on investment is primarily seen in terms of ‘creating the conditions for private sector success and civic benefit’, rather than a direct financial return to the Wider Investment Fund, although profit will be shared between developers and the Wider Investment Fund based on an agreed overage arrangement at the start of each deal²⁹.
- D.21** The Viability Gap Fund will target ‘marginally unviable’ sites that have a ‘gap’ requirement of between £1 million and £8 million, anticipated to be mid-sized sites of 40-350 units. The intention is that this will complement other schemes, such as the Stalled Sites Fund proposed by the Welsh Government, which is focused on larger developments. Funding will be directed towards private and public sector-led schemes, although in all cases the funding will be channelled via the relevant local authority, in order to ensure strategic policy compliance.
- D.22** The VGF has total Wider Investment Fund investment of £30 million, made up of:
- £15 million ‘ring-fenced’ to Blaenau Gwent, Caerphilly, Merthyr Tydfil, Rhondda Cynon Taf and Torfaen (the five ‘bottom-ranked’ authorities on the UK Competitiveness Index)
 - £15 million available on merit throughout the region.
- D.23** In addition, a further £5 million has been added to the scheme from the Welsh Government, subject to proposals meeting supplementary Welsh Government criteria in relation to space standards and affordable housing.

²⁹ For example, where actual sales are greater than the forecast values in the original viability assessment, the pre-agreed overage arrangement will commence, with caps on developer profits.

- D.24** The FBC for the scheme anticipates that the VGF will help to bring forward up to 2,800 homes, secure up to £490 million in private sector leverage and “have the potential to leverage an additional £870 million of additional economic output”.
- D.25** Since the FBC was approved, CBRE has been appointed to a technical advisory role. The window for applications to the VGF opened in September 2020 and expected to conclude in December, with contracting and due diligence taking place in 2021 and all funds drawn down and spent by March 2024.

SME Finance Fund

- D.26** Supplementing the VGF, an SME Finance Fund is to be established using £10 million Welsh Government Funding. This will be a fully-recoverable fund, intended to increase SME developers’ access to the market. Work is underway (in September 2020) to procure an FCA-registered fund manager, with a view to an FBC coming forward to Regional Cabinet in March 2021.

Creo Medical

- 5.34** In May 2020, Regional Cabinet approved a series of priorities for addressing the economic impact of Covid-19, supplemented by a Covid-19 ‘addendum’ to the *Investment and Intervention Framework*. This included focusing on measures to accelerate the development of the med-tech cluster.
- 5.35** Following consideration by the Investment Panel, Regional Cabinet approved WIF funding of £2.055 million in May 2020 to Creo Medical, a medical technologies business based in Chepstow. This took the form of a loan agreement to support Creo Medical in the development of cool plasma sterilisation and decontamination technology, to enable it to launch new anti-viral and anti-bacterial products on the market. The loan is expected to be repaid with interest within five years, and is anticipated to support 30 jobs by the end of 2020 and a further 70 jobs as production is rolled out. Wider benefits are expected to include increased expenditure on business R&D, increased turnover and private sector leverage.

CCR Challenge Fund – Re-building community wealth post Covid-19

- D.27** In October 2020, Regional Cabinet approved WIF investment of £10 million in a CCR Challenge Programme aimed at “rebuilding local wealth post Covid-19”. This investment leverages a potential £5.6 million through the ERDF-funded Innovative Future Services (InFuSe) programme (subject to approval) and will establish a challenge programme to demonstrate how innovation can be applied to major societal challenges to generate economic and social impact and potentially lead to commercial opportunities. The programme will focus on challenges associated with decarbonisation; community cohesion; and food and health and food security, with the potential addition of further challenge themes over time.

D.28 The Challenge Fund explicitly seeks to “drive a more experimental approach to economic growth” in responding to challenges where there are no ready solutions or products available. It proposes using the R&D business case development process used for the Small Business Research Initiative (SBRI) as a recognised alternative to the standard ‘five case’ business case process, in circumstances where a ready solution does not exist. It responds to the ‘challenge’ component of the CCR Investment and Intervention Framework and the ‘post-Covid priorities’ adopted by Regional Cabinet in May.

Interventions nearing approval

D.29 ‘In-principle’ allocations have been agreed for a further two projects:

Table D-3: ‘In-principle’ approvals

Intervention	WIF commitment (in-principle)	WIF expenditure (to end Q1 2020/21)
Metro Central	£40 million	£1.173 million
CS Connected	£3.3 million	£75k

Metro Central

D.30 Metro Central is a major transport and regeneration scheme in Cardiff city centre, which involves redevelopment of Cardiff Central station and the surrounding area to improve connectivity between the Metro, other public transport and the intercity rail network and to bring forward additional sites for commercial development.

D.31 The Metro Central scheme has a total estimated cost of £185 million. In 2018, Regional Cabinet agreed to an ‘in-principle’ allocation of £40 million towards the scheme, as part of a total package, made up (indicatively) of:

Table D-4: Metro Central funding package

Element	Funding source	Indicative investment
Bus interchange	Welsh Government	£30m
Central station: North concourse, weather protection, stairway remodelling	CCR Wider Investment Fund	£40m (max)
Central station: Platform 0, other rail infrastructure	DfT	£58.3m
Central station: North-south connectivity improvements and Metro integration	Welsh Government	£15m
Central station: Concourse buildings and car park	Private sector	£40m

Source: CCR, Metro Central OBC report, March 2020

D.32 At this stage, costs are indicative, pending the development of a Full Business Case. Alongside its commitment to co-invest, CCR requested in 2018 that the scheme be supported by a

‘programme-level’ FBC, to take into account the wider activity associated with commercial development around Central Station, as well as the transport-related business cases for each element.

D.33 To progress the FBC, Regional Cabinet approved up to £4 million Wider Investment Fund contribution in March 2020. By the end of Q1 2020/21, £1.173 million WIF had been spent on Metro Central, including earlier spend in 2019/20.

CS Connected

D.34 In 2019, CS Connected submitted a full application to UKRI’s Strength in Places Fund for a £43.3 million project to support the development of the compound semiconductor cluster. This is complementary to the Wider Investment Fund’s existing investment in the compound semiconductor foundry at IQE, and is supported by the leading businesses in the sector (IQE, Microsemi, SPTS and Newport Wafer Fab), as well as by Cardiff and Swansea Universities and the Welsh Government. This application was approved earlier in 2020.

D.35 Within the application, CCR committed to a £3.3 million contribution towards capital investment in a new ‘front of house’ facility at the CSC Foundry, including a headquarters facility for CS Connected. This would comprise half the costs of conversion of the existing buildings to provide new offices and a marketing suite. Approval of this in-principle funding commitment will need to follow a business case proposal from the consortium lead (Cardiff University), in line with the *Investment and Intervention Framework* process.

The pipeline

D.36 Within the wider pipeline, some 18 interventions are at various stages in the business case development process. Those at OBC/ FBC stage include:

- A proposed **Life Sciences Innovation Park**, to be developed on the former GE Healthcare research and development facility in North Cardiff. This is complementary to the current Medical Devices and Diagnostics Strength in Places Fund currently in development (and the wider development of the medtech sector more broadly)
- A proposed **CCR Premises Fund**, to bring forward sites for commercial development, recognising the current shortage of good-quality sites in the region
- A **Local Full Fibre Network** project, supported by DCMS and linked with the delivery of Metro
- Proposed investment in **Pharmatelligence**, a healthcare data company based in Cardiff, supporting innovative product development in response to the Covid-19 pandemic.

D.37 Projects currently at SOC or pre-SOC stage include programme proposals (including the concept of a cluster support fund to invest directly in businesses, via an FCA-registered fund manager), infrastructure proposals and individual commercial propositions.

Bringing it together: Some conclusions on recent and pipeline investments

D.38 At the Gateway Review stage, only one investment has been fully approved and 'delivered', and this is subject to detailed analysis in the main body of this report and the supporting evidence papers. However, there is evidence that significant progress has been made in bringing forward additional investment proposals. Although these are outside the scope of this evaluation (and no consultation has taken place in relation to these potential interventions other than with the core CCR team), some observations are worth making:

- **The value of commitments approved in 2020 is significant**, at just over £50 million from the Wider Investment Fund. Some of this funding is still subject to further business case development (for example the Housing Viability Gap Fund is dependent on appropriate projects coming forward), although timescales for project development within the 'programme allocations' are clear.
- **There is a commitment to financial return on investment where possible**, although as outlined in the *Investment and Intervention Framework*, this takes different forms across projects.
- **There is a strong pipeline of potential investments**, with, in addition to those pipeline schemes recorded in the numbers cited above, several early stage proposals that have been considered and rejected by the Investment Panel at the early Sift questionnaire stage.
- **CCR is looking to alternative mechanisms of managing the pipeline**, recognising capacity constraints and the challenges in managing larger numbers of commercial investments. Proposals for a separate cluster support fund and premises fund reflects this, and potentially responds to some of the views raised by strategic consultees in the context of the capacity and partnership development elements of this evaluation.



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SQW is a leading provider of research, analysis and advice on sustainable economic and social development for public, private and voluntary sector organisations across the UK and internationally. Core services include appraisal, economic impact assessment, and evaluation; demand assessment, feasibility and business planning; economic, social and environmental research and analysis; organisation and partnership development; policy development, strategy, and action planning. In 2019, BBP Regeneration became part of SQW, bringing to the business a RICS-accredited land and property team.

www.sqw.co.uk

Oxford Innovation

Oxford Innovation is a leading operator of business and innovation centres that provide office and laboratory space to companies throughout the UK. The company also provides innovation services to entrepreneurs, including business planning advice, coaching and mentoring. Oxford Innovation also manages investment networks that link investors with entrepreneurs seeking funding from £20,000 to £2m.

www.oxin.co.uk