



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Menter a Busnes **The Enterprise and Business Committee**

Dydd Mercher, 13 Mai 2015
Wednesday, 13 May 2015

Cynnwys
Contents

[Cyflwyniadau, Ymddiheuriadau a Dirprwyon](#)
[Introductions, Apologies and Substitutions](#)

[Craffu ar Network Rail](#)
[Scrutiny of Network Rail](#)

[Dinas-ranbarthau](#)
[City Regions](#)

[Banc Datblygu i Gymru](#)
[Development Bank for Wales](#)

[Papurau i'w Nodi](#)
[Papers to Note](#)

[Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod](#)
[Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting](#)

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniw	Llafur Labour
Jeff Cuthbert	Llafur Labour
Keith Davies	Llafur Labour
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
William Graham	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Rhun ap Iorwerth	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Yr Athro/Professor Gillian Bristow	Ysgol Gynllunio a Daearyddiaeth Prifysgol Caerdydd Cardiff University School of Planning and Geography
Tim James	Pennaeth Strategaeth a Chynllunio—Cymru, Network Rail Head of Strategy and Planning—Wales, Network Rail
Ian Johnson	Cadeirydd, Cyllid Cymru Chairman, Finance Wales
Jo Kaye	Cyfarwyddwr—Strategaeth a Chynllunio, Network Rail Director—Strategy and Planning, Network Rail
Mark Langman	Rheolwr Gyfarwyddwr Llwybrau—Cymru, Network Rail Route Managing Director—Wales, Network Rail
Michael Owen	Cyfarwyddwr Buddsoddi Grŵp, Cyllid Cymru Group Investment Director, Finance Wales
David Staziker	Cyfarwyddwr Technegol Grŵp, Cyllid Cymru Group Technical Director, Finance Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Marc Wyn Jones	Clerc Clerk
Rachel Jones	Dirprwy Glerc Deputy Clerk
Andrew Minnis	Y Gwasanaeth Ymchwil Research Service
Ben Stokes	Y Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 9:30.
The meeting began at 9:30.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **William Graham:** Good morning, and welcome to the Enterprise and Business Committee. I welcome Members, witnesses and any members of the public. I have apologies from Byron Davies and Gwenda Thomas. We're going to go straight into questions.

09:31

Craffu ar Network Rail Scrutiny of Network Rail

[2] **William Graham:** Item 2 is scrutiny of Network Rail. So, I welcome you today. I will ask Mick Antoniw to ask the first question, please.

[3] **Mick Antoniw:** Obviously, we've moved on a little bit from the St David's Day agreement, and, of course, you've been asked many times about issues relating to infrastructure and franchise. Are you able to give any indication as to where you think we are, and what issues might arise from that?

[4] **Mr Langman:** Okay. Well, good morning, everyone. It's good to be here. Thanks for seeing us. It's always a pleasure to come and see you. So, yes, the St David's Day announcement obviously gave preference for powers for the Welsh Government to take control of the Welsh franchise. What it didn't do was devolve powers for the infrastructure to Network Rail, but it's probably worth pointing out that Network Rail in Wales, which we created some three—nearly four—years ago now, in 2011, works under a devolved structure within Network Rail; so, we are fully aligned to Wales, we are fully aligned to the Welsh franchise, and we operate under a devolved model, which I think works quite well. That devolution enables us to have the right conditions, I think, to be aligned with the Welsh Government, and we work closely with the Welsh Government in terms of delivering enhancements to the railway over and above what we already do with maintenance and renewals of the network. So, in terms of the St David's Day agreement, we recognise that whilst powers weren't devolved or suggested to be devolved to the Welsh Government over the infrastructure of the railway, we are working closely with the Welsh Government. We have also given evidence to the Silk commission at the time, and we also said that we'll be happy to work with the Welsh Government about future potential for the devolving of the infrastructure to Wales, and we provided information towards that.

[5] **Mick Antoniw:** Could you tell us a little bit, then, about how your devolved structure actually operates as opposed to a devolution of infrastructure per se? What are the differences between them and what potential problems, advantages or disadvantages exist as a result of that?

[6] **Mr Langman:** Okay. Well, the devolved structure of Network Rail is for eight routes. So, we have eight operating routes across the UK. Wales is one of those routes, and I'm the route managing director of that route here in Wales, and we are based here in Cardiff. It's pretty much aligned to the Welsh franchise. How it works: it means that we have our own budgets for maintenance, renewals and any enhancements that we deliver for the Welsh Government or any other third party. That is developed through a process of five-yearly control periods where we develop our plans for how we want to maintain the infrastructure, what we need to do to renew it, and then we bid for the funding to be able to deliver that work over a control period of five years. We're currently in what's known as control period 5. That started last year; we're in the second year of CP5 now, and it runs until 2019. So, we have our

own budget to maintain, operate and renew the railway, plus the additional enhancements funding that we get to improve the railways of Wales. What's the difference in full devolution of infrastructure? Well, there is a model, which is in Scotland at the moment, where the infrastructure is devolved to the Scottish Government, and it's administered through Transport Scotland. It has a separate settlement that is funded directly by the Scottish Government to Network Rail in Scotland. The Scottish Government specifies the outputs that it requires for the infrastructure in Scotland and provides funding to Network Rail to be able to deliver those outputs in Scotland. Here, in Wales, we receive our funding in a similar way, but that's on an England-and-Wales basis, and that's then devolved down to us as a route within Network Rail.

[7] **Mick Antoniw:** And, of course, then how does—what is the process, then, for determining the amounts that would go, for example, to the Welsh projects as opposed to the English projects? How do you distinguish between the priorities where you have an England-and-Wales interest as opposed to perhaps a specific ambition or objective for Welsh Government? How does it, proportionately, work out in terms of fairness of funding?

[8] **Mr Langman:** I understand what you're saying, and the way that we apportion the funding across England and Wales as part of that England-and-Wales settlement is on a consistent basis across England and Wales. It's based on the condition of the network—the relative condition of the network to other parts of the UK—England and Wales in this case—and the funding is then allocated on that proportionate need to maintain the network to a standard, and we have the same standard to maintain and operate the network across Great Britain.

[9] **Mick Antoniw:** Is it possible then to actually evaluate and establish what the precise amounts are in respect of the Welsh budget and, I suppose, the plan for that, or does it have to form part of a composite with England and Wales?

[10] **Mr Langman:** Yes. It is a part within the England-and-Wales settlement. So, the five-year control period settlement that we had for England and Wales, our chunk of that is within there. It's all based—. As I've said already, but to be absolutely clear: it's relative to what we need to do to maintain the infrastructure to a standard and to operate it to a standard that delivers an output. That output, of course, is running a train service and it's running it at high quality, punctually and safely.

[11] **Mick Antoniw:** It's on an established plan, but, in terms of developing the network to go beyond the established routes and so on, how does that operate, because we don't, effectively, then have any direct input over that?

[12] **Mr Langman:** Yes, we do, and, hopefully, we'll talk about that a lot more during this session today. So, the development of the plan for the next control period, and, in fact, beyond that, is something that we've worked quite hard on recently. I think we've shared a copy with the committee and we had a launch event down here in the Senedd a few months ago of our long-term plan, the Welsh route study, for control period 6 and beyond. That looks at the future capability and requirements to enhance the network here in Wales over a period of 25 years up to 40 years.

[13] **Mick Antoniw:** Is that on the basis of Network Rail funding as opposed to Welsh Government additional funding?

[14] **Mr Langman:** Would you like to take that, Tim?

[15] **Mr James:** Yes, of course. Essentially, if we move on, Mick, to the link between the Welsh route study, which I'm sure you've seen, and the next control period, it's probably

worthwhile talking the committee through the process, because I think it's important, really, that you understand the mechanisms of getting from here today to 2019. So, essentially, the Welsh route study is an input into the rail industry's long-term planning process. It's very much an industry process; it's not just Network Rail's—it's the industry, which consists of Network Rail, and the way the industry engages with funders, that is, Governments and other funders.

[16] So, essentially, in 2011, a group was established called the rail delivery group. I don't know whether you've heard from that group as part of this committee. Essentially, the rail delivery group brings together the owners of the rail-operating companies—that's freight companies, passengers and Network Rail—to provide leadership to the industry. The rail delivery group has established a group called the planning oversight group and that, effectively, owns the long-term narrative between the industry and funders. Essentially, the planning oversight group pulls together what is called the initial industry plan and that is the industry's view as to what the railway should deliver for the next control period. Essentially, the plan is to secure funding for a safe, sustainable and growing railway.

[17] The way that works is that the initial industry plan will be informed by route studies. There are 12 route studies and the Welsh route study, which will be published quite early on. It'll also be informed by other things like franchising and like the industry technical strategy and digital railway and so forth. What the IIP does is bring together all those different strategies into one coherent plan for the next control period. It then assesses the degree to which they offer value for money and, essentially, it then offers funders the opportunity to decide which outputs and which schemes across England and Wales funders want to buy for CP6. And we've just started that process. Indeed, the rail delivery group met with Welsh Government officials last month to explain the mechanism. I think it's really important that the rail delivery group engages with Welsh Government as well as the Department for Transport, so that we can actually understand the process for getting from today, where we have a route study, into the IIP and, essentially, what will become the high-level output specification—and the HLOS is when the Secretary of State stands up at Westminster and announces the enhancements for CP6, and this is part of the road map to get there. Engagement now with Welsh Government and other funders is a critical part, and I'm pleased to say that is happening.

[18] **William Graham:** Thank you. Dafydd.

[19] **Lord Elis-Thomas:** Can I ask how that relates to the national transport plan of Welsh Government? They're consulting on that now. One of my bugbears as a total devotee of public transport—because of where I live and where I work—is integrated public transport and the opportunity that we are losing for that at the moment in Wales, and whether the process of national transport planning, which obviously includes the bus network, relates to the future planning of the enhancements to the rail sector.

[20] **Mr James:** I think, to answer that, we've tried to get good planning alignment, so we've brought forward the Welsh route study so that we could inform the national transport plan and also the franchise. I think the detail of the integration doesn't sit within the Welsh route study. There are a number of choices for funders there about better integration, at places like Shotton and places like Cardiff, but I think the detail of that is probably more for the national transport plan in terms of co-ordination. You would have seen there that one of the plans we have is to create a station that's fit for a capital city here at Cardiff. You know, at the heart of those plans is bringing together the bus station and the train station, so that they are, effectively, in the same place and with a common entrance point. I think that's an example of what we're bringing together, but I think, for more detail on a local basis, that's probably more for the NTP.

[21] **William Graham:** Eluned.

[22] **Eluned Parrott:** Seeing as you've raised the issue of transport interchanges, clearly changes in Cardiff with your own plans and the city council's plans for a lot of building development and a bus station in Central Square are critical. Are you now content with the proposals that are being brought forward in terms of the way they will integrate transport in the city?

[23] **Mr Langman:** We've been working very closely with the city council and with their developer, Rightacres, to make sure that the plans align and we create a great entrance to Cardiff when you come out of Cardiff Central Station. Key for us through that—and actually, our comments for the planning application—were to make sure that we do protect the interests of passengers and make sure we preserve the right to develop the station, as Tim has specified, in the future, to make sure that we have an integrated transport hub that's of high quality and we look after the interests of passengers, both in the future and during the construction phase of the new buildings outside the front of the station.

[24] **Eluned Parrott:** Okay, thank you.

[25] **William Graham:** You know there's been some criticism of your guide to railway investment projects, that it's overly bureaucratic and constrains innovative thinking. How would you react to that?

[26] **Mr Langman:** Well, we're aware of that criticism—made here in this building, often. One of the points that was made was around the fair share of funding for Wales, for instance. As we've said already, we're funded to maintain and renew the railway, and those same standards are applied across the whole of the network. So, we also, with our funders, specify enhancements, as Tim has talked about, in order to cater for that current and forecasted demand. In Wales, the reality is we are delivering the biggest investment, now, in this current control period, since Victorian times—pretty much since the railway was built. That does involve some very complex projects, the like of which we haven't seen done to the railway here in Wales for many, many decades. Aside from the obvious things like electrification, we're doing significant resignalling works and we're building new infrastructure—and many of those are around here in the Cardiff area, especially on the Valleys network. The Cardiff area resignalling scheme is a project that has been talked about quite a lot, and we have been criticised on. In fairness, we've been the first to put our hands up and say, 'We have had some difficulties with that scheme'. We've had some difficulties with the introduction of new technology and we did have some difficulties with our contractors, but I'm pleased to say that we've worked really hard to resolve those issues, and I think we've made the right decisions. We took a decision to pause that project, review it with our train-operating colleagues and the rest of the industry, and only when we were happy that we'd resolved those issues and we weren't going to be causing any future disruption to passengers were we happy to restart that project again.

09:45

[27] What that has resulted in is us rephrasing that project, so over the course, now, of the next two years, the fruits of that project will come to fruition. But, it's worth saying, we have delivered a huge amount already of that project and you would have seen some of the benefits of that in Cardiff already—the new entrance at Cardiff Queen Street station, the new platforms are in use at Cardiff Queen Street as well, and the new entrance at the back of Cardiff Central station is coming close to completion. We've also built and brought into use new platforms at Caerphilly, Pontypridd and Barry, and they are now available to use, and we are seeing the benefits from those already. With any project, especially the complex project

that is, effectively, rebuilding the network in a major city like Cardiff, the challenge that we face is doing that work whilst we have to deliver a daily service for our train operator customers and, ultimately, passenger and freight providers. I often liken it to having to upgrade the wings on an aeroplane whilst it's flying. A complex project to replace the signalling, build new platforms—alongside running the day-to-day network—is very complex, and sometimes it does go wrong, but, on the whole, we deliver these things without people noticing.

[28] **William Graham:** You've got 18 live contracts, 13 of which are now later than the date, and seven of which are more than six months late; so, what confidence will we have for the future?

[29] **Mr Langman:** It's really important for us, as we work through those projects, to make sure that, in the future, we learn the lessons of the past. What often happens is that, when we first develop these schemes, there are many assumptions made about the sort of conditions that we'll build those new projects in. So, for instance, at Port Talbot, we've had some months' delay there, because, as we started work, we discovered an ancient gas main that was under one of the main piling areas, where we needed to put the piles in for the new footbridge, that wasn't shown on any record, hadn't been revealed in any previous scans, and was a surprise to everybody. So, that did cause some delay to the project, and we planned that project on the assumption that you wouldn't run into those, sort of, unknowns, if you like. So, in the early planning stages of a project, where you think, 'This is how long it's likely to be'—. Of course we do build contingency into that length of programme, but, often, you come across unknowns and you have to deal with those when you get to them. Our priority is to make sure that, when we do have those issues, we look to make sure that we mitigate them without disrupting the trains or the travelling public and, often, that means lengthening the programme to get the right result for passengers.

[30] **William Graham:** Thank you. Rhun.

[31] **Rhun ap Iorwerth:** Just picking up, in a little bit more detail, what you've discussed already, and the criticism, the very vocal criticism, by the Minister of Network Rail in many areas, she told us in December that she had serious reservations about Network Rail—cost being one of them. She said earlier this year that the cost of Network Rail schemes is 'absolutely mouth-watering' and she's convinced there are ways, perhaps with devolution, that money could be saved whilst delivering schemes to an equal standard of safety and reliability. What would you say to that?

[32] **Mr Langman:** Well, when you do any infrastructure works to the railway, they are not cheap, particularly when you have to integrate that with the day-do-day running of the railway as well. So, often, it means that you're doing it in a much more complex way than if you were to just close the railway for six months and just go in there and get it all done in a very short period of time. So, on balance, compared to when you are building a new building, for instance, that makes it more expensive. But what I would say is that we use contractors, and we contest with those contractors to get a price and, effectively, the market prices that through major contractors—the likes of Costain, Balfour Beatty and suchlike. So, we go to the market, we tender and we get it for the best price that we can get from the market, and that would be the case, whoever went to that market.

[33] **Rhun ap Iorwerth:** The Minister's unconvinced, though, and she sees you as judge, jury and executioner, when it comes to schemes, and—.

[34] **Lord Elis-Thomas:** I thought she was the executioner.

[35] **Rhun ap Iorwerth:** She'd certainly like to be involved in the contestability side of

things. Are there gains to be made there at all?

[36] **Mr Langman:** I think, in terms of judge, jury and executioner, let me just say that, ultimately, we've got the responsibility for the safe operation and running of the network, and our priority is to both deliver projects and to deliver the day-to-day railway as safe as it possibly can be. It's at the heart of everything that we do and we constantly strive to deliver the railway, both in terms of its safety performance, its punctual performance, better every day, and that's something that we're really focused on. In terms of contestability, we're open to contestability and we've said that to both the Welsh Government and to the Minister herself, and we're happy to work with them on that. If it can be found that there are cheaper ways to deliver projects, we'll happily work with any third-party organisation to do so.

[37] **Rhun ap Iorwerth:** Is it not the case that that would be easier and that Welsh Ministers would have more of an influence over that if Network Rail was devolved alongside the franchise?

[38] **Mr Langman:** Well, there's no doubt that, if it was devolved as per the Scotland model, then the funding, the output, the specification of what the Welsh Government required of Network Rail in Wales, if it were our primary funder, they would have much greater influence over that and they would be able to make choices about what they wanted to spend funding on, whether that's purely from the railway or taking budgets from elsewhere in the Welsh Government funding budget. But, nonetheless, the enhancements that we're delivering for them—and the Welsh Government has got a great record of delivering and funding enhancements over and above what Network Rail already does from its main funding settlement from the England-and-Wales settlement, and we work hard to deliver those enhancements for them. We've talked about some delays for some projects, but it is worth saying that many of them go across the line unnoticed and on time. So, recently, works at Ystrad Mynach, Aberystwyth and Rhyl, and the works we're just about to conclude for the Ebbw Vale town extension in Blaenau Gwent next weekend—all of those things have gone well, we've delivered them well, and we've worked closely with the Welsh Government to achieve that.

[39] **Rhun ap Iorwerth:** Just to sum up, I know the Minister mentioned two schemes in particular, which would be the Wrexham-Saltney development and the Cardiff area signalling renewal, as examples of perhaps where Network Rail hasn't served Wales as well as it could. Why do you think she remains unconvinced that you are the right body, or the current circumstances are the right ones, to see the Welsh rail network through?

[40] **Mr Langman:** Well, I understand why people would be concerned; I understand why the Minister would be concerned. I've talked about the problems that we've faced with the Cardiff area resignalling scheme, and we've been open about the problems we've had on the Cardiff area resignalling scheme. We made the right decision to make sure that we deliver that scheme now with as little disruption to passengers as possible. It does mean it takes slightly longer to deliver that scheme, but it does mean we get it across the line with minimal disruption to passengers. I think we need to demonstrate, and we do demonstrate, that we have got control of what we're doing. We know, if we get things wrong, we should own up to that and make sure that we put them right.

[41] On the Wrexham-Saltney scheme, that scheme has taken longer than was originally estimated; rather like the example I gave around Port Talbot, we did face environmental conditions there that weren't in the original assumptions that we had made, when we went out there to start the redoubling work, and it has taken longer. These are all genuine issues that arise when you're developing something in the very early stages before you get out there on the ground, and I'm quite happy to talk more openly about those issues as we go through the development of a scheme. I think it's quite right that we should be more open about the risks

that you face when you first go into a project when you're talking about something in its very early stages, and that there could be issues that arise as you go along.

[42] **William Graham:** Thank you. Keith.

[43] **Keith Davies:** Thank you, Chairman. The summary paper you've given us is on CP6, really; I'd like to ask some questions about CP5, and about your priorities within CP5 and whether there are any issues, for example, on the electrification of the Valleys lines as well as the main route, whether you're on time with the delivery and whether there are any unforeseen consequences there that you've already identified.

[44] **Mr Langman:** Okay, well, the CP5 settlement contained a whole raft of enhancements and improvements to the railway over the course of the five years, many of which I've talked about already: finishing off the Cardiff area resignalling scheme, our standard upgrades and renewals to our infrastructure, the renewal of the signalling systems, both around the Cardiff area, in the Port Talbot to Swansea area, along the north Wales coast and between Newport and Shrewsbury. Those things were all happening in CP5, and, as you've rightly said, electrification is one of the other big things that is happening in CP5.

[45] So, there are two schemes to talk about with electrification. The first is the Great Western main line from London through to Swansea, and, if members of the committee have travelled to London recently, you will know and you will have seen evidence of that happening quickly now. There are masts going up along the Great Western main line from Paddington through to Swindon, and soon work will start towards Bristol. So, it is a phased east-to-west construction. It is happening. You'll have seen also the new depot for the new trains that's come out of the ground at Swansea; it's largely complete now and there's evidence, I think, all along the route that the electrification is happening. We're building, and we'll actually put the first pile into the ground and the first electrification mast in the next few months here in Wales, just this side of the Severn tunnel. So, a lot is going on, there's lots of activity, and it is happening; that's the Great Western main line.

[46] **Keith Davies:** Within the budget that you've got, or is there any possibility of cost overrun or delay?

[47] **Mr Langman:** Well, rather like the examples I gave earlier on, lots of assumptions were made when we first devised that plan for the electrification of the Great Western main line. There are lots of things that we're working through at the moment around that, both for the cost and the programme, and we're working with the Department for Transport to make sure we've got that programme right, but what that is not doing is delaying the project. At the moment, we're getting on, and you are seeing evidence of the work happening out there.

[48] **Keith Davies:** So, as far as economic development in Wales is concerned, the Welsh Government is very keen that big companies that work in Wales actually look at procurement so that they use local companies as much as they can. Obviously, another big development in Wales, compared to England, I think, is on the apprenticeships, the large number of apprenticeships. So, where are you in terms of procurement and offering apprenticeships to young people in Wales?

[49] **Mr Langman:** I agree with you that that is a really important subject. On procurement, we have, over the past two years, been holding fairs with local suppliers so that they get the opportunity to get some of the piece of cake of the electrification pie, if you like—if I'm not mixing my metaphors. So, we've had several fairs. Many of those are smaller contractors, who could be subcontracted to the main contractors that we use to do the electrification. So, that could be local scaffolding firms, for instance. So, we've had many job fairs, and we're really supportive of that. I think it's really important that we try and engage

the Welsh economy into the construction of the electrification itself.

[50] On apprentices, this is something that I'm personally passionate about, and we've done a huge amount of work. We've got a really successful apprenticeship scheme in Network Rail. We take on over 200 apprentices across Britain every year and, for the past three or four years, I've been taking on between 15 and 20 apprentices each year, recruited from within Wales, some of which will be the future electrification engineers. So, we're ahead of the game. It's no good building an electrified railway and then finding on day 1, when you operate it, that you're going to need people to maintain it. It's important that we get those people in early and, for me, it's really important that we get young people in early, engaged in the project and involved in the building of the electrification itself, so that, when it's finished, it is something they can be proud of because they'll be maintaining it in the future. We specifically targeted our apprenticeship recruitment campaign here in Wales in areas of social deprivation—you know, the Valleys, parts of north Wales, parts of mid Wales—to make sure we recruit from across the board. We're also targeting young females as well, because we really want more young female apprentice engineers on the network.

[51] **Lord Elis-Thomas:** And they'd be working on the Ffestiniog and Welsh Highland railways.

[52] **Mr Langman:** Absolutely, and thank you—[*Laughter.*]—you've prompted me to one final thing. I'm also keen that, of the 200 apprentices that we take on across Great Britain, a large proportion of those are track engineers—so, separate to the electrification engineers. Every year, we bring those track apprentices to the Ffestiniog railway for a week at a time and they get hands-on experience of maintaining and renewing a railway—

[53] **Lord Elis-Thomas:** A proper railway.

[54] **Mr Langman:** —in a safer environment. And it also supports the local economy. So, we bring some 80 apprentices a year to the Ffestiniog over a period of five weeks. So, I think our involvement and recruitment of apprentices from within Wales is second to none, and we're very strong on that and I'm really passionate about it.

[55] **Keith Davies:** We're doing so well in Wales there. The Office of Rail Regulation is very critical of the overall performance of Network Rail. What about the performance monitoring of Network Rail Wales? Is there any detail on that or—

[56] **Mr Langman:** No, you're right that there was a national report—and it was at a national level. There were some comments in there around the Cardiff area resignalling scheme, which I think I've covered already, but in terms of Welsh delivery we are performing well. We've got a very strong safety record here. It's one of the leading routes in Network Rail. Our punctuality, whilst it did suffer a slight dip because of those issues that we had with the Cardiff area resignalling scheme, has come back very strongly, and we've had a particularly good period over the past eight months—a strong performance. For instance, yesterday, we delivered 97 per cent punctuality of all Arriva Trains Wales services. So, there were over 1,000 trains yesterday running, 97 per cent of which were on time. Arriva Trains Wales, on punctuality, which largely, obviously, is within my infrastructure in Wales, is regularly one of the top five performing train operators in the UK. So, I'm proud of that and I'm determined to keep that going, and I think that demonstrates, actually, the settlement that we get in terms of funding to maintain and renew the railway. It's proportionality to the rest of Great Britain is right, because we're able to deliver those levels of outputs.

[57] **William Graham:** Joyce.

[58] **Joyce Watson:** I want to ask Jo, because she's the director of strategy and planning,

about what has become almost a fiasco with a local delivery project in Pont Briwet. It's been fantastic, the project, and the fact that the railway has been rebuilt and that you've delivered that project for the people of north Wales. That part has been great. The part that has clearly gone wrong is the partnership working and the hold-up, consequently, over utilities and where they might be placed, whether they were on your landholding, if you like, or Gwynedd's landholding. So, I would like to ask the obvious question, because that road isn't completed yet: how do you strategically plan, working with all those people, to deliver a project on time? Because it clearly hasn't happened in this case.

10:00

[59] **Lord Elis-Thomas:** It has been finished. I opened the bloody thing.

[60] **Joyce Watson:** It clearly hasn't happened in this case because the major hold-up, as I have been told, was over the siting of the utility.

[61] **Lord Elis-Thomas:** That's not true.

[62] **Ms Kaye:** Obviously, local colleagues will know more about the exact detail, but to your point about strategic relationships, clearly, all of the projects that we do, because of the complexity that Mark's outlined, do require us to have a number of strategic relationships in place. So, those are in place with, for example, National Grid to provide electricity to the electrification that we're putting up. We do have high-level strategic relationships with utility companies. Those are, actually, generally very productive. Equally, we have good relationships with colleagues in Highways England, in their new format as an agency. But the devil is always in the detail. As Mark has outlined in a couple of examples, there are times where a number of us are surprised by some of the things that we actually find in the ground. We have huge rakes of historical records about where we believe things have been placed in the past, and we do rely on those heavily in the early days of planning, but we are, from time to time, surprised by what we find on the day. So, whilst I can't comment on the particular details of the example that you've asked about—and perhaps the guys to my left can do—you can be assured that there are strategic relationships in place, and we do talk about how best the organisations can work together. But often, it is the detail at any particular location that can serve to cause unintended difficulties for the locals. We are always very sorry for that, and we always work to make sure that those utilities are dealt with safely and effectively, and in a way where everybody will be sure that they're in the right place for the long term. Because sometimes there are quick fixes that can be done, but actually the best thing to do is to do the right job so that, when the next enhancement comes along, whatever that might be, we're in a better place than we would be if we just did something very quickly.

[63] **Mr Langman:** Okay. Relevant to Pont Briwet itself, it's really important to be clear. You did mention Gwynedd in what you said. Actually, Gwynedd are leading that project and building it with their contractor, Hochtief. Actually, Network Rail made a funding contribution to the project to get the rail bridge out of it. Because it was a combined road and rail bridge scheme, which is a very exciting scheme, and you've outlined the benefits to the people of north Wales, Gwynedd led it because it was a much bigger thing than just a railway. We made a funding contribution towards the replacement that would give us a new railway bridge at the end of it. That railway bridge, as Dafydd has said, is open; and it's operating very successfully.

[64] **Joyce Watson:** But my point was, Chair, if I can just pursue it: your part has been delivered. There's no question about that. It's the road bit, and the two things go together. My question was, really: when you've got what is clearly joint delivery, road and rail, and to ensure that this doesn't happen again—because, you know, that still hasn't been fully delivered, although your part has—have you taken any learning from it that could satisfy

people and give confidence to your joint working? I'm not attributing blame here; I'm just trying to get underneath the joint working.

[65] **Mr Langman:** Let me assure you: we were involved and were integrated with Gwynedd throughout. So, whilst they were the leader of the project, we provided a funding contribution. We didn't then just stand back, fold our arms and say, 'There you are; get on with it'. We were fully involved throughout. We sit around the governing board table of the project; we have a permanent project management presence on the site from Network Rail, particularly when we were doing the rail bridge construction part; and we were fully integrated with them and helped them resolve many issues themselves. We've got great experience of project delivery across Britain and we bring that expertise in as well. So, we were often able to help with solutions to some of the challenges and issues that they were facing, not only on the rail bridge but on the road bridge as well.

[66] **Joyce Watson:** If I can, Chair, can I take you back to the procurement? You said that you had this jobs fair or bidding fair for procurement for people in Wales, and that's great, but what you didn't actually say was: how many—and if you haven't got the figures, perhaps we could have them—of those small businesses that you brought to the table were successful in that procurement process?

[67] **Mr Langman:** Okay. I haven't got those figures directly in front of me, but I can give you an example of where we have been very successful on a quite recent project. We built a new viaduct and we redoubled the railway, with Welsh Government funding and a Network Rail contribution, between Swansea and Llanelli—the Loughor viaduct and Gowerton. We deliberately set out there to engage with local contractors and that project was successful. More than 80 per cent of the people working on that site were Welsh. We even made sure that the fabric—the steel for the new structure—was from Wales; in fact, it was fabricated in Chepstow and was brought to site. So, right the way through the supply chain, you could see that we were really successfully engaging local Welsh labour and companies in providing for that project and it was very successful.

[68] **William Graham:** Dafydd, on that point.

[69] **Lord Elis-Thomas:** On that point, yes. Since the issue of the Cambrian coast railway has been raised, would you like to say something about the effective collaboration between you and local contractors on the work of remediation after the extensive storm damage north of Barmouth? And, would you also like to say whether you would be prepared to consider Gwynedd Council as partners, for example, for further refurbishment of the Barmouth viaduct?

[70] **Mr Langman:** Okay. I'll take those two points separately. So, the winter storms of last winter, none of us can forget and the railway was devastated, as you well know, Dafydd. It was devastation that we hadn't ever seen before on the railway here in Wales and we made a very early commitment that we were going to rebuild that railway at whatever cost it was, because we recognised the importance of that railway to the local economy, especially. And it was a significant challenge to do and it took several months, as you're aware, but we were determined to see it through and we did use local labour. In fact, we brought in the contractor Alun Griffiths, based near Abergavenny, to be the lead contractor to deliver it and they, again, used local labour throughout to deliver that project. I mean, you look at the end result; they did a fantastic job.

[71] With regard to the Barmouth viaduct, that is actually one of the renewal projects that we have in our control period 5 settlement, to refurbish the viaduct. That is a significant piece of work for us to undertake and we'll be happy to collaborate and look, as we have done—and I think I've demonstrated already—to work with local Welsh companies or local

authorities to help deliver that successfully and get the maximum benefit for local Welsh companies and the labour force.

[72] **Lord Elis-Thomas:** Thank you very much, Mark.

[73] **William Graham:** Mick, did you have a point earlier?

[74] **Mick Antoniw:** It was just a very short point on the training issue. I say this as someone who started off as a worker on the tracks many, many years ago. What institutions have you actually established particular links with? I know, for example, that money has gone into Coleg y Cymoedd from the Welsh Government, and so on. In terms of the Welsh establishments to ensure that we gain those training skills, what sort of progress has been made in that area?

[75] **Mr Langman:** You're right. We have worked with that college. We've also linked up with several of the universities, Swansea and Cardiff especially, because it's not just about apprentices and engineers; it's also about future management that we need to grow from here within Wales for the future management of the railway; the next people who will be sitting in these chairs, if you like—the future generations. So, we do strongly engage with local education establishments, but we also look more widely across the UK as well and we've made links from Network Rail into many other colleges and universities across the country. On our own apprenticeship scheme, which I've talked about, we actually work really closely not only with Sheffield Hallam University, but also we work with Babcock, a big contractor, and the military to provide the training that is more than just the technical training. We want to train apprentices to have the right behaviours, have the right teamwork ethos, so, actually, they spend a lot of the three-year training programme that they go through—it's a very comprehensive apprenticeship scheme—on the military base, HMS Collingwood in Gosport, where they get that kind of team working and they get their specialist skills and then they come back to us regularly to apply those skills in our local depots. So, we do work really closely with lots of establishments.

[76] **Mick Antoniw:** Okay. Thank you for that.

[77] **Eluned Parrott:** You were talking about the projects that were supposed to be delivered under control period 5. Obviously, you talked about the great progress that's being made towards the Great Western electrification project, but we haven't discussed the Valleys lines electrification, which was also under that control period. Clearly, we had a hiatus whilst some political discussions and negotiations were ongoing. Can you tell us what progress has been made since an agreement was reached in the autumn?

[78] **Mr Langman:** Yes. We were really delighted, like everyone, I'm sure, that that agreement was reached back in November. We were really pleased to see the Prime Minister down here to announce that and we hosted him in our control centre in Cardiff. In terms of what's happened since, the project has now been formally handed over from the department in the UK Government to the Welsh Government. The Welsh Government themselves, in terms of the civil servants and the Ministers, have been working through due diligence with what they've received. I think it's quite right that they do that; they need to understand that both from programme output and cost, and they've been going through that due diligence process. My understanding is now that that has just about come to an end and we're anticipating the next steps on the project in an announcement in June. So, it's next month.

[79] **Eluned Parrott:** Thank you. Can I just ask what impact the delay in that planning process has had, then, on your own planning? Obviously, when the project was stopped you had begun the planning process for the electrification project, but it was stopped before you'd gone into the detailed planning. Is that correct? Has the work restarted yet?

[80] **Mr Langman:** Yes, so any delay in the project is commensurate with the delay that we saw through that political disagreement about the funding and the subsequent period of due diligence. So, the delay is commensurate to the restart of the project, and that, we hope, we'll see in that announcement next month.

[81] **Eluned Parrott:** With regard to the funding and the cost of the project, clearly the business case was contingent on savings being made by doing the two projects, the Great Western line and the Valleys lines, in parallel with one another. Is there likely to be a funding impact because of the delay?

[82] **Mr Langman:** I don't know the answer to that directly until we see the announcement next month, but what I will say is that we've talked already about the Great Western electrification, and there are still many years of work to do on that. As soon as we get the information from the Welsh Government next month, we'll be able to see what efficiencies still exist.

[83] **Eluned Parrott:** Thank you.

[84] **William Graham:** In terms of control period 6, in terms of the consultation, would you like to enhance how you go about that?

[85] **Mr Langman:** Yes. Tim, would you like to pick that up?

[86] **Mr James:** Of course. So, when we put together the Welsh route study, which is still a draft for consultation, we involved the rail industry and our funders. So, we had representatives from train and freight companies, the Department for Transport, and Welsh Government, and we talked to other stakeholders, because it's very much an industry plan—not just Network Rail's plan. That process took the best part of 18 months from beginning to end, and it still hasn't finished. We will await the responses back from the consultation and then bring together a final plan for publication in the early autumn. That really was the process behind it.

[87] We also, of course, need to be mindful that the GB rail network is part of that, very much. People's travel patterns don't fit into neat geographic boundaries, so effectively we've taken a cross-boundary approach to planning as well. We did that in three ways. One is that we've tried to align the Welsh route study with neighbouring route studies, so it's closely aligned to the western route study, which looks at Hereford, Gloucester, Bristol, Thames valley, Devon and Cornwall. We've also planned on the basis of markets for travel rather than geographic boundaries, so when we look at north Wales to Manchester, we look at Holyhead through to Manchester Piccadilly, and not Holyhead to somewhere east of Broughton. Finally, we've established a cross-boundary working group, which again consists of the industry funders and the regulator, and the job of that group is to synthesise all the route studies and understand if there are any trade-offs between the geographic areas. That's really part of our thinking as to how we maintain the coherence of the national network when we also plan on a local basis.

[88] **William Graham:** Thank you very much. Jeff.

[89] **Jeff Cuthbert:** Yes, thanks. I want to come on to the Welsh route study if I may. Indeed, I was very pleased to be present at the launch here several weeks ago. Could you tell us a little bit more about how the route study was developed—I realise, Tim, you just made some general points—how it's going to be used and by whom, and how it takes account of future trends, anticipated trends, for passenger and freight markets in Wales? On the issue of freight, I understand that 15 per cent of all freight in the UK either originates or ends its

journey in south Wales, which I found a surprisingly high percentage. I'm just wondering if there's a particular reason for that.

[90] You also say in that route study that you do not specifically consider new lines. Now, clearly, the metro will involve, in my understanding, new lines in some places, so there seems a bit of a mismatch there. You did mention—I know you were talking about new employees—future generations, and of course the Well-being of Future Generations (Wales) Act 2015 is there now, and part of that is about good connectivity between communities, which certainly includes public transport, therefore you have influence in that, and whether the provisions of that Welsh Act will be taken into account by Network Rail.

10:15

[91] **Ms Kaye:** There are quite a number of questions in there, but let's try and cover off—

[92] **Jeff Cuthbert:** I could have asked far more. *[Laughter.]*

[93] **Ms Kaye:** I'm just thinking of the most appropriate order to answer them in, so maybe if we just start with how we look to the future. So, prior to the Welsh route study, and the other route studies that Tim will expand a little bit on in a second, Network Rail did a number of future demand forecasts in effect, where we looked into the future, taking the lessons of the past and all of our understanding of both macro and microeconomics, and established what we believe the demand in a number of markets were in the period up to 2043. So, really some way into the distance. We published the results of our findings in a number of market studies, so as a precursor to the detail that Tim—. So, Tim takes that as an input. There's a freight market study, for example, that talks about what you've described, which is where we believe freight will continue, where it will grow, where we think new flows will come, and we also look at a number of markets, so the long-distance market—how do we think that will develop up to 2043 and what do we think some of the more local markets will develop like? Those are some of the primary inputs to each of the route studies that we then subsequently do across the national network. So, Tim takes those things as inputs, adds some local granularities, some local detail and some local colour to that, and that is the basis on which we start to develop what we believe the most appropriate interventions are for the next control period and those beyond that.

[94] So those market studies were published back in 2013 and those talk in huge amount of detail, and for any economists amongst you, it talks a lot about demand patterns and what sorts of growth we can expect to see under a variety of forecasts that we expect. So, that's a primary input, and that then is what the route studies take as their inputs. Tim.

[95] **Mr James:** And as part of those inputs, for Wales, we have also developed demand for journeys within Wales itself. So, we factored in things like enterprise zones and that really has helped us to identify that there will be strong growth in demand in Wales over the next 10 to 30 years. We've seen unprecedented demand for rail in the last 10 years—almost 50 per cent more people travelling—and that will continue, and no more so than between north-east Wales and Manchester, Chester and Liverpool, and also within south-east Wales. As an example, commuting into Cardiff could well increase by up to 68 per cent in the 10 years to 2023, and by a staggering 144 per cent by 2043—big numbers—and I think they reflect some of the ambition that's in Wales for growing our economic centres.

[96] I think, once we've got those demand forecasts, we then need to establish what outputs the railway needs to deliver. So, in other words: how can the railway accommodate all these extra people that want to travel? And within the route study, we refer to outputs in two ways. There are outputs for connectivity, so, how people can improve generalised journey

times, generally about journey times and frequency, and outputs for capacity; that's more about accommodating more people on services, whether you do that by longer trains or by more services, and you've probably seen from some of your pre-reading that we call those 'conditional outputs'. That's quite an unusual phrase, isn't it? That means it's because they're conditional upon them being funded. So, for example, in CP6, if the railway is to meet those outputs, to accommodate that growth, those outputs will need to be funded. And I think it links back to some of the previous questions about, 'How do we get from here today to CP6?' There are outputs that funders need to make choices about.

[97] In the Welsh route study, we've developed 47 conditional outputs for the next 10 to 30 years. Eight of those relate to capacity, 30 to connectivity, six to access to ports, airports and HS2, and there are three for freight. So, essentially, those outputs then lead to what we would call 'choices for funders' because, essentially, there are 13 choices for funders that you will see in the route study that cover all parts of Wales. There are some big projects there, such as the north Wales electrification, which requires new trains and new infrastructure, and there are some ambitious projects in the south, such as creating a station for increased capacity in Cardiff, and there are some more modest schemes, such as level crossing closures, lines for improvement in west Wales and maintaining more trains on the Heart of Wales line and along the Cambrian coast. All of those are choices for funders. So, funders will need to determine, as part of the CP6 settlement, whether they wish the railway to fund those. So, there are choices. That is why we've set the options out now, because it gives governments and funders the time to consider what outputs the railway should provide and how they can be funded for the next 10 years.

[98] One of the questions that, I think, Jeff asked was about the metro. You will see that one choice for funders is that, in CP6, we think that we should do a lot more work on the metro. There are a lot of ideas out there about what it could look like and we certainly feel that the metro is an exciting project and, potentially, the metro could help us deal with the capacity. So, if we think about some short-distance rail services in Cardiff, there is potentially the opportunity for some of those to run on rail, but also on street. If you run on street to city centres, you are then freeing up capacity in the core for additional longer distance trains. So, perhaps we can trade off short-distance services for more longer distance services to the Heads of the Valleys. That's one potential. We also think that the metro, and we've talked to the metro team, has the potential to address areas of mass public transport that are probably poorly served by public transport currently—places like the University Hospital of Wales at the Heath and Cardiff University—and we've shared some ideas as to how a mixture of on-rail running and also on-street running could address those areas.

[99] I think that one of the questions was also about new lines. Essentially, while the route studies look at optimising the existing network, new lines are generally out of scope, except where funders have almost declared an interest in a new line. So, you will see that within the route study—and I think it's on page 38 from memory—there is reference there to the potential for reopening the branch line that goes from Aberbeeg on the Ebbw Vale line to Abertillery because, essentially, our conversations with funders have very much been about the fact that that is something that may exist as an opportunity up to 2043. You will see on the map that we've published in the route study that Abertillery is shown there as a potential for a destination. Indeed, as part of the work that we're currently doing on the Ebbw Vale line, where we're signalling that, we have made passive provision there, at Aberbeeg junction, for the railway to be signalled to Abertillery, if that ever happens.

[100] I think, finally, there was a point on freight. I think, Jeff, that you're right that 15 per cent of tonnage originates in Wales, largely between Margam and Llanwern. Our forecast on freight growth is that steel traffic will continue to be strong in those locations. Generally, there could well be a market for wood and biomass, but, essentially, that very much depends upon the national energy policy. So, essentially, freight is still of a bit of an unknown

quantum in the long term.

[101] **Jeff Cuthbert:** I had asked about whether you'd taken any account of the provisions of the wellbeing of future generations Act in your planning, in terms of connections between communities.

[102] **Mr Langman:** Yes, certainly one of the inputs that Jo talked about is to look at where we expect future growth to come from—so, whether that's expansion of towns through new house building or new inward investment of businesses in central Cardiff, for instance, which would generate traffic. So, we look to make sure that we've got the capacity of the future and that's then one of the conditional outputs that is a choice for funders that enables us to live up to the expectations of local people and the growth of those towns and those people in the communities themselves in the future.

[103] **Ms Kaye:** That's why it's really important to us that we get as much involvement in the route study processes as we can, because although we do a lot of work on macro and local economics, we don't pretend to be perfect, we don't pretend to know everything and, certainly, for that local knowledge and understanding about plans for the future and what things will become important in the period of time that we're talking about for the route study, it's really important that we do get that active engagement from as many people as possible, which is why we really do encourage people to access the documents and to really give us that meaningful feedback, if you feel that there is something that we have missed, which we wouldn't have done intentionally; we just may not have spotted it amongst the huge number of things that we have to take into account.

[104] **Jeff Cuthbert:** Okay. One final point, if I may. Once the metro comes into being, my understanding would be that, certainly, flowing into Queen Street and out of Queen Street onto the Valleys lines—the Rhondda, Rhymney and the Cynon valley lines, or the Merthyr valley line—there will be a greater number of rail vehicles, let's say. Do you remain convinced that just having two tracks on the Queen Street bridge will remain adequate? Is it just a signalling issue, or might you have to consider adding another track?

[105] **Mr Langman:** Okay. Tim.

[106] **Mr James:** Yes, of course. So, essentially, what Cardiff area signalling delivers is the ability for up to 16 trains an hour through the central core between Queen Street and Cardiff Central. When we look at future services, it very much depends on where those services start and finish. So, we currently haven't got a timetable for more trains and, very much, if you add more trains into Queen Street, that would necessitate a recast of the timetable. So, it's quite difficult to answer it directly, without knowing what trains they are, the stopping patterns and where they start and finish, but, without doubt, we recognise that, for CP6, we need to do more work, Jeff, on the metro, and if there is an aspiration to go well beyond—more than 16 trains an hour—we need to look at other things. You will see within the main document that some of the work that we're currently doing, which will be reported in the final route study, is looking at things like the feasibility of an additional span over Newport Road, of segregating junctions at Cardiff west and redoubling some of the lines that still exist at the Heads of the Valleys. So, the plan is very much that the Cardiff area signalling renewal and the 16 trains an hour through the core is the first of many building blocks, and we firmly believe that, if we're going to a much higher frequency timetable for the next 30 years, then more work needs to be done, and that's why we have really flagged up that that would need to be funded in CP6, so we could hit the ground running when we need to do it.

[107] **Jeff Cuthbert:** I hope the trains don't actually hit the ground. *[Laughter.]*

[108] **William Graham:** Mick, you have a short question.

[109] **Mick Antoniw:** Yes, just a very short point. Infrastructure is not devolved and the financing for infrastructure isn't, yet the metro requires, potentially, the opening of lines, which are part of infrastructure. Is it the case, then, that infrastructure that is outside the existing plans has got to be wholly funded by another source, such as Welsh Government or whatever, and will not form any part of the funding formula for what Network Rail receives?

[110] **Mr James:** I don't think, at this stage, that we really know enough. I think the industry has worked very closely, really, with metro. We've been part of the ministerial group that Carl Sargeant previously held on metro. We've been involved with the metro team, including Mark Barry, and we are keen, really, to carry on engaging and to carry on explaining that the railway can deliver lots of metro outputs—electrification provides stability for faster services, for faster trains, and I think that rail is a really important part of the mix. Some of our thoughts on metro are that there are questions, really: do you use metro to replace what already works very well—and Mark's talked about the Valleys lines being one of the best performing networks in Great Britain—or do you use it to penetrate new markets or markets that are currently poorly served? I think that that's part of a conversation that we really want to be a part of, and, you know, until we see more detail, I think it's really difficult to comment, Mick.

[111] **Mick Antoniw:** Okay; I'll pursue it again.

[112] **William Graham:** Eluned Parrott.

[113] **Eluned Parrott:** Thank you. Just on that point, and to finish it off, what kind of timetable do we have? If we want to see works that are helpful to the development of the metro in CP6, what kind of deadline do we have to make a decision by, in order for that to be possible to include?

10:30

[114] **Mr James:** I think some of it relates back, Eluned, to the franchise preparations and, you know, whether or not the Welsh Government wants to consider the metro as part of that. We work, as an industry, very closely with franchising authorities. Franchising offers the opportunity for the industry to collaborate. There's been a lot of talk at this committee about the costs of running the railway; our organisation's purpose is to deliver value for taxpayers and funders, and franchising is a really good opportunity to get collaboration and better ways of working, and that then drives down the cost. So, I think, essentially, the franchising timetable may well dictate to metro. And, you know, we want to be engaged in it. Network Rail has got a big role to play. Indeed, there are certain things that we would want from the franchise and that we pursue nationally. Jo can, perhaps, explain to us in a moment about some alliance arrangements that we've got elsewhere in GB, but I think, Eluned, it's linked back to the franchise, I think, in terms of the timetable.

[115] **Eluned Parrott:** In terms of network improvements, though, I'm wondering whether there is a date by which the CP6 window closes.

[116] **Mr James:** Okay, so, CP6—. So, essentially, the timeline is that the initial industry plan, which sets out the industry's view and the outputs the railway needs to deliver, will be published in September 2016. So, there is now a process where the industry can engage with funders to explain how some of the schemes that you see on the pages in front of you—and there are equally going to be 12 versions of this for GB—gets translated into funders' decisions. There is an engagement process and the rail delivery group, Eluned, is publishing its strategic narrative this autumn, which is the precursor to the initial industry plan, but, really, the initial industry plan is the point where funders need to have an agreement on the

things that they want to see in CP6. That's why we did this study early, so it gives people plenty of time to consider the options that are there.

[117] **Ms Kaye:** So, there are iterations after that and, obviously, that's the start of a very big discussion that ultimately culminates in a funding settlement, but certainly a clear view by September 2016 for inclusion in that overall plan would be really helpful.

[118] **Eluned Parrott:** Okay, thank you. Just one final thing: I'm not obsessed with electrification, but, clearly, there is a lot of discussion about another electrification plan, which is the north Wales mainline route. Your route study concluded that it was a poor value for money option, and I'm wondering how you came to that conclusion when the ministerial task force and indeed a Greengauge 21 report into the potential project have come to the opposite conclusion. What have they considered that you haven't, would you think?

[119] **Mr James:** Okay. So, essentially, about two years ago, we were asked by the Minister whether we thought there was a case for electrification in north Wales, and we said, 'We don't know,' and that we would go away and look at it. And we've worked, you know, closely with the industry and with Welsh Government to build what we call the industry case, which is essentially applying the Green Book industry WebTAG case. And, essentially—and it's reported in the route study—the benefit-to-cost ratio for the industry is 0.5:1. So, the industry gets 50p-worth of benefits for every £1 that's spent. But we recognise that that WebTAG business case doesn't really look at the wider economic benefits of electrification—the agglomeration benefits. So, the Welsh Government commissioned Greengauge 21 to look at the wider benefits, and they're now pulling the two things together—the rail industry benefits and the wider benefits—to make the case. Now, the fact that this has a poor case doesn't mean it should be excluded. There could well be very good policy reasons for including electrification within the choices for funders, and that's why, you know, given that there's a lot of interest in electrification in north Wales and given that it's clearly important for the economy and for people's lives, we've included it as a choice for funders, because there are policy decisions to be made as to whether those outputs want to be bought.

[120] **Ms Kaye:** Having been a part of the electrification task force in the north of England that I think you're referring to, the reason why the conclusions of that were slightly different is that it was answering a slightly different question. So, as Tim's described, we have done an industry appraisal, and that has given the result that it has on north Wales, but, very much, the task force was looking at those wider economic benefits and was able to factor those in. So, really, it's a function of the fact that asking a different question naturally gave a different answer, and it is bringing together those multiple sources of evidence before a final decision is made. That's the kind of synthesis that will take place across the country as part of developing that overall industry plan.

[121] **William Graham:** Thank you very much for your evidence this morning. We're slightly out of time. We're most grateful for what you've told us. There will be a transcript for you to check in due course. Thank you very much for your attendance today. The committee will go into recess now for 15 minutes until 10.45 a.m.

*Gohiriwyd y cyfarfod rhwng 10:35 a 10:46.
The meeting adjourned between 10:35 and 10:46.*

Dinas-ranbarthau City Regions

[122] **William Graham:** May I welcome Professor Gillian Bristow of Cardiff University's school of geography? Thank you for your submission. Could I just ask you to give your name

and title for the record?

[123] **Professor Bristow:** Yes; I'm Professor Gillian Bristow of Cardiff University.

[124] **William Graham:** Thank you very much. The first question is from Rhun.

[125] **Rhun ap Iorwerth:** A very good morning to you. I'll start just in general terms and ask you to explain this balance between both studying and participation in the development of the Cardiff city region. Where do you think you fit in?

[126] **Professor Bristow:** Well, thank you very much for your invitation to attend today. I'm really pleased to be here and very happy to talk a little bit more about the university's involvement with the city region. I guess we've been involved in two ways: one more direct, one more indirect. The direct way is that we've played an important role in supporting the board. So, we've actually housed the support unit for the board for the Cardiff capital region in the university and provided some of the secretariat support for that. Part of that involves, I suppose, collating evidence and data and that sort of thing to support the board's work. I suppose the university has been represented on the board, and played an advisory role as well to try to facilitate connections and networks, which we feel are so important to the development of the city region.

[127] My role is a more indirect one. We've established, as part of the university's broader suite of so-called engagement projects, one flagship engagement project, which we're calling City Region Exchange, which is intended to strengthen the university's engagement with all the key decision makers and stakeholders in the city region. By 'decision makers', I mean obviously yourselves as Assembly Members, the Welsh Government and local government, but also we're trying to improve and strengthen our engagement with a range of community stakeholders, business groups, representatives, and so on. I suppose we see that the university can play a number of important roles in supporting the development of the city region. It's a major employer, so it has a direct role in that sense. It's a key linchpin or an anchor institution, if you like, in the economic development of the region. It obviously provides graduates, it provides skilled labour, and, not only through its education provision in that way, it plays an important role in upskilling the region, but it also has a massive student population that we could perhaps make more of in terms of making better connections with business needs, their training needs and opportunities, but also a resource for volunteering, for placement opportunities, and that sort of thing.

[128] I suppose, thirdly, more broadly, we have a role in terms of knowledge exchange. So, whether it's in terms of innovation or more broadly, perhaps, we can make connections between a range of different key actors in the city region. So, we're trying to improve our role, really, in all of those areas through this project. City Region Exchange, I suppose, is more semi-detached from the board and the political project, if you like, but we're trying to enhance the evidence base, the knowledge base, and support the collaborations and coalitions, which we think are important to city region building.

[129] **Rhun ap Iorwerth:** As you try to bring more and more people into the project, who have been the most willing participants—perhaps the ones who've seen most benefit and have been more willing to engage—and who, perhaps, have been more reluctant, or you've had to put a bit more effort into persuading them of the significance of the city region and its potential?

[130] **Professor Bristow:** To be honest, I think we've been very pleasantly surprised by the degree of willingness out there to engage with us. I think, when you go out and talk to people and you ask them, 'What can the university do? What can we do better to support the city region and the local economy more broadly?', we've been very pleasantly surprised by how

people are very positive in relation to that and keen to participate.

[131] At the moment, we've focused on engagement with local government. We've identified them as a key area where, perhaps, university engagement has been a little bit weaker or more ad hoc, and so we thought that that was a good place to start. But we've had strong interest from Assembly Members; we launched the project here at the Senedd, we've been talking to business representatives, the voluntary sector and charitable organisations, so I think it's probably fair to say that there's quite widespread interest and I think that's a point I wanted to make, really, that we're getting the sense that there is a bottom-up support for this notion of city-region building. I think that possibly I've seen something of a change there; there does seem to be more of a willingness to collaborate and to try to do something, for key organisations to work together in a new way.

[132] **William Graham:** Jeff.

[133] **Jeff Cuthbert:** Yes. Thank you. Can I turn now to the city regions, certainly the boards and then the future work of the city regions? In your paper, you make a comment that the boards are due to be wound up this month. Would you like to expand a little on that? You also mention—this is a quote—

[134] 'a growing degree of frustration at the slow rate of progress in putting delivery mechanisms in place'.

[135] Would you like to comment a little further on that, and also to say what progress you think has been made up to now? And any views on the timescale by which you think city regions could become fully operational in Wales?

[136] **Professor Bristow:** Okay. In terms of the boards, I think perhaps 'wound up' maybe, on reflection, needs to be clarified. The boards were, as I understand it, set up as task and finish groups, essentially, with, initially, an 18-month lifespan. So, that takes us to the end of May. So, it may well be that there are discussions under way as to how they evolve and progress, but it's not clear at the moment that any decision has been made on that.

[137] **Jeff Cuthbert:** Right. Okay, so the use of the word 'due', I understand what you mean now. Yes.

[138] **Professor Bristow:** Yes. I think it's just that there isn't, as I understand it, any clear decision, as yet, as to whether they will continue in their present form, whether they will evolve, what might replace them, et cetera.

[139] In terms of the point about frustration at the pace to date, I think that perhaps reflects what I said earlier that there's a positive bottom-up groundswell of opinion that now we've talked about city regions, in a sense, we've done a lot of the thinking and developed certain ideas and visions, now is the time for action. So, there's a sense of capitalising on that positive groundswell of support for the idea, really.

[140] **Jeff Cuthbert:** Who or what is expressing that frustration?

[141] **Professor Bristow:** Prominent commentators like Dr Elizabeth Haywood, for example, who authored the key city region task and finish group report, recently commented and indicated some frustration, but, in our conversations in City Region Exchange with local authority officials, we've detected something of that frustration as well. I think the frustration is not so much that there isn't an agenda; it's more a case of what's the future, what the sort of timeline, what's the delivery plan? It's kind of next steps, I suppose. We've had launches of strategy documents, of vision statements; what's the operational timescale now? That seems

to be, perhaps, the degree of frustration.

[142] In terms of progress to date, I think, in the two or three years since Elizabeth Haywood's report, there's been quite considerable progress. I mean, the two boards that have been established have clearly done a lot to develop two things, really: the desire to collaborate and get people around the table—often no small feat in itself—and getting that dialogue and constructive dialogue to progress, and clearly developing some kind of vision statement and identification of some of the key projects and themes that could shape the respective city regions. I think what I'm sensing is the next step. What needs to happen now is perhaps turning those visions, strategies and ideas into tangible projects with operational plans, timelines, et cetera.

[143] **Jeff Cuthbert:** Do you feel—and I'll finish on this point, Chair, if I may—first of all, there's more that the Welsh Government could do to move things along and do you sense tensions, shall we say, in the relationships between local authorities?

[144] **Professor Bristow:** Whether it's the Welsh Government or whoever it is, I think it's leadership—leadership is needed from somewhere to take these city region agendas forward. If you look at all the international studies that have looked at city regions, and there are plenty of them, from, you know, across England and across Europe, one of the key messages that comes through is that the best city regions, that develop the most quickly and the most effectively, with the most likelihood of economic development gains, are those where there's strong leadership. I think that's a key message. So, whether it's Welsh Government or the boards or how they evolve, just somebody, somewhere, needs to take some ownership of and leadership of this agenda, really.

[145] **Jeff Cuthbert:** Okay. Thank you.

[146] **William Graham:** Joyce.

[147] **Joyce Watson:** Good morning, Professor Bristow, and I read your paper with interest. Can I ask you: you've talked about leadership and you've talked about engagement, but there was a document published by the city regions board last February, do you think that document contained the degree of detail that you might expect?

[148] **Professor Bristow:** I think it's a positive development. I think it's, as I said, established perhaps some of the key themes and projects, but I don't think it's a delivery plan, as such, so I think it probably needs now to be turned into something that has some clear statement of the priorities, the objectives, who's going to deliver them and over what time frame. What strikes me—again, perhaps, looking at evidence from elsewhere—is city region building is an incremental process. You take steps towards it, in a sense, and I think one of the most effective steps that could be taken by both city regions is to identify a key flagship project or initiative and take that forward. So, for the Cardiff capital region, it seems to be the metro. That, in a sense, is the flagship project, which has already some momentum behind it, and I think, if you perhaps focused on delivery of that particular project, then maybe that would be a very positive step towards then having to make decisions about what coalitions you bring together to deliver that. So, in a sense, perhaps, a transformative project such as that could be the first positive step, and then perhaps issues around governance in institutional delivery vehicles et cetera would follow from taking positive steps towards delivering that sort of project.

[149] **Joyce Watson:** Thank you for that, and you've answered a range of questions I was going to ask, so that's great. So, you talk about taking a particular project as a pilot forward, but, underpinning that, of course, you'll have to have a strategy and you'll have to have a document that people clearly know they're working towards. Who do you think should drive

that and what part do you think the Government should play within that?

[150] **Professor Bristow:** Welsh Government, I guess, is the obvious body to take this forward. I mean, I think there's already some support for something like the metro project. I think, again, I'd reiterate the point that it's leadership of some form that's critical, but all stakeholders have to play a role. You have to have strong leadership, but you have to have buy in and the support of relevant bodies. So, if, for example, the project for Cardiff capital region was the metro and you then had to set up some form of delivery body to deliver that infrastructure project, then clearly it's hugely important that Welsh Government's involved, that the local authorities are involved, that key businesses and professional expertise are involved as well. It could be a useful way and means of garnering and galvanising those relevant coalitions to deliver a project, which, in a sense, is a city region project.

[151] **Joyce Watson:** Okay.

[152] **William Graham:** Mick.

[153] **Mick Antoniw:** If I can just develop that, because it's an area that I particularly wanted to explore, and you've brought it really ahead of some of the issues we wanted to raise, your paper suggests two key things. One is that the vision as to precisely what the metro is is still unclear, and progress is slow alongside that. But, secondly, as you basically suggest, a transport authority, a body, needs now to be established to effectively carry it forward. You suggest it should have statutory powers. I wonder if you could expand on those two, and your thinking around those?

11:00

[154] **Professor Bristow:** I think, as I say, it's quite clear that delivery of a project such as the metro, which is, essentially, as I understand it, about integrated transport with light rail at its heart, really, will require the coming together of a range of different issues and strands of policy, so it's obviously requiring co-ordination of economic development, of transport, perhaps even of planning, and so on. So, it seems to me that—and I think the evidence out there suggests—these projects require some kind of arm's-length body that can deliver, which has the relevant expertise. It's essentially an infrastructure project that requires a certain degree of expertise in delivering that.

[155] **Mick Antoniw:** Do you think progress is fast enough, or that there's sufficient clarity on that direction coming from Welsh Government?

[156] **Professor Bristow:** I think it could be quicker. I think there is, as I say, a groundswell of support for the city region. The metro project could be that flagship transformative project. I understand that it's quite well developed in terms of its thinking about the evidence base for it. I'm not an expert in transport, but, from what I understand, there's a quite well-developed plan. It could be quite easy to prioritise one particular part of the project and start with that—I think it's the northern Cardiff line that is perhaps the easiest and most practicable part of the project to prioritise. That would be a great way of both raising the profile of the city region and, as I say, starting to galvanise and co-ordinate the relevant policy initiatives, agendas and personnel that we'd need to build a city region.

[157] **Mick Antoniw:** Do you think, then, that there is sufficient clarity on what the objectives of the metro are? Just by way of background to that, of course we're now talking about the Cardiff city region, whereas a lot of the thinking around it has been that its real transformational impact is particularly in terms of the Valleys links. Yet it seems to have entrenched a little bit into a Cardiff project. Do you think the thinking is sufficiently ambitious or sufficiently clear and aspirational as to what the metro really is about, and what

it can actually achieve economically, socially, and in terms of employment and so on?

[158] **Professor Bristow:** I think those objectives could be made clearer, and I think the potential is there for this to be a transformational project. It inevitably requires a political will to achieve. There are certain obstacles, as I understand it, in the way of practically making this work, but I don't see why they can't be overcome. But absolutely—I completely agree that the clarity of its objectives needs to be there, and it needs to be something that has buy-in from a broader coalition of interests if this is to be a truly city-region-building project.

[159] **Mick Antoniw:** Okay. Thank you.

[160] **William Graham:** Keith.

[161] **Keith Davies:** Thank you, Chairman. Our committee has already been to Manchester, and next week we're going to London, and the reason for going to Manchester was on transport in Manchester, and Transport for London. But, really, what policy areas should be administered by city regions? Because what's happening in Manchester now is that the Government is giving them huge funding so they're going to look after health as well, and this is where the 10 local authorities are getting together with a management board, which I think only consists of the 10 local authorities, plus the health boards now. So, what responsibility do you think a city region should have, then?

[162] **Professor Bristow:** Again, greater Manchester is a really good example of what can be achieved. It demonstrates, and lots of examples demonstrate, that the critical areas for policy at the city region level are transport, spatial planning, housing, economic development and regeneration. They're the key policy areas. And I think what is also interesting about greater Manchester, as I say, is that it's taken that incremental approach. So, it started with transport. It's developed a voluntary coalition of the 10 local authorities in the region as a first step and it gradually progressed and developed out of those initial steps, and I think that's a great model to look at with the 10 local authorities of south-east Wales, in particular. So, incremental steps, starting perhaps with one of those key areas, and a project like the metro, which will enable you, or force, in a sense, the relevant stakeholders, to then consider 'How do we integrate transport with spatial planning, with housing and so on?' So, I think starting with that project is a great way to progress the agenda.

[163] **Keith Davies:** Yes, but are we perhaps trying for too much? I come from the Swansea city region, where we've got Pembrokeshire and Carmarthenshire, as well as Neath Port Talbot and Swansea, and it seems to be geographically a much larger area than you've got with Cardiff. So, you've got the metro in Cardiff; there's nothing similar, it seems to me, in Swansea. So, the governance arrangements are so positive in Manchester, but so powerful as well. And I think there that it's the local authorities that have started it all. What do you think should be the governance arrangements in either Cardiff or Swansea city region?

[164] **Professor Bristow:** I think that's a very good question. I think the key point I'd probably make is that no one governance model stands above the rest, really. You'd probably expect an academic to say something like that and that there's no one size that fits all, but in the case of city region governance, all the evidence suggests that you need to establish a governance body whose form matches the functions of the regions, and that depends very much upon context. So, it may well be that we have a different arrangement for the Cardiff capital region, as we do for Swansea. I think that's inevitable, particularly when you've got 10 local authorities in south-east Wales and four in Swansea bay. There's already a different landscape there to deal with. I think it may perhaps be easier for Swansea bay arrangements to evolve out of the existing board. Perhaps for Cardiff, something different has to develop, given that not all the current local authorities are directly represented on the board. So, I think, just having that sense of evolving a governance form that fits the context and the

functions and the needs of each particular region is key.

[165] Again, I think, as I say, greater Manchester is an interesting example, because it started with that voluntary association of local authorities and it's evolved from there. I think probably an important point to emphasise about the Welsh context is, of course, that we've effectively got three tiers of governance. So, we've got local authorities, Welsh Government and the UK Government to consider. I think Manchester has developed some kind of multi-area agreement, where you perhaps develop new frameworks for working across the different tiers of Government, so maybe those sorts of issues need to be looked at as well. But I also think a final point to emphasise is the importance of avoiding fragmented governance. Again, there's a wealth of studies that suggest fragmentation in governance hinders the economic development success of city regions.

[166] **Keith Davies:** Are there any other examples in England of city regions being developed?

[167] **Professor Bristow:** I think there are and I think they've progressed perhaps a little bit more quickly in England—it perhaps started earlier in England. Sheffield, Leeds, Liverpool—they're all taking steps to develop city regions, in part perhaps facilitated by local enterprise partnerships, the geographies of which tended to coincide with the city region or metropolitan areas. But they're all, interestingly, taking slightly different approaches, depending upon their particular institutional configurations, their needs and so on.

[168] **Keith Davies:** You mentioned earlier what the importance is, and it's the economy and jobs, it seems to me; that's what we really ought to be looking for in both city regions.

[169] **Professor Bristow:** Absolutely. The idea of the city region is not really just about institutions; it's about the functional, economic area around the city. I think it's finding projects and collaborations that make the most of the opportunities that new geographies are creating, if you like.

[170] **William Graham:** Professor, are you quite comfortable in the sunlight?

[171] **Professor Bristow:** Yes, that's fine. I'll just move across a little bit.

[172] **William Graham:** Okay, thank you very much. Mick, you had a short point.

[173] **Mick Antoniw:** No; I think the points on the metro have been answered as much as they can be at the moment.

[174] **William Graham:** Eluned.

[175] **Eluned Parrott:** Thank you. One of the funding issues around city regions is that the opportunity for a city deal has been talked about for Cardiff, although not, for some reason, for Swansea, as far as I understand. One of the issues, obviously, with devolving both funding and powers to a city region is that, if they don't have a governance structure, there is a chance that, if powers are devolved to Cardiff, it won't necessarily be in the best interests of all of these other authority areas as well. I'm wondering if you can tell me how we could square that circle in the short term, to enable funding to be drawn down for the whole area.

[176] **Professor Bristow:** I think it's critically important that something like the city deal, which is a fantastic opportunity, is developed to benefit the wider city region. As I see it, that could be a critical financial tool for leveraging other funding, in particular, and developing the transformative projects like the metro, which will build or progress the city region agenda. So, how the practicalities of that are sorted out is to be debated, I guess. But I think the critical

issue is that if there is a political will to make the most of this opportunity and use this as something that benefits the wider city region, then that should be taken forward.

[177] **Eluned Parrott:** In your engagement with local government, particularly, how on board are the local authorities that weren't included in that original board? Are they as excited by the prospect of a city region as perhaps some of the other places are?

[178] **Professor Bristow:** I think that, obviously, it's bound to vary a little bit. If you feel a little bit further removed from say the board, then perhaps, inevitably, you'll have a slight concern that you may be left out of those discussions. But I do think there is a genuine sense that we've made progress towards the desire for a city region. There does seem to be a willingness to start to think about collaborating and developing new agendas. I think it's now about how we do that: what are the sort of mechanisms and what are the projects that we are going to focus on? How are we going to design structures to take that forward? So, I think this is about looking for some kind of leadership, looking for decisions and looking for plans, really.

[179] **Eluned Parrott:** In terms of other cities in the UK that have had a city deal, and I don't know to what extent you've looked at them, how developed were they in terms of governance structures in the existing collaborations between local authorities?

[180] **Professor Bristow:** I've not studied it in a huge amount of detail, but from what I understand, they vary hugely and, in some cases, I think the city deal has actually proved to galvanise that kind of collaboration. I think Sheffield is perhaps one example of that. It can, I think, if used effectively, actually help to build coalitions. That demands a certain degree of political will, I guess, but it certainly can facilitate that.

[181] **Eluned Parrott:** So, that is the carrot to get around any potentially—

[182] **Professor Bristow:** I hope so.

[183] **Eluned Parrott:** Okay; thank you. Looking at other initiatives, clearly cities like Cardiff say that they operate not only in partnership with their own local community, but they are part of the great western cities initiative. Also Cardiff University is part of its own great western 4 initiative with universities in the west of England. Is there a danger that, if we're looking at city regions, we might put up boundaries and prevent ourselves from looking at opportunities to collaborate with neighbouring regions as well?

[184] **Professor Bristow:** I don't see any reason why the great western cities initiative shouldn't be seen as complementary to Cardiff capital region and Swansea bay city region. In a sense, I think they're possibly doing different things and they should perhaps be looked at as doing potentially different things. So, the great western cities initiative, I think, represents an important means of raising the profile of south Wales more broadly and Severnside, I suppose, in the UK and internationally.

11:15

[185] I think it can very much act as a lynchpin for place marketing, for, perhaps, attracting or raising the profile, for attracting external investment. It can also act as an important means of sharing knowledge and information. I think that's particularly where the great western, or the GW4 initiative for the universities, is playing a role, but also, I suppose, collaborating where relevant, on, perhaps, energy projects or the larger-scale projects, which inevitably will cut across geographical and administrative boundaries. But I see that as different from, say, the Cardiff capital region, which is more about developing coalitions and integrating transport and economic development planning for and in support of south-east Wales. So, I think that

they're complementary; it should be looked at in that sense, really.

[186] **Eluned Parrott:** That's great, thank you. With regard to—. We've talked about, obviously, a transport project as being a potential catalyst for the Cardiff capital region. I'm wondering to what extent the plans around the metro you think appropriately look at spatial planning for the region. Obviously, the Wales spatial plan is not being taken forward, we have local development plans on an authority-by-authority basis, but clearly, if you're planning transport infrastructure, then you need to be very careful with your spatial planning, to make sure that you're putting things like office developments and housing in appropriate locations for the infrastructure that you're developing. Are we working those planning and transport issues together effectively?

[187] **Professor Bristow:** Probably not at present, but I agree that they really do need to talk to one another, if you like. We've got, I suppose, a number of different initiatives and policy developments and debates going on concurrently. So, you've got the city region agenda, you've got, potentially, reviews of the boundaries of local government, you've got spatial planning, the planning Bill and the issues around the appropriate boundaries for spatial planning. I think that it's really important that those connect to and complement each other. I think that it would be a really wasted opportunity if we did things in a siloed way, without looking at maybe making the most of the opportunities that exist from bringing these debates and developments together. That could be, potentially, transformative. If we can develop boundaries and governance structures that allow us to start making those challenging but necessary cross-cutting agendas in terms of transport and spatial planning, in particular, then I think we should be looking to develop those opportunities.

[188] **Eluned Parrott:** I think that we can understand that sometimes silos—. It's regrettable, but they do occur, as they do in any large institution—which I'm sure you'll recognise—between different policy areas. But, obviously, within economic development itself, we have a number of different economic strategies and some of these are geographically based, like, for example, enterprise zones. I'm wondering what your view is of how well things like enterprise zones are integrating with city region plans and other economic development opportunities that we've been trying to take forward.

[189] **Professor Bristow:** Again, I think there is no reason why enterprise zones shouldn't be seen as complementing the city region agenda, and essentially, they're about the same sort of thing. They're trying to achieve and enhance the economic development opportunities within the region, albeit maybe targeting particular places. So, if we could ensure that those debates and agendas are connected and feed into the broader discussions, again, I think these are very much complementary developments, really.

[190] I think that there are broader sets of issues around, for example, the integration of the transport infrastructure developments that might go on with the metro, and the skills agenda. That's an area that, possibly, we need to be very aware of, bringing it together. I think that there's a range of international studies showing that, in and of itself, transport improvement will only take a region so far. You get truly transformative developments if you connect transport infrastructure improvements with upgrading the skills in the local economy as well. So, ensuring that we have the vehicles and the mechanisms to integrate, to connect these relevant debates and policy areas is hugely important, I think. That's why I think the city region is valuable, because it does allow you to think in a geographical area in a more integrated way, potentially. Clearly, I appreciate, coming from the university, that it's often difficult to make these connections across departments and for things to happen, but with the political will, with leadership, I don't think there's any reason why it couldn't happen.

[191] **Eluned Parrott:** Thank you. We're 18 months into the city region programme and much further into the enterprise zones, and clearly we've had a long period of discussion over

the metro development as well. Is there evidence that the mechanisms that we are going to need to take forward are developing as part of the engagement work you've been doing or is this still currently a void that needs to be filled sooner rather than later?

[192] **Professor Bristow:** I mean, there are clearly practical issues to be developed. I'm not a legal expert, but, as I understand it, the development of the metro may require some issues in terms of powers. I guess that, if you do think about developing an integrated transport system, then issues around bus franchises and that kind of thing may need to be addressed. So, there are certainly issues. There are challenges ahead. Leveraging funding is clearly going to be important, but, again, I think there are unique opportunities here. I think, again with the metro, there's funding as I understand it from the UK Government for transport improvements in the region. If you think of that in conjunction with potential European funding—European funding programmes often look very favourably on transformative infrastructure projects—and if you then put that together with City Deal funding and the potential extra funding that that could leverage, then you've got a really powerful resource there, I think. So, yes, clearly these are issues that possibly need to be thought through and developed, but surely the first step is to make a decision to take this forward, really.

[193] **Eluned Parrott:** Okay. Thank you.

[194] **William Graham:** In terms of criticism, one criticism was that, though it's a new concept really in the United Kingdom, it certainly isn't worldwide, and the numbers there are very much larger, aren't they, in terms of population? So, even with Bristol, is it sufficient critical mass?

[195] **Professor Bristow:** I think so. You often hear commentators talk about the magic 1 million. So, certainly, I think we've potentially got that in south-east Wales, and more so. So, I firmly do believe that there is a critical mass that can be supported, but, clearly, you need to have some transformative projects—

[196] **William Graham:** Quite so.

[197] **Professor Bristow:** —to build on that.

[198] **William Graham:** Yes, yes. And the other one, of course, which I suppose principally came from local authorities is that this is just an excuse for a new metropolitan district. What about that one?

[199] **Professor Bristow:** There's no right shape or form of governance. I think the critical thing is matching the form to the function. So, if we're starting to realise that the issues that face us in and around our cities extend beyond simply the boundaries of the city itself, then we have to address how we govern and how we connect the relevant policy issues at that broader metropolitan scale.

[200] **Keith Davies:** Can I just follow that up?

[201] **William Graham:** Please.

[202] **Keith Davies:** One of the issues in Manchester was them getting together and the pooling of resources. Now, in your report, you say that the plans so far don't talk about pooling of resources so you can have economic investment somewhere. So, there's a big stage to be taken, isn't there?

[203] **Professor Bristow:** Absolutely. I go back to the point I made earlier about incremental steps. I think Manchester and Sheffield, for example, didn't reach the stage of

pooling resources overnight. It's a long and, obviously, difficult process, but starting with a particular project for which you can secure maybe external funding and then think about leveraging or finding other ways in which you can mobilise funding is key. It goes back to the point that, if the project has sufficient buy-in, if it can be seen to be something that has the potential to benefit the wider city region, then you're much more likely to get that money.

[204] **Keith Davies:** But we don't do it now, do we?

[205] **Professor Bristow:** We don't.

[206] **Keith Davies:** I mean, with European funding, in west Wales and the Valleys, the authorities almost stand alone and put their own bids in rather than pooling resources.

[207] **Professor Bristow:** Maybe I'm over-optimistic, but I think we may be in a slightly different era now, because of, perhaps, funding constraints—the constraints that are on local government. I suspect there may be a greater willingness to have that conversation and that dialogue. It's not going to be easy, but if it's seen as part of the broader city region building and it's tied to particularly transformative projects, then I don't see any reason why it can't be developed.

[208] **Keith Davies:** Perhaps it's part of the reorganisation of local government.

[209] **Professor Bristow:** I think making the connections between those different debates and initiatives is hugely important.

[210] **Keith Davies:** Thank you.

[211] **William Graham:** Thank you very much for your evidence. A copy of the session will be sent to you to check. Thank you very much for your evidence today.

[212] **Professor Bristow:** Thank you for your time.

[213] **Jeff Cuthbert:** Chair, before the next people come—

[214] **William Graham:** Yes?

[215] **Jeff Cuthbert:** On this written sheet that we've been given, the penultimate paragraph on the first page refers to—

[216] **William Graham:** On the first page?

[217] **Jeff Cuthbert:** The first page, penultimate paragraph:

[218] 'helping to create or safeguard jobs in the North East and North West England'.

[219] Do they mean north-east Wales and north-west England, or—

[220] **William Graham:** I assume it's a misprint, but we can ask.

[221] **Jeff Cuthbert:** Do they mean Wales not England?

[222] **William Graham:** I would think so. We will ask them directly. I suspect it's a misprint. We'll ask them directly. Thank you for that, Jeff.

[223] **Joyce Watson:** It was a test, Jeff, to see if you'd pick it up.

[224] **Jeff Cuthbert:** Well, I passed. [*Laughter.*]

[225] **Joyce Watson:** You did.

11:27

**Banc Datblygu i Gymru
Development Bank for Wales**

[226] **William Graham:** Before we start, are you all right with the light? It's a bit bright for you. Mike, can you adjust the blind? The blinds are not working. Right. You know, if it's too much, do say because it's not very fair to put the spotlight on you quite in that way.

[227] Can I welcome you to our meeting today? Thank you very much for your attendance and for your written submission. Could I ask you to give your names and titles for the record?

[228] **Mr Johnson:** Yes. Thank you, Chairman, and thank you for inviting us this morning. I'm Ian Johnson. I'm chairman of the group.

[229] **Mr Owen:** I'm Mike Owen. I'm the group investment director.

[230] **Mr Staziker:** Good morning, all. I'm David Staziker, technical director.

[231] **William Graham:** We'll go to our first question, which is from Eluned.

[232] **Eluned Parrott:** Thank you.

[233] **William Graham:** Excuse me. May I just ask this question?

[234] **Eluned Parrott:** Yes, of course.

[235] **William Graham:** On your paper, the penultimate paragraph says 'the North East and North West England'. I assume that's a typing error.

[236] **Jeff Cuthbert:** The penultimate paragraph on the first page.

[237] **Mr Johnson:** The penultimate on the first page?

[238] **Jeff Cuthbert:** Yes.

[239] **William Graham:** I'm so sorry. On the announcement that you released yesterday. Does it mean Wales, or does it mean England?

[240] **Mr Johnson:** I'm not sure we're on the same page here.

[241] **Jeff Cuthbert:** Have you got the same single sheet?

[242] **William Graham:** You haven't got the same sheet, have you? It's only a point of minor clarification—

[243] **Mr Johnson:** We gave you this.

[244] **William Graham:** [*Continues.*]—but I think we ought to get it right now.

- [245] **Mr Johnson:** This is on the results announcement yesterday.
- [246] **William Graham:** Yes. You'll see the penultimate paragraph on page 1.
- [247] **Mr Owen:** No, that's correct.
- [248] **William Graham:** It's correct, is it?
- [249] **Mr Owen:** That relates to the FW capital—the smaller portion of the business where we operate in England. That's in addition to the Welsh performance.
- [250] **William Graham:** Right. It's correct.
- [251] **Mr Owen:** It is correct.
- [252] **Jeff Cuthbert:** North-east England and north-west England?
- [253] **Mr Owen:** Yes. Absolutely.
- [254] **William Graham:** I understand. That's fine. Thank you for that point of clarification. Eluned.
- [255] **Eluned Parrott:** Thank you. Before turning to questions about the development bank and the role of Finance Wales, I wonder if I can start by asking about the size of the funding gap between what is available and what is necessary to help Welsh businesses. Professor Jones-Evans in his report, as you'll be aware, said that there's been a huge gap and that the estimates vary. Can you give me your assessment of what the funding gap in Wales is on an annual basis?
- [256] **Mr Johnson:** Yes. Can I make a general point first of all? There clearly is a gap, and we acknowledge that there's a gap. You have received evidence of what Dylan Jones-Evans assumes the gap to be. We have had other numbers as well. Perhaps, David, you could talk about the British Business Bank figures that you had recently.

11:30

- [257] **Mr Staziker:** The challenge is that there are no definitive answers. Whoever you are, you seem to have a different view as to what that gap is. So, the British Business Bank issued a report in March 2015 that said the gap for loans across the whole of the UK for smaller SMEs was somewhere between £170 million and £870 million per annum in the UK. So, it's another estimate and Dylan's report suggests it's £400 million net per annum in Wales. So, they kind of conflict and so it's difficult to assess quite where it is. I think the key point is that there is a gap. From our perspective, Finance Wales is a small player in the market with 3 per cent of the actual funding market in Wales, so it was only ever going to have a small impact, at the moment.
- [258] Looking at the reports that Dylan uses to estimate the gap, the SME monitor is the main one he's used and tried to, sort of, analyse that on to Wales. If you look at the latest report, which came out in February this year, that said that the happy non-seekers of finance had actually risen to 82 per cent from a rate of 73 per cent two years ago. So, there are more happy non-seekers, currently. Also, the actual rates for loan approvals in the same SME monitor had actually increased to 76 per cent from 67 per cent over the last 18 months. So, there are more people getting approvals through from the banks. So, again, that sort of suggests that the gap may not be increasing. There's lots of mixed evidence around, and then how you prorate that to Wales is a big challenge, because there hadn't been a bottom-up

analysis done in Wales; it's been done at the national level in the UK. The SME monitor surveys 5,000 businesses and then you extrapolate all this information from that. That's quite a big step, particularly, then, when you try and put it on to Wales.

[259] So, in our view, listening to how the happy non-seekers have increased and the approval rates, we think some of the challenger banks, the peer-to-peer lenders and crowd funding platforms are actually starting to have an effect on this gap. So, companies like Funding Circle, Shawbrook and Aldermore, these companies are now having more of an impact than they were two or three years ago. You certainly see them a lot more in the press. But we still see that there's a gap and we think it's caused by both a mixture of a lack of finance being available and because companies aren't ready for borrowing. We also think there's always, inevitably, going to be a gap that you can't address, because of businesses that just aren't viable—they're never going to be ready; it's just too risky, unless you want to give your money away. You may well come to that position, but if you don't, if you want it back, then there are always going to be some businesses that will just be too much risk.

[260] So, in terms of what we're doing at the moment, we're constantly trying to develop new funds to address these gaps. Mike will take you through some of those later on, if you'd like to know. On the lending-ready side, we've been working with Business Wales, training their staff and we've done that for the last two years. So, in October this year, we ran six training courses across Wales, training 62 of their advisers and I'm pleased to say that the outputs from that, in terms of how much better we do on conversion rates from their business plans, improved by 40 per cent. So, that will have an effect—actually getting the businesses better groomed—but it's just going to take time for us to see how much impact the lending-ready review's going to have on Business Wales.

[261] **Eluned Parrott:** Thank you. I'll return to the question of lending readiness, but the question, really—. You've taken issue with Professor Jones-Evans's calculations of what the funding gap may be and you've suggested other UK sources, but clearly, your role is to address a funding gap, so I assume you must have some idea of what you believe the funding gap in Wales to be on an annual basis. Can you give me that figure?

[262] **Mr Johnson:** Well, can I say, we haven't taken issue with Professor Dylan Jones-Evans's figure? I think what we've just heard is that it's very difficult to be definitive about the size of the gap. We don't have a figure. What we're doing is proposing that we consult more widely in the future and that we have an advisory committee to advise the development bank for Wales as to exploring exactly what this gap might be in Wales. There aren't any definitive figures.

[263] **Eluned Parrott:** So, if you don't have an estimate for what the gap is, you can't, therefore, have a way of measuring your impact on the funding gap. How do you justify your existence if you are unable to demonstrate improvement against the one single target you were set up to overcome?

[264] **Mr Johnson:** Well, we do measure our impact and we have figures that we're happy to share with you, and we've put them in our submission to you, in terms of what our impact is. I believe it was just over £100 million last year. So, it's a different question.

[265] **Mr Owen:** I would agree. I wouldn't take issue with Dylan Jones-Evans's work because, as Dave has said, there are many differing viewpoints on this. We have instructed our strategic team to look into this and come up with our interpretation. I would say we've had some work done ahead of the successor fund to JEREMIE, which has been commissioned from an independent expert organisation that came up with, again, a similar sort of range. Nobody comes up with a number, they come up with a range, and that range was between £250 million and £500 million. So, I think it's reasonable to accept £400 million to £500

million, as Professor Dylan Jones-Evans said, is reasonable. In his evidence to this forum last month, I think he was pressed on the impact a development bank would have, and he was talking about a £100 million impact. This year, as Dave said, and Ian, we invested £48 million in Wales, and, with the private sector leverage of another £56 million, the impact on the funding gap, not against a targeted funding gap, but the impact on the funding gap in Wales, was £104 million, which is a record performance for us, and made a real difference to all those businesses.

[266] The other thing we've done about the funding gap, without quantifying the figure, is not just delivering more cash, it's delivering a wider range of cash. So, back in 2010-11, we had just the JEREMIE fund for Wales, which was our largest fund, and it was pan-Wales, which was great, but still targeted at only around 40 per cent, actually, of eligible SMEs or SMEs in Wales. So, throughout the period, with the Minister, we've worked hard to build complementary funds around that. So, the first one was the Wales SME fund, which was designed to invest in those Welsh SMEs that couldn't access funding through the JEREMIE fund, which is important because there are a whole number of businesses that weren't eligible, such as those direct consumer services, agriculture and tourism, and that's exactly what that fund—. So, it's not just about the number, it's also about the types of businesses. There are a couple of other funds that we've created as well, targeted at the property sector—another sector that couldn't get funding from the mainstream providers. So, it's a quantum, if you like; it will make an impact, but also it's a much broader range than ever before.

[267] **Eluned Parrott:** You'll forgive me if I query the fact that, David, you seemed to query the credibility of the £400 million to £500 million figure on the basis that the UK-wide figure from the British Business Bank was £800 million.

[268] **Mr Staziker:** I don't query it; different people have different points of view.

[269] **Eluned Parrott:** So, it's people with different points of view. You'll forgive me if it seems to me that you're trying to climb a mountain in the dark, and you have no idea how big the mountain is or what progress you're making against the whole mountain if you don't have a way of measuring what that target actually is.

[270] **Mr Johnson:** Maybe if I can summarise: you can see that the various estimates that you've received, and we've said today, are quite large ranges. That says no-one really knows what it is. Okay? We also know that we can only make a small impact in Wales, because we don't compete with the private sector and we don't compete with the banks—we're not set up to do that. So, the gap, whatever size it is, has to be filled by the private sector. We step in and fill the gap left by them—the funding gap—or the market failure as a result of the private sector not stepping in. Our contribution has been 3 per cent or 4 per cent. So, whatever the gap is, we're always going to be a small contributor.

[271] **Mr Owen:** And, to be fair, Professor Dylan Jones-Evans said he would expect a development bank to make a £100 million difference to a £400 million gap.

[272] **Eluned Parrott:** Okay, thank you. Could I ask what proportion of the funding gap, according to your assessment, in Wales is due to market failure? Obviously, if you're investing work in making businesses lender-ready, what proportion do you believe to be the issue with the businesses and their viability?

[273] **Mr Staziker:** The challenge with all of this still is that there aren't any specific data, so with the lender-ready stuff that Business Wales is doing at the moment, they've identified that they're not doing a good enough service, but we've yet to see the results of them improving their service to see how many of those businesses that have been turned down can actually be groomed into something that's viable. So, it's difficult to assess what that is

because it hasn't started yet. We can't answer that question.

[274] **William Graham:** Okay. Mick.

[275] **Mick Antoniw:** Yes, I think I understand that point. In fact, there probably is no answer to it, is there? There's just one point on your note here that I want some clarification on. You've outlined some of the highlights in terms of achievements, but just explain to me, because I didn't quite understand what was meant: you said that four profitable exits were achieved including two of Finance Wales's most profitable exit investment realisations. Just for information, what does that mean?

[276] **Mr Johnson:** You can start, David.

[277] **Mr Staziker:** So, some investments we make we do well on the get. So, the two largest ones we got a four-and-a-half and a five-and-a-half times return on our money; the other two it relates to are ones where we just about got our money back.

[278] **Mick Antoniw:** How does that work, then? Excuse my ignorance on the matter. So, if you make a four-and-a-half, or five times return, in what way do you actually achieve that level of return? Is it buy-ins into the company?

[279] **Mr Staziker:** We make an investment into these companies and we own part of the company. The idea is, as we do these, the companies grow and create more jobs, and so on, and get to a stage where the business is then attracted to take it to the next level, which is exactly what happened with the two companies where we made four and five times. We sold those companies on to other private equity houses, who then wanted to keep the companies in Wales and grow them further. So, that's a great little message, because we were worried when we first set up Finance Wales that we may end up exiting and selling the businesses and they leave Wales. Well, that's not what's happening, which is great to see. So, when they're sold then, we just get a proportion of whatever the selling price is. That comes back into the fund, and it's used to repay, in this case, the European Investment Bank and the JEREMIE fund. Once the EIB is paid, then it's left then into a legacy, which goes into new funds in Wales. So, it's all kept for the public purse, as it were.

[280] **Mick Antoniw:** Thank you very much.

[281] **William Graham:** Thank you. Keith.

[282] **Keith Davies:** Byddaf yn gofyn yn Gymraeg. Pa drafodaethau ydych wedi'u cael gyda'r Gweinidog ar y syniad o greu banc datblygu? **Keith Davies:** I will ask my questions in Welsh. What discussions have you had with the Minister on the concept of the creation of a development bank?

[283] **Mr Johnson:** Thanks for the question. I met with the Minister recently after she gave evidence to this committee, and, again, there were very constructive discussions around the process. Clearly, we acknowledge the fact that a development bank for Wales has got broad support. We support it and we're very excited by the opportunity to continue the evolution of Finance Wales into this new development. As the Minister said in evidence earlier, we recognise that this isn't going to be a short piece of work; it is going to take some time. There are some significant challenges in the establishment of a development bank for Wales, not least the regulatory issues that we would have to overcome, and we're working through those—they will be worked through throughout the summer. And, of course, we will need to develop a business plan from which all the actions should flow. So, it is going to take some time and it may well be a couple of years before we actually see the full establishment of the bank.

[284] **Keith Davies:** She also said that she preferred the hybrid model and the hybrid model would achieve the endgame, but we're not sure what 'the endgame' means.

11:45

[285] **Mr Johnson:** Yes. I think the hybrid model can do with some clarification. It can be interpreted in a number of ways. We would like more clarity on that, but one of the views is that we're looking at a hybrid where a development bank for Wales would be a fund holder and would go out to tender for fund managers to manage those funds, whilst also managing funds itself; that is what we think the hybrid model is. We already do that now, and we can talk about the detail of that if you wish, Chairman, in terms of how we do that. We'll come onto it later, but we are operating in that fashion now.

[286] **Mr Owen:** I think that the endgame is unknown, in terms of what the vehicle will be, but, surely, the aspiration is to create something that continues to support, and enhances the support for, Welsh SMEs going forward into the future.

[287] **William Graham:** Looking at your best ever investment performance, do you think that undermines the case for a development bank for Wales?

[288] **Mr Johnson:** No, I—. Mike, do you want to talk about that?

[289] **Mr Owen:** No, I don't think so. Look, I've been with Finance Wales for 14 years, I think, so it's been a constant evolution for Finance Wales. I have to say, the first few years, back in 2001, when I joined, it was a very different beast to the one you see today. In fact, annual investment performance was £6 million the first year I joined, with a similar number of staff. So, you know, today we're investing £48 million in Wales, with a similar number of staff, and the grant in aid has dropped. So, we're used to change. To quote my colleague, Dave, we're almost change experts. So, we see the development bank as maybe an exciting and new chapter for Finance Wales to be a part of and, you know, we think that there are some great competencies and experience and skillsets within the staff; there's a fantastic team there that's widely regarded as delivering the best JEREMIE fund in the UK. So, to build on that experience would be sensible. We have experience of raising funds, of delivering funds, and, as I say, in the future, we see this as the next stage in evolution, then, for Finance Wales to be a part of, and, indeed, hopefully a core part of, a development bank.

[290] **William Graham:** I think, with other Members, you know, we often go to various businesses in our regions and constituencies, and the prominent feature that I've noticed of firms there, where you finance, is the way in which they are so encouraged by the way in which you treat them. Those that have had experiences of other lenders, shall we say, have had a much more aggressive form of reporting, which they don't find from you, nor do they find from you—at least in the experience of the ones that I've spoken to—this constant business about trying to get the capital back, as you referred to earlier; you seem to be much more relaxed about a company that is doing well and where the growth element is there, rather than some of the other providers who say, 'Well, look, we've got to the fifth year, now we want our money back'. Would you think that is part of your ethos, or are you simply reflecting Government policy?

[291] **Mr Staziker:** I think it's certainly part of our culture, and I think that it's one of the reasons we attract people working in the banks to come and work for Finance Wales, because, effectively, we can do the right thing with businesses. So, if they are struggling, it's a very simple process for us to reformat a loan, to change the repayment profiles to help them. So, if they're going through cash-flow problems or if they're hitting seasonality issues, it's quite an easy step for us. In the organisation, the credit team sits next door to the investments team in

Finance Wales, so it's a very short conversation, unlike a bank, where it's a different department, often in, actually, different areas. So you can make decisions happen very quickly. When we get it right, we get it right well. We're not perfect, we can still make mistakes, but, most of the time, we think we're getting it right, and that seems to be where the feedback's coming from customers as well.

[292] **Mr Owen:** That's fabulous for us to hear that people are reflecting that, because it very much is part of our DNA, if you like. There are a couple of reasons for that: we're not a bank, so, you know, we wouldn't have first security to take straight away, so there's a compunction on us to work with the businesses, and we have a team that does that very successfully and is actually targeted to turn under-performing businesses around, to get in early, before the demise curve sets in, and turn those businesses around and put them back to the good book, if you like. Our forbearance figures—and this is something you'll hear from the banks—are much higher than the high-street banks. You know, we will work with companies and be more patient—patient capital, I guess, is a good way to put it. You know, we have portfolio teams. This is quite different to your portfolio teams in the banks, which will be targeted primarily to lend more and to sell more products. I understand that; I'm not criticising the banks for that. Our portfolio teams are targeted primarily at the health of the businesses they manage and at what support and what difference they can make to those businesses—how can they improve those businesses? It's not to sell them insurance or any other products. It's all about making that business successful. That is their prime goal.

[293] **Mr Johnson:** If I can add something, Chair, to that, one thing we've done over recent years is to actually help support the businesses by putting on to their boards non-executive directors that have experience in running businesses and that can help them through some of the issues they face. So, it's not just money; it's also human capital as well.

[294] **William Graham:** Thank you very much. Jeff.

[295] **Jeff Cuthbert:** Yes. Following on from the point you made, and about both the purpose of a development bank and the purpose of Finance Wales, do you think that your role and remit could be changed—enhanced, if you like—to achieve the same purpose that we want the development bank to do? If that is the case, what implications does that hold for the skill sets of your staff? Would you need to look, for example, for staff with venture capital investment skills or do you feel it could be addressed, with additional training, by current staff?

[296] **Mr Johnson:** Good question. Maybe you'd like to address that, David?

[297] **Mr Staziker:** Okay. I'll try and make sure I remember all the parts to that. Our remit clearly can be changed, but I guess we feel that it's going to evolve. Regardless of whether we become part of the business bank or stay separate, it will constantly evolve. I guess the question that we all need to be certain of—. Watching these committees and what goes on in the Senedd, there is a lot of political will to create a new development bank. There seems to be cross-party support to do that, so we're quite cognisant of that fact and we want to help Welsh Government achieve what it wants to achieve. But we need to understand what it is you want the development bank to do, and I'm not really sure that's clear yet—what it wants to do and how feasible that is, so how much money it's going to cost.

[298] So, to quote back from the study, it talks about a number of products and services that have been mentioned to improve the economic development outputs from the existing provision. So, things such as that we need fund managers. So, the DBW will act as its own fund manager and it will act as a holding fund and hire specialist fund managers, it will take deposits and it will invest other people's money. Also, ultimately, I understand that the idea is to supply business support as well. That is quite a wide remit and very different to what

Finance Wales does at the moment. So, I'm not sure changing our remit to do all of those things is the sensible thing. We might want to set a DBW up instead. It's interesting to note that the British Business Bank only does one of those things. It only acts as a fund holder. It doesn't act as a fund manager, it doesn't take deposits, it doesn't invest other people's money and it doesn't supply support. It is not regulated by the Bank of England either, because it's not a bank. It's just a bank in name. So, the clarity around what we mean by 'bank' is quite interesting. Do we mean we want it to take other people's savings and invest that money? Or do we mean we just want it to be a funding organisation? I think some clarity around that is part and parcel of the challenges that come out from the feasibility study.

[299] **Jeff Cuthbert:** Right. Okay. So, you will be actively seeking that clarity?

[300] **Mr Staziker:** Well, we'd like to work with the Minister and her team to help them develop that business plan. I think that, until we kind of know the economic development outputs they want it to have—. I think it's a question for this committee, saying, 'How do we know it's going to be better than anything in the current supply?' Well, I guess, at the moment, we don't know, because it wasn't in the study. So, that's something that needs to be worked on, and, once you understand that, I think it becomes easier to write a business plan and a business model that looks at the products and services and works out whether they will actually achieve the idea to invest more at lower interest rates—you've heard all this; I won't say it again—and become, you know, self-financing within five years. Until you've got a business plan that shows the sources of funding, it's difficult to make that assessment.

[301] **Mr Johnson:** So, I mean, effectively, what we have at the moment is a set of aspirations, which are fine, but we will need to develop a road map to achieve all of those and a business plan, whether it's a five-year business plan that gets us to those points—. There are clearly some major challenges if we're looking at taking in private investments into a bank. That's another regulatory hurdle you'd have to overcome. So, we're not saying it can't be done; we're just saying that's obviously going to have to take some time to develop in the first instance. We feel that what Finance Wales has to offer right now can, in large part, deliver and continue to deliver the hybrid model that we've talked about, which is holding funds and appointing fund managers whilst also running funds ourselves.

[302] **Mr Staziker:** Jeff, coming back to your question about venture capital skills, we already have generalist venture capital skills in-house. We've invested, this year, over £50 million in equity deals. So, we already do that. We don't have specialist skills, though, such as for the Wales life sciences fund, which went out to Arthurian, but we have the skills to go through a procurement process and appoint for managers like Arthurian. It's a kind of horses for courses; I think it will be a mix. A lot of what the Wales life sciences fund is doing is spotting potential life sciences companies and bringing them into Wales. It's doing less of the actual indigenous investment, whereas what you find with what Finance Wales does on the equity side is more indigenous investment. You know, on the manufacturing—. The bulk of Wales is still manufacturing and service businesses, and they're more simple investment models. My personal view is that you need less specialist skills for those sorts of deals. We've built an in-house function that does debt, mezzanine and equity skills, investing: we've created that workforce, and it would seem a shame to me to outsource that and we lose those skills. The finance and professional panel is supposed to be a key sector panel for us in Wales.

[303] **Mr Johnson:** In other words, if we are going to adopt a hybrid model with a very large proportion of just fundholding, then, inevitably, you may well find that you're exporting this talent that we've built up over the border.

[304] **Mr Owen:** Interestingly, I had a meeting this morning before coming here with a creative business—a high-growth business—and they found it very difficult to find an equity investor, hence coming to us, a sector specialist in their field, because they only need around

£1 million. So, with many of these sector specialists, large private equity firms will not be writing cheques less than £5 million, hence the creation of the business growth fund stepping into that gap. And with Finance Wales, going way back when to 2001, the equity function was largely set up in response to 3i moving out of Wales, because of the size of the deals—and they were a generalist funder, actually. So, summarising all that, we do both but, where we don't have the specific skills set, such as the life sciences, for those large deals, we've outsourced it, which is the hybrid model.

[305] **Jeff Cuthbert:** Okay.

[306] **William Graham:** Rhun.

[307] **Rhun ap Iorwerth:** Yes. If I could ask you to revisit the question of the bank being self-financing within five years and how realistic—. You say that you have lots of questions that you want answered before you can make a judgment, but how realistic do you think it is?

[308] **Mr Johnson:** To take you back, I guess, to when I started in Finance Wales in 2008, our grant in aid was £5.6 million. In the report that we've just issued on our last financial year, it went down to £2.3 million. We've achieved that by a mix of efficiency within Finance Wales, but also achieving external fund management fees. So, our activities through FW capital in the north-east and north-west of England introduce £0.5 million of fees into the business. We also established and run the Help to Buy-Wales scheme, a £170 million fund. That introduces £0.5 million into our overheads as well. So, that's how we've been—. With that mix, we've been able to reduce the grant in aid to the current level. Our strategy is to continue to do that. So, we seek further fund management roles where we can attract these fees. And these fees stay in Wales. So, this is a real contribution to the grant in aid.

[309] **Mr Owen:** To talk about the development bank for Wales specifically, I guess it's difficult to say without actually seeing the business model.

[310] **Mr Johnson:** The business plan.

[311] **Mr Owen:** So, the financial forecast and the business model. But, as the chairman has said, we've tried hard and have had some success, coming down from £5.6 million grant in aid to £2.3 million last year, but it is tough. It is tough. And we've made a commitment that we will aspire to be break even, if you like, or non-grant dependent, in three to five years, and that will take real focus. So, I would have to say that it's a challenging goal, but, without the detail of the numbers, it's impossible to say whether it's achievable or not.

12:00

[312] **Mr Staziker:** It's a financing discussion and there are two points to it: one is the revenue side that we've just heard and the other is the capital side. So, it's where the money comes from for the funds. At the moment, Welsh Government put the money in for a lot of the funds as well. To be self-financing, in my opinion, you need to be able to source those funds as well. So, that's the other side of the challenge that we have.

[313] At the moment, there is a nice legacy building within Finance Wales. So, again, we've learned the lessons about how to invest and manage our default rates and we're getting to the point where we are actually creating a sustainable legacy. So, I think that that is the other side that we need to think about when we're setting up this business model. It's not just covering the operational, so, the staff costs and the housing costs and so on; it's covering the actual costs of setting up the funds themselves, and what happens when they're invested. Can you attract other funders in based on your track record to come and invest in Wales? That, for us, is the ultimate game—to stop Welsh Government needing to put money into Finance

Wales, and to actually have a track record that shows that we can make investments and give normal market returns to other funders to help fill that gap.

[314] **Rhun ap Iorwerth:** And the Minister was clear in this committee in saying that she would certainly like to look at the bank being just that: a bank, in attracting investors in. You think that that would have to be the case in reality in order to reach that goal of self-sufficiency.

[315] **Mr Staziker:** I don't see how you can say that you're self-sufficient if you're still taking cash off Welsh Government for funds. So, yes, I think it's important. So, there are balance sheet issues, which Rob Hunter explained to you, in this fund, about taking money from the banks at the moment. That's then viewed as on the Welsh balance sheets, that comes off against departmental expenditure limits, so, that causes all sorts of problems in that way as well. So, things like pension funds are far more attractive for us to try and hit, because, again, they will not lend money; they will invest money. But you've got to have a track record for them. I think there's a lot for pensioners to have to worry about and they will not take risks with that money—inordinate risks.

[316] **Rhun ap Iorwerth:** On the issue of risk, you talked earlier about not wanting to actually give money away; you're trying to get the money back. But a lot of what the development bank would be doing would be high risk, by definition. Does that then have a marked influence on that self-sufficiency goal?

[317] **Mr Staziker:** I think that's why it's essential to come up with a business plan, so that we can understand what levels of default—we're prepared—we can accept. It's a challenge, you know: if you want to invest more, you don't want to go where the banks are; you want to do it at lower interest rates. I would say, at the moment, the only way you can do that is to take more risk than what Finance Wales is doing. I mean, our default rate for loans at the moment runs at 10 per cent. Now, that compares to banks that run at about 1 per cent, so it gives you an idea. So, that's why we're charging slightly higher interest rates than the banks: to try and make sure that we're covering that default rate. That's where it all comes back to. It doesn't help us to charge those rates, it's about creating something that's sustainable for Wales, so that we can make more investments in the future.

[318] **Mr Johnson:** Yes, so we can recycle this money back to make more investments. If you're losing money, you can't do that.

[319] **Mr Owen:** But also our private sector partners—Barclays and the EIB—wouldn't be content for us to charge less interest rates than the risk we're taking. It's just not part of the contract.

[320] **Rhun ap Iorwerth:** Finally from me, you've mentioned the need for a business plan several times. I'm sure all of us would agree that that's important. There's a lot of talk of aspiration, not just from the Government, but from many of us who're supportive of having a business development bank, but should there, at this point in time, be at least a decent sketch of a business plan, considering all this talk of aspiration and what we want the business development bank to achieve, or are we okay that, perhaps, we're not quite there?

[321] **Mr Johnson:** Well, from my discussions with the Minister, the Minister is certainly setting in tow a number of initiatives this summer to start this whole process. It starts off with looking at the regulatory issue first, and I would expect, flowing from that, we would then set about inputting into the development of a business plan for the bank.

[322] **Rhun ap Iorwerth:** So, even though you're—

[323] **Mr Johnson:** So, it's the very first job—it has to be.

[324] **Rhun ap Iorwerth:** But even though you desperately want to see—. You don't think it's a problem that it's not quite there yet.

[325] **Mr Staziker:** Finance Wales can continue to do what it does and evolve whilst that plan is being developed, so I don't see that SMEs in Wales are going to lose out as we develop that plan. I think it would make good commercial sense in times of, you know, still, austerity, to have a little bit more certainty about the costs of the bank and what you'll get out of that versus what currently is there.

[326] **Mick Antoniw:** Just an exploratory question, because attracting investment in—well, of course, on the European level, you have the Juncker proposals, which are about €350 billion, of which 90 per cent is other income; it's not EU money, but money that's to be attracted in from various sources. Is there a role that you would envisage or a greater role on the European stage in terms of engagement with the various institutions, whether it be green banks, the European Investment Bank, or whatever, to carry out your role, or is it something that happens already?

[327] **Mr Owen:** It's a bit of both, actually. Absolutely, that's a great idea. Finance Wales has good relationships, particularly with the European Investment Bank, which co-funded the JEREMIE fund. They also co-fund the JEREMIE funds in England, so we get exposure to their representatives there as well, through our subcontract arrangements. That's a very important relationship for us, and they value it highly—primarily through the European regional development fund grant regime; that comes from our relationship with WEFO—the Welsh European Funding Office. So, they would hold those relationships and then administer the funds in Wales, but, yes, there's definitely a role there to access funding.

[328] **Mick Antoniw:** So, you see that as something that's, actually, potentially expanding. I suppose part of the problem is using the term 'bank' because it means different things to different people, but, in terms of actually being a finance body that engages with sources of, or facilitates, capacity to raise income to invest, do you think that that's something that you'd be capable of dealing with as part of a business plan? Would there be any further greater regulatory requirements that you would have to overcome in order to achieve that?

[329] **Mr Johnson:** Well, I think we're certainly capable of assimilating whatever levels of support there would be within Europe. I think we have to be careful that when we're introducing European money, it doesn't compromise the Welsh Government's own balance sheet, so it's not double counted. That is an area that we've encountered as we start to develop a successor for JEREMIE—the JEREMIE II.

[330] **Mr Owen:** That's specific to borrowing. So, we have been active and we have a team, actually—the strategic team I mentioned earlier—who work on fundraising solutions. Last summer, we went around all the Welsh pension funds and had a good level of interest there for a project that is actually on hold at the moment, but there was good engagement. We've created those links, and that's certainly something we will revisit. We had a very positive reception from the Welsh pension funds.

[331] **Mr Johnson:** We've also had success with the local banks recently as well, haven't we, in terms of—?

[332] **Mr Owen:** Absolutely. That comes back to the borrowing thing. We've had offers from three high street banks to invest in one of our funds, but, of course, we come back to the issue that this would affect—. But it's a pat on the back for Finance Wales, because one of those high street banks has a no-lending policy to regional investors, and Finance Wales is the

one exception to that rule. So, it comes back to your point around, you know, raising funds is an awful lot about your track record, and, for the track record, you are looking at the individuals. Who are the people who are going to be delivering this fund? They look very hard at those individuals and their track record.

[333] **Mr Staziker:** From a regulatory perspective, we already have the approvals that are needed to act as a fund manager for private money in FW Capital, so we don't need to go back there. That's a process that took us over a year, to give you an idea. So, if you want to start afresh, you have to get the people who are authorised, and then you have to get the actual authorisation itself, so, again, it would be sensible to build on, rather than start afresh.

[334] **Mick Antoniw:** I suppose, also, the retention of the skills and the expertise that exist—. In general, is that an issue, because finance is an incredibly competitive area, as many of these sorts of services are? Is that a general problem in terms of attracting and retaining—?

[335] **Mr Johnson:** In any period of uncertainty, you can lose people. So, we would hope that we can achieve this new development bank as quickly as possible so that we remove that uncertainty, which is uncertainty for the staff, but also uncertainty for funding and, equally importantly, the SMEs in Wales that need to have that consistency.

[336] **Mr Owen:** I'd add to that that, Chair, that understandably the uncertainty and the press coverage has had an effect on morale within the staff, but we are fortunate to lead a very, very talented and committed team. It is a testament to that team that last year's performance was a 30 per cent uplift on the year before, in terms of investments made, but also in impact on the Welsh economy in terms of the leverage that we got and the jobs that were created. We've beaten the investment target. So, you know, of course there is a danger—and I think the Minister talked a bit about this in the session last month—that this uncertainty could lead to people leaving, and that would be bad for us at Finance Wales, and it would be bad for Wales, really.

[337] We're trying to build a centre of excellence, or have been, there, and that skill set has been built up over 14 years, and people come from the banks to learn. There are a couple of reasons they work at Finance Wales, I think, because, as you say, the financial services sector is back in recruitment mode. The banks are hiring again, and they will be after our best people, and they reward with higher remuneration—there's no getting away from that. There are a couple of reasons—the main reasons people work for us: they come to do the broad remit of investing, so you're not just coming to do one certain thing with us—you can do mezzanine investing, equity, debt—and you can't get that anywhere else in the UK, I would argue. So, they enjoy that, and they enjoy the fact that they're just investing and looking after businesses. They're not selling you insurance and all the rest of that stuff, so they can focus on banking. The second thing is that they get an enormous feel-good factor from helping Welsh businesses that could not get funding elsewhere. So, it is helping Welsh businesses succeed and grow, and it's down to those individuals. Those investment executives make a recommendation and we back them. There's no credit committee outside of the country. Two thirds of the credit committee sits here today. We make the decisions, and we get it from the horse's mouth, if you want—the investment executives recommending it. That's why people work for us. We've got a fantastic staff retention rate, but it's a very pertinent question—staff morale is going to have been affected. We haven't lost any good people yet, but the longer the uncertainty goes on, there's a chance. One thing I have noticed is that there's uncertainty starting to creep in with intermediaries and businesses coming to us for funding. They're saying, 'Right, if we take an investment from you, what does that mean in the long term?' So, that's not a big issue, but that's something that I have seen recently.

[338] **Mick Antoniw:** And of course you're due to replace the chief executive in—

[339] **Mr Johnson:** In September, yes.

[340] **Mick Antoniw:** In September. So, that process is under way.

[341] **Mr Johnson:** Yes.

[342] **William Graham:** Joyce, did you have a question?

[343] **Joyce Watson:** I did—two very brief ones, and brief answers would be good. Are there any regulatory issues—you talked about them quite a lot—that you expect to come your way with the new Government? That's the first one, and a brief answer would be fine. And the ultimate question: what difference would it make if we had a development bank for Wales as against leaving it as it is? You've made a good case, actually, for yourselves, but could we just hear your qualification for leaving things as they are as opposed to changing them, as proposed by the Minister?

[344] **Mr Johnson:** David, on the regulations?

[345] **Mr Staziker:** So, from a management perspective, so to act as a fund manager and a fundholder, we need no new regulatory approvals; we have them. If we want to act as a bank, we would need a heck of a lot more approvals. If we want to call ourselves a bank, but not act as a bank, we'll need some approvals. So, that's mainly for Companies House just to say, 'Yes, you can call yourself a bank'. So, it just depends how far you want to go. But we're already, I would say, halfway there.

[346] **Mr Johnson:** Taking deposits would be a massive regulatory—

[347] **Mr Staziker:** Yes, that's what I mean. Taking deposits would be the issue. That's where it gets difficult.

[348] **Mr Johnson:** We talked about the list of aspirations earlier. It depends how far we go. I would foresee that that would be a period of time where we can just add these aspirations over time, depending on how well we're doing on the fund managing side. So, we're still very supportive of an evolution. We have our own aspirations. As Mike has just very eloquently said, we've got a great team. They want to grow, and we want to add more investments into Wales, so anything that a development bank of Wales can offer to enhance what we do at the moment, we would welcome, and we hope that we can play a big part in setting out those aspirations in a business plan that can be delivered.

12:15

[349] **Joyce Watson:** But what difference would it make? That was my question.

[350] **Mr Johnson:** I think we've got to work through—. Again, this is led by the Minister and how far she wants to go in terms of these aspirations. So, clearly, at the upper end of those aspirations in terms of taking deposits, that would be a huge change for us, and one that we're not afraid of by any means, but we're just noting, with caution, that there's a lot of steps here and a lot of regulation. But, in between there, we will continue to function and deliver, hopefully, further improvements in our performance for Wales, whilst this is being developed.

[351] **Mr Staziker:** Just as a follow-up, there will be state aid approval needed if it's public money that funds the bank as well.

[352] **William Graham:** Thank you. Eluned.

[353] **Eluned Parrott:** I have no further questions.

[354] **William Graham:** One thing, again going back to people making—. You'll always have more applications than there are loans, but one of the criticisms, not just of Finance Wales, but of others, is that the cost of the application can be disproportionate perhaps to the loan actually gained. I'm aware of some applications that have cost them 20 per cent by the time they've paid all the fees involved. Have you any information—I know you've said that you would help people with their business plan and with making their application—or any idea whether that is representative of the costs of applications in Wales?

[355] **Mr Owen:** Twenty per cent sounds like an awful lot, doesn't it?

[356] **Mr Staziker:** I think Dylan mentioned to the committee £15,000 to £20,000. Well, I guess that kind of depends on the size of the loan that's involved. If it was a multimillion pound loan, then that may feel right in terms of the due diligence costs that are involved, but if it's a much smaller loan, say in the tens of thousands, that sounds very disproportionate. Usually—

[357] **Mr Owen:** The cost usually, even including external due diligence—and these are large investments—would be less than 5 per cent, including fees. And we have such a great relationship with the banks and co-investment partners that we would share due diligence. It's not a case of you going to the bank and the bank would do their work and then say 'Right, go and see Finance Wales to see what they do' and you create a new business plan. We use the same business plan; we often go to the same meetings; we share due diligence the whole time, so as to reduce the burden on the business. And don't forget that 52 per cent of volume of investments from Finance Wales last year—over 50 per cent—was made into microbusinesses, so businesses of 0 to nine employees. And the vast majority, by number, of those investments will be to small loans—let's call them 'microloans'; £25,000, £50,000 or £100,000—and there will be no external due diligence on any of those. The only fees there would be would be a typical arrangement fee. And the independent review of our interest rates and fees, conducted last year by Paul Goodman, concluded that 80 per cent were at market rate or lower, and the fees were significantly lower than market rate, so—

[358] **Mr Staziker:** In our arrangement fees, it's between 1 per cent and 2 per cent, so if you compare that with Funding Circle at the moment, they're charging 5 per cent. Banks charge around 1 per cent. So, it is quite competitive, but the higher the risk, the more you tend to see the fees jumping up.

[359] **Mr Owen:** I think there's work for us to do in the application process though, and we're working on that hard to make that easier for the end user. So, as the rest of the world is, of course, moving away from paper, we can do more online, and that is a challenge that we need to grasp, because people, when they want investment, they want it quickly, quite rightly. You can get it from Crowdfunding and people like that within a matter of days, so they would expect, quite rightly, that level of service from us. We are some way off that yet, but that is something we're working on. Our microloans we do undertake to turn around in 10 days, but—and I wouldn't say we were slow—we can certainly improve the customer experience, and that's something we're very focused on.

[360] **William Graham:** Just finally to remind you, though it's very small, that we do have a pension fund for our Members here, and I'm certain it would welcome approaches for investment from businesses in Wales.

[361] **Mr Johnson:** Okay. Thank you.

[362] **William Graham:** Rhun, do you have a question?

[363] **Rhun ap Iorwerth:** I have just one last question on your thoughts about what all this talk of a development bank will ultimately mean for Finance Wales. Do you think that, ultimately, Finance Wales will cease to exist and its work taken over by the development bank will exist with Finance Wales still existing within it or will they exist as separate entities?

[364] **Mr Johnson:** The answer is: I don't think we know yet. But we would hope that what we've created in Finance Wales would form the core competencies of that new institution.

[365] **Mr Staziker:** If you look at the example that Dylan has quoted of the British Business Bank, they took capital for enterprise—if you like, that's almost equivalent to Finance Wales—and built on that to form the business bank. So, it's a part—it's kind of a subsidiary of the overall bank. So, it's at its core. So, it's just building on those skills. The way we see it is it's either the people there or the institution there—it's kind of still that the people will still be there at the middle of it.

[366] **Rhun ap Iorwerth:** We all hope that the people will be there, because you don't want to lose the expertise, but it's whether you think Finance Wales will still be something that we're talking about in 10 years' time.

[367] **Mr Johnson:** I think it depends on the structure and the business plan and ahead of that, we'll need to see what the remit is and what level of aspiration it is initially.

[368] **William Graham:** Thank you very much for your attendance today. A transcript will be sent to you in due course, but thank you very much for your evidence.

12:21

Papurau i'w Nodi Papers to Note

[369] **William Graham:** I ask Members, please, under item 5, to note the papers that have been circulated.

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod

Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cynnig:

bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog 17.42(vi).

*Cynigiwyd y cynnig.
Motion moved.*

Motion:

that the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[370] **William Graham:** I will move a motion under Standing Order 17.42 to resolve to exclude the public for the remainder of this meeting. There is no-one against, so the public meeting is now closed.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 12:21.
The public part of the meeting ended at 12:21.*