

**18 May 2020**

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## **GATEWAY REVIEW – ONE YEAR OUT REPORT: RISKS & ISSUES**

### **REPORT OF CCR CITY DEAL DIRECTOR**

#### **AGENDA ITEM 6**

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##### **Reason for this Report**

1. The anticipated 'One Year Out' report by National Evaluation Panel leads SQW has now been carried out ahead of Gateway Review in March/April 2021. This report sets out the main findings of the one year out report and takes the opportunity to highlight associated risks and issues as we move into the pre-Gateway period. It is important to note, all of the work to date to inform the one year out and previous economic baseline and evaluation reports under the Locality Evaluation Plan have been done pre COVID-19. It is now striking that CCR's first Gateway Review will take place post COVID-19; and, amidst a period of anticipated economic downturn.
2. This report also adds weight to making the case to work directly with UK Government and Welsh Government (WG) to co-design the Gateway Review process. In the light of the shifts and changes occurring in the regional economy that will impact the baseline previously set, it is vital that a 'business as usual' approach to assessment is avoided. In addition, there are several outstanding issues on which WG and UK Government direction is awaited and these must now be concluded.
3. This issues above necessitate preparing for Gateway in a different way and ensuring that CCR's approach to risk is comprehensively reviewed and updated. This report thus, starts to outline the significant risks and issues posed in terms of the macro-economic climate, policy direction and to the programme itself, along with its key targets. The findings of review (along with suitable recommendations) will be brought back to Regional Cabinet in the form of a comprehensive CCR Risk Management Strategy and Policy.

##### **Background**

4. As set out in previous reports, SQW is leading the National Evaluation Panel, undertaking an independent evaluation of local growth interventions across the UK. These interventions are funded through investment funds devolved to 11 localities in cohort 2, including the Cardiff Capital Region City Deal Wider

Investment Fund. Their ongoing assessments of progress will be submitted to inform the UK Government's first Gateway Review of the Wider Investment Fund, which is due to take place in March/April 2021.

5. The scope of the evaluation relates to the City Deal signed in March 2016 across the ten CCR Councils, the Welsh and UK Governments for c£1.2bn. This comprises £734m for the SW Metro (outside of the SQW work but likely to be in scope for Gateway) and £495m for the Wider Investment Fund which is in direct scope and the focus of the Locality Framework.
6. Within the original heads of terms agreed in March 2016, a range of potential interventions were highlighted, including transport schemes, investment to unlock housing and employment sites, and the development of R&D facilities. The heads of terms also specifically stated that CCR "will prioritise interventions that support the development of an internationally competitive compound semiconductor cluster". No funds were 'designated' to specific projects within the City Deal itself.
7. One project had been fully approved and had spent WIF monies by 31<sup>st</sup> December 2019 (the cut-off date imposed by UK Government) and is therefore 'in scope' for the most recent evaluation. This is the Compound Semiconductor Foundry (CSC) project, which involves WIF investment of £38.5 million towards the Newport mega-Foundry (c£33m of which has been drawn down to date).
8. The evaluation is now well underway, and a baseline report was completed in May 2019 and a 'one year out' report was completed in April 2020. The Final Evaluation Report is now underway and due in draft by September 2020.

### **One Year Out Report**

9. The one-year report has been carried out in line with the Locality Evaluation Plan presented to Cabinet in June 2019. This Evaluation Plan is an evolving document; focussed principally on the CSC Foundry project; and, sets out a clear logic model for assessment. In addition to this, it provides for an overarching strategic-level evaluation; contextual economic forecasts and three consecutive rounds of reporting. This is all now fully synched with the Annual Business Plan and quarterly reporting. The costs of all aspects of the work around the Compound Semiconductor project evaluation, baseline report, one year out report, final report and capacity and partnerships development have been previously reported at £217,524.
10. The Baseline Report and Locality Evaluation Plan was also presented to Cabinet in June 2019. This concluded the CSC Project was well underway; the project scope was greater than the just the Foundry element, given the potential around the wider Compound Semi-Conductor Cluster; job creation is underway and more clarification needed on the process of tracking jobs. In general the view was that CCR Wider Investment Fund HAS had positive impact on local economic development capacity, is driving demand, better evidence and decision making, with scope for further business engagement.

11. The one-year out report was finalised in April 2020 now builds upon this and will inform the full evaluation scheduled for the end of 2020 to inform Gateway Review in March/ April 2021. The report provides an update on WIF progress; sets out findings of the impact evaluation into the WIF CSC Foundry Project; emerging findings in relation to wider partnership and capacity development; and identifies the issues needing to be addressed in advance of the final evaluation. It further confirms the approach and timing of the final evaluation.
  
12. The full report (including the Risk Register) is attached at Appendix 1. A summary of report findings is included below:
  - overview of the CS Foundry Project concludes quick delivery of the cleanroom and commercial floor space in line with plans and is in now in productive use with 70 jobs created; safeguarding of a further 546 and inducement/ indirect creation of 259 through local supply chain and household effects;
  - a further 697 jobs indirectly supported to date within the semiconductor sector in SE Wales since the commencement of the Foundry;
  - notes the global challenging market place for the sector, reflected in lower to date than anticipated WIF spend at this time (c88%) and thus, commercial leverage achieved to date. It is noted uncertainty will persist but that the medium term outlook is positive;
  - consultees considered the investment to be key in securing IQE's ongoing investment in the region;
  - there are signs of emergent cluster behaviour - CS Catapult is operational within the Foundry building, a consortium bid to Strength in Places is prepared and submitted, a wider set of activities is underway and consultees positive about supply chain impact and positive interest in Imperial Park and the project's role in setting the bar for future submissions into the WIF;
  - notes the progress in the adoption of the Investment and Intervention Framework and pipeline development;
  - the approval of CCR's Homes for all the Region and the Graduate Scheme and funding commitments made with a six further substantial projects at SOC/ OBC stage;
  - notes positives in partnership development, confidence in joint working and collective decision-making & appetite for partnership beyond City Deal;
  - notes the will to drive a more commercial approach and ROI through portfolio activity as well as seeking to promote an equitable distribution of opportunity across CCR and cohesive political partnership;
  - evidence of sharing resources and expertise between CCRCD, LAs and the private sector. This is seen as a positive in light of pressure on public resources and imbalanced capacity at the local level across CCR.
  
13. There are follow-up actions to keep on top of, arising from this for CCR:
  - achieve a balance of 'evergreen' ROI focus with the need for schemes that deliver inclusive opportunities across the region;
  - build stronger links across R&D and manufacturing in the CCR and UK;

- explore opportunities for UK based OEMs to engage with the cluster to grow the UK impact in advanced electronics;
- look to strengthen the HE base and provide support for interaction between smaller firms and the research base;
- explore future inward investment opportunities at Imperial Park;
- enhance the profile of the CSC Foundry and Cluster developments;
- ensure governance structures are implemented for CS Connected to ensure maximum impact of future strength in Places investment.

## **CCR Final Evaluation Report**

14. In addition to the Baseline and first locality evaluation report, and now, the one-year out report, the final report to be produced by SQW under the National Evaluation Framework, is the Final Evaluation Report which will be delivered prior to Gateway Review.
15. Again, impact and progress evaluation of the Compound Semiconductor Cluster project is in scope and will assess the extent to which the intervention has addressed market failures in the property market; brought about effects in relation to the location and performance of IQE; and begun to have an effect on other businesses and the wider ecosystem around compound semiconductors. This will be completed through: consultations with IQE and other key players in the sector (within the Cardiff Capital Region), wider stakeholders, project leads, and property market experts; and reviewing monitoring data and any secondary data on the development of the sector.
16. The strategic-level evaluation to assess partnership working and capacity development will involve an online survey (baseline and follow-up), strategic-level consultations. In addition, there will be a case study on the strategic effects of one of the Investment Fund's interventions (to be agreed with the Cardiff Capital Region Investment Fund team, but perhaps one of the other recently-approved interventions, such as the Housing Investment Fund).
17. Finally, the evaluation will involve contextual economic forecasting to provide narrative on the conditions and expectations of the economy at the time that the WIF was agreed, and how conditions have changed since that point. The independent academic peer support group will feed into this final piece of work.
18. The current timescale is for the report to be submitted to central government's Cities and Local Growth Unit (CLGU) in November 2020. The key timings up to that point are as follows:
  - kick-off of the final phase - April 2020;
  - interviews and the online survey will take place in June and July 2020;
  - a full first draft of the evaluation report will be completed in early September 2020, in order to allow time for comments from CCR partners and our academic peer review group and engagement with CLGU.

19. The timetable for the final evaluation is set out in the table below:

Workstreams	Tasks	Timeline														
		Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20						
Impact	Research design - additional consultation tools Consultations with IQE wave 3 Consultations with other firms in the sector wave 2 Intervention lead (SPV, CCR) consultations wave 3 Wider stakeholder consultations wave 2 Analysis of data - KTN and monitoring (outcomes) data Overall impact analysis Draft final impact evaluation plus present findings															
Progress	Mid-year data review Review monitoring data - final Intervention lead consultation wave 3 Synthesis and drafting of final progress findings															
Complementary workstreams	Online survey wave 3 Strategic consultations wave 3 Review out-turn vs. contextual forecasts															
Meetings	Kick-off for impact and progress evaluation work - final Presentations of interim and final findings															
Drafting	Synthesis of workstreams in draft report Finalise reports															
	<b>Locality Final Report</b>															

## Gateway Review

20. Gateway Review is set to take place in March/ April 2021 and will build upon the three outputs described in this report. Gateway Review will be conducted by UK and Welsh Government. The process and design for this is this is yet to be communicated and agreed. There are several issues and queries which are outstanding at this time which CCR has posed to governments, in the interests of seeking clarity, over a period of time. These are:

1. apportionment of targets – following several discussions CCR has written to UK and Welsh Governments to seek formal clarification on the target apportionment across CCR WIF and the SW Metro projects. Options have been out forward for consideration with the CCR Chair endorsing the approach and a preferred option;
2. linked to this, the nature of inclusion for SW Metro in the Gateway Review;
3. treatment of ‘evergreen’ recycled funds and how they might be assessed differently to grants.

21. It is now suggested that the Chair of CCR writes to UK and Wales Governments to formally seek clarity in order that there are clear parameters to the review and CCR can begin to prepare. Within this in mind, it is also suggested that CCR should have a role in co-designing the process to achieve optimal value. It is important that CCR is on the front foot to begin providing its own evidence into the review and continually updating its self-evaluation.

## Development of CCR Risk Management Strategy and Policy

22. As mentioned above, the work to date against the National Evaluation Framework and to inform Gateway Review through assessment and baseline economic progress, has all been carried out pre-COVID-19. The final report to

inform Gateway Review itself however, will now be undertaken in a very different post-COVID-19 world and almost definitely in a period of dramatic economic downturn.

23. This means preparing for a new reality and means having to re-contextualise and re-base assumptions as well as plan for what are likely to be structural and systematic changes to the CCR economy. The one-year out report also highlights key risks and the need for them to be quickly addressed. The best way of doing this is through two key means:
- the first is to clearly establish the evidence base and data on which to re-set priorities for CCR City Deal. This has been achieved through the ‘CCR Priorities for COVID-19 and beyond’;
  - the second is to re-appraise the existing Risk Register and evaluate the new risks and issues and the impact upon existing ones, as a result of COVID-19 and arising from activities that now need to happen in the lead-in to Gateway Review.
24. For the purposes of this report and as a starting point for a more detailed review, the current CCR Risk Register and associated processes have been reviewed. This work has identified the following points:
- the need for a step change in CCR’s approach to risk by putting Risk Management at the centre of what it does. This will necessitate building on the work done to-date, through the development of a CCR Risk Management Strategy and Policy;
  - the Risk Management Strategy and Policy will need to reflect CCR’s objectives and priorities as set out in its Industrial and Economic Plan and its Investment and Intervention Framework documents, noting the complex commercial and economic space in which it operates;
  - the development of CCR’s Corporate Risk Register, capturing both:
    - **Key Strategic Risks** - macro-economic and social picture and responds to the high-level targets that have been set out for CCR of jobs, growth, leverage and economic inclusion;
    - **Key Operational and Programme Level Risks** – ensuring there is visibility and a line of sight on those risks that need to be managed on a more regular basis to ensure the City Deal continues to operate effectively so it can deliver the intended outcomes.
  - Operating below the Corporate Risk Register, will be an effective environment of regular risk assessment and issue identification/resolution. These will be managed through the use of appropriate tools, but crucially the need to ensure these key tasks are completed on a regular basis, monitored and appropriate escalation processes are in place.

25. Attached at Appendix 2 is an summary example of how CCR's Corporate Register may be structured to reflect immediate risks and issues and their potential impact upon CCR and CCR City Deal, in order to provide focus and to promote early activity and responses – especially in so far as they sit with the ten Councils as distinct from the City Deal Office. This will be brought back comprehensively to Regional Cabinet in the next few months, in the form of a Risk Policy, updated high-level Risk Register as well as a programme-level Risk and Issues Log.
26. The updated risk register will seek to capture macro-economic and policy risks coupled with programme-specific risks and issues, such as:
- post-COVID-19 economic impact – as we come out of economic hibernation, there will be new realities and challenges;
  - the Gateway review will now highly likely occur in a period of economic uncertainty and downturn – this will impact baseline, measures and expected progress, especially with particular projects that may become caught in cross-currents – graduate scheme, housing and transport;
  - the Gateway review will commence in March/April 2021. However, all of the resources, staffing and capacity in place is only up to 31 March 2021. This poses real risks to not just gateway itself, but in preparation period leading up to it, and in ability to recruit now, to deliver projects in the current pipeline and for project continuity beyond April 2021;
  - the Gateway review design and deployment and inclusion of CCR in this process – this is a risk especially in the light of external economic issues beyond our control;
  - the need for urgent clarification on parameters for Gateway Review – targets, leverage and inclusion of Metro;
  - Regional Investment Framework for Wales – this risk relates to new WG-led Regional Economic Frameworks, the deployment of successor regional investment funds, new CJs and the impact upon CCR.
27. It is further anticipated that through the summer months, a one year assessment and review of the IIF operation will be undertaken. Understanding what has worked, what could work better and lessons learnt will also help inform this re-appraised consideration of risk processes.
28. Risks in relation to the Compound Semi-Conductor project are set out in the One Year Out report which is attached at Appendix 1.

### **Reasons for Recommendations**

29. The reasons for recommendations relate to:
- the need for Cabinet to note and endorse the one year out report and all resultant actions;

- the need for Cabinet to note the final review points ahead of Gateway Review;
- the need for Cabinet to note the need for urgent clarification on outstanding issues ahead of Gateway review;
- the need for Cabinet to note the risks arising both ahead of and to Gateway Review, that require immediate address and foresight/ planning – particularly those outside of the City Deal Office jurisdiction;
- the need to re-appraise the risk register and introduce a Risk Policy.

### **Financial Implications**

30. This report notes that costs associated with work leading towards the Gateway Review are significant and that it is important that Regional Cabinet understand what it is involved and the value added. It is also important to note that funding for 2021/22 and beyond is conditional on CCRCD successfully passing this Gateway Review, whilst any unspent funding up to this time may be subject to repayment if Gateway Review is not passed.
31. The total cost of SQW's work over the period from 2018/19 to 2020/21 is £217,524, of which, £110,400 has been charged to date, with an outstanding balance of £107,124 to be incurred in 2020/21. These costs are included in the Joint Committee Revenue Budget and Regional Cabinet will be updated via the regular Joint Committee Budget Monitoring Reports throughout 2020/21.

### **Legal Implications**

32. In considering its endorsement of this One Year Out report the Regional Cabinet must have regard to, amongst other matters:
  - (a) the obligations set out in the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards;
  - (b) the public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties, when making decisions, public bodies must have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics, which are set out in section 4 of the Equality Act 2010.
  - (c) the Well-being of Future Generations (Wales) Act 2015. The Well-being of Future Generations (Wales) Act 2015 ('the Act') is about improving the social, economic, environmental and cultural well-being of Wales. The Act places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language and is globally responsible. In discharging their respective duties under the Act, each public body listed in the Act (which includes the Councils comprising the CCRC) must set and published wellbeing objectives. These objectives will show how each public body will work to achieve the vision for Wales set out in the national wellbeing goals. When

exercising its functions, the Regional Cabinet should consider how the proposed decision will contribute towards meeting the wellbeing objectives set by each Council and in so doing achieve the national wellbeing goals. The wellbeing duty also requires the Councils to act in accordance with a 'sustainable development principle'. This principle requires the Councils to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

Put simply, this means that Regional Cabinet must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, Regional Cabinet must:

- look to the long term;
- focus on prevention by understanding the root causes of problems;
- deliver an integrated approach to achieving the 7 national well-being goals;
- work in collaboration with others to find shared sustainable solutions;
- involve people from all sections of the community in the decisions which affect them.

33. Regional Cabinet must be satisfied that the proposed decision accords with the principles above. To assist Regional Cabinet to consider the duties under the Act in respect of the decision sought, an assessment has been undertaken, which is attached at Appendix 3.

## **RECOMMENDATIONS**

34. Regional Cabinet is asked to:

- a) note and endorse the One Year Out report and follow up actions which will be embedded in quarterly reporting of the Annual Business Plan 2020/21;
- b) note the timeframe for the Final Evaluation output to be delivered by SQW;
- c) agree an approach is formally made to UK and Wales Governments regarding co-design of the Gateway process in order to ensure the 'new economic reality' is captured and seeking urgent clarification on a number of outstanding issues, in order to ensure CCR is able to prepare comprehensively;
- d) note the immediate risks and issues that will impact Evaluation and Gateway Review, requiring attention and action – some of which will sit beyond the jurisdiction of the City Deal Office – and relate specifically to staffing and resourcing; and,
- e) note that a report will be brought back to Regional Cabinet setting out a full risk policy, revised City Deal Risk Register & Programme-Level Risk Log to fully capture all of the challenges/issues and ensure there is a robust

approach in place and one that is capable of adapting/ being dynamic in these uncertain times.

**Kellie Beirne**  
**Director, Cardiff Capital Region City Deal**  
**18 May 2020**

**Appendices**

Appendix 1 SQW One-year-out report  
Appendix 2 Summary Corporate Risk Register  
Appendix 3 Future Generations Assessment

**Background Paper**

CCR Baseline Report and Locality Evaluation Plan - Report to Cabinet 10 June 2019

# Independent Evaluation of Local Growth Interventions

One Year Out Report for Cardiff Capital  
Region

April 2020

The logo for SQW, consisting of the letters 'SQW' in a bold, dark red, sans-serif font.



## Summary of key findings

### Introduction

1. This is the 'One Year Out' report for the evaluation of the **Cardiff Capital Region (CCR) Wider Investment Fund**. This is a £495 million devolved investment fund approved as part of the **Cardiff Capital Region City Deal** agreed between the CCR local authorities, the Welsh Government and the UK Government in 2016. The evaluation will report by the end of 2020, and will inform the UK Government's first five-year 'Gateway Review' of the fund.

### Delivery progress

2. The CCR City Deal is a 20-year programme for economic growth, which will *"make the region competitive and investable on a global scale"*. Alongside separate investment in the South Wales Metro, the Wider Investment Fund seeks to invest in a limited number of projects 'at scale'. In generating a social and economic return, investments will be balanced between those that also deliver a financial return and those that contain grant funding.
3. By the end of 2019, one project had been fully approved and had spent Wider Investment Fund monies. This is the **Compound Semiconductor Cluster (CSC)** project, which involves WIF investment of £38.4 million towards the costs of a compound semiconductor foundry at Imperial Park, Newport. WIF is being matched with investment from IQE plc, a commercial manufacturer of semiconductor wafers, which occupies the foundry.
4. **The compound semiconductor foundry has been delivered**, resulting in 5,898 sq m of cleanrooms and other additional commercial floorspace. This was delivered more quickly than originally anticipated. The foundry is now in productive use. The project has supported 65 direct jobs at IQE, and has helped to safeguard a further 546 jobs elsewhere in IQE and at Newport Wafer Fab.
5. **However, the global market has been challenging for the compound semiconductor sector**. This is reflected in lower than anticipated commercial leverage, job creation and Wider Investment Fund spend at the current time. Uncertainty will persist in 2020 (especially given the coronavirus crisis), but the medium-term outlook for IQE's growth (linked with increased production capacity and emerging customer demand) is seen as positive.

### Emerging impact evidence

6. Consultees considered that **WIF investment in the Compound Semiconductor project had been important in securing IQE's ongoing investment in the region**. There was a high risk that investment could have been lost to an alternative site in the United States had the Newport site not been made available.
7. **There are signs of the behaviours and decisions that we would expect in the development of an emerging cluster**. Although it is 'early days', these include the following:
  - The **Compound Semiconductor Applications Catapult** has moved to a new headquarters and innovation centre space within the CSC foundry. This would not

have been possible without WIF support. It was reported that the Catapult's presence at Imperial Park is likely to contribute positively to its interaction with compound semiconductor firms in the region.

- A **Strength in Places Fund bid** has been prepared. If successful, this would see **CS Connected** (the compound semiconductor development organisation) locating within the foundry building.
  - There has been a **wider suite of activities to support the development of the compound semiconductor sector** in the CCR, including the ongoing development of Cardiff University's research capabilities and the proposed development of an 'innovation village' at Newport Wafer Fab.
8. **Consultees were positive about the impacts that could be achieved by the project.** These relate to increased production capacity (strengthening supply chain opportunities), scope to attract investors and customers, and reputational/profile benefits. Agents also reported **positive interest in Imperial Park** since the investment in the CSC foundry.
9. **The CSC project has been important in setting the tone for the Wider Investment Fund's strategy and pipeline.** Strategic consultees emphasised the value of the funding as an *investment*, rather than grant, and CCRC is confident of achieving at least a 100% return on its investment.

## Emerging capacity development and partnership evaluation evidence

10. **Over the past year, there has been significant progress made in taking forward the Wider Investment Fund.** This includes the adoption of an Investment and Intervention Framework and the development of an investment pipeline. In March 2020, the Regional Cabinet approved £46.5 million WIF investment in two projects (a CCR Housing Investment Fund and a Graduate Scheme), with six further projects currently at Outline Business Case/ Strategic Outline Case stage. **A substantial amount of funding will therefore have been approved by Gateway Review**, with additional WIF spend likely to have been incurred.
11. **There is a general view that the Wider Investment Fund has had a positive impact on partnership development.** The process of establishing the CCRC and the WIF, and the experience of working through the initial investment in the CSC foundry, has built confidence in joint working and collective decision-making. There is evidence that this is leading to an appetite for further regional partnership arrangements beyond the City Deal itself.
12. **The Wider Investment Fund has helped to drive a more 'commercial' approach to economic development**, focused on making a return on investment where possible. Nevertheless, striking a balance between a direct financial return to recycle back into the programme and an equitable distribution of opportunity across the region is important in achieving the programme's range of objectives and ensuring a cohesive partnership.
13. **There is evidence of sharing of resources and expertise** between the CCRC team, the local authorities and the private sector. This is linked with a greater willingness to act collectively through the City Deal and the WIF, and is positive in the context of pressure on public resources and an imbalance in capacity at local level across the region.

## 1. Introduction

- 1.1 This is the One Year Out Report for the evaluation of the **Cardiff Capital Region City Deal (CCRCD) Wider Investment Fund**. The full evaluation is to be finalised by the end of 2020 to inform the first Gateway Review of the fund. The first Gateway Review will be completed by the UK Government by the end of March 2021.
- 1.2 This One Year Out Report is the second output from the evaluation work of the National Evaluation Panel<sup>1</sup>, which implements the approach set out in the Locality Evaluation Plan, agreed with partners in Cardiff Capital Region in January 2019. This report follows the Baseline Report approved by Regional Cabinet in June 2019. The approach to the evaluation in Cardiff Capital Region was also endorsed formally by the Cities and Local Growth Unit (CLGU) on behalf of the Government in March 2019 and builds on the National Evaluation Framework approved by the Steering Group<sup>2</sup> of the National Evaluation Panel in August 2017.
- 1.3 This One Year Out Report:
- provides an update on the **progress in the delivery of the CCRCD Wider Investment Fund**, around a year in advance of the Gateway Review
  - sets out emerging findings from the **impact evaluation research** into the Wider Investment Fund, focused on CCRCD's investment in the Compound Semiconductor Cluster project in Newport
  - sets out emerging findings from the research into **wider partnership and capacity development**
  - identifies any issues that need to be addressed in advance of the final evaluation
  - confirms the approach and timing of the research for the final evaluation.

### Scope of the evaluation

- 1.4 The **Cardiff Capital Region City Deal** was agreed between the ten CCR local authorities<sup>3</sup>, the Welsh Government and the UK Government in March 2016. At the core of the Deal is the creation of a 20-year, £1.2 billion investment fund. This consists of:
- £734 million for the development of the **South Wales Metro**, including the electrification of the Valley Lines and the delivery of wider connectivity across the region (this element is outside the scope of this evaluation)
  - £495 million for a **Wider Investment Fund (WIF)**, which is the subject of this evaluation. The WIF support's CCRCD's non-Metro investments and will operate for 20 years from 2016/17. Within the original heads of terms agreed in 2016, a range of

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<sup>1</sup> The SQW-led consortium appointed to evaluate the Investment Funds for the first Gateway Review

<sup>2</sup> 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,

<sup>3</sup> Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport, Rhondda Cynon Taf, Torfaen and the Vale of Glamorgan

potential interventions were highlighted, including additional transport schemes, investment to unlock housing and employment sites, and the development of R&D facilities. The heads of terms also specifically stated that CCR “will prioritise interventions that support the development of an internationally competitive compound semiconductor cluster”, linked with investments at Cardiff University and the UK Government’s new Catapult facility in Cardiff. It should be noted that no funds were ‘designated’ to specific projects within the City Deal itself.

- 1.5 One project had been fully approved and had spent WIF monies by the end of 2019 (and is therefore ‘in scope’ for this evaluation). This is the **Compound Semiconductor Cluster (CSC)** project, which involves WIF investment of £38.4 million towards the costs of a compound semiconductor foundry in Newport:

#### The Compound Semiconductor Cluster project

The CSC project involves an agreement between the CCRC 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.

- 1.6 It is important to emphasise that while the investment in the CSC project involves a direct business beneficiary, the core rationale relates to the growth of the wider compound semiconductor sector, in which South Wales has significant existing strengths. It is therefore closely linked with a range of other sectoral initiatives outside of the WIF (see Section 3).
- 1.7 Since the CSC project has been underway, the CCRC has developed its approach to the use of the Wider Investment Fund, set out in greater detail in Section 4. In June 2019, CCRC published an **Investment and Intervention Framework** to guide the use of the WIF. This aims to strike a balance between investments that will deliver a direct financial return and those with wider social and economic benefits, with the intention of delivering a limited number of projects ‘at scale’<sup>4</sup>. A pipeline of projects consistent with the Investment Framework has been developed, and some of these projects have now reached Full Business Case stage.

<sup>4</sup> CCRC (2019), *The Cardiff Capital Region Investment Framework* (<https://www.cardiffcapitalregion.wales/wp-content/uploads/2019/06/ccr-investment-framework.pdf>)

## Evidence base

- 1.8 The One Year Out report draws on the following strands of evidence:
- monitoring data on planned and actual expenditure, and planned and actual outputs and outcomes provided by the CCRCD team for the CSC project
  - consultations with the Chief Executive and Head of Infrastructure at the CCRCD
  - 13 consultations with business, academic and other stakeholders to consider the impact (and potential impact) of the CSC project
  - 6 consultations with senior-level stakeholders to consider wider capacity development and partnership working
  - a review of material relating to the project pipeline for the Wider Investment Fund, including business cases that will be coming forward for approval in 2020.

## Structure

- 1.9 The rest of this report is structured as follows:
- Section 2 presents an update on progress in the delivery of the CSC project
  - Section 3 provides an overview of the emerging impact evidence for the CSC project
  - Section 4 presents emerging evidence in relation to capacity development and partnership working
  - Section 5 sets out the approach for the final evaluation.
- 1.10 Three supporting annexes are provided:
- Annex A: Intervention level progress evaluation assessment
  - Annex B: Updated risk matrix
  - Annex C: List of consultees.

## 2. Delivery progress

### Summary messages

- Physical delivery of the Compound Semiconductor Cluster project was largely complete by December 2019.
- Some 5,898 sq m of new commercial floorspace has been delivered to provide a new compound semiconductor foundry for IQE. IQE has entered into a lease agreement with a special purpose vehicle established by CCRCD, and has occupied production space at the foundry.
- 65 direct jobs have been created at IQE, in addition to 546 jobs safeguarded in IQE and Newport Wafer Fab.
- The global market has been challenging for the compound semiconductor sector. This has meant that IQE's requirement for additional cleanrooms and associated equipment has been somewhat lower than initially anticipated. This is reflected in lower than anticipated commercial leverage and job creation to date. Some Wider Investment Fund spend has also been held back, pending a commercial requirement for the completion of additional cleanrooms. This will be reviewed at the final report stage, although it is likely that challenging market conditions will continue to impact.
- However, it should be noted that the CCRCD had always envisaged a flexible approach to delivery, within the context of a strategic investment intended to make a financial return to the Wider Investment Fund.

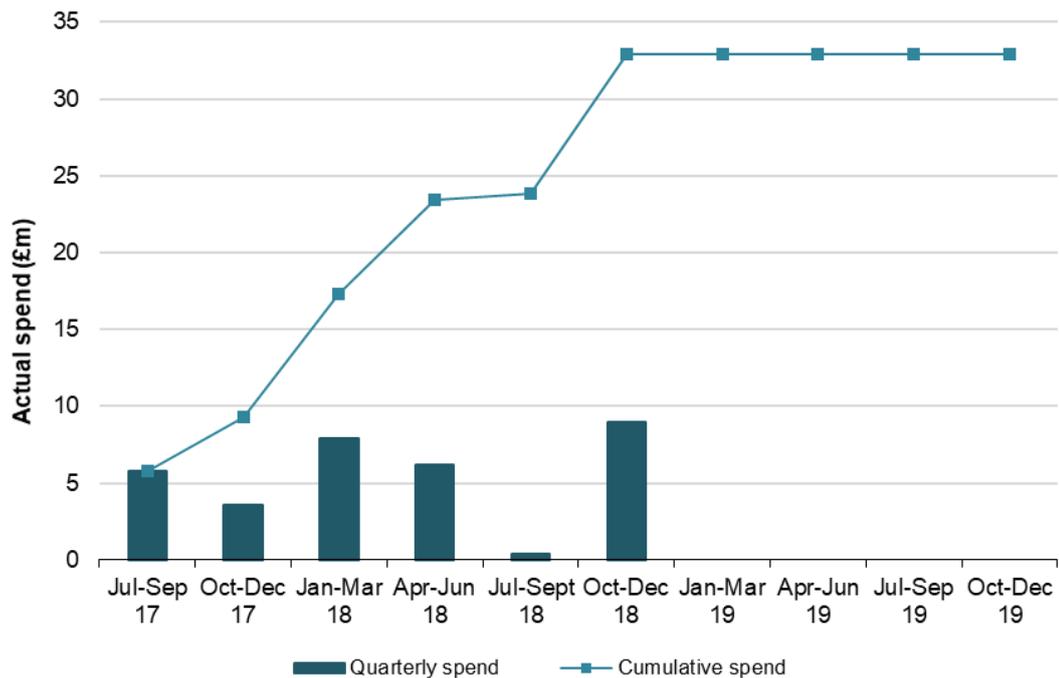
### Intervention status

- 2.1 As set out in the Introduction, this evaluation covers a single intervention supported by the WIF: the investment in the **Compound Semiconductor Cluster**. This intervention was largely delivered by the One Year Out stage, and project outputs have been reported.
- 2.2 The progress evaluation will address five key questions. At this One Year Out Stage, a high-level assessment of progress against each question has been made and is set out in Annex A.

### Expenditure

- 2.3 Data on expected and actual expenditure has been provided to the National Evaluation Panel by the Cardiff Capital Region City Deal team. The overall pattern of expenditure is shown in Figure 2-1.

Figure 2-1: Overall pattern of WIF investment by quarter



Source: CCR monitoring workbook (completed by CCRCDD)

2.4 As set out in the Baseline Report, the full WIF contribution to the project (£37.9 million) was expected to have been spent by December 2018. In fact, WIF expenditure had reached £32.9 million by this point, and no further capital spend has taken place since.

2.5 **Expenditure was therefore somewhat lower than anticipated** by the end of 2019 (by £5 million). This is because the spend requirement was lower due to future market uncertainty caused by challenging global trading conditions for the compound semiconductor sector, especially associated with US-China trade relations and (to a lesser extent) Brexit uncertainty.

- The schedule of works set out in the Development Agreement for Lease envisaged that WIF investment would pay for 20 cleanrooms to be built and equipped with mechanical and electrical installations and gas servicing, as well as for ancillary space (car park, welfare areas, etc.) and dilapidations. IQE would then contribute to the costs of the specialist ‘tools’ to be accommodated in each cleanroom (and further capital expenditure to develop 100 cleanrooms in total over the 11-year lease period)<sup>5</sup>.
- By the end of 2019, all 20 cleanrooms had been built. Ten of these had been fitted out with mechanical and electrical and gas servicing equipment, and specialist tools had been installed by IQE. However, IQE’s current order book does not warrant any additional capacity at this time (nor does it justify IQE’s investment in the additional equipment that would be required).
- Consequently, no WIF investment has been required to cover mechanical and electrical and gas servicing equipment for cleanrooms 11-20. The balance of WIF

<sup>5</sup> Note that originally, it was anticipated that WIF investment would pay for up to 30 cleanrooms, although the balance of funding across the project was subsequently reviewed as part of an assessment of productivity and yield

investment to complete this will be taken forward once IQE is able to confirm evidence of demand.

- 2.6 IQE and CCRCDC do not anticipate that there will be any additional capital expenditure in 2020, although they do expect that investment will pick up again from 2021. However, it should be noted that CCRCDC always anticipated some flexibility in delivery, according to the nature of the market.

**Table 2-1: Planned and actual expenditure for the Compound Semiconductor Cluster project**

<b>Planned expenditure</b>	
WIF planned expenditure - total	£37.9 m
WIF planned expenditure – to end Dec 2019	£37.9 m
WIF planned expenditure – to end Dec 2019 as % of total	100%
<b>Actual expenditure</b>	
Actual WIF expenditure to end Dec 2019	£32.9 m
Actual WIF expenditure to end Dec 2019 as % of total	86.7%
<b>Variance</b>	
Variance between planned and actual WIF expenditure to the end of Dec 2019	£5.0 m
Variance of % planned WIF expenditure to the end of Dec 2019	13.3%

*Source: CCRCDC monitoring workbook*

## Outputs and outcomes

- 2.7 The CCRCDC team has provided data on expected and actual outputs for the Compound Semiconductor Cluster at the One Year Out stage.

### **Development, delivery and occupancy**

- 2.8 As anticipated at the outset, **4.52 hectares of land** (the factory at Imperial Park and surrounding land) has been assembled and acquired for development.
- 2.9 Capital works to convert the factory building into a foundry suitable for occupation (including dilapidations works, cleanrooms and ancillary IT rooms, welfare/ communal areas and circulation areas) have resulted in the delivery of **5,898 sq m of additional commercial floorspace**. This was delivered more quickly than anticipated, due to a more efficient design involving the creation of a mezzanine floor above every cleanroom.
- 2.10 All the additional commercial floorspace has been leased by IQE from the Special Purpose Vehicle established by CCRCDC. However, as set out above, while WIF funds had supported the costs of building and equipping **20 cleanrooms** ready for the installation of specialist tools, only ten of these had been equipped, with the remainder to be completed once IQE is able to commercially justify the investment.

## Jobs

- 2.11 By the end of December 2019, **65 additional jobs have been directly created at the site** as a result of investment in the foundry (an increase from the 42 jobs created reported in the Baseline Report)<sup>6</sup>. This compares with a long-term job creation target over 11 years of 501 (101 of which were originally expected to be created by the end of 2019). We have not identified the origin of new post-holders (i.e. the extent to which they were locally recruited), but in consultation, IQE said that most had a regional connection, especially with Cardiff University.
- 2.12 **545 jobs were reported as safeguarded** as a result of the investment. This compares with a target of 700 (all originally profiled to have been achieved in 2017/18), and consists of:
- **156 jobs safeguarded at IQE**, within its existing operations at St Mellons in Cardiff. This is based on the case made within the original investment proposition that some activities were likely to have been lost to the UK had the firm been unable to increase its production capacity within Cardiff Capital Region (and compares with an original target of 150 jobs safeguarded by 2017/18)<sup>7</sup>.
  - **389 jobs safeguarded at Newport Wafer Fab**, a privately-owned silicon wafer fabrication plant located about a mile from the Imperial Park site. This is based on the case set out in the original proposition that some jobs at Newport Wafer Fab were reliant on technology developed at IQE. The number of jobs safeguarded at NWF compares with an original estimate of 550 by 2017/18 (although this original target appears to include contractors as well as employees)<sup>8</sup>.
- 2.13 Within the business case for the CSC investment, CCRCDC also estimated 1,088 **indirect and induced jobs** over the 11 years of the project. Analysis by Cardiff University and CS Connected for CCRCDC estimated that 956 indirect and induced jobs had been created by December 2019 within the Compound Semiconductor Applications Catapult (70 jobs), Cardiff University, construction and the supply chain for IQE and the wider sector. These are gross figures, and not all will be attributable to the CSC project.

## Other outcomes

- 2.14 Applying Government benchmark figures for the number of construction years of employment per £1 million of infrastructure spend, we are able to estimate that the WIF investment resulted in **291 (gross) construction 'years of employment'** to December 2019. In addition, eight new apprenticeship opportunities had been created during the construction phase of the project.
- 2.15 CCRCDC has also reported that the redevelopment of the CSC foundry has resulted in improved fibre connectivity to the building and road improvements on Celtic Way.

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<sup>6</sup> At the time of writing (February 2020), CCRCDC reported that the actual number of direct jobs created had increased to 70.

<sup>7</sup> Part of the rationale for investment was the opportunity to retain and expand employment in the CCR, in the context of IQE's need to secure new production capacity and the potential for the company to locate its operations in the United States, where it also has operations.

<sup>8</sup> It should be noted that there is a variance between the stated number of jobs safeguarded at Newport Wafer Fab at the time of the Baseline Report (470) and the number currently reported (389). The basis for the safeguarded jobs estimate should be reviewed for the Final Report.

## Implementation

- 2.16 Consultations with the CCRC team and wider consultees highlighted the key issues related to the implementation of the Compound Semiconductor Cluster project. Factors enabling progress included the following:
- **Prior investment in the site and the strategic retention of an economic asset** has proved to be a useful enabler. The Imperial Park site was originally built for a semiconductor manufacturer (LG) by the former Welsh Development Agency in the 1990s, at a reported cost of around £100 million. The Welsh Government held it as a vacant property for over a decade before its sale to CSC Foundry Ltd and had received several enquiries for sale for general commercial uses<sup>9</sup>. Long-term retention meant that refurbishment – at much lower cost than a new-build facility – was a viable option.
  - **The structuring of the investment**, via a special purpose vehicle (CSC Foundry Ltd, owned by the ten CCRC local authorities) and lease arrangement enabled WIF monies to be invested in compliance with state aid regulations.
  - More operationally, **IQE's direct role in the management of the construction and delivery phase** was highlighted as being important, given the highly specialised nature of the foundry. This helped to lead to a more efficient design of the space than was originally envisaged. IQE was responsible for procurement and management, with CSC Foundry Ltd and the CCRC maintaining an oversight role to safeguard the public investment.
- 2.17 However, **delivery of planned outputs has been influenced by market conditions**. IQE (and the compound semiconductor sector generally) is highly export-dependent and capital-intensive, relies on close customer relationships, and typically involves lengthy and complex product development timescales. CCRC, IQE and other industry consultees commented on the sensitivity of investment to potentially adverse global conditions. Current uncertainty in US-China trade relations was particularly cited in this regard. This underpins the slower than anticipated spend and leverage to date. Recognising this (and the need for the WIF to realise a return on its investment), CCRC regularly reports to the Regional Cabinet on the outlook for its investment, and in 2019 commissioned market analysis of the compound semiconductor sector independent of IQE.
- 2.18 Looking to the medium term, the coronavirus pandemic is impacting the whole economy. However, IQE's facilities (including Newport) continue to operate, and the company reports that *"we have not encountered any disruption to supply chains [and] the order demand for IQE's products has been unaffected"*, although risks to the wider market remain unknown at present<sup>10</sup>.

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<sup>9</sup> One consultee suggested that the Welsh Government is likely to have received more financially attractive offers for the building for 'non-strategic' uses during successive marketing attempts. This is plausible, given the limited market for a building with a very specific specification, although we have not validated this view with the Welsh Government.

<sup>10</sup> IQE, 26 March 2020 (<https://investors.iqep.com/coronavirus/>)

## Key messages

2.19 The key points in relation to **progress in delivery** are as follows:

- **The compound semiconductor foundry has been delivered.** Commercial floorspace delivery exceeded the original expectations and the works were delivered in accordance with the planned timetable. The foundry is also in use by IQE: in line with the lease agreement, it has secured commercial investment alongside the WIF and is in production.
- **New additional jobs have been created on site.** In addition, the additional capacity provided by the foundry appears to have contributed to the retention of employment in IQE and Newport Wafer Fab.
- **Commercial considerations have had an impact on the pace and scale of output and outcome delivery.** Investment in the semiconductor sector is sensitive to global market uncertainties. This is reflected in lower WIF spend than originally anticipated, and slower than expected job creation, commercial investment and the full use of the new facilities. However, short-term fluctuations are to be expected in any ‘market-facing’ investment, and this was acknowledged at the start of the project.
- **However, the core economic rationale for the project is in its contribution to the long-term development of a regional compound semiconductor industry,** rather than in relation to shorter term job creation measures<sup>11</sup>. Within this context, the Wider Investment Fund is contributing to a broader package of interventions. This is discussed in further detail in the next section.

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<sup>11</sup> Set against these current market uncertainties, industry consultees reported on the rapid growth in compound semiconductor applications over the past decade.

## 3. Emerging impact evidence

### Summary messages

- Private sector leverage is so far lower than originally anticipated and some planned activity has yet to take place. This reflects the market issues set out in Section 2. We will re-examine this at final report stage, although there may still be some uncertainty at this point given the nature of the technologies and markets. However, this was always likely to be a factor in considering an investment of this nature.
- Although it is early days, there are signs of the behaviours and decisions we would expect in the development of an emerging cluster: again, these will be tested at the final report stage.
- Consultees were positive about the impacts that could be achieved by the project. These relate to increased production capacity (strengthening opportunities for indigenous supply chains), increased scope to attract investors and customers (to IQE directly and to the industry in the region more generally), and reputational/ profile benefits for Cardiff University and other partners in the cluster.
- The decision to locate the Compound Semiconductor Applications Catapult at Imperial Park would not have been possible without the Wider Investment Fund support, and is seen as strongly complementary.
- The CSC project should also be seen as one of several complementary interventions promoting the growth of the cluster.

### Impact evaluation evidence

- 3.1 It was agreed in the Evaluation Plan that the Compound Semiconductor Cluster project is suitable for impact evaluation for the Gateway Review. This is because there should be sufficient time between the delivery of the project (which is now essentially complete) and the Gateway Review to allow for emerging early impacts to be identified.
- 3.2 This section draws on consultations with 12 stakeholders (including IQE, other businesses in the compound semiconductor sector, academics with links to the industry and commercial property agents), consultations with the Head of Infrastructure and the Chief Executive of CCRCD, and further performance monitoring data. The consultations sought to gather perceptions on emerging and anticipated impacts with the aim of informing areas for further exploration in the final impact evaluation. It should be noted that at this stage, the investment remains relatively recent and, as highlighted in Section 2, not all the additional production capacity supported through the WIF is yet in use.
- 3.3 The logic model for the Compound Semiconductor Cluster project (presented in the Evaluation Plan) set out a series of anticipated outcomes. The following paragraphs describe the evidence from the consultations in relation to each of these, before drawing together some broader observations on the potential role of the CSC project as one of several initiatives aimed at supporting the growth of the regional compound semiconductor industry.

## Key outcomes

- 3.4 In line with the National Evaluation Framework, the logic model for the CSC identified several potential outcomes relevant to the CSC project's role in providing sites and premises for enterprise and innovation and additional science and innovation capacity.

### *Private sector leverage*

- 3.5 The CSC project has a target of securing £375 million in private sector leverage. This is based on IQE funding the installation of equipment to be accommodated in the 20 cleanrooms funded by the WIF investment and ultimately funding the delivery of a total of 100 cleanrooms and their associated equipment. It was originally anticipated that around £115 million private sector leverage would have been secured from IQE by the end of December 2019.
- 3.6 As set out in the delivery progress review, global market conditions have impacted IQE's commercial requirement for additional production capacity in the short term. This has limited the firm's ability to bring forward investment. By the end of December 2019, IQE had invested approximately **£63.8 million** in equipping and bringing into production the first ten cleanrooms funded by the WIF, alongside wider investment in the foundry<sup>12</sup>. Over the longer term, CCRC and IQE remain committed to the £375 million target, although this will obviously be dependent on longer-term market conditions. As reported below, there is a strong likelihood that this investment would have been lost from Cardiff City Region if WIF investment was not available.

### *Retention of IQE and securing its investment in the region*

- 3.7 Consultees generally considered that **the WIF investment in the Compound Semiconductor Cluster project had been important in securing IQE's investment in the region**, in circumstances where it could have been taken elsewhere. The case was made by IQE that it required additional production capacity to fulfil a customer order; there was no alternative site available in South Wales (other than, theoretically, through new build at significantly greater cost). However, an alternative site could have been secured in North Carolina. While IQE had been based in Cardiff since its establishment and had strong links to the regional academic and industrial ecosystem, the case for investment was partly based on an expansion requirement which would otherwise have had to have been met elsewhere. The risk that IQE may have had to relocate to the US were suitable premises not available in the UK was considered in detail during the due diligence process ahead of WIF investment.
- 3.8 In principle, it is possible that IQE could have acquired the Imperial Park site without WIF support. However, IQE would have found it challenging to raise the additional funds commercially, given the wider market uncertainties referred to elsewhere in this report (although it should be emphasised in any case that the WIF investment is not a grant allocation).

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<sup>12</sup> Total IQE expenditure had risen to £66.7 million by 21 March 2020

### **Benefits to IQE**

- 3.9 The WIF investment was expected to support a number of outcomes specifically related to IQE. These included increased business turnover, increased exports and increased product development.
- 3.10 IQE's trading report for 2019 anticipates positive medium-term benefits for the company. Overall revenue fell to £140 million in 2019 (compared with £156 million the year before), mainly due to market and technical changes impacting two key customers. However, looking to the medium term, increasing production capacity is seen as important to IQE's future business model: the company indicates that "operating margins are expected to increase significantly with volume growth" in the photonics segment, linked with the increased capacity at Newport<sup>13</sup>. Production is now taking place at the foundry for an existing OEM customer and a new chip customer in the Android supply chain<sup>14</sup>.
- 3.11 Consultees (including IQE) also considered that the new foundry is likely to be important in attracting additional customers by building confidence in the scale and quality of production and R&D capacity. Several prospective new customers have visited the foundry since the works were completed, although new customer/supplier relationships and the process of customer qualification (i.e. approval of the suitability of production facilities) typically take some time to develop.

### **Benefits linked with other investments at the CSC Cluster Foundry site**

- 3.12 Consultees highlighted further investments at the CSC foundry site following the WIF investment. The **Compound Semiconductor Applications Catapult** is part of the UK-wide network of Catapult Centres that are supported by Innovate UK. It provides translational research facilities to accelerate the commercialisation of compound semiconductors in a series of application areas, including healthcare, energy, transport, space and defence and security<sup>15</sup>. The Catapult was launched in 2016 with UK Government funding of £50 million (£10 million per year to 2020/21): while it has a UK-wide remit, it was based in Cardiff when it was established, recognising Cardiff University's research capabilities and the presence of IQE and other compound semiconductor firms in the area.
- 3.13 In 2019, the Catapult moved to a new headquarters and innovation centre space within the IQE foundry building at Imperial Park, and currently accommodates 70 staff (included within CCRC's calculation of indirect and induced jobs in Section 2)<sup>16</sup>. The Catapult has involved investment of £8.1 million in the refurbishment and fit-out of its part of the foundry building.
- 3.14 While the Catapult was already based within the region, consultees pointed out that it had previously been difficult to find suitable alternative accommodation for its expansion and innovation centre activities: investment in the Imperial Park foundry therefore made this location option viable. It was reported that the Catapult's presence at Imperial Park is likely

<sup>13</sup> IQE plc (March 2020), Trading Update Roadshow (<https://investors.iqep.com/media/1921/iqe-trading-update-24mar2020-presentation.pdf>)

<sup>14</sup> IQE plc (January 2020) 'Leading Innovation from Within' (<https://investors.iqep.com/media/1919/iqe-needham-conference-presentation-15jan2020.pdf>)

<sup>15</sup> Cardiff University Welsh Economy Research Unit/ CS Connected (August 2019), *Accelerating the growth and persistence of Europe's fifth semiconductor cluster*

<sup>16</sup> The Catapult is a tenant of IQE, although its facilities are self-contained and entirely separate from IQE's operations, recognising the Catapult's need for neutrality and openness to all interested parties in the compound semiconductor industry.

to contribute positively to its interaction with other relevant organisations in the region and the interaction between these organisations, given ease of access to IQE and ‘nearby’ firms such as Newport Wafer Fab and the high-quality industry-relevant location. Consultees referred to the decision by the Catapult to co-locate with the CSC foundry as having “validated” or “put a stamp of approval on” the project.

- 3.15 It was also noted that **CS Connected** (the compound semiconductor development organisation currently based alongside IQE in St Mellons, Cardiff) is proposing locating within the foundry building should a current Strength in Places Fund bid be successful, providing a ‘front of house’ for the compound semiconductor sector. Should this take place, it would mean the co-location of a research and technology organisation, an industry network body and a core manufacturing company on the same site.

### **Growth in the innovation ecosystem**

- 3.16 Links between the CSC investment, the decision to locate the CSA Catapult at Imperial Park and the potential co-location of CS Connected are all highlighted above. More broadly, the investment in the CSC was anticipated to lead to a stronger innovation ecosystem within the compound semiconductor sector, through strengthened supply chains and relations with the knowledge base.

- 3.17 Several consultees commented that while South Wales had a substantial compound semiconductor *sector*, this did not yet constitute a *cluster* as such: historically, the major firms (IQE, Newport Wafer Fab, SPTS and Microsemi) have tended to be isolated from each other and have operated with global supply chains. The CSC project is itself part of a wider programme of cluster development (outlined further below). However consultees highlighted the following sets of opportunities:

- **Opportunities to build stronger links between R&D and manufacturing** within the UK compound semiconductor sector: one consultee noted that historically, most of IQE’s manufacturing was carried out overseas. Building greater capacity within the UK ought to support the development of the wider manufacturing supply chain.
- **Opportunities for UK-based OEMs to build closer relationships with domestic semiconductor manufacturers:** one business consultee noted that UK-based manufacturers tended to be at a disadvantage compared with competitors in (for example) Germany or the US, given the lack of domestic production capacity in the compound semiconductor sector and the difficulties of building long-term business relationships, particularly for complex products produced in low volumes. The suggestion was that **the CSC foundry should provide domestic capacity that would not otherwise be available**. This suggests a **potential UK-wide impact**, rather than one relating to the region alone.
- **Opportunities to strengthen the role of the higher education base:** Cardiff University’s academic specialisms (for example through the Institute of Compound Semiconductors) are already a key driver of the region’s strengths in the sector (and indeed the University has a central role in IQE’s development story). These have recently been reinforced by, for example, UKRI funding for a doctoral training centre at the Compound Semiconductor Hub in Cardiff. It was noted in consultation that the

project should have a positive impact on the University's reputation in the field, and it was reported that a recent increase in PhDs and relevant academic staff was partly a result of the project.

- 3.18 One consultee noted however that much of the policy focus to date had been on the larger industry players (of which IQE is obviously one), suggesting a need to engage further with the wider range of smaller firms.

### **Benefits linked to inward investment and the property market**

- 3.19 Commercial agents noted that Imperial Park and its vicinity presented a strong offer to the market, with significant investors including Next Generation Data (adjacent to the CSC foundry building) and Airbus, and there is a strengthening market in Newport city centre. However, as noted above, the foundry building had been vacant for many years, and Imperial Park has more recently been impacted by the closure of another large manufacturing plant<sup>17</sup>.
- 3.20 In that context, **agents reported positive interest in Imperial Park** since the investment in the CSC foundry (in addition to the prospective customer interest highlighted above). This may be reported in further detail by Gateway Review. More broadly, consultees noted the potential for the foundry to **raise CCR's investment profile**: the foundry is one of the largest in the world, and there is early evidence of investment interest.

### **Return on investment**

- 3.21 Finally, the **WIF investment is intended to deliver a financial return to CCRC**D, to be reinvested in future projects. This has been important in setting the tone for CCRCD's wider investment strategy and pipeline, discussed further in Section 4, and CCRCD and strategic consultees emphasised the value of the funding as an *investment*, rather than a grant.
- 3.22 Assuming that IQE lease the foundry for 11 years, the total rental income to CCRCD is expected to be £33.1 million. However, CCRCD anticipate repayment of all WIF monies invested in the project, either through IQE's decision to purchase the facility or through extended lease<sup>18</sup>. The first lease payment (of £1.8 million) is due by the end of March 2021.

### **Broader observations on the potential impact of the WIF investment**

- 3.23 **The investment in the CSC project is part of a wider suite of activities that are supporting the growth of the compound semiconductor sector** in the CCR, and which have been in development for several years. These build on IQE's original proposals to create "Europe's fifth semiconductor cluster" and subsequent research<sup>19</sup>, and include:
- the establishment of the **CSA Catapult**, referred to above
  - the ongoing development of **Cardiff University's research capabilities**, including at the Institute of Compound Semiconductors and the Future Compound Semiconductor

<sup>17</sup> Quinn Radiators Ltd went into administration in June 2019

<sup>18</sup> Or through the sale of the building to a third party in a 'worst case' scenario.

<sup>19</sup> Robert Huggins, Max Munday, Annette Roberts and Richard Watermeyer (2014), *A review of the proposal to establish a foundation for compound semiconductor technology: Creating Europe's fifth semiconductor cluster in South Wales*

Manufacturing Hub (and, elsewhere in South Wales, Swansea University's Centre for Integrative Semiconductor Materials)

- the development of **CS Connected** as a sector development network
- the **evolution of some of the other larger semiconductor firms** in South Wales (for example, Newport Wafer Fab's reorientation as an 'open access device foundry', catering to a wider range of customers)<sup>20</sup> – some consultees within the compound semiconductor sector reported that there had been much more joint networking and sharing of ideas and challenges in recent years, linked with the role of CS Connected and investments including the CSC foundry
- the recent **Strength in Places Fund** bid, submitted under the aegis of CS Connected which proposes (*inter alia*) the development of an 'innovation village' on the Newport Wafer Fab site and substantial increased capacity for CS Connected (the outcome of the SiPF bid will be known by the time of the Gateway Review)
- interest from CCRC in acquiring land adjacent to the foundry for investment in a 'learning academy' focused on the compound semiconductor sector.

3.24 Several consultees emphasised the connections between these activities, highlighting the WIF investment as an important – but not the *only* – intervention. While it was challenging for some consultees to differentiate between the contributions of these different activities, it does highlight the role of the WIF in supporting a (partially planned and partially "serendipitous", as one consultee put it) strategy for cluster development.

## Key messages

3.25 Based on consultations to date, the key points in relation to emerging evidence of impact are as follows:

- The scale of leveraged investment from IQE is below where it was intended to be at this stage, and some related planned activity has yet to take place. This is due to general market uncertainty, and was always a factor in considering an investment of this nature. We will re-examine this at final report stage, though there may still be some uncertainty at this point, given the nature of the technology and global market conditions, especially in the context of the coronavirus pandemic.
- Although it is early days, there are some early signs of the types of behaviours and decisions that we would expect in the development of an emerging cluster. Again, these will be tested in the final report.
- The CSC project is one of several interventions promoting the growth of the compound semiconductor sector, which were seen by consultees as complementary.

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<sup>20</sup> Previously, NWF was a 'closed' facility operated by International Rectifier and (subsequently) Siemens. Its strategy has changed since a management buy-out backed by local investors in 2017. There is some evidence that NWF's 'open access' status has started to attract additional investment (for example, Rockley Photonics' decision to co-locate on the site) and NWF is promoting the concept of an 'innovation village' on site.

- Despite lower than anticipated leverage to date, CCRC remains confident that there will be a return of at least 100% of the original WIF investment.
- 3.26 Looking ahead to the next stage of work, it will be important to consult with a wider cross-section of businesses, including potential supply chain businesses based outside the region.
- 3.27 We also note that non-business consultees have, so far, been engaged to some extent in the development of the range of sector support interventions (e.g. CS Connected or relevant university or industry bodies). It may be helpful to consider a broader range of views of the regional economy to add value to these.

## 4. Emerging capacity development and partnership evaluation evidence

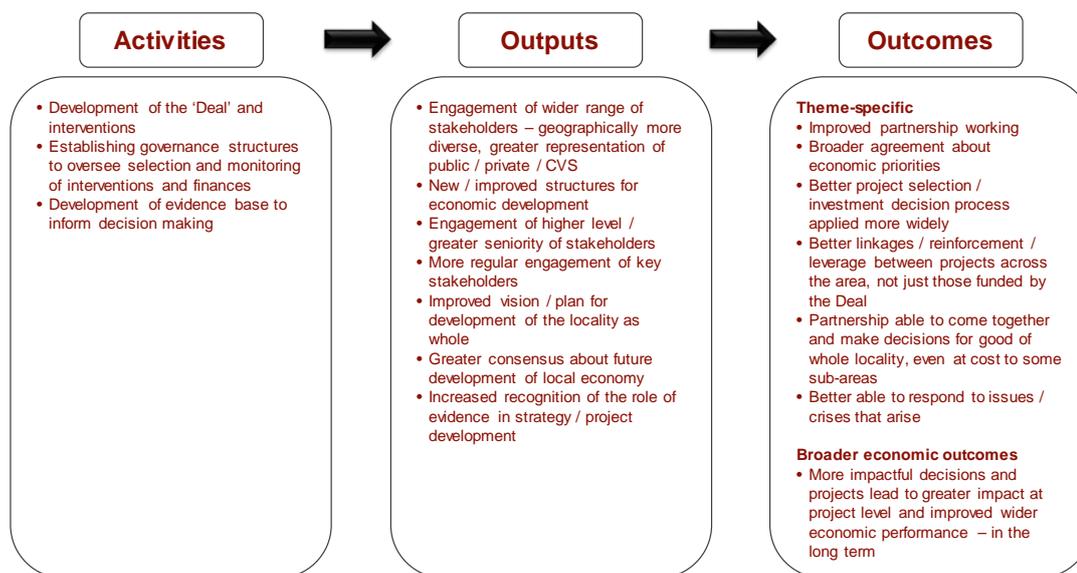
### Summary messages

- Since the Baseline Report, there has been significant progress made in progressing the Wider Investment Fund. This includes the adoption of an Investment and Intervention Framework and the development of an investment pipeline (with two proposals approved in March 2020).
- There is a general view that the Wider Investment Fund (and the City Deal more generally) has had a positive impact on partnership development. The process of establishing the CCRCD and the WIF, and the experience of working through the initial investment in the CSC foundry, has built confidence in joint working and collective decision-making.
- The Wider Investment Fund has helped to drive a more 'commercial' approach to economic development. However, striking a balance between a direct financial return to recycle back into the programme and an equitable distribution of opportunity across the region is important in achieving the programme's range of objectives and ensuring a cohesive partnership.
- There is evidence of sharing of resources and expertise between the CCRCD team, the local authorities and the private sector, linked with a greater willingness to act collectively through the City Deal and the WIF.

### Capacity development and partnership evaluation evidence

- 4.1 The National Evaluation Framework indicated that the evaluation for the Gateway Review of the Investment Funds would include an assessment of the effects of each fund (i.e. the CCR Wider Investment Fund) on local capacity development and partnership working, to complement the evidence from the impact and progress evaluation activity. This will be particularly important for the first Gateway Review: quantitative benefits may not have been fully realised at this point and expenditure and delivery activity will be ongoing, but a strong partnership and local capacity should increase confidence about future delivery.
- 4.2 The type of activities, and the nature of the benefits – in terms of outputs and outcomes – that will be the focus of this research were identified in the National Evaluation Framework, and are summarised at Figure 4-1.

Figure 4-1: Local capacity development and partnership working logic model



Source: SQW

- 4.3 The final evaluation report will consider the extent to which the outputs and outcomes highlighted above have been realised. The Baseline Report involved an initial wave of research that included an online survey and consultations with strategic stakeholders to provide perspectives on capacity development and partnership working, and any evidence that the outputs and outcomes had emerged at that stage.
- 4.4 Further to this evidence, a second wave of in-depth qualitative consultations was completed for the One Year Out report. This involved a smaller group of six senior stakeholders involved in local economic development. As in the consultations for the Baseline Report, the consultations were framed around the logic model set out in Figure 4-1, and focused the relative influence of the Investment Fund and other factors in delivering against these outputs and outcomes set out above. The consultations also sought to gather qualitative evidence on any expected 'cumulative' effects of the activity delivered across the Investment Fund, and alignment with other key economic development interventions and agendas in the area.

## Context: the evolution of the Wider Investment Fund

- 4.5 At the point of the Baseline Report, consultees noted that the Wider Investment Fund had led to significant partnership development benefits. Stakeholders highlighted:
- the extent to which the WIF (and the City Deal more broadly) had helped to develop a shared agenda across the ten local authorities
  - the opportunity that the WIF had presented to “do things differently”, through the development of an investment (rather than grant) based approach
  - successful delivery of the CSC project had demonstrated what could be achieved, providing practical evidence of the benefits of joint working.

4.6 However, stakeholders also noted that it was still “early days” for the Wider Investment Fund: one consultee commented that while securing the investment in the CSC project had been a real achievement, it was important that the CCRC partnership built on this to bring forward a wider range of interventions.

4.7 **Since the Baseline Report, significant progress has been made.** Following the preparation of the CCR Industrial and Economic Plan (prepared shortly before the Baseline Report), the Regional Cabinet adopted a **Cardiff Capital Region Investment and Intervention Framework** in June 2019. This set out a process through which investment proposals would be sought, sifted, appraised and approved. It also gave a broad indication of how the Wider Investment Fund (both existing ‘unallocated’ funds and recycled monies) would be used, with the aim of striking a balance between projects that will yield a financial return to the WIF and those that will use grant funding to deliver social and economic benefit – see Table 4-1.

**Table 4-1: CCR Investment and Intervention Framework: Summary of investment guidelines**

Investment priority	CCR targets	Rol	Audience/ likely promoters	Scale of funding
Innovation Unique IP/ market leadership	Jobs growth Investment leverage	Direct	Private sector led FDI R&D organisations/ HEIs	£15-50m
Infrastructure Foundations to enable private sector success and civic benefit	Leverage Jobs growth Addressing economic disparities	Indirect	Public sector led Public/ private schemes FE/ HE skills	£10-50m
Challenge Competitive, aligned to CCR priorities	New market creation Commercialisation Addressing regional challenges	‘Enhanced’	Innovation-intensive businesses HE/FE Social enterprises Foundational economy	£2-10m

Source: CCR, Investment Framework (SQW summary)

4.8 Following the publication of the Investment Framework, project proposals were invited during the summer, and have subsequently been progressed through a sifting and business case development process. In February 2020, there were 19 known projects in the pipeline (including the CSC Foundry). Of these:

- **WIF funding has been allocated to the Metro Plus Phase 1 programme.** This is a programme of ten sustainable transport schemes, to which £15 million has been allocated from the WIF, and which will start to draw down capital from 2020/21.
- **Two Full Business Cases were approved for WIF investment by the Regional Cabinet on 9 March 2020.** These are:
  - the CCR Housing Investment Fund: £45 million WIF investment in a viability gap scheme to bring forward housing sites that are currently undeliverable and an SME Finance Fund to assist smaller developers
  - the CCR Graduate Scheme: £1.5 million WIF investment in a ‘scaling up’ of a current pilot scheme to support SMEs in employing graduates.

- **Two projects are currently at Outline Business Case stage.** These include the Local Full Fibre Network scheme and **Metro Central** (improvements to Cardiff Central rail station and a new bus interchange). Funding to take the Metro Central scheme through to Full Business Case will be considered by Regional Cabinet in March.
- **There are a further four projects currently at Strategic Outline Case stage,** including a contribution to CS Connected, linked with the Strength in Places Fund bid.

4.9 A substantial amount of funding will therefore have been approved by Gateway Review, with additional WIF spend likely to have been incurred. While these projects are out of scope for progress and impact evaluation ahead of the first Gateway Review, this brief overview highlights the progress that is being made in allocating the Fund in line with strategy; and this can be updated for the final evaluation report.

4.10 In parallel with the development of the WIF pipeline, the CCRC has also initiated a number of pieces of work which could influence future project development. These include a review of intervention options for commercial sites across the region (potentially leading to the development of an investment proposition in due course) and the submission of three further Strength in Places Fund bids focused on the medtech, fintech and creative sectors.

## Partnership working

4.11 Strategic consultee views were broadly consistent with those expressed at the baseline stage. Stakeholders noted that **the Wider Investment Fund had helped to galvanise joint working across the ten local authorities** in a way that would have been otherwise difficult to achieve. There were two key dimensions to this:

- **The concept of the Wider Investment Fund as a recyclable fund in which all the local authorities had a stake and would gain a return was seen as important in enabling partners to take a collective, regional view.** In the baseline consultations, partners noted that the experience of the CSC investment had made local authority leaders more willing to recognise the potential for wider regional benefits that may be focused outside their own areas. Building on this, the view was expressed in the more recent consultation round that had a more 'conventional' approach been taken to the distribution of the WIF (for example through a series of grant-based projects across the region), there would have been less incentive for the local authorities to work together beyond 'their' projects or to prioritise regionally.
- The governance arrangements set up for the WIF were also seen as helpful. Stakeholders highlighted **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), and the fact that individual leaders have thematic portfolios on the Regional Cabinet (in addition to their own geographical mandates) as important in helping to build a shared 'regional view' and sense of shared ownership. One consultee described this as helping to create "*a network rather than a hierarchy*", and it was noted that effective political management (and the time and governance mechanisms to achieve this) was just as important in making this work as the technical processes of business case development

- 4.12 Some consultees considered that the experience of decision-making on the Wider Investment Fund (and the City Deal more broadly) was likely to lead to a **desire for greater joint regional working in other spheres**. In the short to medium term, for example, this is influencing the proposed governance arrangements for the proposed Strategic Development Plan and the Valleys Regional Park (both of which formally sit outside the mandate of the CCRCD). More broadly, some consultees described the governance arrangements for the CCRCD as leading to a ‘virtual’ regional combined authority<sup>21</sup>.
- 4.13 Consultees commented on the **greater commercial voice** that had been encouraged through the design of the WIF. It was noted that the development of the Investment and Intervention Framework was driven by the (private sector led) Regional Economic Growth Partnership, and this was seen as important in driving commercial discipline into the process. However, while there is a strong business voice in the City Deal, there is **still a challenge in engaging with the wider business community**: this was raised at the baseline stage and was highlighted again as an issue that should be addressed. The CCRCD recognises this and has initiated a review of its Business Council and plans for business engagement.
- 4.14 However, there was a recognition that **there needs to be a balance within the Wider Investment Fund between generating a return that can support a recyclable fund and achieving an equitable distribution** across the region (and across a range of themes). Based on our (limited) consultations, it appears that thinking has evolved over the past year, and the Investment and Intervention Framework sets out a balanced approach.
- 4.15 At the baseline stage one consultee noted that it was “early days”; now one year later it was commented that the City Deal partnership is “at the end of the beginning”, with a major investment now delivered and some changes in leadership due to take place in the next few months<sup>22</sup>. **Consultees expressed confidence in the project pipeline and development process** and in the wider governance arrangements that have been put in place.
- 4.16 Finally, consultees observed **recent improvements in partnership relations with the Welsh Government**, as regional partnership arrangements have become more embedded (and the Welsh Government’s own approach to regional policy has evolved). One consultee noted that the Welsh Government had expressed interest in the (partially) evergreen model developed by CCRCD in planning its own regional investment options following the end of the European Structural Funds.

## Capacity development

- 4.17 As indicated above, some consultees saw the CCRCD as a potential mechanism to address a lack of economic development capacity, especially within smaller local authorities. Stakeholders highlighted the following:
- **Greater sharing of expertise across local authorities:** in the case of the CSC investment, Monmouthshire took a lead role in managing due diligence and in structuring the special purpose vehicle and lease agreement. Beyond this, not all authorities have significant commercial experience and capacity and examples were

<sup>21</sup> Combined Authorities on the English model do not exist in Welsh legislation.

<sup>22</sup> The chair of the Joint Regional Cabinet (who has been in post since Regional Cabinet was established) will stand down shortly.

cited of councils sharing expertise (for example, Cardiff and Blaenau Gwent, and Rhondda Cynon Taf and Merthyr in respect of commercial property development).

- **The expansion of the central CCRC team:** the team has grown since the Baseline Report (currently the team has nine full-time 'core' team members, with two secondments and two on fixed-term contracts to deliver the graduate scheme). Whilst the team remains relatively modest, it was noted that it has taken on strategic project coordination roles in some cases, where there is likely to be a value in 'regional' leadership (the Metro Central project was highlighted as an example).
- **'Learning by doing'** in the development of the investment governance structures: at the baseline stage, some frustration was expressed by partners at the length of time that it took to put the arrangements in place to manage the CSC project. Consultees considered that there is now greater familiarity with approaches to structuring investment deals (both within the central team and among Regional Cabinet and Investment Panel members).

## Anticipated cumulative effects and alignment

### Cumulative effects

- 4.18 As recognised in the National Evaluation Framework, although there is no 'programme' approach in the implementation of the Investment Funds, the delivery of interventions when taken together may generate impacts greater than would be the case if they had been delivered individually. The evaluation is not seeking to quantify these effects, as a wide range of non-Investment Fund activity will also influence the impacts, and interventions have been delivered over different time-scales. However, consultations with strategic stakeholders sought to identify in qualitative terms if any 'cumulative effects' are anticipated and how they will be realised. Whether any of these effects have in practice been realised will be considered (qualitatively) in the final report.
- 4.19 As there is only one investment fully approved and underway at present, no cumulative effects can be observed. However, consultees recognised that the Wider Investment Fund should have a cumulative impact greater than the sum of its parts. Consultees suggested four potential routes through which this might take place:
- To maintain the WIF beyond the 'initial' funding allocation, there needs to be a **return on investment**, at least for projects in the 'Investment' category. This is important both to sustain the overall funding pot and to encourage discipline in the project development process.
  - In the case of the CSC project, **there are likely to be cumulative effects with the CCRC's potential investment in CS Connected as part of the Strength in Places Fund bid.** If CS Connected secures funding to increase its capacity, this will obviously add value to the development of the cluster (and will directly support the potential of the foundry itself, should CS Connected decide to take space within it).
  - There could be cumulative effects from **efforts to support the development of other sectors with growth potential.** For example, work has taken place to build the

potential of the medtech sector (e.g. through a further Strength in Places Fund bid and a proposed capital investment, the business case for which is currently being prepared). There is significant overlap between medtech and compound semiconductors; indeed medical devices are a key compound semiconductor application. Beyond this, there ought to be synergies between priority sector development actions.

- Finally, there could be **cumulative effects from different types of intervention**. For example, the compound semiconductor sector (and other priority sectors) could benefit from interventions to increase the supply of commercial floorspace, or efforts to promote graduate employment opportunities.

### Alignment

- 4.20 The strategic consultations also considered the alignment of the Investment Fund with other key economic development interventions and agendas in the area, and any benefits expected or realised from this alignment.
- 4.21 As highlighted above, **the investment in the CSC is very closely aligned with a longer-term strategy to support the growth of the compound semiconductor sector in South Wales**, reflected in previous investments by Cardiff University, the industry-led work to develop ‘Europe’s fifth semiconductor cluster’, the role of CS Connected and the current Strength in Places Fund bid.
- 4.22 The WIF programme as a whole aligns with the strategy for the **South Wales Metro**, which is also part of the City Deal, but which is being led by the Welsh Government and is not part of this evaluation. Within the Wider Investment Fund pipeline, several projects closely align with the Metro, including Metro Central in Cardiff and the Metro Plus programme of sustainable transport schemes.
- 4.23 The operation of the Wider Investment Fund also aligns with a **more commercial approach which is being taken forward by some of the local authorities**. Increasingly, there is a desire to move away from grant funding towards a more investment-led approach, where this is viable. For example, Monmouthshire has launched its own £50 million investment fund, to support projects that will deliver a commercial return to the Council alongside social and economic benefits, while Rhondda Cynon Taf is investing in new town centre commercial property, linked with potential demand driven by the Metro<sup>23</sup>.

### Key messages

- 4.24 Based on consultations to date, the key points in relation to emerging evidence of partnership and capacity development are:
- **There is a general view that the Wider Investment Fund (and the City Deal more generally) has had a positive impact on partnership development.** The process of establishing the CCRC and the WIF, and the experience of working through the

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<sup>23</sup> This includes the Llys Cadwyn scheme on the site of the former Taff Vale shopping centre in Pontypridd (a £38 million scheme part funded with ERDF, offering new Grade A office accommodation and a new public services hub. The Council has plans for further town centre investments.

initial investment in the CSC foundry, has built confidence in joint working and collective decision-making. There is evidence that this is leading to an appetite for further regional partnership arrangements beyond the City Deal itself.

- **The Wider Investment Fund has helped to drive a more ‘commercial’ approach to economic development**, focused on making a return on investment where possible. However, striking a balance between a direct financial return to recycle back into the programme and an equitable distribution of opportunity across the region is important in achieving the programme’s range of objectives and ensuring a cohesive partnership.
- **There is evidence of sharing of resources and expertise** between the CCRC team, the local authorities and the private sector. This is linked with a greater willingness to act collectively through the City Deal and the WIF, and is positive in the context of pressure on public resources and an imbalance in capacity at local level across the region.

## 5. Planning for the final evaluation

### Approach to the final evaluation

#### Impact evaluation

- 5.1 As set out in the Evaluation Plan, impact evaluation of the Compound Semiconductor Cluster project will focus on benefits directly relating to IQE and benefits to the wider compound semiconductor sector in the Cardiff Capital Region. The key sources of evaluation evidence (to be undertaken for the Final Report, and building on the evidence gathered at Baseline and One Year Out stages) are set out in Table 5-1.

**Table 5-1: Sources of evaluation evidence**

Source of evidence	Direct effects relating to IQE	Effects on the wider sector
Primary evidence	<ul style="list-style-type: none"> <li>Consultations with IQE, to understand quantitative (where possible) and qualitative effects of the scheme on the firm and to judge the additionality/contribution of the intervention.</li> </ul>	<ul style="list-style-type: none"> <li>Consultations with firms in the sector in the Cardiff Capital Region, as well as partners and wider stakeholders, to understand the effects on the wider sector, including potential displacement.</li> </ul>
Monitoring data and information	<ul style="list-style-type: none"> <li>Information on progress in completing the intervention and IQE/others taking space, in particular: ha land acquired and assembled; floorspace completed; any employment of apprentices in construction; jobs on site – created and safeguarded.</li> </ul>	<ul style="list-style-type: none"> <li>None.</li> </ul>
Secondary data	<ul style="list-style-type: none"> <li>None.</li> </ul>	<ul style="list-style-type: none"> <li>Data from the KTN (or elsewhere) on the number of firms in the sector in the UK. If updated, this would provide contextual analysis on growth in the sector.</li> </ul>

Source: National Evaluation Panel

#### Progress evaluation

- 5.2 CCRCDC will continue to collect monitoring data to inform the Final Report, with this data forming the basis for a final analysis of expenditure and delivery of gross outputs and outcomes (where relevant) for the final evaluation.
- 5.3 Consultations will also be completed with the lead officer and other representatives of the central CCRCDC team and with IQE as the organisation responsible for day-to-day oversight of delivery.

#### Complementary workstreams

- 5.4 The final stage of the complementary workstreams will include:
- A second wave of the online survey of partners: all individuals that were asked to respond to the first wave will be invited to respond a second time, and further

partners may also be invited to complete the survey in order to broaden the evidence base. This will be agreed with CCRC in advance of the final wave of research

- A second wave of in-depth strategic consultations: at this stage we anticipate completing 15 consultations with a combination of stakeholders consulted previously and some that are 'new' to the process.
- Consultations with the lead officer for the CSC foundry: focused on project-up benefits (covered as part of the progress evaluation consultations to maximise efficiencies).
- A review of actual economic outturns: this will provide context to the findings from the impact and wider evaluation work.

## Timing

5.5 The timetable for the final evaluation is set out in Figure 5-1.

**Figure 5-1: Timetable for delivering the final evaluation report for Gateway One**

Workstreams	Tasks															
		Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20						
Impact	Research design - additional consultation tools Consultations with IQE wave 3 Consultations with other firms in the sector wave 2 Intervention lead (SPV, CCR) consultations wave 3 Wider stakeholder consultations wave 2 Analysis of data - KTN and monitoring (outcomes) data Overall impact analysis Draft final impact evaluation plus present findings															
Progress	Mid-year data review Review monitoring data - final Intervention lead consultation wave 3 Synthesis and drafting of final progress findings															
Complementary workstreams	Online survey wave 3 Strategic consultations wave 3 Review out-turn vs. contextual forecasts															
Meetings	Kick-off for impact and progress evaluation work - final Presentations of interim and final findings															
Drafting	Synthesis of workstreams in draft report Finalise reports															
	<b>Locality Final Report</b>															

Source: SQW

## Risks

5.6 A risk assessment for the evaluation is set out in Annex B. This updates the risk assessment in the Baseline Report. At the time of writing, a key risk to the evaluation is the coronavirus pandemic and the associated restrictions on activity. Whilst consultations could be undertaken by phone/video, the pandemic may impact the availability of consultees.

## Annex A: Intervention level progress evaluation assessment

### Compound Semiconductor Cluster

Question	Yes / No	Comments
Q1: Is expenditure on budget?	No	To date £32.9m WIF has been spent, against an anticipated £37.9m. This is because expenditure was paused at the end of 2018, pending sufficient customer demand for IQE to proceed with equipment installation and fit-out. Spend remains paused.
Q2: Have agreed delivery milestones been met?	Yes	Target floorspace completed on schedule and scheme in occupancy
Q3: Have anticipated outputs been delivered, and (where relevant) how does this compare to planned outputs at this stage in terms of scale/nature?	No	The facility is occupied as planned. Job outputs to date are lower than anticipated although have increased in the past year
Q4: Have intermediate outcomes been delivered, and (where relevant) how does this compare to planned outcomes at this stage in terms of scale/nature?	No	Private sector leverage is behind profile. This reflects IQE's decision to pause investment in equipment pending an improvement in market conditions.
Q5: Does the project remain on course to deliver against its original objectives?	Yes	IQE investment is likely to pick up again as market conditions improve, and CCRC is confident that it will receive full return on investment

*Source: SQW, based on: CCR monitoring workbook (completed by CCRC and consultation evidence)*

## Annex B: Updated risk matrix

### Common risks across Localities

Risk	Likelihood / Impact	Mitigating actions
<b>Common across Localities</b>		
COVID-19 restricting travel and movement for fieldwork activities	H / L	<p>While all organisations involved will have implemented responses to COVID-19 including home working, the availability of consultees for evaluation fieldwork is likely to be affected.</p> <p>SQW has enacted a series of mitigation activities to ensure business continuity. This includes moving from face to face to phone, video-conferencing or Skype-equivalent fieldwork methods. We propose to utilise these methods for consultations to follow current and anticipated government advice.</p>
Poor quality monitoring data from Localities	M/H	<p>The Locality Plans build in a six-monthly review of monitoring data. This is to enable issues to be identified at an early stage and so addressed in advance of the final report to inform the Gateway Review.</p> <p>NEP will not be verifying monitoring data but will review it for consistency against our consultations with project managers and previous sets of data.</p> <p>It is possible that data changes over time due to shifts in definition. We should be sighted on this through the review process set out above and because the data definitions are being taken from wider definitions areas use to report on their Growth Funds.</p>
Localities delay providing monitoring data in time for the final report to inform the Gateway Review	M/M	<p>We will agree dates with Localities when data should be supplied, well in advance of the key date.</p> <p>The six-monthly process set out above should mean that if there are delays with the final set of data then the final report to inform the Gateway Review could be written using the older data. This would not be ideal.</p>
Report contents do not match client needs	L/ H	<p>The report would build from the outline in the National Framework.</p> <p>Standard templates will be developed to ensure consistency of reporting across all Localities.</p> <p>We would agree the templates and key headings with the client.</p>
Localities delay signing off reports	M/H	<p>This could occur due to governance structures or where a Locality is concerned that the report does not present favourable findings. To address these possibilities we will agree with each Locality key dates around their schedule of meetings on which:</p> <ul style="list-style-type: none"> <li>• Reports will be made available to them</li> <li>• Comments are expected back.</li> </ul> <p>Each Locality will also be provided with a note of comments received on the draft report, including comments from the academic panel, and how we have responded to those comments.</p>

Risk	Likelihood / Impact	Mitigating actions
Low response rates from participants	M/ H	We would work through project managers to develop the most appropriate way to encourage survey responses, e.g. not just that a reminder should be sent but who should send this.
Loss of electronic data in transfer from project to SQW	L/ M	We would develop a protocol for the transfer of data. This is likely to include files being sent with password protection, and the password being telephoned through.
IT failure	L/ M	SQW systems are fully backed up with data held in two offsite data centres. In the event of failure we can switch to the secondary centre and systems and files be restored.
Unexpected unavailability of team members	L/ M	Staff have confirmed availability to undertake the work in the required timescales.  In a team member becomes unavailable through sickness etc., we can identify other experienced SQW researchers with similar experience drawing from our range of 50 employees and using our internal time booking software.

Source: National Evaluation Panel

## Locality specific risks

Risk	Likelihood / Impact	Mitigating actions
Changes in evaluation representatives in the CCR	M / M	SQW and the CCR will work together to ensure a smooth handover – especially in terms of knowledge and understanding of the context and approach for the evaluation.
Limited evaluation evidence if further interventions are not funded ahead of 2020	L / M	The evaluation is already set to focus on the Compound Semiconductor Cluster project in particular. Even without any other interventions to evaluate, the evaluation should have sufficient evidence (if the Compound Semiconductor Cluster proceeds as expected, and alongside evidence from the complementary workstreams) to present a robust evidence base for the Gateway Review.

## Impact evaluation risks

Risk	Likelihood / Impact	Mitigating actions
Lack of engagement by IQE	M / H	The CCR and SQW to work together to ensure that IQE understand the importance of the evaluation, are available for consultations when needed, and are responsive to other requests e.g. in relation to data to support the evaluation.
Changes in staff members at IQE	M / M	SQW and the CCR will work with IQE to ensure that new staff understand the role of the evaluation. Speaking to IQE at the baseline stage will ensure that people involved at the early stage are able to provide evaluation evidence, even if subsequent phases of the work are with newer staff members.

<b>Risk</b>	<b>Likelihood / Impact</b>	<b>Mitigating actions</b>
Low response rate from the wider sector	M / H	the CCR to 'warm up' contacts ahead of SQW approaching firms for consultations, making it clear what the evaluation is for and the importance of their contribution to this. Also, engagement will be limited to the baseline and final reporting stages, to avoid consultation fatigue.
KTN data not updated	M / L	SQW will consult with KTN to clarify if/when new data will be available. If it looks unlikely to be updated a consultation will be undertaken with KTN, in addition to the consultation planned anyway with the Compound Semiconductor Catapult, to get their perspective on the growth of the sector qualitatively.
Delays in the Compound Semiconductor Cluster project being delivered and IQE occupying the facility	L / H	the CCR will keep SQW informed of progress with the project and any potential delays. It is apparent at the time of writing that the project has proceeded as expected, with this therefore unlikely to be an issue.

## Annex C: Consultees

### ***Cardiff Capital Region City Deal***

- Kellie Beirne (Chief Executive)
- Rob O'Dwyer (Head of Infrastructure)

### ***Impact consultees***

- Stephen Doran (Compound Semiconductor Applications Catapult)
- Andrew Evans (SPTS)
- Sam Evans (Newport Wafer Fab)
- Robert Huggins (Cardiff University School of Geography and Planning)
- Martin McHugh (Compound Semiconductor Applications Catapult)
- Chris Meadows (IQE)
- Wyn Meredith (CS Connected)
- Rhydian Morris (JLL)
- Max Munday (Cardiff Business School, Cardiff University)
- Graham Newell (Newport Wafer Fab)
- Beverley Owen (Newport City Council)
- Peter Snowton (Institute for Compound Semiconductors, Cardiff University)
- Chris Sutton (Suttons)
- Rhys Waite (Microsemi)
- Nick Weston (Renishaw)
- Tracy Wotherspoon (Microsemi)
- Chris Young (Welsh Government)

### ***Strategic consultees***

- Cllr Peter Fox (Monmouthshire County Council)
- Frank Holmes (Gambit Corporate Finance LLP, Chair of Regional Economic Growth Partnership)
- Paul Matthews (Monmouthshire County Council)
- Cllr Andrew Morgan (Rhondda Cynon Taf CBC)

- Paul Orders (Cardiff Council)
- Ian Price (CBI Wales)

**CARDIFF CAPITAL REGION CITY DEAL: ILLUSTRATIVE SUMMARY OF REVISED CORPORATE RISK REGISTER (MAY 2020)****SECTION 1: KEY STRATEGIC RISKS (SUMMARISED)**

Ref.	Risk Description	Potential Impact	Risk Owner	Inherent Risk Likelihood / Impact	Current Controls	Residual Risk Likelihood / Impact	Proposed Management Actions
1.	Public Health Impacts	Covid-19 pandemic leads to significant economic impact across the region	Regional Cabinet	TBC following assessment	Preparation and approval of Post-Covid 19 response document	TBC following assessment	Implementation of measures in-line Covid 19 document
2.	City Deal Office Resources, Staffing and Capacity	Inability to recruit appropriate resources to support preparation, whilst existing roles will expire on the 31 <sup>st</sup> March 2021	CEXs	TBC following assessment	Existing CDO budget approved as past IIF provides appropriate level of budget	TBC following assessment	CEXs reviewing how roles can be extended beyond 31 <sup>st</sup> March 2021
3.	Design of Gateway Review process does not recognise the impact of the substantial changes which have occurred	Impact on economic baseline, measures and progress leads to failure of Gateway Review due to issues beyond our control	Director	TBC following assessment	Discussions with UK/Welsh Governments and SQW plus State of the Region Baseline work	TBC following assessment	Seek agreement for CCR to inform Gateway Review design and deployment
4.	Regional Investment Framework for Wales	Risk that the new WG-led Regional Economic Frameworks could, if not appropriately integrated and balanced, over-ride many of the structures, processes and protocols put in place for CCR	Regional Cabinet	TBC following assessment	Response to consultation document and to Ministerial Committees	TBC following assessment	Follow-up on consultation submitted and ensure proposed way forward builds on CCR work to-date
5.	Levelling-up Agenda	Sub-optimal delivery structures implemented regionally for new funding identified	Regional Cabinet	TBC following assessment	Input to Welsh Government on emerging policy direction	TBC following assessment	Continue to engage with Welsh Government on this matter
6.	Post-Brexit Implementation	Leads to further deterioration in macro-economic environment e.g. interest rates, inflation, supply chains, funding levels etc.	Regional Cabinet	TBC following assessment	Input to Welsh Government on emerging policy direction	TBC following assessment	Continue to engage with Welsh Government on this matter

**SECTION 2: KEY OPERATIONAL AND PROGRAMME LEVEL RISKS (SUMMARISED)**

Ref.	Risk Description	Potential Impact	Risk Owner	Inherent Risk Likelihood / Impact	Current Controls	Residual Risk Likelihood / Impact	Proposed Management Actions
1.	Business Plan Delivery	Approved projects are not delivered or are delivered late/above budget, leading to City Deal targets not being met in full	Regional Cabinet / Project Director	TBC following assessment	Regular progress reports to Investment Panel and Regional Cabinet with key risks and Issues being captured and escalated in a timely manner	TBC following assessment	Ongoing review of the effectiveness of programme and project reporting, whilst ensuring risk registers and issues logs are in place and operating effectively
2.	Ensuring continued quality deal flow	Failure to attract or unlock significant social-economic projects within the region that may lead impact on the City Deal's ability to meet its targets in full	Investment Panel / Project Director	TBC following assessment	Ongoing review and monitoring of levels / quality of proposals in the pipeline and how these translate to City Deal targets being achieved	TBC following assessment	One Year on assessment of IIF and strategy for year 2 operations
3.	Governance & Effective Decision Making	Failure to ensure appropriate governance arrangements are in place leading to ineffective decision making	Project Director / Accountable Body	TBC following assessment	JWA in place which includes details of delegations and scopes of decision making. Legal input (internal/external) secured as part of the approved IIF process	TBC following assessment	Ongoing of review arrangements, Annual Governance Statement and Internal and External audit reviews
4.	Financial Affordability	Risk of approved Financial Affordability Envelope being breached	Project Director / Accountable Body	TBC following assessment	JWA in place which includes details of approved envelope IIF process requires business case development which captures wholelife	TBC following assessment	Ongoing of review arrangements, Annual Governance Statement and Internal and External audit reviews

Appendix 2 Corporate Risk Register

Ref.	Risk Description	Potential Impact	Risk Owner	Inherent Risk Likelihood / Impact	Current Controls	Residual Risk Likelihood / Impact	Proposed Management Actions
					project costs, regular finance reports to Investment Panel, Regional Cabinet and 10 LA Partners		
5.	Funding Terms & Conditions	Non-compliance with approved UK/Welsh Government funding T&Cs leads to grant clawback and/or cessation of further funding	Project Director / Accountable Body	TBC following assessment	Embedded within the IIF process and documentation are the requirements of funding T&Cs and appropriate compliance checks at each approval stage	TBC following assessment	Ongoing of review arrangements, Annual Governance Statement and Internal and External audit reviews
6.	Effective Audit & Assurance	Non-compliance with approved UK/Welsh Government requirements which could lead to grant clawback and/or cessation of further funding. Potential reputational damage, reducing CCR's ability to support new funding streams	Project Director / Accountable Body / WAO	TBC following assessment	5yr rolling programme of internal audit, annual external audit plan, joint scrutiny function and preparation of the Annual Governance Statement	TBC following assessment	Ongoing of review arrangements, Annual Governance Statement and Internal / External audit reviews and Joint Scrutiny Programme of work

## Future Generations Assessment

<p><b>Name of the Officer completing the evaluation:</b></p> <p><b>Kellie Beirne</b></p> <p><b>Phone no: 07826 919286</b>  <b>E-mail: <a href="mailto:kellie.beirne@cardiff.gov.uk">kellie.beirne@cardiff.gov.uk</a></b></p>	<p><b>Please give a brief description of the aims of the proposal</b></p> <p>This report sets out the main findings of the one year out report and takes the opportunity to highlight associated risks and issues as we move into the final evaluation prior to the Gateway Review</p>
<p><b>Proposal: One Year Out Report</b></p>	<p><b>Date Future Generations Evaluation form completed: 10<sup>th</sup> May 2020</b></p>

**1. Does your proposal deliver any of the well-being goals below?** Please explain the impact (positive and negative) you expect, together with suggestions of how to mitigate negative impacts or better contribute to the goal.

<b>Well Being Goal</b>	<b>Does the proposal contribute to this goal? Describe the positive and negative impacts.</b>	<b>What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?</b>
<p><b>A prosperous Wales</b> Efficient use of resources, skilled, educated people, generates wealth, provides jobs</p>	<p>The report describes the findings of the One year Report and highlights the risks and issues as we move into the Gateway Review.</p> <p>Ultimately, successfully completing the Gateway Review will see our City Deal continue to be supported and investment being aimed at priority economic interventions.</p>	<p>Ensuring there is a high state of readiness and a strong sense of self-awareness – through data capability and an awareness of the importance of place-based interventions.</p>
<p><b>A resilient Wales</b> Maintain and enhance biodiversity and ecosystems that support resilience and can adapt to change (e.g. climate change)</p>	<p>The proposal relates to building resilience through understanding and being able to measure and assess the impact of our interventions – some of which might have an effect on natural eco-systems</p>	<p>Consideration to embedding circular economy principles in relevant aspects of procurement processes</p>

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
<p><b>A healthier Wales</b> People's physical and mental wellbeing is maximized and health impacts are understood</p>	<p>It is possible that aspects of the assessment process – might in time extend to wellness and wellbeing indicators.</p>	<p>Building our own self-awareness will be a key part of the evaluation process – wellness is likely to feature strongly within this</p>
<p><b>A Wales of cohesive communities</b> Communities are attractive, viable, safe and well connected</p>	<p>The Gateway Review is about understanding the rate of economic progress and how this is contributes to community resilience and viability.</p>	<p>Data capability, place analysis and having systems and platforms capable of answering the key questions about the scale and extent of change will inform our understandings of progress and advancements made.</p>
<p><b>A globally responsible Wales</b> Taking account of impact on global well-being when considering local social, economic and environmental wellbeing</p>	<p>City Deal seeks to position our region for better economic output and global competitive advantage. This latter reflects upon economic betterment, social justice and environmental sustainability.</p>	<p>Further work will be needed on a proposal by proposal basis (and in conjunction with the Investment Framework) to embed wellbeing goals at the heart of economic activity, including support from the private and business sectors.</p>
<p><b>A Wales of vibrant culture and thriving Welsh language</b> Culture, heritage and Welsh language are promoted and protected. People are encouraged to do sport, art and recreation</p>	<p>Our City Deal is uniquely Welsh – but pitches towards being world leading in areas of competitive strength. This enables a strong reflection on our rich culture and heritage.</p>	
<p><b>A more equal Wales</b> People can fulfil their potential no matter what their background or circumstances</p>	<p>City Deal is about delivering as far as possible across 10 LAs and a population of £1.5m people. It is about economic gains – but importantly how this will convert as tools for improving people's lives.</p>	<p>Examples are offered by small countries that have proactively sought to demonstrate how economic impact translates to improved inclusion, sustainability and a kind of growth that serves a</p>

Well Being Goal	Does the proposal contribute to this goal? Describe the positive and negative impacts.	What actions have been/will be taken to mitigate any negative impacts or better contribute to positive impacts?
		social good. These examples and best practice will be followed and integrated.

## 2. How has your proposal embedded and prioritized the sustainable governance principles in its development?

Sustainable Development Principle	Does your proposal demonstrate you have met this principle? If yes, describe how. If not explain why.	Are there any additional actions to be taken to mitigate any negative impacts or better contribute to positive impacts?
 <p>Long Term</p> <p>Balancing short term need with long term and planning for the future</p>	The report sets out the work needed in the short-term to both guide and reflect more accurately, better outcomes in the long-term	More work is needed around business and improved civic engagement
 <p>Collaboration</p> <p>Working together with other partners to deliver objectives</p>	The Economic Growth Partnership will take a lead for commissioning the data capability work – in order that approach is rightly, industry-led and ready to inform industrial strategy development	The Regional Business Council, is developing a plan to more comprehensively engage and interact with the wider business community
 <p>Involvement</p> <p>Involving those with an interest and seeking their views</p>	The report will see an approach embedding across the region and involving organizations that can help inform data capability and approach – Universities and ONS in the main	A communications plan is being developed to ensure a more wide-ranging approach is taken to civic involvement. My perfect metro is a good example of inventive ways of building engagement.
 <p>Prevention</p> <p>Putting resources into preventing problems occurring or getting worse</p>		

Sustainable Development Principle	Does your proposal demonstrate you have met this principle? If yes, describe how. If not explain why.	Are there any additional actions to be taken to mitigate any negative impacts or better contribute to positive impacts?
 <p>Considering impact on all wellbeing goals together and on other bodies</p>	<p>The proposal seeks the data competency and the evidence base to inform sound decision-making</p>	

3. Are your proposals going to affect any people or groups of people with protected characteristics? Please explain the impact, the evidence you have used and any action you are taking below.

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Age	<p>The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.</p>	None	
Disability	<p>The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.</p>	None	

Protected Characteristics	Describe any positive impacts your proposal has on the protected characteristic	Describe any negative impacts your proposal has on the protected characteristic	What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?
Gender reassignment	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	
Marriage or civil partnership	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	
Pregnancy or maternity	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	
Race	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	
Religion or Belief	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	
Sex	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	

<b>Protected Characteristics</b>	<b>Describe any positive impacts your proposal has on the protected characteristic</b>	<b>Describe any negative impacts your proposal has on the protected characteristic</b>	<b>What has been/will be done to mitigate any negative impacts or better contribute to positive impacts?</b>
Sexual Orientation	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	
Welsh Language	The proposal is about data and evidence and ensuring we have accurate and timely information on which to base decisions. Dimensions such as protected characteristics will be more visible and apparent as a result.	None	

#### 4. Safeguarding & Corporate Parenting. Are your proposals going to affect either of these responsibilities?

	<b>Describe any positive impacts your proposal has on safeguarding and corporate parenting</b>	<b>Describe any negative impacts your proposal has on safeguarding and corporate parenting</b>	<b>What will you do/ have you done to mitigate any negative impacts or better contribute to positive impacts?</b>
Safeguarding	NA	NA	
Corporate Parenting	NA	NA	

#### 5. What evidence and data has informed the development of your proposal?

- SQW and National Evaluation Framework
- One Year Out Report

**6. SUMMARY: As a result of completing this form, what are the main positive and negative impacts of your proposal, how have they informed/changed the development of the proposal so far and what will you be doing in future?**

Establishing the data and evidence is a first step. Once set out and a process is in place – issues and challenges will become clear and can be acted upon.

**7. MONITORING: The impacts of this proposal will need to be monitored and reviewed. Please specify the date at which you will evaluate the impact, and where you will report the results of the review.**

**The impacts of this proposal will be evaluated on:**

As each report is received through the evaluation and locality assessment phases

**10 JUNE 2019**

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**LOCAL EVALUATION PLAN FOR THE CARDIFF CAPITAL REGION & BASELINE REPORT FOR FIRST EVALUATION OF THE WIDER INVESTMENT**

**REPORT OF CCR CITY DEAL DIRECTOR**

**AGENDA ITEM: 13**

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**Reason for this Report**

1. The report is in two parts:
  - Under the auspices of the National Evaluation Framework (noted and endorsed by Cabinet in September 2018), this report firstly presents the proposed Locality Evaluation Plan for the Cardiff Capital Region (CCR) Wider Investment Fund. This evaluation will be undertaken and finalised in December 2021 in time for the Gateway Review in 2021. The plan, co-developed by the National Evaluation Panel and CCR, sets out the logic model for evaluating the only fully approved and operational project to date (Compound Semiconductor) and a range of other overarching evaluation activities with the intention to add and further supplement, as other projects are developed.
  - The second part of the report sets out the Baseline Report for the first evaluation of the Wider Investment Fund. This is the first major output of the evaluation work undertaken by the National Evaluation Panel that implements the approach set out in the aforementioned locality evaluation plan.
2. Both reports are significant in that they will inform the structure, processes and first wave of evidence to be presented to the Gateway Review. It is important that the early outcomes in particular, are acknowledged and understood, in order to further develop and reinforce the activities and interventions necessary – right across CCR structures and partners – as the City Deal journey progresses. The report further provides information in relation to the timing of the evaluation work and Gateway Review and the total cost of the work in order to inform budgetary preparations.

## Background

### Locality Evaluation Plan for CCR

3. The National Evaluation Panel (NEP) has been convened to evaluate the impact of locally-appraised interventions on economic growth. Their remit is to provide evidence to the five-year Gateway reviews associated with the Investment Funds. The CCR, as a recipient of Investment Funds in the second round of the programme (City Deal approved in 2016/17), is a cohort 2 participant. The focus of the work is on impact not process or governance and in the case of CCR, the remit is not the City Deal in full - only on aspects of activity wholly resourced by the Fund i.e. the Wider Investment Fund of £495m, meaning that the £734m allocated to the Metro is NOT included within the assessment. The NEP is the Government's appointed consortium and is led by SQW.
4. Appendix 1 contains the Locality Evaluation Plan co-developed between the City Deal office and SQW. It is an evolving document and although currently focussed on the Compound Semiconductor project and a range of overarching evaluation activities – the intention is to add and supplement it as further projects are established.
5. The Locality Evaluation Plan structure and content and the 'logic model' presented relates wholly to the Compound Semiconductor Project but allows for re-visitation as further interventions are agreed. These interventions will be those set to be funded by CCR before 2020. This ongoing process of evaluation will be undertaken in close conjunction with CCR, in particular around data input, monitoring, involvement of participants and the input of Wales Government. In summary, the key elements of the evaluation plan include:
  - Impact and progress evaluation of the Compound Semiconductor project
  - An overarching strategic level evaluation
  - Contextual economic forecasting
  - Three consecutive rounds of reporting
6. The full methodology is set out within the report. It is important that this is now synched with the new Annual Business Plan and the new quarterly performance monitoring and reporting. This will ensure that evaluation processes, data development and analysis and ongoing review are complementary and connected. The City Deal Office has procured the necessary expertise to ensure this can now be undertaken.
7. In addition to the CSC project, the Locality Evaluation Plan also focuses on complementary work-streams at both strategy and project-level. These include: capacity development and partnerships evaluation; and, contextual economic forecasting. This relates to the strength in collaborative arrangements, particularly around business engagement and how the economy at the time the City Deal was approved was expected to develop, in order to develop a 'baseline' projection with which to gauge future progress.

8. The plan anticipates the work contained will be undertaken and finalised by December 2020, in time for the Gateway Review of the Wider Investment Fund before the end of March 2021. The costs of all aspects of the work around the Compound Semiconductor project evaluation, baseline report and capacity and partnerships development are reported as totalling £217,524.
9. The document at Appendix 2 is the Baseline Report - for the first evaluation of the CCR Wider Investment Fund to be undertaken and finalised by 2020 (and to inform the Gateway Review before the end of March 2021). This report marks the first output of the evaluation work of the National Evaluation Panel in implementing the approach agreed in the Locality Evaluation Plan – as referenced above.

### **CCR Baseline Report**

10. The Baseline Report, the research for which completed at the start of 2019, does the following:
  - Confirms the scope of the evaluation work
  - Presents the economic forecasts for CCR
  - Establishes the status of the Compound Semiconductor project as at the end of 2018
  - Presents evidence around capacity development and partnerships
11. The evidence presented draws on the monitoring data and actual outputs of the Compound Semiconductor project; consultation with the Compound Semiconductor Cluster; 12 senior stakeholder interviews and 31 survey replies from partners; and, an economic forecast developed by Cambridge Econometrics. There are key references in the report to the industry-led Economic and Industrial Growth Plan; the new principles introduced for an 'evergreen' fund; the importance of the Investment and Intervention Framework and the already agreed five year JWA Business Plan and to the Compound Semiconductor Project.
12. The contextual economic forecast is set out in pages 9-15 of Appendix 2. Key messages include:
  - GVA growth in CCR has underperformed the UK as a whole and over the forecast period, the pattern is expected to continue. Ahead of the first Gateway Review it was forecast to rise by 1.5% from 2013-19 – lower than the UK overall
  - Employment growth over the period 1990-2013 was just under 0.4% - slightly lower than the UK at 0.5%. The number of jobs in CCR was forecast to rise from 645k in 2013 to 691k in 2019 and 705k in 2025
  - Both through the historical period (1990-2013) and the forecast period (2012-2025) productivity growth in CCR is, and was expected to be, behind the growth of the UK overall
13. In respect of the Compound Semiconductor project key messages include (Page 18 of Appendix 2):

- The project is well underway, albeit spend to date is slightly lower than projected – but this is starting to change
  - The project is bigger than the Foundry and is about the potential for the Cluster
  - Job creation is underway and to date, targets are exceeded
  - Clarification is needed on jobs safeguarded
14. In terms of capacity building and partnerships, stakeholder feedback key messages include (Page 18 onwards of Appendix 2):
- General view that CCR City Deal and the Wider Investment Fund HAS had a positive impact on local economic development capacity
  - Design of the Wider Investment Fund is important in driving demand, better evidence and decision making
  - Scope exists for further engagement - particularly with businesses. Engagement with civic society is also referenced
  - There is a sense the story is positive but it not widely promoted
  - It remains *'early days for the Wider Investment Fund: partnership and capacity has grown as a result, but as one consultee pointed out, the Compound Semiconductor project is just the first investment in what will need to develop as a wider transformational programme'*.
15. Timeframes for the remainder of the work are set out in the report. However it is expected that this pattern of ongoing review and monitoring will remain a constant.

### **Risks and Opportunities**

16. The Baseline Report is an independent report that has been informed by an objective review of the evidence and data available, as well as stakeholder views and partnership perspectives. It poses a number of risks, challenges and opportunities. These are:
- Project pipeline development – whilst it is recognised that City Deal is relatively new off the blocks; it is also acknowledged that there is a short window of opportunity in which to mobilise a delivery pipeline. Since the completion of the report, CCR has been notified of the Strength in Places seed award on the Compound Semiconductor Cluster; the case for Metro Plus has been approved, the Graduate Scheme is underway and work has started on the Housing Investment Fund. With the 'three funds' soon to be operational, subject to approval by Cabinet of the Investment Framework – this will see the pipeline develop – key to providing confidence that change is underway. This will feed forward into the next phase of review. It is clear however that creating the conditions to accelerate in line with priorities, will be key.
  - The new Investment and Intervention Framework sets expectation that some of the issues expressed by stakeholders around process, clarity and governance can be more effectively addressed. Again, this will be borne out in future delivery – and underlines the need for robust and honest ongoing evaluation. These outcomes will be captured in the next phase of the formal evaluation process.

- The issue around the Compound Semiconductor project, regarding full capture of targets and progress – in the ways now required for the logic model - will be addressed through formal recording through the new Quarterly Performance Monitoring Report processes.
- Moreover, with a new Annual Business Plan and digitised and consolidated means of quarterly performance tracking, the City Deal Office will ensure that all actions stemming from the Baseline Report, over which we have influence and direction, will be captured and appropriate plans put in place.
- One example of this is the point raised in the report about potential for further business engagement. Working with the Regional Business Council, the City Deal Office will support the development of a robust business plan that can effectively target the issues highlighted in the report.

### **Reasons for Recommendations**

17. The reasons for the recommendations are:

- The Locality Evaluation Framework provides a benchmark against which to measure the effects and impact of local interventions.
- Now that the first Baseline Report has been received, the relevant work can be undertaken to align performance monitoring and reporting and ensuring the focus is on the areas for improvement that CCR can influence and address.
- Regional cabinet, partnerships and other stakeholders will very quickly become involved in the process of establishing baseline information, offering views, perspectives and insights on outcomes and progress. It is important that there is a strong understanding of the significance of this work ongoing and the part they have to play
- The cost associated with this work up until Gateway Review is significant and it is important that Regional Cabinet understands what it is involved and the value added.

### **Financial Implications**

18. This report notes that costs associated with work leading towards the Gateway Review are significant and that it is important that Regional Cabinet understand what it is involved and the value added. It is also important to note that funding for 2021/22 and beyond is conditional on CCRCD successfully passing this Gateway Review, whilst any unspent funding up to this time may be subject to repayment if Gateway Review is not passed.
19. Cardiff Capital Region's share of developing the National Evaluation Framework via Transport for Greater Manchester has been fully budgeted for, via resources set aside from the City Deal Office's allocation of the Joint Committee Revenue Budget. To date, costs of £28,744 have been incurred with a balance of £1,778 to be charged in 2019/20.
20. The total cost of SQW's work over the period from 2018/19 to 2020/21 is £217,524, of which, £27,751 has been charged to date. The 2019/20 Joint Committee Revenue Budget approved by Regional Cabinet at its meeting of 18<sup>th</sup> February 2019 contains an amount of £72,810 for this purpose, while the Joint

Committee Revenue Budget Final Out-Turn and Proposal to Create Earmarked 'Reserves' report being considered at Regional Cabinet's 10<sup>th</sup> June 2019 meeting seeks approval to carry forward unspent sums from the approved 2018/19 budget to cover costs which have slipped into 2019/20.

21. The Medium Term Financial Plan drawn-up to support Regional Cabinet's annual budget planning process includes further sums, to meet the cost of SQW's work over the whole period.

### **Legal Implications**

22. In the Joint Working Agreement in relation to the delivery of the Cardiff Capital Region City Deal ("the JWA") the Councils acknowledged and agreed that the funding provided by HMT (£375,000 000) is subject (amongst other things) to satisfying the five yearly Gateway Reviews by HMT. This report sets out the work done to date in terms of developing the review process and future steps required. At risk of stating the obvious, it is very important that appropriate steps are put in place as satisfying the Gateway Review presents a key risk to the City Deal, given the implications for the HMT funding.
23. In considering its endorsement regard should be had, amongst other matters, to:
  - (a) the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards,
  - (b) public sector duties under the Equality Act 2010 (including specific Welsh public sector duties). Pursuant to these legal duties Councils must in making decisions have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are : a. Age; b. Gender reassignment; c. Sex; d. Race – including ethnic or national origin, colour or nationality; e. Disability; f. Pregnancy and maternity; g. Marriage and civil partnership; h. Sexual orientation; i. Religion or belief – including lack of belief and
  - (c) the Well-being of Future Generations (Wales) Act 2015. The Well-being of Future Generations (Wales) Act 2015 ('the Act') is about improving the social, economic, environmental and cultural well-being of Wales. The Act places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language and is globally responsible. In discharging their respective duties under the Act, each public body listed in the Act (which includes the Councils comprising the CCRC) must set and published wellbeing objectives. These objectives will show how each public body will work to achieve the vision for Wales set out in the national wellbeing goals. When exercising its functions, the Regional Cabinet should consider how the proposed decision will contribute towards meeting the wellbeing objectives and in so doing achieve the national well-being goals.

The well-being duty also requires the Councils to act in accordance with a 'sustainable development principle'. This principle requires the Councils to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Regional Cabinet must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, Regional Cabinet must:

- look to the long term;
- focus on prevention by understanding the root causes of problems;
- deliver an integrated approach to achieving the 7 well-being goals;
- work in collaboration with others to find shared sustainable solutions;
- involve people from all sections of the community in the decisions which affect them.

Regional Cabinet must be satisfied that the proposed decision accords with the principles above. To assist Regional Cabinet to consider the duties under the Act in respect of the decision sought, an assessment has been undertaken, which is attached at Appendix 3.

## **RECOMMENDATIONS**

23. Regional Cabinet is asked to:

1. Note and endorse the co-produced Locality Evaluation Plan for the Cardiff Capital Region – as a means of guiding the process of evaluating the impact of interventions on local economic growth
2. Note the first Baseline Report and support the City Deal Director in addressing the issues which require improvement around business and civic engagement, synchronising performance report and marketing and communications – all of which are set out in the Annual Business Plan – but will now need reinforcement and strengthening.
3. Note the cost implications and budget provisions made as set out in financial implications above. In 2019/20 and for which provision has been made in the Wider Investment Fund in 2019.20.

**Kellie Beirne**  
**Director, Cardiff Capital Region City Deal**  
**10 June 2019**

Appendix 1 Locality Evaluation Report  
Appendix 2 CCR Baseline Report  
Appendix 3 Wellbeing of Future Generations Assessment