



Cynulliad Cenedlaethol Cymru The National Assembly for Wales

Y Pwyllgor Menter a Busnes The Enterprise and Business Committee

**Dydd Iau, 24 Tachwedd 2011
Thursday, 24 November 2011**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol**Committee members in attendance**

Christine Chapman	Llafur Labour
Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Julie James	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
David Rees	Llafur Labour
Joyce Watson	Llafur Labour
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol**Others in attendance**

Jill Evans ASE/MEP	Plaid Cymru—Green/European Free Alliance (y Gwyrddion/Cynghrair Rydd Ewrop)
Emanuelle Guiheneuf	Plaid Cymru—Green/European Free Alliance Uned E1 Deddfwriaeth a Pholisi'r Cronfeydd Strwythurol Ewropeaidd a Chynllunio Ariannol, Cyfarwyddiaeth Gyffredinol Cyflogaeth, Materion Cymdeithasol a Chynhwysiant, Comisiwn Ewropeaidd Unit E1 for European Structural Funds Legislation and Policy, Financial Engineering, Directorate-General for Employment, Social Affairs and Inclusion, European Commission
Jeroen Jutte	Dirprwy Bennaeth Uned E1 Deddfwriaeth a Pholisi'r Cronfeydd Strwythurol Ewropeaidd a Chynllunio Ariannol, Cyfarwyddiaeth Gyffredinol Cyflogaeth, Materion Cymdeithasol a Chynhwysiant, Comisiwn Ewropeaidd Deputy Head of Unit E1 for European Structural Funds Legislation and Policy, Financial Engineering, Directorate- General for Employment, Social Affairs and Inclusion, European Commission
Derek Vaughan ASE/MEP	Llafur—Cynghrair Flaengar y Sosialwyr a'r Democratiaid Labour—Progressive Alliance of Socialists and Democrats

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

Gwyn Griffiths	Uwch Ymgynghorydd Cyfreithiol Senior Legal Adviser
Gregg Jones	Pennaeth Swyddfa UE Cymru, Gwasanaeth Ymchwil Head of Wales EU Office, Research Service
Siân Phipps	Clerc Clerk

Meriel Singleton Dirprwy Glerc
 Deputy Clerk
Ben Stokes Gwasanaeth Ymchwil
 Research Service

*Dechreuodd y cyfarfod am 1.32 p.m.
The meeting began at 1.32 p.m.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** Hello, everybody. I welcome Members, witnesses and members of the public to this afternoon's meeting of the Enterprise and Business Committee. The meeting will be bilingual, and headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 0. The meeting is being broadcast and a transcript of the proceedings will be published. Please switch off your mobile phones and other electronic equipment. I remind Members and witnesses that there is no need to touch the microphones as they operate automatically. In the event of a fire, please follow the directions of the ushers. We have received an apology from Ken Skates, and Christine Chapman AM has kindly agreed to substitute today. Thank you for attending this important meeting, Chris.

1.33 p.m.

Ymchwiliad i Gynigion Deddfwriaethol Drafft Cronfeydd Strwythurol yr UE ar gyfer 2014-20: Sesiwn Dystiolaeth Inquiry into the Draft Legislative Proposals for EU Structural Funds 2014-20: Evidence Session

[2] **Nick Ramsay:** This is the second evidence session of the committee's inquiry into the European Commission's draft legislative proposals for EU structural funds in 2014-20. The committee's aim is to make recommendations to the Welsh Government on what it should prioritise when seeking to shape the UK Government's position in the Council of Ministers, and to influence negotiations on the draft legislative proposals through the European Parliament.

[3] I welcome to the meeting—via video-conference, which seems to be working well at the moment—Jeroen Jutte, the deputy head of unit E1 for European structural funds legislation and policy, financial engineering, the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission. Jeroen, would you like to make a brief opening statement before we go to questions? I also welcome Gregg Jones and your officers.

[4] **Mr Jutte:** First, let me introduce Emanuelle Guiheneuf, who is sitting here next to me. I was lucky enough to be appointed head of unit in another department as of 1 December, so I thought that it would be wise to bring along a colleague from the unit, in case any follow-up work arises from this meeting, or if you require further information that we can provide, Emanuelle will be able to take care of that. She is also our expert on financial engineering. If any issues are raised on that, she can step in to add a contribution.

[5] It may be helpful to spend two or three minutes placing the proposals in their context. I know that Veronica Gaffey did so last week, but perhaps it should also have an ESF ring to it. Although we are joined together as one family, there are also specific considerations that I would like to draw to your attention in opening.

[6] First, as you are aware, we have about €10 billion of ESF funding a year. More than

10 million people throughout the union benefit through training or other support measures. However, it is more important to realise that, in the context of the current crisis, the question of the impact of European policies in general and the impact of cohesion policy in particular has come greatly to the fore of the political agenda. It is also important to consider what the value added is and whether we actually deliver what we want to deliver—what we say we are going to deliver. In this context, looking at the ESF, we see that the share of ESF in cohesion policy has gone down over the past two decades from approximately 40 per cent to 22 per cent today. At the same time, if we look at European priorities, we see the increasing realisation that, as a whole, the European Union should invest more in education and human capital as a general rule.

[7] This has already led the Commission, in June, in the context of the multi-annual financial framework, to make proposals for establishing a minimum share for European social funding, and not only in the proposals for cohesion policy, but in the context of the negotiations on the seven-year financial framework. In other words, this will achieve a better alignment between the European priorities and the actual allocation, which, thus far, for ESF, was always a result of bilateral negotiations with member states on the division between European regional development fund and ESF. In other words, there is a stronger directive role there for the legislature. It is also a higher political level in terms of decision making. So, that is one thing.

[8] Secondly, continuing with the issue of the impact and results delivery, last week, Veronica explained the importance of and the emphasis we have placed on the results orientation, the alignment with the Europe 2020 strategy as well as concentration in that context to make sure that we are able to have visible results instead of what one would call in French '*saupoudrage*', so that it is spread too thinly so that it does not really have an effect anywhere. A second element that she mentioned was conditionality—ensuring that we sow the seeds in fertile ground. It is all very well to make a public investment, but if the framework conditions are not in place, the return on the investment of the taxpayer will be less than one may expect.

[9] Thirdly, something that I am personally very attached to—we all have our preferences in our work—is simplification and emphasis on simplification for beneficiaries, particularly in the social field where a lot of entities are small and have limited capacity. The complexity of the funds makes access to support very difficult. There are entities that do not even bother because they see that they will not be able to climb this mountain. So, one of the key elements in this reform proposal has been to simplify life for them, and I hope that I can come back to that during this session.

[10] As a starter, in terms of general issues, that was what I wanted to say. I am sure that I will come back to more detailed aspects of the proposal as your questions come forth.

[11] **Nick Ramsay:** That is excellent; thanks for that. We have a number of questions for you. David Rees is going to ask the first one.

[12] **David Rees:** Thank you for that introduction. I am sure that there will be many people over here who will be pleased to hear your commitment to simplification, particularly with regard to bureaucracy. The new structures include the partner contracts and the operation programmes. In your view, what priorities will you be placing on the operation of programmes in allocating ESF funding?

[13] **Mr Jutte:** Let me distinguish two aspects. The ESF regulation contains four thematic priorities, and they are basically the same as what you have today in the domain of employment, education, social inclusion and institutional capacity powers. Those are broken down into what we call investment priorities; that is, more specific elements.

[14] Another aspect is the context that a member state or a region finds itself in when looking at the Europe 2020 strategy and the way that it looks at its socioeconomic situation and difficulties. We would expect member states and regions to concentrate resources where they are most needed, in a way, to concentrate European funding on European priorities. In preparation of our meeting today, we had a quick look at what Wales is doing, and you are already doing that. However, this is not true everywhere in Europe. I think that we all have an interest in this. If one wants to take European priorities seriously, we all have an interest in the European Union putting its money where its mouth is. We establish priorities, and now we either act or we do not act. Obviously, in Wales, this action takes place, but the Commission is determined that such an example is also applied elsewhere.

[15] I will give a concrete example that may help to clarify this. A country could have a real problem with youngsters who drop out of school without having a diploma. If you were to look at their later lives, you will see that they will earn less and they will, more often than average, be unemployed. That country will have higher associated health costs and higher associated crime rates. There could be a European recommendation that a country should take action, because you take a mortgage on the future of your own population. If the country does not act on that systematically—if it does not want to act—the Commission will find it hard, with such a country or region, to find an agreement on the operational programme, to identify a priority together and to establish an appropriate allocation to address those issues in a meaningful way.

[16] **David Rees:** Which problem do you consider greater: the operation programme, which is at the regional level, or the programme contract, which is at member state level? There may be some differences with devolved governments and different responsibilities.

[17] **Mr Jutte:** Yes, that may be true, but we, as always, cannot treat the UK as one entity in this respect, and I hope that that has been your experience of interaction with the Commission. For example, where there is a recommendation, and maybe the Welsh performance is better, it would be silly of the Commission to insist on having a very strong allocation while you may have other issues that are more urgent and pressing. On the other hand, the UK, on average, may do well in another field of social policy, while in Wales, for example—I do not know whether this is true—the level of youngsters who drop out of school could be particularly high while the UK on average could do well. Then, certainly, the Commission, in discussion with you, would come back to that issue and ask you what you are going to do on that. The partnership contract on the national level is to translate how the different funds and the different regions would address those issues that are in place, with a view to the European priorities, and to do so in a flexible manner.

[18] **Nick Ramsay:** Jeroen, on the issue of flexibility for member states, does the focus of the majority of the funding on a maximum of four investment priorities—for us, it would be 60 per cent in west Wales and the Valleys and 80 per cent in east Wales—provide sufficient flexibility to address the different circumstances facing regions across the EU, especially given the ongoing economic crisis?

1.45 p.m.

[19] **Mr Jutte:** This is a very important question. Let me first address the issue of Wales, and then I will take it outside of that context and look at it more broadly. A colleague of mine, who is a master of data, has tried to look at your categories of investment under ESF today. Of course, we cannot do that one on one, so we must guesstimate or do some approximations. However, we have tried to look at what you do today and how that fits in the current period. It seems that you are already quite easily reaching those targets. So, in practice, on the ground, I do not think that this would be a difficulty for Wales.

[20] Having said that, Wales, like any other part of the union, has an interest in the union being a competitive entity—as a whole, not just in the different parts of the union. The headline targets that are established under the Europe 2020 strategy are quite reasonable, specific and clear. Therefore, it seems reasonable to require member states and regions to attain those targets, which are for investment priorities linked with the 60, 70 or 80 per cent, particularly given that the richer a region is, the less need it has for bigger infrastructure investment—you could assume that it has its own resources to finance that investment—and to really concentrate on the headline targets. We must not forget that three out of the five headline targets for the Europe 2020 strategy are typically ESF, and the fourth one, on research and development, is impossible to achieve without sufficient investment in human capital.

[21] **Nick Ramsay:** What has been the reaction in both the European Parliament and Council to this aspect of the proposals for the four investment priorities?

[22] **Mr Jutte:** It is very mixed. You will find that the countries that feel that this will not be difficult to achieve tend to be more supportive than the countries or regions that think that it will be problematic to do so. Some of those countries, particularly with regard to regional competitiveness regions, take quite a different view. So, it is mixed. In Parliament, in the context of the employment committee, it is well received, but less so in the context of the regional policy committee.

[23] **Byron Davies:** My question is on social innovation. Article 9 states that the European social fund

[24] ‘shall promote social innovation within all areas falling under the scope of the ESF...in particular with the aim of testing and scaling-up innovative solutions.’

[25] In Article 11, the Commission set out ways in which social innovation can be incorporated into operational programmes. Can you explain what ‘social innovation’ means to the Commission and the types of activity that you would like to see developed and funded through the ESF?

[26] **Mr Jutte:** What we want to promote is not one particular kind of innovation. Innovation is hard to capture because, in a way, we are already doing it and therefore it is not innovation. What is innovation in one area of the union may be common practice in another, so it is difficult to put a clear definition on it. Therefore, we will approach this in a flexible manner. We want member states and regions, as part of the operational programme, to have a critical look at what they are doing, globally and locally, and to create possibilities to test things that work in other regions and countries, or simply enhance, and to push for this. The Commission also makes resources available through what is currently called the progress instrument to stimulate this kind of activity.

[27] **Byron Davies:** Will that be mandatory?

[28] **Mr Jutte:** Yes, it would be mandatory, but, as I said, we do not define what it is. Therefore, there is a large degree of flexibility in that regard. We would give guidance, but nothing beyond that.

[29] **David Rees:** Another new tool that has been discussed is joint action plans. How will that work within the proposals, particularly at the operational programme level?

[30] **Mr Jutte:** This is part of both a stronger results orientation and simplification. I am happy that you asked the question, because we have high hopes for this. It is an option, not an

obligation, so regions or member states may use it, but they are in no way obliged to use it. It will also not be predetermined in operational programmes, so one can decide as one goes along. What is it? That is the big question, of course. We have tried to see how we can move towards a much stronger results orientation; in other words, paying for results in operational programmes. We already do this today on the operational level, for example, through lump sums. A project promoter—this is not used everywhere, by the way; I do not know whether it is used for ESF in Wales—can submit a project proposal with a detailed budget, which is approved and then that project promoter is paid on the basis of the delivery of the deliverables and not on the basis of invoices submitted.

[31] We also wanted to apply this on the level of the operational programme; however, it is far too complex on that level, as the deliverables are too heterogeneous. So, we have come up with a joint action plan, in discussion with member states through what we call the technical working group, which is a group of member-state experts, including experts from the UK, who get together three or four times a year. It will, in rather simple terms, be as follows. Let us assume that a member state wants to reform secondary education. We could break that down into 10 milestones. The first milestone would be the development of the curriculum, the second milestone would be to train the headmasters of the secondary schools, the third milestone would be to train 50 per cent of the teachers, the next one would be to print the books, and so forth. Let us assume, for argument's sake, that this particular joint action plan has 10 milestones. The last one would maybe be one where we would look at the results and the impacts: for example, an increase in test scores at the end of the secondary school of 4 per cent or something such as that. There is a negotiation on the basis of a cost estimate. Cost estimates are, as a general rule, on the basis of standard unit costs. For example, say the training of a teacher costs £1,000 and the printing of 1,000 books costs £100,000. We would make, in a way, a contract, together with the managing authority, that we were going to achieve this with 10 milestones. Each milestone would be associated with a certain cost price, for example, the number of teachers trained versus the standard unit cost, and only at the end would there be a performance or results-orientation-type of milestone. We would talk about what share it would be. For example, with 10 milestones it might be 10 per cent or it could be 5 per cent; it would depend on the risk involved and the type of joint action. Up to now, I have been quite clear on this concept, or I hope that I have been, at least.

[32] What are the advantages of this? You would not have European rules for financial management any more. The people working on the project would not have to look all the time at whether there might be European rules with adapted national rules to manage this ESF funding. You could just apply national rules, because, at the European level, we would just pay for the milestone results: training 1,000 teachers or having 500,000 books printed or whatever. The audit would also change in nature; it would become far simpler. You would have to account for printing and receiving those books, and you would have to account for training those teachers, but we would not require invoices for renting the training space, the payment of the trainers, the paper on which the books are printed, the availability of the computer, the electricity or the toilet paper. We do not need a million invoices to reimburse you. We would simply reimburse you for having trained in the context of this objective of the reform of secondary education, for example. We would simply pay for the attainment of the milestones.

[33] So, it would be paying for results and for achieving something real. We believe that there is an initial investment, which is establishing the programme and a negotiation on finding an agreement that, say, it will cost €200 million and on how it will be divided over the milestones. That would be substantial work, but, then, over the two or three years that it takes to implement, the nature of the implementation will change—for beneficiaries as well as for the managing authority or whatever other entity manages this—in that the simplification will be considerable. Also, the savings on audit will be considerable.

[34] **Nick Ramsay:** I will have to interrupt you there, because we have a few more questions to get through. I think that we have got the broad thrust of what you were saying. I will bring in Eluned Parrott to ask a few more questions.

[35] **Eluned Parrott:** Conditions will be placed on these joint action plans. Do you foresee any challenges in changing from an output-based delivery model to an outcomes-based delivery model?

[36] **Mr Jutte:** No. The joint action plan is an option. You can also continue as you are.

[37] **Eluned Parrott:** However, as we heard in evidence last week, you are looking to move to payment on the delivery of outcomes rather than payment on the delivery of outputs. So, there is a cultural shift there, as well as a practical one. What challenges do you expect to face because of that?

[38] **Mr Jutte:** I would not link that to the joint action plan. The joint action plan is an option; it is a possible simplification and we intend to introduce it slowly and to test it. In other words, you should look at it more in the context of simplification than in any other way. However, we also proposed a performance framework, in which we want to agree, with member states and regions, what you will deliver on for operational programmes and hold you accountable for that. If delivery falls behind, action will be taken. That would be with the managing authority at first, but, ultimately, if delivery remains substantially behind, the proposals contain a possibility to not pay for the operational programme in full and to withdraw the money, if you like. That is much more in the direction of what you are asking about, I think, as we envisage the possibility, at least, of very strict actions by the Commission.

[39] What is this about and does it apply to Wales? We have seen operational programmes in the past that have spent all of the money but have only delivered 15 per cent or 20 per cent of the targets established at the start. So, we are really talking about those kinds of excesses. In this context, you also have to consider that the indicators will be determined to a large extent by the socio-economic situation that you are facing. Wales is not responsible for the global economic crisis, so, in the context of employment targets, it will be far more difficult to apply such a thing than, for example, an agreement on building 100 km of highway or financing the education of 20,000 additional students. You can be held much more accountable if you do not achieve your targets in that regard than for employment targets or targets on things that you cannot control, really. So, the Commission would approach it in that way, in partnership with you. In this sense, the partnership contract and the operational programme will be a contract with you for what you will deliver. So, it will be important for each member state and region to take that seriously and to ensure that you can deliver on what you propose as targets.

[40] **Nick Ramsay:** That is clear, Jeroen. Thank you.

[41] **Keith Davies:** A fydd cyfle i **Keith Davies:** Will there be scope to produce gynhyrchu strategaethau datblygu sy'n cael community-led development strategies on a eu harwain gan y gymuned, ac a fydd yn multi-fund-based approach? defnyddio mwy nag un gronfa?

2.00 p.m.

[42] **Mr Jutte:** That is certainly our intention, and we would be very disappointed if that was not the case. The proposed regulation is interesting in many respects, and this is one of them. Community-led development is, by definition, something that, in almost 100 per cent of cases, encompasses the nature of the different funds—ERDF relates to infrastructure

investments but it also invests in people. Therefore, I do not think that such initiatives can be a success without ensuring that the funds can come together in an integrated way. It is our challenge to ensure that the funds can operate as one, with one set of rules. I would also like to see the community-led initiative being used as a tool to enable us to create some sort of global brand, with one set of rules, despite containing different funds—the ERDF and ESF. So, we definitely envisage what you outlined in your question.

[43] **Leanne Wood:** Could you tell us whether it is envisaged that the 5 per cent ring-fenced funding for sustainable urban development will be managed through a member-state level scheme, or will it be delivered through ring-fenced actions within the regional operational programmes?

[44] **Mr Jutte:** It is an issue in the ERDF. I will have to check the regulation, but I believe that the provision was established on a national level. However, I would have to check, I am sorry. It is ERDF. I will ask Veronica Gaffey and we will get back to you.

[45] **Leanne Wood:** Okay; thank you.

[46] **Mr Jutte:** It is at a national level, I am quite sure.

[47] **Nick Ramsay:** I am sorry, Keith; I cut you off in full flow earlier. Do you want to come back on intervention?

[48] **Keith Davies:** Mae cyfraddau **Keith Davies:** The intervention rates differ ymyrraeth y gwahanol gronfeydd yn between various funds; will this cause any wahanol; a fydd hynny yn achosi unrhyw problems? drafferth?

[49] **Mr Jutte:** I am not sure that I have fully understood the question. Do you mean different co-financing rates?

[50] **Keith Davies:** Yes.

[51] **Mr Jutte:** The co-financing rates have stayed the same as they are in the current situation. I am not aware—you may correct me if I am wrong—of any difficulties that you may face in Wales on this issue, or particular difficulties that we have faced in any member states. However, please correct me if I am wrong.

[52] **Keith Davies:** That is fine.

[53] **Julie James:** We have heard quite a lot about these new financial instruments—flat-rate costing, standard unit costs and so on. Can you tell us what that might mean in practice for the management of the programmes and what that might mean for project sponsors and applicants?

[54] **Mr Jutte:** Yes, gladly. I should have checked beforehand with the geographical desk here in DG Employment what is happening in this respect in Wales. Since 2007-09, we have introduced new, simplified cost options. There are three of them. First, there are lump sums, which I referred to earlier, then standard unit costs and then flat rates for indirect costs. This can substantially simplify matters for beneficiaries. To have, for example, standard unit costs for training is much easier than collecting all of your invoices and then dividing these into different parts, because perhaps a part of the electricity bill was not for a certain project, and so on. So, it can be a big benefit. Now, the majority of member states use the simplified cost option and have considerably cut down on the administrative costs associated with this. However, it also improves access for beneficiaries. This is particularly important in the social

field.

[55] However, we have also seen that we have not had the success that we would have liked with these options. This is because they have often been difficult to establish. For example, with flat rates for indirect costs, it is necessary to have the statistics to establish them, and that is often difficult. So, to cut a long story short, we saw that there was difficulty with regard to the preparation and difficulty with regard to the legal certainty that member states identified as the key issues—why they did not do it, or if they did, why they took a long time to come forward with it. We tried to address those by, for example, giving standard flat rates.

[56] In the regulation, we give you full legal certainty without having to establish a statistical basis for the flat rate that you want. We also try to provide more legal security by being able to continue with programmes or systems of this kind that are already under way—in fact, we have also placed a challenge, in the context of ESF, with the member state, because we propose that the standard unit cost or lump sums become obligatory for projects of up to €50,000, which would be about £45,000. That means that it covers about 50 per cent of ESF projects for which the Commission proposes to make it an obligation to use the simplified cost options. This is for the very simple reason that we want to promote this very strongly to make life easier, in particular for beneficiaries.

[57] **Alun Ffred Jones:** O dan reoliadau ESF, mae cyfeiriad at offerynnau galluogi cyllidol a chronfeydd cylchynol. Sut y defnyddir y cronfeydd hyn ar gyfer mesurau hyfforddi a chyflogaeth? **Alun Ffred Jones:** Under the ESF regulation, there is a reference to financial engineering instruments and recurrent funds. How will these funds be used for training and employment measures?

[58] **Mr Jutte:** At present, we use about €300 million of the European social fund budget through financial engineering, in particular by supporting micro-start-ups. Basically, these are one-man business start-ups—I am looking at my colleague to make sure that that is correct. So, the emphasis is on the creation of employment and self-employment, and the process that goes with that. If businesses go bust, they tend to go bust in the first year, so we have a mentoring process. That is often something that is associated with the financial engineering aspect.

[59] The advantage for ESF of financial engineering is that we can create more resources with the same money. Leveraging European social fund resources means that we can achieve more for stakeholders than we otherwise could. That is one of the reasons why it is our intention to place greater emphasis on these things. However, let me underline that these are options: they are a part of the toolbox that we provide to member states and regions to deliver the right policy mix within the domain of, let us say, the European social fund.

[60] **Alun Ffred Jones:** Mae cynlluniau peilot wedi eu cynnal o dan y rhaglenni cyfredol, yn ôl yr hyn yr ydych yn ei ddweud. A allech eu disgrifio'n fyr, neu efallai roi gwybodaeth fanylach i'r pwyllgor, i ni gael gweld sut y maent wedi cael eu gweithredu a sut y maent yn cael eu gweithredu? **Alun Ffred Jones:** Pilot schemes have been undertaken under the current programmes, according to what you have said. Can you briefly describe them, or perhaps provide more detailed information to the committee, so that we can see how they have been implemented and how they are implemented?

[61] **Mr Jutte:** The most useful thing may be for us simply to provide you with the full list of schemes that are being implemented at the moment and a short description of what they do. Emanuelle, do we know how many there are?

[62] **Ms Guiheneuf:** About 10.

[63] **Mr Jutte:** I am aware of some in Italy and Germany in particular. We will provide, by tomorrow at the latest, a full list of the schemes, the budget allocation and their primary objectives along with a short description of how they operate. If you then have questions about a particular scheme, please do not hesitate to come back to us, and we will put you in touch with the individual with responsibility so that you can get all the information that you are interested in.

[64] **Christine Chapman:** Mr Jutte, I want to ask about the evaluation. Why are there proposals for a new approach to evaluation for this new round? Can you explain how the proposals for a new evaluation will differ from the current round?

[65] **Mr Jutte:** That is a risky business for me. Last week, you spoke with the acting director and the head of unit for evaluation in DG Regio, and I have to admit that I am not an expert. To me, the proposal does not seem to have changed all that much. What we require and expect is an ex ante evaluation, ongoing evaluations to see how things progress and ex post evaluations. At a global level, for me, this is not changing much. However, that may be completely the wrong answer, and if so, I apologise. I will have to check.

[66] **Christine Chapman:** Will this be an improvement on the current situation? Will it be simplified? What aspects of improvement will there be?

[67] **Mr Jutte:** I am very sorry—this is one part that I do not know about.

[68] **Nick Ramsay:** That is fine.

[69] **Mr Jutte:** I did not study sufficiently. I will have to come back to you.

[70] **Nick Ramsay:** Christine Chapman has forensically examined the subject. It is all right—if you could provide us with any of that information, it would be helpful. The last question is from me. The ESF regulation proposes a number of common indicators to apply across all operational programmes. Are there any new indicators in the list that you think merit particular attention?

[71] **Mr Jutte:** What we have tried to provide here—we are very open in our discussions with member states on this—is simply common sense. We have tried to link the indicators directly to the investment priorities that are listed in the ESF regulation proposals. The four thematic objectives are broken down into a total of 18 investment priorities, and we have tried to make a logical link so that, in reporting to Parliament, to member states and to stakeholders, we can bring a sensible story. In fact, one of the weaknesses in the past, which has been partially resolved in the current period, and which we want progress on, is the incredible lack of information on what we were achieving. As I said, in the current period the situation has much improved, but we hope that it will improve further with the next proposals, so that we have a basis for subsequent evaluation and a data set that is not excessive, but which provides a sufficient basis. However, I would not want to draw anything in particular from that.

[72] **Nick Ramsay:** Common sense always sounds very straightforward, but when you try to explain it, it is sometimes more complicated. Given what you have just said, to the best of your knowledge, will performance assessment be on the basis of the immediate participant results indicators, or will it be taken into consideration with longer-term result indicators?

[73] **Mr Jutte:** For the performance assessment we have to look at what is under your control. This is the key consideration. Without going into a specific indicator or type of indicator, it would be completely unreasonable to judge the performance of an operational

programme on elements that fall completely outside our control in terms of attainment. For example, your employment rate is dependent on so many factors that, even if you focused an operational programme fully on employment and job creation, it would still be extremely unjust, in some situations, to allocate that result to the operational programme. Of course, sometimes you are just ahead of a boom, and a country or region will surpass its targets in that respect, but likewise, it may be quite different, as we see today when looking at socioeconomic circumstances. Again, pragmatic common sense would be the approach.

[74] **Nick Ramsay:** That brings our line of questioning to a close. Is there any final comment that you would like to make for our inquiry?

[75] **Mr Jutte:** Maybe it would be useful if we also provided you with a detailed PowerPoint presentation, of 20 pages or so, so that you can flip through the main elements. We have left out many elements, such as transnational co-operation, that would allow us to see other elements of the proposal in a straightforward way.

[76] **Nick Ramsay:** I thank Jeroen Jutte, deputy head of the unit, for being with us today via the video-conference. It has been very helpful, and we will feed your comments into our inquiry.

[77] **Mr Jutte:** We will get back to you on the evaluation and the list of financial engineers.

[78] **Nick Ramsay:** That would be excellent; we will also look forward to seeing the PowerPoint presentation.

2.15 p.m.

**Ymchwiliad i Gynigion Deddfwriaethol Drafft Cronfeydd Strwythurol yr UE ar
gyfer 2014-20: Sesiwn Dystiolaeth
Inquiry into the Draft Legislative Proposals for EU Structural Funds 2014-20:
Evidence Session**

[79] **Nick Ramsay:** Our next witnesses have arrived, Derek Vaughan MEP, Labour, and Jill Evans MEP, Plaid Cymru; thank you for agreeing to be here today. I understand that you were watching the earlier proceedings. Before we launch into the questions that we have for you, would you like to make a short opening statement?

[80] **Mr Vaughan:** Shall I start? Is the microphone on?

[81] **Nick Ramsay:** Sorry, I should have explained that the microphones come on automatically.

[82] **Mr Vaughan:** Thank you for the invitation to come to speak to you today. We normally do this kind of thing via video-conference, because, obviously, we are usually in Brussels. It is nice to see you all in the flesh. I will make just a few points. Since the Lisbon treaty, the European Parliament has co-decision-making powers with the Council of the European Union. It is important that this committee and the Welsh Government engage with the European Parliament on these important topics in future.

[83] A lot of the discussions that we have had on cohesion policy and other matters will be tied up to the discussions that we are currently having on the post-2013 EU budget. Unless we get that right, there will not be enough money to go around to pay for structural funds, the common agriculture policy, or anything else. Regulations are currently going through the

European Parliament on the future of cohesion policy. We have already won a number of victories. We know now, for example, that all regions across the EU will get some form of structural funds, and we know what the three main levels will be. They will include competitiveness—or its equivalent—which is important for east Wales. In future, there will be greater focus on outcomes and further efforts will be made to try to simplify cohesion policy.

[84] We are still concerned about a number of issues in Parliament, including the role of regions and countries like Wales in putting things together for the next round of structural funds. There are concerns about the proposed partnership contract between the Commission and member states, and what your role will be in putting priorities together for Wales. There are a number of other issues of concern around that.

[85] There is some concern about the proposal on macro-economic conditionality, which ties the structural funds to the targets for debt and deficit in member states. There is concern about the fact that, the next time around, it seems as if there is going to be a lot more earmarking than there was previously. The suggestion is to take 5 per cent from performance reserve, 5 per cent from urban areas, and for £10 billion to go into the connecting Europe facility, and so on. If you take 5 per cent here and 5 per cent there, it leaves much less in the overall pot, and there will be less flexibility for you to decide what you want to do with the money. Those are our main concerns, but it is going through the Parliament at the moment. Perhaps Jill wants to say a few words, and then we will be happy to take questions.

[86] **Ms Evans:** Diolch yn fawr am y gwahoddiad. Fel dywedodd Derek, mae hi'n dda cael bod yn bresennol mewn pwyllgor yn y Cynulliad—nid ydym yn gwneud hynny yn ddigon aml. Yn y cyfnod sydd i ddod, pan fyddwn yn gwneud penderfyniadau am y cronfeydd, mae'n hollbwysig ein bod yn cydweithio mor agos ag sy'n bosibl. Cytunaf â Derek ein bod wedi cyflawni tipyn hyd yn hyn: mae pob rhanbarth yn cael ei gynnwys, mae'r Comisiwn wedi cynnig rhai pethau er mwyn symleiddio'r holl broses, ac mae elfen o bartneriaeth gref. Mae hynny wedi digwydd oherwydd y cydweithio ar bob lefel yng Nghymru a'r lobiö cryf ym Mrwsel yn y misoedd diwethaf.

Ms Evans: Thank you for the invitation. As Derek said, it is nice to have the opportunity to participate in a committee in the Assembly—we do not do it often enough. In the ensuing period, when we will be making decisions on the funds, it is crucial that we collaborate as much as possible. I agree with Derek that we have achieved a great deal so far: every region is included, the Commission has made some proposals to simplify the process, and there is a strong element of partnership. That has happened because of the collaboration at all levels in Wales and because of the strong lobbying in Brussels over the past few months.

[87] Mae rhai o'r prif bwyntiau yr wyf eisiau canolbwyntio arnynt ynghylch y syniad hwn o Gymru fel partner. Yn y cytundebau a'r bartneriaeth sydd yn penderfynu ar flaenoriaethau, mae'n hollbwysig fod Cymru yn bartner llawn. Nid wyf yn siŵr sut fydd y Comisiwn yn datblygu'r syniad hwn, ond, yn y gorffennol yn sicr, yr ydym wedi gweld cynigion o'r Comisiwn ar gyfer cytundebau aml-lefel, lle mae'r Comisiwn eisiau cydweithio'n uniongyrchol â'r lefel ranbarthol. Credaf y dylem fod yn gwthio mai Cymru yw'r partner, yn hytrach na Phrydain, er bod rhaid cael cytundeb ar lefel Prydain hefyd.

Some of the main points that I want to concentrate on are regarding the idea of Wales as a partner. In the contracts and the partnership that will decide on the priorities, it is crucial that Wales is a full partner. I am not sure how the Commission will develop this concept, but, certainly in the past, we have seen proposals emerging from the Commission on multi-level agreements, where the Commission wishes to collaborate directly with the regional level. I believe that we should be pushing that Wales should be the partner, rather than Britain, although we will need the agreement on a British level as well.

[88] Credaf fod angen cynllun effeithiol hefyd gyda blaenoriaethau. Yr ydym yn gallu ffitio i mewn i'r blaenoriaethau sydd eisoes wedi'u gosod gan y Comisiwn, ond hoffwn ein gweld yn cymryd mantais o'r potensial enfawr sydd o ran ynni adnewyddadwy a chadwraeth ynni, sydd wedi creu cymaint o waith mewn gwledydd eraill. Wrth gwrs, mae creu swyddi yn un o'r prif flaenoriaethau. Efallai dylid edrych ar beth sydd wedi digwydd mewn gwledydd eraill. Nid wyf yn siŵr i ba raddau mae'r pwyllgor wedi cymryd tystiolaeth o gynlluniau llwyddiannus, neu'n bwriadu gwneud—

I believe that we need an effective plan with priorities. We can fit in with the priorities that have already been set out by the Commission, but I would like to see us taking advantage of the huge potential that exists with regard to renewable energy and energy conservation, which has created so much work in other nations. Of course, creating jobs is one of the main priorities. We could perhaps look at what has happened in other nations. I am not sure to what extent the committee has taken evidence on successful plans, or is intending to—

[89] **Nick Ramsay:** I am going to stop you there, Jill, because, otherwise, you are in danger of answering all of our questions before we have asked them. Thank you for that introduction from both of you, which has fleshed out a lot of the issues that we are concerned about. David Rees, would you like to ask the first question?

[90] **David Rees:** A lot of my questions have been answered already. Before we go any further, we have received information that there was a budget committee yesterday. Is there any update on the issues from that budget committee, given that you are on that committee, Derek, in relation to the funding and any implications that it may have for structural funds?

[91] **Mr Vaughan:** We concluded the discussions on the 2012 budget last Friday, after a 15-hour meeting. The increase in the budget for next year will be around 2 per cent, but the highest increases will go to things like convergence policy. Convergence funding, I think, will get an increase of about 8 per cent next year. However, more importantly as far as our discussions today are concerned, we are still discussing the next round of funding from the EU post 2013. The Commission and Parliament are currently proposing an increase of 5 per cent in that budget post 2013. A number of member states, including the UK, are calling for a freeze, or at least a freeze in real terms, so that the increase is lower than inflation.

[92] As far as the cohesion policy itself is concerned, under that particular heading, the proposal for the next round of funding is largely to have a freeze in the overall budget. If you look at the figures that the Commission has put in, you will see that they are about the same as the figures that we have in this current seven-year period. So, it is largely a freeze for cohesion policy that is being proposed at the moment.

[93] **David Rees:** Is the eurozone crisis having an impact upon those visions and views?

[94] **Mr Vaughan:** No, not in terms of the EU budget. The budget only contributes—I say 'only'; it is about €60 billion, which is a lot—a relatively small part of any bail-out mechanism. However, where it is having an impact is that member states are now a bit more reluctant to pay into the EU, because they say that they have austerity measures at home—for example, they are cutting back on public spending—and, therefore, they do not want to put more money into the EU budget. So, that is having the biggest impact at the moment.

[95] **David Rees:** As I said, you have answered my first question. You have given us your viewpoint, but what is the situation with regard to the viewpoint of representatives of other member states? What is the general view in the Parliament as to the proposals?

[96] **Mr Vaughan:** At the start of the negotiations, it was proposed by some member

states to repatriate cohesion policy altogether—including the UK Government. I say that not for party political purposes, because when my party was in power, we had exactly the same policy to repatriate regional policy. That has had a large backlash from a number of member states and regions across the EU. The key to it all was when the German regions, the länder, opposed that and went to their Government to say, ‘No, we believe in a strong EU policy and that all regions across the EU should benefit from the structural funds’. So, that turned things and, since then, the UK Government has accepted that it is not going to win that argument, certainly not in this current round. So, we know now that we have won a victory there and that all regions across the EU, including east Wales, which is important to us, will get something post 2013.

[97] **David Rees:** The next questions that I have are on the partnership contracts, but I will leave those.

[98] **Alun Ffred Jones:** A yw'n debygol y ceir consensws yn Senedd Ewrop ynglŷn â'r cynigion ar gategoriâu rhanbarthau? **Alun Ffred Jones:** Is it likely that there will be a consensus in the European Parliament on the proposed categorisation of regions?

[99] **Ms Evans:** Fel dywedodd Derek, yr wyf yn cymryd bod y brif frwydr ynglŷn ag a fydd pob rhanbarth yn cael ei gynnwys wedi'i hennill erbyn hyn, felly yr wyf yn meddwl bod consensws. Yr oedd rhai o'r rhanbarthau nad oeddent wedi'u cynnwys yn y ffigurau canran yn ôl pob categori wedi llobio'n galed i gael eu cynnwys i newid y ffigurau. Nid wyf yn credu y bydd yn newid; mae pawb bellach yn derbyn y sefyllfa. **Ms Evans:** As Derek said, I think that the main battle as to whether every region will be included has now been won, so I believe that there is a consensus. Some of the regions that were not included in the percentage figures in each category lobbied very hard to be included to change the figures. I do not think that it will change; everyone now accepts the situation.

[100] **Alun Ffred Jones:** A fydd y ffigurau cynnyrch mewnwladol crynswth yn seiliedig ar y categorïau hynny dros y tair blynedd? **Alun Ffred Jones:** Will the gross domestic product figures be based on these categories over the three years?

[101] **Ms Evans:** Byddant, yn ôl yr hyn a ddeallaf. **Ms Evans:** Yes, as I understand it.

[102] **Mr Vaughan:** Yes, we have already had the three years: 2006, 2007 and 2008. In each year, the GDP of west Wales and the Valleys has been less than 75 per cent of the EU average. So, it is great that we can have structural funds again, but we would obviously like to see some growth as well. Based on those benchmark years, it looks like west Wales and the Valleys will qualify for the top tier of assistance again.

[103] There is a slight debate going on at the moment regarding the second tier, or the transitional regions as they are called. They will include regions that are dropping out of convergence as well as regions that will have a GDP of between 75 and 90 per cent of the EU average. Some regions do not like that idea; they believe that, by introducing the new second tier of assistance, the money will be spread too thinly across the EU. They would prefer to have just the top tier and to ensure that, in the future, money only goes to the most deprived regions of the EU. There is a slight debate going on regarding that issue, but, at the end of the day, the three tiers that have been suggested will remain in place.

[104] **Keith Davies:** Beth yw'r perygl y bydd y Cyngor Ewropeaidd yn ceisio gwneud arbedion yn llinellau cyllideb y cronfeydd strwythurol yn y trafodaethau ar y fframwaith **Keith Davies:** What is the danger that the European Council will seek to make savings in the structural funds budget lines in the negotiations on the financial framework for

ariannol ar gyfer 2014-20? Pa effaith y gallai hynny ei gael ar Gymru?

2014-20? What impact could that have on Wales?

[105] **Ms Evans:** Yr ydym eisoes yn gwybod bod Llywodraeth Prydain wedi dweud bod gormod o arian yn mynd i'r cronfeydd; mae'n awyddus i weld toriad llawer mwy. Byddai hynny'n effeithio'n wael iawn ar Gymru achos, fel sy'n digwydd bob tro, mae'r Comisiwn wedi cyflwyno cynlluniau uchelgeisiol a manwl iawn ac mae gennym agenda Ewrop 2020 i'w dilyn ar yr un pryd. Os ydym am gyflawni popeth sydd ar yr agenda honno, mae'n rhaid inni gael yr arian i wneud hynny. O safbwynt Cymru, yr ydym yn cael yr arian hwn sydd yn creu swyddi a chryfhau'r economi; nid ydym wedi llwyddo eto i'r graddau lle nad oes angen y cronfeydd arnom, ond mae'r arian yn helpu ein heconomi, felly byddai'r effaith yn ddrwg iawn ar Gymru. Dyna beth fydd y brif frwydr gyda'r gyllideb, achos mae Cymru mewn sefyllfa hollol wahanol i Brydain yn hyn o beth.

Ms Evans: We already know that the British Government has said that there is too much money going into the funds; it wants to see a far greater cut. That would have a very detrimental impact on Wales because, as always happens, the Commission has presented very ambitious and detailed plans and we have the Europe 2020 agenda to follow simultaneously. If we want to achieve everything on that agenda, we need the funds to do that. From Wales's perspective, we are receiving this money that creates jobs and strengthens the economy; we have not succeeded yet to such an extent that we do not now need those funds, but it is money that assists our economy, therefore, that would have a very detrimental impact on Wales. That will be the main battle in terms of the budget, because Wales is in an entirely different situation to Britain in this regard.

[106] **Keith Davies:** A oes barn bendant yn dod i'r amlwg yn Senedd Ewrop ynglŷn â'r fframwaith ariannol newydd hwn?

Keith Davies: Is there a clear view emerging in the European Parliament on this new financial framework?

[107] **Mr Vaughan:** I will come back to that in a second, Keith. I will give you an example of what happened last Friday in the budget negotiations where, as I said earlier, we agreed on a 2 per cent increase in the 2012 budget. However, the Commission says that that will not be enough to meet the bills that are coming in to pay for structural fund projects that are taking off now. It reckons that, in 2011 alone, the cohesion policy and the research and development budgets will be underfunded by €1.6 billion and, with a 2 per cent rise from next year, it estimates that the shortfall will be €8 billion. There are some dangers in that for all the structural projects across Wales. It is great to say that we have a low increase in the EU budget, but, if it is not enough money to pay for projects—many of those projects have already been committed to, the contracts issued and the bills are now coming in—there might not be enough money in 2011, and certainly not in 2012, so that is a big financial issue for us. In terms of the next round, the Parliament is not united with everybody saying the same things—there is quite a big division there—but the Parliament's view is that there should be an increase of 5 per cent in the next multi-annual financial framework, while the Council is saying 2 per cent, and some member states want to go even lower than that. However, even with a 5 per cent increase, the cohesion policy budget is pretty static. When you take out the €10 billion that is going to this new connecting Europe fund, it is a smaller budget than we currently have.

2.30 p.m.

[108] **Ms Evans:** Gan fynd yn ôl at gwestiwn cynharach, yr hyn sydd yn digwydd ar yr un pryd yn awr yw, yn ogystal â'r diffyg arian ar gyfer biliau'r flwyddyn nesaf a'r flwyddyn ar ôl hynny, bod popeth

Ms Evans: To return to an earlier question, what is happening at the same time now is that, in addition to the shortage of funding for next year's bills and the following year's bills, everything is slowing down because of

yn arafu achos yr ansicrwydd ariannol. Felly, mae prosiectau yn arafach yn cael eu datblygu a'u gweithredu. Mae perygl y byddwn ar ein colled oherwydd yr ansicrwydd a'r ffaith nad yw'r gyllideb yn ddigonol; ni fydd y Llywodraethau'n fodlon rhoi arian i mewn iddynt os nad ydynt yn sicr o gael yr arian yn ôl.

the financial uncertainty. Therefore, projects are slower to be developed and implemented. There is a danger that we will lose out because of the uncertainty and the fact that the budget is not sufficient; Governments will not be willing to put in the money unless they are sure of getting the money back.

[109] **Keith Davies:** Gall hynny effeithio ar ein gwariant ni yma. Mae'r prosiectau yma yn dibynnu ar arian Ewropeaidd.

Keith Davies: That could affect our spending here. The projects that we have here depend upon European funding.

[110] **Ms Evans:** Cyn 2013 mae hynny. Bydd hyn yn digwydd flwyddyn nesaf.

Ms Evans: That is before 2013. This will happen next year.

[111] **Christine Chapman:** Derek and Jill, you mentioned the partnership contracts earlier. I know that there have been a lot of discussions about them in terms of their potential to encourage much greater centralisation. Can you spell out the risks for us in Wales and what could happen as a result? What are the risks of these contracts?

[112] **Mr Vaughan:** The partnership contracts are one example of where the focus at the moment is very much on the contracts between the Commission and member states. Another example is that, when we do regulations, there will be a possibility for member states to transfer up to 2 per cent of the funds from one tier to another; in other words, from the top tier to the second tier or the third tier. However, it says that member states can do that, so, there are a number of other examples.

[113] In terms of partnership contracts, there is some concern, but I think that it will probably be sorted out. For example, at the moment, we and the Welsh Government are having discussions with the Commission about the possibility of having a Welsh chapter in the partnership contract. I do not think that we will get a separate Welsh partnership contract, but there is a strong possibility that we will get a separate Welsh chapter. We are arguing for that at the moment.

[114] **Ms Evans:** That is the vital thing, that Wales is the partner in effect, if not in strict legal terms—the UK would have to be the partner—and that the decisions are made between Wales and the Commission.

[115] **Christine Chapman:** Do you think that the UK Government is listening to this dialogue? At the end of the day, it is about Wales knowing what the best solutions for its citizens are and being closest to the citizen. Does more need to be done on that?

[116] **Mr Vaughan:** The discussion is at quite an early stage, and I certainly have not picked up any feedback yet, but I would assume, if the UK Government has any sense, that it would have a Welsh chapter, because I am sure that the UK Government, whatever its political persuasion, will not want to say to Wales, 'These have to be your priorities'. It should leave it up to Wales to decide what its priorities are.

[117] **Ms Evans:** In fact, the UK Government has just done a first briefing on this, in which it says that it wants to be reassured that the partnership contract is not excessively bureaucratic and burdensome. So, if there is a means by which it will not have to engage in the process fully itself, it would be helpful for the UK Government and in the interests of Wales.

[118] **Nick Ramsay:** We have a couple of questions now on conditionalities and an outcomes-focused approach from Eluned Parrott.

[119] **Eluned Parrott:** We have heard evidence that the Commission is hoping to move from an input-and-output-based approach to managing and implementing the structural funds to an approach that is much more focused on the outcomes and results that the funds are able to achieve. What is your view on this shift in approach and how much support is it likely to have within the Parliament as a whole?

[120] **Mr Vaughan:** There is some support for some conditionalities, but there is some concern about some others as well. So, I do not think that there is an overall view that says that all conditions are bad or all conditions are good. The biggest concern at the moment is about the macro-economic conditionality. I mentioned that briefly in my opening remarks. The Commission is now saying that if member states do not meet the targets set in the growth and stability pact on debt and deficits, it could suspend or cancel structural fund payments altogether. To me, that seems an absolute nonsense, first, because it is not the region's fault if member states are not meeting their targets, and, secondly, it seems daft, if a region or a member state is suffering economically or financially, to take even more money off it, particularly money that is aimed at improving the prosperity in that region. That is the biggest concern at the moment. The Commission is sticking to those proposals, but, as I said earlier, this is a co-decision now, so even if the Commission proposes that and Council agrees to it, it has still got to get through the Parliament. It is our job to table amendments to get things such as this changed.

[121] **Eluned Parrott:** It is worth telling you that the UK Government in its explanatory memorandum on the EU structural funds has said that these macro-economic conditionalities would not apply to the UK, which, de facto, would mean Wales would not be affected. Do you think that that is a correct interpretation?

[122] **Ms Evans:** In the video-conference last week, the Commission spokesperson was not sure whether that was the case. So, I do not think that we have had a definite answer on that.

[123] **Mr Vaughan:** It is probably something that the UK is going to argue for, but we have not heard from the Commission yet that that is what we will get.

[124] **Eluned Parrott:** I would like to go back to the issues of monitoring and control and the sorts of measurement processes for moving to an outcomes-focused approach. What are your views of the proposals as we understand them to introduce ex-ante and ex-post conditionalities as well and to introduce those monitoring frameworks that have not existed previously? What challenges do you think they will present, and how much support do you think there will be for this change of focus?

[125] **Ms Evans:** We have done quite well in Wales in the past. One of the main complaints I have—that we have as MEPs—is that the monitoring and all of the bureaucracy are too burdensome. There are some proposals under the simplification procedures for scaling that down for smaller projects, which is good. However, with regard to the detail of the proposals being put forward now, this is something that we need to discuss more with you and with the other partners involved from Wales, based on Wales's past experience.

[126] **Mr Vaughan:** If there is any support for these further conditionalities, it is for the ex-ante conditionality. I think that most people would accept that, if we have an Europe 2020 strategy, before we fund a project, for example, the target should be put in place to help us meet the overall targets. I think that people would largely go along with that. Some of the other stuff is more problematic—the macro-economic issue that I mentioned earlier and even the performance reserve, where the suggestion is to top-slice 5 per cent of the funds, keep that

back until the mid-term review and then decide where the performance reserve goes. There is an issue there for me as well. What are the criteria? Who decides? Where would it go?

[127] **Ms Evans:** It will be too late in the programme at that stage for that money to be spent effectively.

[128] **Byron Davies:** We are told that the future operational programmes will be required to focus on a limited number of priorities, requiring political choices at national and regional levels to determine these. What is your view of the proposed thematic concentration, which would mean minimum thresholds set in operational programmes for funding to be spent on a number of core priorities?

[129] **Mr Vaughan:** I think that the proposal is to have 11 priorities in total, and each of the programmes would have their own number. ESF, for example, would have at least four thematic priorities. Again, it goes back to what I was saying earlier about the Commission being determined this time to focus structural funds on outcomes and, in particular, meeting the targets in the Europe 2020 strategy. So, it has all of these in place. A few issues come out of that. First, we have to ensure that Welsh priorities are recognised when we put these things together; that is the key for us. I am also concerned about earmarking, and reducing the amount of flexibility that regions have to set their own priorities. The priority in Wales, for example, will be different from that elsewhere in the UK, and, indeed, Europe. So, that reduction in the flexibility that we have is probably my main concern about it all.

[130] **Christine Chapman:** I want to ask about the thematic approach. When we looked at the Europe 2020 strategy and the last structural funds programme there was less emphasis on poverty and social exclusion than in this one. Will this framework have more chance of achieving in those areas? Even when the economy was doing better some years back, there were still communities left behind in poverty. Will this new framework increase our chances of success in that area?

[131] **Mr Vaughan:** One of the four thematic priorities in the ESF is social inclusion and poverty, and the suggestion is that at least 20 per cent of the funds go to that priority. In some ways, that will help, because we know now that at least 20 per cent of the money will go to it. However, the big question for us—no doubt you will want to look at this in future—is how exactly we will spend this money post 2013. We all accept that we will get it now, and in this round we have had about £2 billion of structural funds, so we will perhaps get the same next time, and we need to start thinking about how we will spend it—are we going to put more money into the kind of thing that you have described, or should we be putting more money into large infrastructure projects? That is a debate that we need to have in Wales, and I think that the Welsh Government is aware of that, and has set up some sort of panel or task and finish group to start looking at that issue.

[132] **Christine Chapman:** It is about a balance, is it not? You talk about growth, but it is also about a balance with regard to poverty, because you might get growth, but, if you still have communities left behind, it is not good for them and it is not good for all of us. Do you feel that the balance will be better this time? I know that we have to have these discussions across various tiers of government, but—

[133] **Mr Vaughan:** There is a move in the EU—I detect it in Wales as well—to perhaps put more structural funds into large infrastructure projects, so that they have a bigger impact. If we spend money on large projects, whether it is roads, railways, broadband or energy networks, that creates jobs straight away and also improves competitiveness in the future.

[134] **Nick Ramsay:** Before I bring Joyce Watson in, you mentioned that we are still at 75 per cent of the EU average GDP per capita, and previous rounds of structural funds have not

really altered that. Is there a real drive within Brussels—not just within Wales, but in other areas of Europe as well—to make sure that the money is targeted on the sort of projects that you are talking about, so that, in five or 10 years' time, we rise above that figure of 75 per cent?

[135] **Mr Vaughan:** Absolutely, and that is why it is more outcome-based, and we have more targets being put in place. The other side of the coin is that we will have less flexibility in places like Wales to determine how we want to spend the money. We will have some flexibility, but it will be within narrow parameters. The Commission is determined that, in the future, across the EU, if we are spending something like €350 billion on structural funds, then they need to have an impact—especially these days, when we are really struggling for jobs and growth across the EU.

[136] **Ms Evans:** The pressure from the Commission to do that is more intense because of this debate that was had at the beginning as to whether all member states and regions should qualify. The Commission put the case strongly that they should, because of areas of poverty like west Wales and the Valleys. Now the Commission really has to prove that this kind of regional targeting is an effective way of overcoming those very deep-seated problems.

[137] **Nick Ramsay:** So, even if it is a very poor area, the question is whether spending that money will get the desired outcome.

[138] **Ms Evans:** Yes.

2.45 p.m.

[139] **Joyce Watson:** You have already touched on this, Derek, when you talked about proposals to align priorities with the Europe 2020 strategy, including priorities that were set by the UK national reform programme? Do you think that that approach will receive support within the European Parliament? How will adjustments be made to operational programmes and partnership contracts to take into account country-specific recommendations? I know that you have started to talk about it, but is there anything that you would like to add?

[140] **Mr Vaughan:** The first thing to say is that the European Parliament was involved in putting together the EU 2020 strategy. Although it was proposed by the Commission, it was agreed by the Council and by the European Parliament. It is our strategy as well. So, when we come to discuss structural funds and how they can help to meet this target, the Parliament is going to be largely, or fully, on board with that—they are our targets as well.

[141] **Julie James:** Both of you have talked a little about the ring-fencing and the lack of flexibility, and you are clearly quite worried about how that will work. In terms of the sustainable urban development ring fencing, our understanding from previous witnesses is that that is likely to happen at a UK level. So, I have two separate questions. Do you think that they are going to hang on to it—do you think that we will get any part of it, or are they going to say that urban developments are for cities of more than 1 million people? Secondly, is it the implication that the other 95 per cent is for rural funding? How do you see that working out? There does not seem to be ring fencing for rural development—or 'non-urban', as I suppose I should call it. I am not quite sure how that is meant to work. Again, I have the same question that you have been answering all the way through, namely, what sort of support do you think there is for these proposals, and how likely are they to go ahead?

[142] **Mr Vaughan:** Certainly, Commissioner Hahn is keen on this; in every speech he makes he talks about urban areas, cities or city regions being the key economic driver. It has been there for some time, so it came as no real surprise that, when they produced their proposals, they suggested top-slicing this 5 per cent of funds to go to urban areas. For a long

time, they were very reluctant to define what an urban area was. Our argument was, again, along the lines of having the flexibility to say that we should allow the regions themselves to define urban areas. We certainly did not want London defining it, because, if the UK was given only so many cities, it would be highly unlikely that Wales would get many in that.

[143] What they are saying at the moment is that they think that there should be 300 cities across the EU, and that each member state should have a maximum of 20 cities. At the moment, it is still very much focused on the member state, but I think that this is one of those things that will be discussed in the Parliament, and people will be putting down amendments. Some will put down amendments to get rid of it altogether, because they believe that it is another example of too much earmarking, but others will put down amendments asking not to have any strong, central definition of an urban area or city, leaving it to regions to decide for themselves. If we have 5 per cent earmarked for that, we can decide on what an urban area is for ourselves—it could be south-west Wales, south-east Wales or wherever.

[144] **Leanne Wood:** Good afternoon, both of you. Do you have any indication at this stage of the likely time frame for consideration of the structural funds programmes within the European Parliament? When do you expect the initial draft reports to be prepared? Also, are you able to tell us when you think we as a committee could most usefully have an input into this debate?

[145] **Mr Vaughan:** Regional development committees have already started to discuss this; in fact, we had the first debate yesterday. Already, two rapporteurs have been appointed to lead the discussions—one from the Progressive Alliance of Socialists and Democrats and the other from the European People's Party. They came forward yesterday with more questions than answers, because this was at the start of the debate, which dealt with many of the things that we have been discussing today, to try to identify the issues from the Parliament's point of view. So, the process has started, and the complicating factor will be that it is going to run concurrently with the discussions on the next EU budget. I therefore expect it to be about 18 months before we get any firm conclusions from the debate on cohesion policy. Even then, we will have the framework, so we will know what it will look like, but I think that we will have to wait until we see what the EU budget will be before we put numbers to it. As I said earlier, if the budget is frozen or decreased, we will not have a lot of money to spend on cohesion policy. So, we should be able to do that in about 18 months' time.

[146] **Leanne Wood:** Will it be the same with regard to this committee having an influence on the process? That is, will it be in 18 months' time, or earlier?

[147] **Mr Vaughan:** There is no reason why you should not start to try to have an influence now, because the process is only now starting to go through the European Parliament. We will be talking about it, putting down amendments, and trying to change things ourselves. Going back to the point that I made earlier, much of the time, people still focus on what the Council of Ministers has to say, but that is only 50 per cent of the equation. The Parliament will have a view and will be able to shape the future of cohesion policy. So, you need to talk to MEPs.

[148] **Ms Evans:** In January, the common strategic framework is due to be published, so different things will come from the Commission over the course of the next year. So, we all need to work together from now on.

[149] **Nick Ramsay:** Are there any other ways in which you think this committee could provide an effective contribution to the draft legislative proposals, beyond the inquiry that we are undertaking at the moment?

[150] **Ms Evans:** No. This is the best way to start to gather all of the information and decide on priorities quite early on. As MEPs, we can put down amendments and vote in

committees and in Parliament. You know already that the four of us work together on issues like this, where the interests of Wales are paramount. We have discussed this to a certain extent already. There are differences on the budget, but in terms of the—

[151] **Mr Vaughan:** Yes, the other two members said something different on the budget.

[152] **Ms Evans:** Yes.

[153] **Nick Ramsay:** There are often differences on budgets, in my experience, whatever the legislature.

[154] **Ms Evans:** So, we can work very closely with you. However, as I mentioned earlier, it is worth looking at certain projects in other regions that we might want to look at in order to see how successful or unsuccessful they have been. I think that we could help out with that work. If you would like some information on best practice from other regions, from the people we work with in Parliament, then we could provide that, too.

[155] **Mr Vaughan:** Lobbying is very much a part of the game in Brussels—probably a lot more than it is here. So, it is important that, as well as keeping in contact with us—and, obviously, you will give us a copy of your report when your inquiry is concluded and we can perhaps put down amendments if you have any good suggestions—it is important to talk to the other people of influence, namely the two rapporteurs whom I mentioned earlier, because they will lead the report through the Parliament and lead negotiations with the Council. The Welsh Government Minister is meeting the two rapporteurs shortly. The Commission is also important, because it is the Commission that makes proposals—we decide on things, but it is the Commission that proposes ideas. So, you should concentrate on lobbying some of the key MEPs, the Ministers and the Commission. It might not be a bad idea for someone to go to Brussels to do some of that lobbying face to face, because that is what works there.

[156] **Ms Evans:** The Committee of the Regions will also be important, and the National Assembly for Wales has members on that committee. Within the Parliament, there are various networks, which have been meeting for some time. These are mainly made up of representatives from areas that will receive funding in the future to co-ordinate our lobbying. So, there is another option there to work with other member states.

[157] **Nick Ramsay:** I have just been reminded that the Finance Committee is also looking at the current programmes, so they are not just being considered by this committee. That is the end of the set questions; do Members have any further questions that they would like to ask? I see not. Therefore, I thank Derek Vaughan and Jill Evans for coming here today. It has been a very useful session. I know that you have very busy schedules, so thank you for coming in to feed into our inquiry. It is important that we make the best possible contribution to the debate. With that, I close this session.

*Daeth y cyfarfod i ben am 2.54 p.m.
The meeting ended at 2.54 p.m.*