



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

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 29 Chwefror 2012
Wednesday, 29 February 2012

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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

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour
Ieuan Wyn Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Alun Davies	Aelod Cynulliad, Llafur (Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd) Assembly Member, Labour (The Deputy Minister for Agriculture, Food, Fisheries and European Programmes)
Berwyn Davies	Addysg Uwch Cymru, Brwsel Wales Higher Education, Brussels
Yr Athro/Professor Richard Davies	Addysg Uwch Cymru Higher Education Wales
Damien O'Brien	Cyfarwyddwr, Swyddfa Cyllid Ewropeaidd Cymru Director, Wales European Funding Office
Peter Ryland	Dirprwy Gyfarwyddwr, Perfformiad Rhaglenni a Chyllid, Swyddfa Cyllid Ewropeaidd Cymru Deputy Director, Programme Performance and Finance, Wales European Funding Office
Julie Williams	Addysg Uwch Cymru Higher Education Wales

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

Linda Heard	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Tom Jackson	Clerc Clerk
Ben Stokes	Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 9.29 p.m.
The meeting began at 9.29 p.m.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** Good morning, committee. Headsets are available as usual if you need them; the translation is on channel 1 and channel 0 can be used for amplification. I remind everyone to switch off their electronic devices, particularly mobile phones, as they interfere with the broadcasting and translation equipment. This is a formal meeting, so you will not need to operate the microphones yourselves. We are not expecting a fire drill, so if you hear an alarm it is probably a genuine emergency, and we will have to follow the directions of the ushers. I have not received any apologies for this meeting.

9.30 a.m.

Effeithiolrwydd Cronfeydd Strwythurol Ewropeaidd yng Nghymru—Addysg Uwch Cymru Effectiveness of European Structural Funding in Wales—Higher Education Wales

[2] **Jocelyn Davies:** We have with us Higher Education Wales. Thank you for attending and for your paper. Would you like to introduce yourself for the record? You may also have some introductory comments.

[3] **Professor Davies:** My name is Richard Davies. I am the vice-chancellor of Swansea University, but I am here representing Higher Education Wales.

[4] **Mr Davies:** Good morning. My name is Berwyn Davies, head of office at Wales Higher Education Brussels.

[5] **Ms Williams:** Good Morning. I am Julie Williams. I work at Swansea University as senior external funding officer.

[6] **Jocelyn Davies:** Thank you. Do you have introductory remarks or would you like to go straight to questions?

[7] **Professor Davies:** I would like to make a few introductory remarks if I may, Chair. First, I would say how welcome it is to be able to speak to this committee and talk about something that is very dear to our hearts in higher education, namely the structural funding programme.

[8] I want to emphasise from the outset that we feel that universities in Wales are still an underutilised resource in transforming the Welsh economy. We think that we have capacity and capability that is not yet being fully exploited. We recognise a responsibility across higher education as major bodies that contribute to education, research and wealth creation, by working with industry. We recognise that we have an obligation to contribute directly to the development of the economy. Nevertheless, our core funding is for teaching and research. Therefore, we really can use structural funding effectively, because we have additionality. This allows us to do things that we are not normally funded to do. We can do them by mobilising our teaching and research grants and the very serious expertise that we have in management and delivery. Obviously, we have finance, human resources and procurement departments, so we have the expertise that is needed to be a safe pair of hands in handling major projects. We have project management expertise of the highest quality, because we are used to having to deliver big projects—much of our funding comes in research contracts, which all have to be project managed. So, this is well within our capacity and capability.

[9] I also want to emphasise that, for large strategic projects, because we work a lot with large companies, we can often lever in match funding in ways that many other bodies find difficult. So, I think that we are well placed to make significant contributions. We would claim that we are making serious and significant contributions at present, but we still feel that we are underutilised—for a variety of reasons, some of them relating to the way in which structural funding is organised and some of them possibly due to the way that the whole programme is run from Brussels. That is about to change, and will provide us with new opportunities in the future to do more for Wales.

[10] **Jocelyn Davies:** I notice that, in your submission, you say that the next round of structural funds should shift to a focus on interventions that will have long-term and beneficial outcomes for our economy. Are you, therefore, suggesting that the current round is not focused on long-term and beneficial outcomes?

[11] **Professor Davies:** I think that the fairest answer to that is ‘not entirely’. That is partly because of the requirements of structural funding and its focus on immediate outputs. The term from Brussels is ‘transactional’—they give you money and you produce something. It does not focus on long-term delivery and transformational impact. Of course, all the discussion in Brussels is around the great concern that structural funding investment has not produced the results everywhere in Europe that were hoped for, and that we have to up our game.

[12] **Jocelyn Davies:** How likely is it that the Welsh Government’s stated ambition to use the funds to create sustainable jobs and growth will be achieved?

[13] **Professor Davies:** In the current round, it clearly will not be achieved to quite the extent that everyone would have hoped. I am not putting any blame anywhere; again, it is the way in which the economy has developed. It was necessary, as we all recognise, to divert some of the funding to mitigate the worst impact of the recession in Wales. That was entirely appropriate, but it means that some of the focus then was not on long-term benefit, but on short-term benefit. Our view is that the programme has struggled to deliver strategically on the original objectives and vision of how this round would operate.

[14] **Ann Jones:** It appears from information on the Welsh European Funding Office’s website that Welsh universities are the lead sponsor for about 25 projects, with a combined total value of over £210 million of European funding. Given your concerns regarding the current and future focus of the structural funds programmes in Wales, are you satisfied that the projects led by Welsh universities are capable of delivering long term and beneficial outcomes for the Welsh economy?

[15] **Professor Davies:** You would expect me to say this, but I feel that higher education is an absolute exemplar in sustainability, because we think strategically. It is in our DNA to work long term and strategically. That is what we do with many of the projects. I can give you a number of examples of projects that will still be around in 40 years’ time as a result of funding in the current round. You can look at the gas turbine research centre in Cardiff University that will still be operating in years to come, generating wealth in Wales by working with industry and Sirius Wales. Sustainable Expansion of the Applied Coastal and Marine Sectors—or SEACAMS—based in Bangor is an example of a major development in research capacity and the way that links with industry. That impact will still be there in years to come. The Institute of Life Science at Swansea University will still be incubating small companies and producing improvements in medical care in 40 years’ time. This is what I call sustainability. None of the things that I have mentioned appear as outputs in any of the check lists for European projects.

[16] **Ann Jones:** May I just ask you about Technium OpTIC run by Glyndŵr University on St Asaph Business Park? You cited other projects, but is that the sort of thing that will also have some sort of sustainability? Are there clear outputs from ventures such as this?

[17] **Professor Davies:** I cannot give any precise details. We would have to provide those to the committee afterwards. I am familiar with Technium OpTIC in St Asaph. I have visited it many times and seen exceptionally good work going on. Of course, there is a long history in the optics field in the area, with Pilkingtons for example, which needs to be anchored and preserved. My belief is that the work that is going on by Glyndŵr University there is helping to anchor and, in some ways, restore what has been a very important industrial tradition in that part of the world. That is precisely the sort of thing that I would expect. However, I am sorry that I cannot give you precise details.

[18] **Ann Jones:** That is okay.

[19] **Peter Black:** Welcome, Richard. You mentioned in your paper that the Welsh European regional development fund revenue projects operate under a more challenging definition of jobs created than in other European regions. What impact does that have in practice on project sponsors?

[20] **Professor Davies:** We are still discussing that with WEFO. There are a number of niggling issues, which everyone has all the time with structural funding, about interpreting definitions from Brussels and how they are locally interpreted. WEFO listens but sometimes it has to take time to get it right, because anything that it decides can be challenged by auditors at a later stage. So, I am very sympathetic to WEFO and the difficulties that it faces. That particular issue is a problem for universities, because we still have a distinction between permanent contracts and fixed-term contracts. That is partly because of the huge job security that staff on permanent contracts have in universities, which exceeds what is normally available. However, WEFO rules mean that the fact that we employ many people on externally funded short-term research contracts means that they cannot be counted as permanent jobs. They will be posts and they will be replaced as people move on, we will get more research money, new people will be appointed and they will then progress on to academic careers or careers in industry. There is a turnover, but I would hope that we can resolve that precise issue.

[21] **Peter Black:** Aside from the issue in relation to the 'jobs created' definition for the European regional development fund projects, are there any targets that Welsh university-led projects are finding particularly difficult to achieve?

[22] **Professor Davies:** Oddly enough, one difficulty that we have is that we can provide some of the outputs in projects for which those outputs are not relevant, which means, if they could be counted against other projects, we could over perform. I am thinking in particular of 'jobs created' where, in some of the European social fund projects we have, we are creating long-term jobs through working with companies, but these are not counted because it is not one of the outcomes for that type of funding. Overall, I believe that we will find the 'jobs created' difficult in the current environment. That is the one that we take very seriously, because it is something that is there on the ground and is measurable, but we are not on our own on that.

[23] **Jocelyn Davies:** I know that Mike wants to come in, but I will ask one question. You mentioned that you understood WEFO's caution, and I guess that it does not want to bring the auditors' wrath down on it too heavily. Do you think that it is over cautious about that? How long does it take to get agreement with the auditors that it is okay to count jobs created in the way you describe?

[24] **Professor Davies:** I have to emphasise that auditors also come down heavily on the institutions that have the funding. They can claw back money if there are misunderstandings of difficulties. So, to some extent, we can argue that it is helpful that WEFO is cautious, and we would want it to be a bit cautious. So, there is a slightly different range of views within the universities at the operational end, which have to deal with the difficulties, and at the management end, where I sit, where I have nothing but sympathy when I see the difficulties that WEFO has to deal with. I wonder whether you would like to hear from the operational end on that.

[25] **Ms Williams:** I would say that the main issue is that definitions are open to interpretation. WEFO, at the beginning of the programme, put together these definitions. They are better than what we had under Objective 1, so they have moved on and we have better definitions. However, because they are open to interpretation, it means that one auditor may have one interpretation and another may have another. So, the WEFO auditors may have one idea, and then, when Brussels comes in, they may have a different idea. So, we are always trying to clarify exactly what is meant by these definitions, and that we have that understanding upfront, so that our projects know what is meant by the terminology. For example, 'investment induced' and 'profit benefit' are two challenging outputs for not only us, but other sponsors. It is those kinds of things that we try to pin down in definitions. We would look to other regions to see how they have interpreted them, and then try to work with that to tell our project, 'This is what it means, this is what you must do, and this is the evidence you must capture'. We do this because we are always trying to think about the auditing at the end, perhaps in five years' time, when a project has finished and an audit takes place, and we want to have that evidence to hand.

[26] **Jocelyn Davies:** How long does it take to get clarity for a definition?

[27] **Ms Williams:** Sometimes they are not clarified, and that is the problem.

[28] **Jocelyn Davies:** Right, fair enough. I know that Mike and Chris want to come in on this.

[29] **Mike Hedges:** I would like to return to your paper where you mention that projects operate under a more challenging definition of 'jobs created'. One thing that we like to do is look at how we are doing in Wales compared with other regions. How do we get over that difficulty if people are using different definitions? You mentioned that this includes temporary posts or posts that were not deemed to be permanent. Do they look at the before-and-after position in order to see the number of additional posts and note the difference in the number of people employed? Why is there not a standard European definition that would make life easier for anyone who is trying to make a comparison, as well as for you and for universities in other parts of the European community that also have Objective 1 or convergence funding, and which would mean that everyone is working to the same rules?

9.45 a.m.

[30] **Ms Williams:** I would agree with many of the points you raised. In terms of the definition, we have identified that other regions classify any job with a duration of one year or more as a job created, although the current Welsh definition states that a job created must have no finite duration, and, in the current economic climate, it is difficult to say that a job is permanent. So, as Richard said, our argument is that the jobs that we are counting are the jobs that we feel are going to continue. They are in technology areas within which we are building capacity and which are increasing globally. So, we have made the case that although, on paper, the job can only be for three or four years at the moment, there is an expectation that they will continue. We have drawn on evidence of projects approved under Objective 1 that have continued, such as those related to the Sustainable Expansion of the Applied Coastal and

Marine Sectors project, the WISE network and the Institute of Life Science, where people are still employed. Those areas have grown and brought in a lot more staff. So, we have a narrative to support our approach, but there is still a risk to us that it does not fit neatly with the definition. So, we try to provide as much evidence as we can for future audits, but there is still a risk that we must bear as a sponsor.

[31] **Jocelyn Davies:** Chris, do you want to come in on this point?

[32] **Christine Chapman:** I want to pursue the question about definitions, given that you said that there could be inconsistencies between Brussels and WEFO. Are you convinced that there is an absolute consistency of approach within WEFO itself, because Julie talked about Objective 1 and the fact that people were sometimes frustrated about the length of time officials were taking to get back to them and that they were perhaps trying to understand the inconsistencies? Is WEFO consistent in the approach that it takes to projects?

[33] **Ms Williams:** Things have definitely improved with regard to the information coming out of WEFO. We are bringing our specific issues to the table; it is working hard with us as a sector to try to resolve these issues, but we understand that it also has to deal with lots of other sectors. However, WEFO might adopt the hard line and say, 'This is what the definition means', but when we try to interpret it differently, or to amend it ideally, then that is when there is a little bit of difficulty. However, we are working closely with it.

[34] **Christine Chapman:** Is it almost dependent on who you speak to in WEFO, or are they all singing from the same hymn sheet?

[35] **Ms Williams:** If it is about definitions, we tend to go to someone senior. So, with regard to ERDF we go to Geraint Green, who would then consult with the project development officer. So, we are working closely with people at different levels in WEFO, such as the payment people who interpret things in a certain way, and we ensure that we go to someone senior to get that final decision.

[36] **Jocelyn Davies:** So, there is no confusion in terms of the messages that are coming out of WEFO, but you are saying that would like the interpretation to be more flexible so that the way in which posts are funded in Wales can be compared with how other posts are created in other regions?

[37] **Ms Williams:** Yes, that is right.

[38] **Jocelyn Davies:** You have found evidence that, in other regions, if a post is going to be at least 12 months in duration, it is counted as a permanent post.

[39] **Ms Williams:** Yes, that is right.

[40] **Professor Davies:** To clarify, Chair, because this is important: it is in our interest that WEFO is cautious, because, if Brussels does not agree, we could have money being claimed back in five or six years' time.

[41] **Jocelyn Davies:** Yes, I accept that; you made that point earlier. It has taken us as long to get through this question as it has taken Brussels to make its decision, so we will move on. We take your point that WEFO is cautious for good purpose, given the possible clawback. When we compare ourselves with other regions, we feel that other regions are able to count things that we currently are unable to count. So, a like-with-like comparison, in those circumstances, is not fair. Julie, do you want to move on?

[42] **Julie Morgan:** Yes. You state in your paper that your involvement with structural

funds has been largely positive. Could you expand on that and tell us about the experiences of universities in Wales in applying for support from the current round of structural funds and how efficient you are finding the process?

[43] **Professor Davies:** To take that in a general way, the current round is meant to be more strategic; there is emphasis on larger projects and, therefore, they have taken much longer to process. That has naturally been frustrating for some people involved in developing those projects and working them through, but, on the other hand, it is a considerable workload for WEFO to deal with large projects. So, the additional delays are a direct consequence of that scaling up. In addition, WEFO has had difficulty with staff leaving and being replaced. So, you could say that WEFO is probably under-resourced for some of the scale of the operation that it has to deal with. Some of the delays we experience are because desk officers have moved elsewhere and new people are coming in and being trained up to the job. There are niggling things that we have rumbles about all the time, but my feeling is that that is not the fundamental issue; the fundamental issue is whether these projects are transformational or not.

[44] **Julie Morgan:** You referred to the three years, I think, that it took to get the SEACAMS project going, and a number of universities were involved. Why did that take so long and was that length of time needed?

[45] **Professor Davies:** That is interesting. Each project has its own story. Often, when you are negotiating across several institutions, it is not only who is bringing what match funding to the table, but how you balance responsibility for deliverables, especially as business plans are changing through negotiation with WEFO, and you have to go back and negotiate across universities, so you would expect to have considerable delays. We cannot attribute all that delay to WEFO by any means; I am being honest here. However, again, it is not such a bad thing that universities are working to get it right first, because that is the whole point about projects being strategic; you have to get them right at the beginning.

[46] **Julie Morgan:** Three years seem a long time—is that length of time common?

[47] **Professor Davies:** I think that it was one of the longer ones.

[48] **Ms Williams:** At the beginning of the programmes, there was a new appraisal system, so it took time to get projects approved. We had one of the first European regional development fund projects approved in the Centre for NanoHealth, and that was probably easier because it was focused in Swansea and we had a lot of work that had been ongoing way before the project came to WEFO. However, the system had its pros and cons in that WEFO did a thorough appraisal of projects. It wanted a lot more information from sponsors, a lot more information on methodology and how we had come up with the outputs, which was valuable. That system is better than the one that we had for the previous projects, but maybe it was a little too detailed and it delayed some projects from starting sooner. So, we have taken more time to get projects to the operational stage. It had pros and cons: in some cases, it delayed projects, but others, because they are large, strategic bids, as Richard said, would naturally take a long time to put together.

[49] **Julie Morgan:** Would you say that the process was getting more efficient?

[50] **Ms Williams:** Now that we are way into the system, as projects have gone in later, we definitely understand the system better and WEFO has a system. It just took time to get everything in place. It is definitely more efficient now.

[51] **Jocelyn Davies:** Do you want to come in on this, Paul?

[52] **Paul Davies:** Yes, may I return to what you were saying earlier about the turnover of staff in WEFO? Can you tell us what impact that has had on the consistency of advice that WEFO has given to university project managers and what impact that turnover has had on projects?

[53] **Professor Davies:** I will have to turn to Julie.

[54] **Ms Williams:** Again, because the system was new at the beginning, we relied heavily on the experience of the project development officers at WEFO. We worked with one key PDO who had a lot of experience and knowledge of the projects in the sector. When he moved on, it took a little time for the other PDOs to pick up that knowledge. So, I suppose that it had an impact on the appraisal process. WEFO put resource in as quickly as it could, but we lost some knowledge and expertise, because they are quite technical projects, and it took a while to have an understanding of what the projects were aiming to do in the longer term. I would say that it did have some impact.

[55] **Paul Davies:** Is there more consistency now within WEFO in terms of staffing?

[56] **Ms Williams:** We are working closely with a couple of key PDOs who are well up-to-date on our projects. I think that we have been through that phase and come out the other side.

[57] **Mike Hedges:** What systems do you have in place to show that projects are producing value for money? Are you happy with the assessment procedure that WEFO uses to say whether the projects are providing value for money?

[58] **Professor Davies:** I think that we can demonstrate value for money within the conventional systems that we have for structural funds. We can show efficiency in delivery. I was emphasising earlier the professional resources that we bring to delivery, so we are cost-effective on that, and we are focusing to a large extent on longer term strategic matters that, actually, are not assessed currently in the evaluations. So, my view—and I emphasise that this is very much my personal view, but I say it again and again—is that, in any measure of evaluation, the emphasis on short-term outcomes is a very partial way of evaluating projects. We certainly produce those short-term outputs in higher education, and we can hold our heads up and say that we are delivering as required. However, it is disappointing for Wales that we have not yet got to the point where we can begin to assess more rigorously the long-term impact, and how strategically projects are going to be affecting the economic regeneration of Wales over a much longer period.

[59] **Jocelyn Davies:** Are you happy, Mike? Then we will move on to question 7.

[60] **Christine Chapman:** Richard, you started to touch on the question that I had about monitoring and evaluation. It has been suggested to the committee that there is too much emphasis in the current programmes on monitoring project expenditure at the expense of capturing the quality and impact of interventions. Would you agree with that?

[61] **Professor Davies:** I do not think that I would. I think that financial discipline with public sector funding is absolutely vital. We recognise that in everything that we do. We receive public sector money from a variety of different sources, and we expect to be evaluated thoroughly on it. There is a higher degree of monitoring by WEFO because it has no systems—and it would be very difficult for it to develop systems—that adapt to the nature of the institution that it is funding. If you were devising a monitoring system, you would have a different type of monitoring for high-risk organisations than for larger organisations, which are much lower risk. I do not have direct concerns on that. I do have concerns about what they are measuring, because they are measuring what they have to measure. I think that Brussels

has got it wrong in the past.

[62] **Christine Chapman:** What about the long-term impact? Obviously, the audit would need to be done—I take your point on the expenditure.

[63] **Professor Davies:** Of course, there is not a formal system for monitoring long-term impact. They are measuring and auditing outputs at the end of the project. We certainly discuss with them in the programme monitoring committee ways in which they can get more of a handle on the sustainable nature of the project, because every project has to explain the sustainability features, but, again, that is not an explicit part of any evaluation process.

[64] **Christine Chapman:** You also say in your paper that you would welcome the introduction of widespread, project-led evaluation under the current programme. What would be the benefit of doing that, and what needs to be done to make it happen?

[65] **Mr Davies:** It was a response from the sector, because the paper is based on feedback that we have had from the sector.

10.00 a.m.

[66] There was concern that we need to be looking at the long-term evaluation much more centrally in the current round, particularly in looking towards the future and the post-2013 period, so that we build on what we are doing now, and that the criteria decided for evaluation are those that are most relevant for the following seven-year period. The feedback is that we now need to be looking at those criteria and ensuring that they are the right ones for taking that forward. The sector has benefited already from external evaluation, from the larger projects, and really getting that in the system for the new period is one of the key concerns.

[67] **Christine Chapman:** What do you think of the approaches taken to evaluate specific university-led projects at the moment? Is there room for improvement, or is it just right?

[68] **Ms Williams:** A positive part of the current programme is the need for any major project of over £2.5 million to have an external, independent evaluation. Under the old programmes, as you say, evaluation was very much focused on financial reporting; there was not even a need for any report of activity, which is really surprising for these large strategic projects. It was just focused on finances, really, and the auditing was very much focused on that. So, it is good to see that, under this programme, they have encouraged projects to build in resource to bring in external evaluators. We have just had one mid-term evaluation report produced on our Centre for NanoHealth, which is going in to WEFO today. It has already picked up on some really useful pointers for us to see, first of all, how to refocus the existing project on the needs of companies, and by going out to interview the SMEs themselves it has found out how they are benefiting from this project and what they need. That is being done by somebody who is independent and it is really helpful. We are certainly going to act on those things as universities. As Berwyn said, WEFO will then look at the overall pointers coming out.

[69] **Christine Chapman:** I have one final question. Is this consistent with other regions as well? Would they have to do exactly the same, or is it something that we would have decided to do?

[70] **Ms Williams:** I am not sure, to be honest. I do not know whether that is happening across Europe. It is new for us, with this programme.

[71] **Christine Chapman:** You do not know whether this is done at the Wales level or the UK level, or whether it could be done in other regions of the European Union, do you?

[72] **Ms Williams:** I am not sure, sorry; I do not know.

[73] **Mr Davies:** We could check.

[74] **Ms Williams:** Yes, we can look into that.

[75] **Christine Chapman:** Okay, thanks.

[76] **Jocelyn Davies:** Ieuan, would you like to come in on your questions?

[77] **Ieuan Wyn Jones:** Mae nifer o'r cyrff sydd wedi rhoi tystiolaeth i ni yn dweud mai un o'r problemau gyda'r prosiectau yn y dyddiau cynnar oedd problem gyda'r prosesau caffael. A fedrwch ddweud wrthym am eich profiad fel prifysgolion gyda'r prosesau hynny, a beth yn arbennig oedd y sialens a oedd yn eich wynebu, os o gwbl?

Ieuan Wyn Jones: Several organisations that have given evidence to us have said that one of the problems with the projects in the early days was to do with the procurement process. Can you tell us about your experience as universities of those processes and the particular challenge that you faced, if there was one at all?

[78] **Professor Davies:** I am very much aware that procurement is a huge issue across the programmes. We have lengthy sessions on this in the programme monitoring committee, at every meeting. It seems to cause considerable stress. We are not totally immune to that, but it is much less of an issue in higher education, because we are funded as institutions in our own right. We work a lot with industry, but we are supporting SMEs, which do not raise state aid challenges and so on. There are occasions, on capital funding and so on, when we have to be able to demonstrate proper procurement regimes, but we have those in place anyway. We have to work to public sector procurement requirements, and we are used to the very onerous conditions.

[79] **Ieuan Wyn Jones:** Un o'r materion sy'n dilyn o hynny yw bod nifer y prosiectau sy'n cael eu harwain gan y sector preifat yn isel iawn—mae'n llai na 5% o'r prosiectau, mewn gwirionedd. Credaf fod 260 o brosiectau, gyda rhyw 10 ohonynt yn cael eu harwain gan y sector preifat. O'ch profiad chi, a fydech yn dweud bod y prosesau caffael hyn wedi bod yn broblem i'r sector preifat? Rydych yn gweithio gyda'r sector preifat ar nifer o'ch prosiectau chi.

Ieuan Wyn Jones: One of the issues following on from that is that the number of private sector-led projects is very low—it is below 5% of the projects, actually. I think that there are 260 projects, and around 10 of them are led by the private sector. From your experience, would you say that these procurement processes have been a problem for the private sector? You are working with the private sector on a number of your projects.

[80] **Professor Davies:** They certainly claim that, but, of course, we are working with the SMEs all the time, and most of our projects have very considerable involvement by SMEs. We make life easy for them, because we have taken all of that procurement activity away and they are either subsidised or supported totally in the consultancy, the research and development, and the help and assistance or the training that they get from the universities.

[81] **Ieuan Wyn Jones:** I ddilyn ymlaen o'r pwynt hwnnw, o dan y system newydd, sef cronfeydd strwythurol wedi 2014 a Horizon 2020, bydd lot o bwyslais ar helpu busnesau bach. A ydych yn teimlo, o'ch profiad chi, bod angen ystwytho rhywfaint ar y broses gaffael er mwyn cael cwmnïau bach

Ieuan Wyn Jones: To follow on from that point, under the new system, namely the structural funds post 2014 and Horizon 2020, there will be a lot of emphasis on helping small businesses. Do you feel, from your experience, that there is a need to be more flexible in the procurement process in order

mwy i mewn yn y drefn?

to get small businesses back into the system?

[82] **Professor Davies:** My answer is a continuation of what I was saying earlier. From the university angle, we can work very comfortably with industry with very few overheads to the industry. They can get direct support, subsidised or at no cost at all to them, without having to deal with the bureaucracy and procurement requirements. So, we help them through that. Working on their own, they would have considerable difficulty. However, there is a broader issue here. SMEs are critical—and I have these discussions in Brussels as well as in Wales—but SMEs on their own will not transform the Welsh economy. What is important is working in various ways with larger companies, getting more of the larger companies working in Wales, getting more activity in Wales, and linking the SMEs through supply chains to those larger companies. Some of the successful projects have got the larger companies involved. They are not direct beneficiaries of the European funding because of the state aid rules, but they are very pleased to see activities that are strengthening their supply chain companies. That is another advantage of strategic projects: universities can create those links.

[83] **Ieuan Wyn Jones:** Mae arnaf ofn, Gadeirydd, ein bod wedi agor testun a allai fynd tu hwnt i gylch gwaith ein hymchwiliad. Hoffwn drafod hynny, ond nid oes amser gennym i wneud hynny. Hoffwn fynd yn ôl at rywbeth y dywedoch ar ddechrau'r sesiwn, sef eich bod yn teimlo nad oedd y cronfeydd strwythurol presennol, o bosibl, yn gallu delifro newid trawsffurfiol—credaf mai '*transformational*' oedd y gair y bu ichi ei ddefnyddio—a bod posibilrwydd y bydd cyfle gwell i wneud hynny gyda'r cronfeydd newydd wedi 2014, a fydd â synergedd gyda Horizon 2020. Rydych yn sôn yn eich papur am gryfhau'r allbynnau ar gyfer arloesedd rhanbarthol, fydd yn rhan bwysig o Horizon 2020. O'ch profiad chi o'r rownd bresennol o gronfeydd strwythurol, sut y gallai pethau fod yn well o dan y drefn newydd er mwyn inni gael y math o newid trawsffurfiol y bu ichi sôn amdano?

Ieuan Wyn Jones: I am afraid, Chair, that we have touched on a subject that could exceed the remit of our inquiry. I would like to discuss that, but we do not have time to do so. I would like to go back to something that you said at the beginning of the session, namely that you do not, perhaps, think that the current structural funds can deliver transformational change—I think that '*transformational*' was the word that you used—and that there is a possibility that there would be a better opportunity to do so with the new funds after 2014, which will have synergy with Horizon 2020. You mention in your paper the strengthening of the regional innovation outputs, which will be an important part of Horizon 2020. From your experience of the current round of structural funds, how could things improve under the new regime in order to give us the kind of transformational change that you mentioned?

[84] **Professor Davies:** It is increasingly important to understand the potential links between structural funding and Horizon 2020, which is currently called framework funding. The main distinction is very simple: structural funding is about improving capacity, building up permanent capacity in different ways, whereas the Horizon 2020 framework funding is about funding specific projects. Those are, of course, totally complementary, because if you are increasing capacity, you want to use that capacity and ensure its sustainability. You do that by increasing your draw down of other sources of project funding, such as Horizon 2020. The higher education sector is currently heavily involved in a project that is being led from Brussels by Berwyn, to improve our performance in Horizon 2020 in the future, but also in the current framework. Much of that is linked to the enhanced capacity that we have as a result of the structural funds. That is already happening. I am sure—

[85] **Ieuan Wyn Jones:** The point that I am trying to get at is how you think that the new arrangements could give us the opportunity to be more transformational than the current round.

[86] **Professor Davies:** At that higher level, it is clear that Brussels is going to change the requirements in various ways that force us to be more transformational. When I have spoken to officials in Brussels, they have made it absolutely clear that there is disappointment in Brussels about the lack of substantial effect of structural funding in many parts of Europe. They want far more bang for their buck. Their conclusion is that it must be much more strategic. Of course, we are all required now to produce these innovation strategies, and they are saying that these innovation strategies should be developed with universities and that they should have the buy-in of people who are delivering on them. We welcome those sorts of strategic initiatives, because it is not enough to have policies. You have to have detailed strategies in order to be able to change Wales and its economy.

[87] My final point about being more strategic is that we have to learn more from outside. We are always a bit disappointed in Wales that we tend to be a little bit introverted. There are good examples from across Europe that we can draw upon with regard to using structural funds more effectively. We have some good examples that we can give the rest of Europe as well, but we must learn from the best at all times.

[88] **Ieuan Wyn Jones:** One of the key points of Horizon 2020 is surely that you can do those schemes or projects with universities in other parts of Europe. Indeed, they must have a pan-European approach before they can even be accepted.

[89] **Professor Davies:** Absolutely, although that is not entirely true because the European Research Council does not require that collaboration and the funding for the European Research Council is growing rapidly.

[90] **Jocelyn Davies:** Thank you. Perhaps I can bring you back to the evidence that we are taking today.

[91] **Ieuan Wyn Jones:** Actually, the question was based on what was in the paper.

[92] **Jocelyn Davies:** That is true. You mention in your paper that WEFO's guidance on the application of article 55

[93] 'places uncertainty on the sustainability of some of the sector's ERDF projects.'

[94] Can you tell us what that uncertainty arises from?

[95] **Ms Williams:** With regard to article 55, new guidance was issued by WEFO last year, which went into some detail about how it would calculate any income generated on projects. We are still working with WEFO to clarify exactly what that means for projects on the ground. It all comes back to the sustainability of projects. We have used the structural funds because there is no other funding available. It is additional funding to deliver these additional outputs. However, at the same time, it is asking us to provide estimates of the income that we will generate. It is hard to predict that beyond the lifetime of the project. The article 55 guidance says that, for five years after the project finishes, a calculation will need to be made of whether any income has been made over and above what was required. That uncertainty places extra risk on the institutions. It is something that we are trying to work on with WEFO at the moment. Each project is looking at that quite carefully.

[96] **Jocelyn Davies:** I see. However, that does not affect just your project, but all projects covered by this—

[97] **Ms Williams:** It would, yes. It would affect infrastructure projects, business development projects and any income generation projects that are not covered by state aid. However, it is an area that we have not had experience of dealing with. It is something

relatively new to the HE sector. Therefore, we want to raise that as an area of concern for us. We need to do further work on this.

[98] **Jocelyn Davies:** So this is about looking five years in advance.

[99] **Ms Williams:** Yes, absolutely.

[100] **Jocelyn Davies:** Before we finish, is there anything that you would like to add?

[101] **Professor Davies:** The key point is that we have an opportunity to learn and we have to learn quickly from the successes as well as the elements of the programme that have been less successful. We have to move quickly for the next round. We are embarrassed that we have another round in Wales. We have to make it work. Brussels is absolutely insistent that it has to work across Europe much more effectively. We believe that universities have a big role to play in developing the programmes. When I worked in England before I came here I was involved in developing programmes. Universities are an underutilised resource in Wales, and it worries me a little bit that there is still not full appreciation of what universities can do to support the Welsh Government's agenda in these areas. So, we are ready to get engaged in developing the strategies and the programmes, as well as the innovation strategy that has to be produced, as well as the scaling up on delivery. I think that we can give real leadership on developing major strategic projects that have real long-term impact.

10.15 a.m.

[102] **Jocelyn Davies:** Thank you very much for attending today. I think that you have agreed to send us a note on a point that you raised, so we would be grateful to receive that. Thank you.

[103] Members, I know that the Deputy Minister is here, so we will call him in early. If you would stay in your seats, we will get straight on with the next lot of evidence.

[104] **Professor Davies:** Thank you very much for your courtesy.

10.17 a.m.

**Effeithiolrwydd Cronfeydd Strwythurol Ewropeaidd yng Nghymru—
Llywodraeth Cymru
Effectiveness of European Structural Funding in Wales—Welsh Government**

[105] **Jocelyn Davies:** Thank you, Deputy Minister, for agreeing to attend committee this morning. We have had your paper; thank you very much for that. Perhaps you would like to introduce yourself and your officials for the record. Do you have any introductory remarks or would you like to go straight into questions?

[106] **The Deputy Minister for Agriculture, Food, Fisheries and European Programmes (Alun Davies):** I will say a word of introduction.

<p>[107] Diolch yn fawr am y croeso y bore yma a'r cyfle i gynnig tystiolaeth ichi. Myfi yw y Dirprwy Weinidog sy'n gyfrifol am y rhaglenni Ewropeaidd. Hoffwn hefyd gyflwyno Damien O'Brien a Peter Ryland o Swyddfa Cyllid Ewropeaidd Cymru, sydd gyda mi y bore yma i'ch helpu gyda'ch</p>	<p>Thank you for your welcome this morning and for the opportunity to give evidence. I am the Deputy Minister responsible for European programmes. I would also like to introduce Damien O'Brien and Peter Ryland from the Welsh European Funding Office, who are with me this morning to help you with your</p>
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gwaith. Rwy'n falch iawn o gael y cyfle i fod gyda chi ac yn falch o gael y gwahoddiad i drafod y materion hyn. Rwy'n croesawu'r gwaith y mae'r pwyllgor yn ei wneud. Rwyf wedi bod yn darllen y dystiolaeth rydych wedi'i chael ac rwy'n credu bod yr ymchwiliad hwn wedi bod yn bwysig. Hoffwn ddweud ar y dechrau y bydd gwaith y pwyllgor yn cyfrannu at yr ymgynghoriad rydym wedi bod yn ei gynnal ar gyfer y rhaglenni nesaf. Rwy'n gwerthfawrogi yr hyn rydych yn ei wneud.

[108] Y bore yma, rwyf eisiau cael y cyfle i drafod sut y mae'r rhaglenni presennol yn delifro i Gymru, yn arbennig yn ystod y blynyddoedd diwethaf pan oeddem wedi cael problemau economaidd mawr, fel y gwyddoch. Rwyf hefyd yn falch y bore yma o allu dweud wrth y pwyllgor y byddwn yn datgan heddiw bod £6.6 miliwn yn cael ei wario ar brosiect newydd o'r enw WISE, sy'n cael ei ddelifro gan brifysgolion Aberystwyth, Bangor ac Abertawe i helpu busnesau sy'n gweithio yn y sector amgylcheddol. Rydym yn awyddus iawn i sicrhau mwy o gyfleoedd ymchwil a datblygu ac rwy'n siŵr bod hyn yn rhywbeth rydych wedi bod yn ei drafod yn ystod y sesiwn cyntaf y bore yma. Felly, mae hwn yn brosiect newydd yr ydym yn gobeithio y bydd y pwyllgor yn ei werthfawrogi. Rydym yn ceisio gweithio gyda phrosiectau o'r fath a fydd yn buddsoddi yn economi Cymru.

[109] Rydym yn gwybod, a byddwch wedi gweld yn fy mhapur tystiolaeth, ein bod wedi creu dros 10,000 o swyddi a 2,000 o fusnesau, wedi cynnig help i fwy na 34,000 o bobl gael mynediad i waith a helpu 82,000 o bobl i ennill cymwysterau am y tro cyntaf. Felly, yn fy marn i, roedd hon yn gamp fawr yn ystod y cyfnod economaidd diwethaf. Mae'r 18 mis nesaf yn rhai hynod o bwysig i ni wrth i ni barhau i fuddsoddi mewn twf economaidd. Rwyf yn croesawu'r cyfle a roddwyd i ni gan y pwyllgor i drafod hyn ac rwyf yn edrych ymlaen at eich cwestiynau.

[110] **Jocelyn Davies:** Thank you. Are you satisfied that the overall objectives of the structural funds programme to create sustainable jobs and growth will be met?

[111] **Alun Davies:** Yes, I am broadly satisfied with where we are in terms of the current programmes. It is important that we recognise that many of these programmes were designed in a pre-recession world, before the 2008 economic storm. So, these programmes have been

work. I am very pleased to have the opportunity to be with you and I was pleased to be invited to discuss these issues. I welcome the work that the committee is doing. I have been reading the evidence that you have received and I think that this inquiry has been important. I will say at the outset that the committee's work will contribute to the consultation that we have been undertaking for the next programmes. I appreciate what you are doing.

This morning, I would like the opportunity to discuss how the existing programmes are delivering for Wales, especially in the recent years when we have had major economic problems, as you know. This morning, I am also pleased to be able to tell the committee that we will be announcing today that £6.6 million is being spent on a new project called WISE, which is being delivered by Aberystwyth, Bangor and Swansea universities to help businesses working in the environmental sector. We are very keen to secure more opportunities for research and development and I am sure this is something that you have been discussing during the first session this morning. Therefore, this is a new project that we hope the committee will appreciate. We are trying to work with such projects that will invest in the Welsh economy.

We know, and you will have seen from my evidence paper, that we have created over 10,000 jobs and 2,000 businesses, provided assistance to more than 34,000 people to gain access to work and helped 82,000 people to gain qualifications for the first time. Therefore, in my view, this was a great achievement during the last economic period. The next 18 months are extremely important to us as we continue to invest in economic growth. I welcome the opportunity provided by the committee to discuss this and I look forward to your questions.

performing through—how shall I put it—unforeseen circumstances and a period of economic downturn that was not widely predicted at the time. We are broadly pleased with the way in which we have been able to achieve a significant number of our targets over the last few years and also have been able to invest in the growth and protection, if you like, of the economy, which we certainly would not have been able to do had we not had these programmes.

[112] It is worth noting as well that we have been able to use the programmes in ways that have been both creative and imaginative to respond to the economic downturn. I am sure that I am not the first Minister to mention ProAct and ReAct in front of you or other committees. It demonstrates an agility and ability to look at programmes, use them constructively, and respond to changing economic circumstances.

[113] **Jocelyn Davies:** In the evidence that we heard earlier this morning there was an acknowledgment that there needed to be a shift of focus after a specific time, although you probably know that the evidence that we have had from Higher Education Wales says that the next round should focus on long-term and beneficial outcomes for the economy. It is sort of giving a hint there that perhaps it has not had such a focus. So, are you satisfied that the current round of funding is focused on the correct interventions?

[114] **Alun Davies:** I would not necessarily accept that criticism, Chair, to be honest with you. May I make a wider point in answering your question? If we think back—there are people here who were Members of this place at the time; I was not—as a lay person back in 2001, there was a sense, I felt, that people saw the European programmes as an answer to all our economic ills. We have seen tremendous growth taking place in parts of the United Kingdom and of the European mainland, which, in some ways, left parts of Wales behind, if you like. The extraordinary growth that we saw, for example, in south-east England at the turn of the century and elsewhere, meant that, in relative terms, even with the growth that we were seeing in the west Wales and Valleys economy, we were not moving forward. In some ways, people saw the European programmes as a means to change, if you like, almost a century of decline in the Valleys. In the next few years, I think that it will be a century since the price of coal peaked.

[115] If you tell the economic story of, for argument's sake, the south Wales Valleys, through most of the twentieth century it will be one of relative decline in economic performance. There were people who thought in 2000 that we had an opportunity to change this around within five or six years. I think that was always an over-optimistic view of what these programmes could achieve and what was going to be achieved by any Government. A government of angels would have had difficulty in changing things around in five years. We need to be realistic about what was going to be achieved by these things. We are in a position where we have been able to use this investment creatively and imaginatively to ensure that we are investing in skills, research and development and infrastructure growth in the west Wales and Valleys region. We will be publishing, and I hope it will fit in with your timetable on the examination of this subject, the synthesis report of the 2000-06 programmes in the next few weeks. I will ensure that the committee has a copy of that. We were able, at that time, to stabilise the west Wales and the Valleys economy. We have been investing in growth, but we were knocked off course, frankly, by what happened in 2008 with the economic storm—we all know about that. However, we are continuing to invest in the economic tools that will stabilise and, I hope, ensure longer-term growth for the west Wales and the Valleys economy. You will be aware that the Government has made it clear, with regard to the coming round, that this is the final time that we wish to see any part of Wales qualify for the highest degree of European support.

[116] **Jocelyn Davies:** Thank you for repeating that commitment. I think that the committee accepts that this was seen as a once-in-a-lifetime opportunity, and we did not know that the recession would happen. I would like to point out that I do not think that angels form

Governments—I am not sure, but we will check with the research service; I do not think that we will find an example of that. Mike, do you want to ask your question?

[117] **Mike Hedges:** Yes; most of it has been answered, but perhaps I will ask it in a slightly different way. You accept that, between 2000 and 2008, there was a relative decline in west Wales and the Valleys and east Wales compared with EU27, and you have given some reasons why you think that happened, including the massive growth in some of the motor regions, such as south-east England. Does that mean that, in the next round in 2008-16, when those motor regions will do less well, you expect to see the relative prosperity of west Wales and the Valleys improve?

[118] **Alun Davies:** I will answer your question directly by saying ‘yes’, but I will go further than that. We are currently comparing Wales with different places. When the process was started, over a decade ago, we were comparing the west Wales and the Valleys performance with EU15. We are now comparing it with EU27. When you look at the relative performance of a number of different economies in the old western European states, for lack of a better term, you see less relative growth than in the new European states, which is the EU27. If the committee were to look at relative economic performance statistics over the last decade or so, you would see many stories emerging, with two themes. The first theme is very high levels of relative growth in the eastern central European states that joined the European Union in the last decade and the second theme is less growth, in relative terms, in the old EU15 states. Wales is part of that phenomenon. In comparing the Welsh situation, there are different comparators from the beginning of these programmes to where we are today. The comparisons are sometimes imperfect and tell different stories. So, we have to be very aware of that.

[119] I also want to make a wider point. The determination of this Government is not simply to achieve the targets on paper—although, clearly, we will do that—but to change the lives and the life chances of people living in the communities of west Wales and the Valleys. You will see a renewed emphasis on outputs and on looking at a range of different economic indicators. We always look at gross domestic product figures—I make no complaint about that; that is what is in front of us, and it tells one story—but if you look at other economic indicators, you gain a more rounded story and analysis of what has been going on in these communities. Therefore, yes, we are determined, but if you look underneath the statistics, you will get a far more complex story emerging than simply looking at the high-level indicators. I do not want to be accused of grabbing at green shoots and ignoring some clear realities, but those statistics from under the radar sometimes tell a very different story, such as increases in household income. That tells a real story about how people are living in west Wales and the Valleys in a way that GDP probably does not.

[120] **Mike Hedges:** We have seen factory closures in south Wales that have helped with some of the growth in eastern Europe.

[121] **Alun Davies:** That is certainly true.

[122] **Jocelyn Davies:** You do not have to answer that.

[123] **Mike Hedges:** I am leading up to a point here. Do you have comparative figures against the original EU15, so that you have a like-for-like comparison?

10.30 a.m.

[124] **Mr O’Brien:** We can make those available to the committee.

[125] **Jocelyn Davies:** We would be grateful if you could send us a note on that. Peter, did

you want to come in on this?

[126] **Peter Black:** I just want to come back to this revisionist view of the last 10 years. I do not disagree with you that the expectations raised were very high and, possibly, unrealistic. However, you must acknowledge that a lot of those expectations were raised by the targets set by the Welsh Government at the time, which centred on growth in GDP in comparison with other regions. That then fed the expectations of others in terms of the targets that they set. There is also an issue about how we have performed with regard to the use of those funds compared with other regions of the UK, which appear to have achieved much more. How would you respond to that?

[127] **Alun Davies:** You will know that these targets were not set by the Welsh Government but were agreed with the European Commission at that time.

[128] **Peter Black:** No; that is not—

[129] **Jocelyn Davies:** Let us not have an argument about who set the targets.

[130] **Alun Davies:** That is a technical situation.

[131] **Jocelyn Davies:** The targets were set—

[132] **Peter Black:** Yes, and the Welsh Government agreed them.

[133] **Alun Davies:** The targets were set in agreement with the Commission. I want to make a wider point in answer to your question: you have taken evidence from the Commission on this matter, which was very clear. It stated that the use and management of funds by the Welsh Government had been ‘exemplary’—which I think is the word that it used. It also went on in its evidence to say that the way that we had managed funds in Wales compared well and was above average in the UK and Ireland. So, I can understand why you are coming at this from that angle, but if you look at what the Commission is saying, you will see that it is telling a very different story.

[134] **Peter Black:** That depends on whether you want to take a managerial view, of course. How you manage the funds and what results you get are different things. It is clear that other regions have achieved more from the funds than we have.

[135] **Jocelyn Davies:** Would your officials be able to provide a note on other regions within the UK, as well as those within the EU?

[136] **Alun Davies:** Yes, we can and will do that; I have no issue with doing so. The committee needs to recognise that the evidence that it received from the Commission does not sustain the case that is being made by the Member.

[137] **Jocelyn Davies:** You two can agree to disagree on that. The committee will come to its own view.

[138] **Julie Morgan:** I want to ask you about the significant progress that the Welsh European Funding Office is making in meeting some of the targets—in fact, I think that the targets have had to be increased in certain areas of the ESF programme. Could you explain why the targets have had to be increased?

[139] **Alun Davies:** In terms of where we are with regard to ERDF and ESF targets, for example, you will see from the evidence paper that I have provided that we are close to achieving some of the targets on the ESF side. We are proposing changes to those

programmes to acknowledge the strong project performance to date, the achievements of programmes to date, and the value for money that we have been able to derive from those programmes. We are discussing with the Commission—I will ask Damien to give some detail on this—how we are performing. I emphasise to the committee that it is normal to have a discussion between the Commission and Governments about how targets are performing throughout the whole of the programme period. We will change targets if we do not believe that they are testing enough, and we will make amendments to the programmes where necessary.

[140] Members may also be interested to know that I took the decision before Christmas to over-programme some of our projects, to ensure that we maximise spend by the time that current programmes come to an end. We will also vire spending within programmes to respond to changing economic circumstances and to enable us to maximise and derive the best possible value for the Welsh taxpayer from those changes.

[141] The programmes are dynamic; they are not agreed and then set in stone in advance. We will change programmes as necessary as we manage them through the programme period, both to respond to the delivery of those programmes and to respond to changing economic and social circumstances. On the ERDF side of things, quite often you will see programmes that appear, if you take a linear view of these things, to be behind schedule, but some of those programmes, particularly on the ERDF side, are programmed to deliver their maximum value towards their end. So, we have another 18 months or so plus n+2 on some of these programmes, so we are satisfied, at the moment, with how they are being delivered. I do not know whether you want to come in on the detail.

[142] **Mr O'Brien:** Briefly, there are about 100 different indicators and targets in the programmes, and it is not surprising that, over the period of seven to nine-year programmes, we have to adjust some of those. We tend to focus on the six top indicators that we reflect in the paper, such as helping people into work and creating jobs, but we have other indicators about investment induced in businesses and businesses bringing products to market. Clearly, those indicators have been impacted by the difficult economic climate. There are some encouraging signs. Business is still investing in research and development, and that is coming through from our data. However, bringing that investment to market requires a degree of confidence, and that is not there at the moment. So, some of the indicators are lagging a bit. We hope to catch up before the end of the programme period, but we are determined to drive the programmes as hard as we can in terms of their achievement. That is why, when we exceed a target, we tend to go to the European Commission to negotiate an uplift on that target—so that we have targets that are challenging and ambitious.

[143] **Julie Morgan:** Which are the targets in the ERDF programme that are not being met?

[144] **Mr O'Brien:** The number of new products and processes launched. The investment-induced target is lagging behind, but we expect that to increase from the JESSICA investment that has come onstream. The amount of waste reduced, reused and recycled, which is mainly because the projects have not come forward in that area of activity. Quite a lot was done under Objective 1 in that field, but we simply have not had the projects coming forward seeking funding. The job creation target is lagging a bit, but we hope to catch up on that. As the Deputy Minister indicated, the jobs created mainly come from ERDF investments and they tend to be end-loaded. You have to build business premises before you can get businesses in and jobs created. So, there is a bit of a time lag in that respect. However, it is also clear that the difficult economic climate has meant that businesses have focused more, where they can, on sustaining employment rather than on creating employment. So, it is quite challenging, but we have assured the Commission that we will continue to work hard to deliver on those targets.

[145] **Peter Black:** We have heard from Higher Education Wales that Welsh ERDF projects operate under a more challenging definition of jobs created than those in other European regions. Can you confirm whether that is the case or not?

[146] **Alun Davies:** I will say two things. At the beginning of the programme period, we had a definition of 'job' that was different to the one in other parts of the United Kingdom and of the European Union, and we did that for good reasons. We have all been aware of some of the discussions happening in the UK press at the moment about workfare and so on. We are very anxious that we count jobs. We want jobs that are sustainable and permanent. There was some criticism that we were making our targets almost unachievable, by making the definition of work something that was quite difficult to achieve in the circumstances. We have amended the definition to include fixed-term contracts of a year or more, to recognise the change in labour market circumstances, but we have been very clear that, where we seek to create jobs, we seek to create jobs for people and not simply means of keeping people off various benefits and doing a statistical analysis to enable us to meet the target without creating real jobs for people. So, we have been very clear that, through our definition and our work, we want to create and to look at creating sustainable jobs for people.

[147] **Peter Black:** If I understood him correctly, Richard Davies was making the point that, because universities have issues with tenure, they tended to offer fixed-term contracts rather than permanent jobs. It was counting those jobs that was the issue that they faced.

[148] **Alun Davies:** We are doing that now; we are doing it over a fixed term of one year. We are not counting jobs that are for fixed terms of less than one year because we believe that it is important that, as a Government, we act and invest in the creation of long-term jobs for people, and not simply—how shall I say this?—create a means by which people disappear from various statistics, or appear on other statistics that would perhaps give us an opportunity to write press releases, but would not actually create work for people. So, we are being very clear that, yes, we will respond to changes in labour market conditions by doing that, but we are also setting the bar quite high on this.

[149] **Jocelyn Davies:** Could we just have clarification of when that change happened? I do not think that the sector knows about it. It did not sound as if it knew about it when it gave evidence to us about 20 minutes ago.

[150] **Mr O'Brien:** This was a change that was discussed at the PMC at, I think, the December meeting. It is a technical change in the definition of one indicator. We keep all of the definitions for indicators under review. Surprisingly, there is not a common definition across the European Union for 'jobs created'.

[151] **Jocelyn Davies:** That was explained to us. So, it was changed in December, but earlier today representatives of the sector did not appear to know that.

[152] **Peter Black:** Richard is a member of the PMC, of course.

[153] **Jocelyn Davies:** Is it retrospective, then? Can we expect to see a big bump in the figures now, because they are able to count something that they were not able to count before, even though people were in those jobs?

[154] **Mr O'Brien:** It will be retrospective, and we are in discussions with projects that may have additional outputs to declare in respect of jobs created. We are also looking at what we call 'associated jobs', where we have large infrastructure or construction investments that can create jobs for people in Wales that are of more than a year's duration, but may not be sustained much beyond that, because with infrastructure investments the jobs are created for the period during which the work is undertaken. We do not expect to see a significant uplift in

figures as a result of that, but it brings us more in line with the approach being used throughout the rest of the UK.

[155] **Peter Black:** I would like to put to the Deputy Minister another point that was made to us by the university sector, just half an hour or so ago. The witnesses were quite clear that they felt that the higher education sector was not being properly utilised in terms of the strategic vision and leadership that it could offer in terms of European projects. They felt that they had more to offer in terms of creating jobs and delivering on projects, and innovating and creating projects in the first place. Are you aware of those concerns?

[156] **Alun Davies:** They have not been expressed directly to me by anybody in higher education. The witnesses who gave evidence to you earlier sit on both the project management committee and my ministerial advisory group, so they are at the heart of decision making and policy making. I should say to the committee—and this might be apparent from some of the papers that you have received, and from a statement that I have made to the Assembly—that I established a post-2013 programme forum last year in order to plan for any European programmes in that period, and that forum includes wide representation from across Wales in terms of geography and sectors, including higher and further education. It is chaired by Mark Drakeford and meets twice a year—I think that it will be meeting again on Friday this week—in order to look at and entrench the partnership approach, which, as you know, the European Commission places great emphasis upon in terms of how we plan for the next period of funding.

[157] In addition, I have a ministerial advisory group that has met on two occasions so far, and that has direct representation from higher education, among other sectors, and there we have some very technical and in-depth discussion of different aspects of potential programmes. We have already discussed some issues around higher education in terms of smart specialisation and research and how we fund different projects. So, the higher education sector actually led most of those discussions in terms of the debate that we had in the ministerial advisory group, and I would be quite disappointed if—

[158] **Jocelyn Davies:** Deputy Minister, I would not want you to get the impression that they were complaining that they did not have access to Government. Perhaps, when you have an opportunity, you could read the transcript of the point that they were trying to make. Chris, did you want to come in on this point? I will come back to you after that, Peter.

10.45 a.m.

[159] **Christine Chapman:** On that point about higher education, there is potential with the European funds for universities to work with other universities across Europe. What is your assessment of how well that is happening, bearing in mind that this can be quite a dynamic way of working and a way of accessing joint funds?

[160] **Alun Davies:** My assessment is that it happens, but that it could happen better. One of the great things that I hope that we will see in the next round, if we qualify for funding at this level, is far greater integration of funding streams. At the moment, the funding streams are not entirely in silos, but they are managed as legislatively and legally separate entities. I hope that we will see a coming together and integration of different funding streams. We talk in Wales about the least developed areas, or regions, as they will be defined under the new legislation, but there is also the rural development plan, the marine fund and all sorts of different funding streams from Horizon 2020 and others that will enable us, I hope, to have a far greater economic impact through different programmes. So, I think that we will see almost a compulsion towards far greater integration, and I hope that that will happen on an international basis as well.

[161] I have met the Irish Government in order to open discussions about any next round and the trans-territorial work. However, I think that the work that is being done in higher education, which is far more internationalised than almost any other part of the public sector, will have opportunities that go far beyond other parts of our programme activity. So, I would very much encourage that and, in Government, we are taking steps to ensure that that sort of co-operation is very much the norm rather than the exception.

[162] **Mr O'Brien:** Can I just mention something about higher education involvement in the programmes? They are very important partners, with 31 projects agreed with universities across Wales, and very often on a collaborative basis, where one university is leading in partnership with other universities. Just over £250 million of European grants is going into higher education in Wales.

[163] A lot of that money is going in to develop capacity in our institutions, and we are keen to build on that capacity now in accessing the Horizon 2020 programme that comes on stream shortly. If our institutions have the capacity to forge partnerships and get involved in the networks, we hope that that will increase the amount of funding that they will receive. It is going to be a very big budget in the next programme round, or at least it is proposed to be.

[164] **Peter Black:** You talked earlier about targets being adjusted upwards because you are meeting them. We have heard that the ERDF investment-induced indicator is forecast to achieve only 80% of the programme target and that WEFO is pursuing an amendment for the definition of this indicator in order to improve the likelihood of the target being achieved. Is it common practice for indicator definitions to be amended in that way during the programme period?

[165] **Alun Davies:** I think that I have said to you that it is entirely common practice for indicators to be changed, upwards and downwards, throughout a programme period. I would say that, in terms of the investment-induced area, the JESSICA investments are currently excluded from it and it will make a significant difference when those investments are made. At the moment, JESSICA has a significant pipeline of potential investments to make. Damien can correct me, but I am hoping that we will be able to make announcements on that in the next couple of months—that is, very shortly. No, I do not know what that means either. [*Laughter.*] Do we know what ‘shortly’ means? Is it two months or three months?

[166] **Mr O'Brien:** It is within that time frame.

[167] **Alun Davies:** It is two or three months. There we go: it is after Easter.

[168] **Jocelyn Davies:** I think that we ought to make it clear that those investments are decided by a fund manager, so that is beyond your control; you cannot speed that up. One thing that I would take issue with, Deputy Minister, is that you have already told Plenary that communities are benefiting from JESSICA funding, and that is clearly not the case. I ask you to look back at your contribution in January. You said, in your speech, that JESSICA was delivering investments already. I think that that was an error.

[169] **Alun Davies:** If it was, I hope that it was an error of syntax rather than fact. I am trying to tell people that JESSICA is working in the sense that we have in place a financial instrument that is designed to deliver funds in the way that we have determined. I should also tell the committee that, over the last three months or so, we have been involved in some very intense negotiations with the Commission about some legal and technical issues relating to the definitions within the JESSICA funding stream that have caused us significant problems. I discussed it briefly with the commissioner before Christmas and I hope that we will be in a position very soon to be able to resolve those issues.

[170] I will look back at the Record of that Plenary meeting and make any corrections necessary. However, I feel very strongly that JESSICA is exactly the sort of financial engineering instrument that we require as a Government and that is required by the European Commission in order to deliver very significant benefits to communities in different parts of the European Union. I really want to emphasise that.

[171] **Mike Hedges:** I would like to move on to discuss value for money. Do you consider that what has been done in Wales using structural funds is providing value for money? Are you also content with the systems that are in place to ensure that that is happening?

[172] **Alun Davies:** Yes.

[173] **Mike Hedges:** I thought that you would say that.

[174] **Alun Davies:** I am very clear on that.

[175] **Jocelyn Davies:** Ieuan, you wanted to ask a supplementary question.

[176] **Ieuan Wyn Jones:** Hoffwn ofyn cwestiwn ichi, Ddirprwy Weinidog, ar eich tystiolaeth ysgrifenedig. Rydych yn cydnabod bod 86% o'r arian wedi ei ymrwymo i brosiectau a 30% o'r arian sydd wedi ei wario. Faint o bryder ydyw ichi fod cymaint o fwllch rhwng y ddau?

Ieuan Wyn Jones: I would like to ask you a question on your written evidence, Deputy Minister. You acknowledge that 86% of the funding has been committed to projects and 30% of the money has been spent. How much of a concern is it to you that there is such a gap between the two figures?

[177] **Alun Davies:** Ni fuaswn yn dweud ein bod yn bryderus am hyn. Rydym wedi symud ymlaen ac mae tipyn yn fwy na hynny wedi ei ymrwymo yn awr. Rydym yn edrych ar ffigur o 90% ar gyfer ERDF.

Alun Davies: I would not say that we are concerned about this. We have moved on and considerably more than that has now been committed. We are looking at a figure of 90% for ERDF.

[178] Are we 90% committed for ERDF, Damien?

[179] **Mr O'Brien:** We expect that it will be 90% by the end of March.

[180] **Alun Davies:** So, we are looking at significant levels of commitment, but, in terms of actual spend, there will be a time lag, as I tried to describe earlier. So, we do not have any reason to be especially concerned about that at present. I think that that is a fair description, is it not?

[181] **Ieuan Wyn Jones:** I would like to follow up on that point. Elsewhere in your evidence, you talk about what I would describe as 'overcommitment', because you think that some projects will underspend.

[182] **Alun Davies:** Yes.

[183] **Ieuan Wyn Jones:** So, it is not quite true to say that you are confident that all of the money will be spent, because of the challenging economic conditions. Are you therefore concerned that the 30% is too low at this stage?

[184] **Alun Davies:** In global terms, no, but you are right to say that some projects will underspend. What we sought to do—and we made announcements on this back in October or November—was to tell the Assembly that we are anxious to maximise spend under this programme, to reach as close to 100% as possible. In order to do that, we recognise that there

will be individual projects that will underspend and will not achieve their objectives. If necessary, we will claw back money from those projects in order to redeploy it elsewhere. That is part of the dynamics of managing the programmes. We have therefore moved to overcommit, to over-programme, in the way that we did before Christmas, in order to ensure that we have the capacity to maximise spend.

[185] To answer directly your original question regarding whether I am concerned that the 30% figure globally is too low, I say, 'No, I am not'. I am reasonably confident that the position that we are in today is where we need to be. We do not only have the next two years to spend this money as we have n+2, so we have a real spending period of four years in order to maximise our spend on this. We recognise that not all projects will achieve 100%, so we are creating the capacity to be able to spend 100% across all projects, recognising that not all individual projects within that will reach that spend.

[186] **Ieuan Wyn Jones:** Are there particular projects that you could identify now that could lead to an underspend?

[187] **Mr O'Brien:** I would like to say something general about spend, because it has been deliberate policy within WEFO to back-load the European funding in recognition of the pressure on public spending. So, we have said to departments and other public sector organisations, 'Use your own money when you have it and we will use the European money to backfill when times are more difficult.' For instance, against the backdrop of a 40% reduction in capital budgets across the Welsh Government, we have encouraged local authorities, higher education bodies and others to put their money in now and we will bring the European money in a bit later down the line. We have hit all our expenditure targets to date and we are confident that we will achieve our expenditure targets for this year by early September. It will ramp up quite a bit now over the next few years. However, this is like trying to land a jumbo jet on a sixpence, because you do not want to overshoot, but you do want to spend as much of the money as you can. On past experience, it is better to overcommit in anticipation of projects underspending. So, we think that it is prudent to do that.

[188] **Jocelyn Davies:** No doubt it is prudent for you to do so. Thank you for that explanation.

[189] **Christine Chapman:** I want to ask you some questions around monitoring and evaluation. It has been suggested to us that WEFO places

[190] 'too much emphasis in the current programmes on monitoring project expenditure at the expense of capturing the quality and impact of interventions.'

[191] I know, Deputy Minister, that you talked earlier about having an impact on the life chances of people. I think that we would all agree that it may be a bit difficult to quantify that, but how would you respond to that comment?

[192] **Alun Davies:** That was evidence from the WLGA, was it not? I thought that it was ludicrous, quite frankly. It would be hugely irresponsible for any Government not to monitor public expenditure on a programme of this size in the way that we do. Making criticisms like that undermines other evidence that the WLGA gives. I was astonished to read it, quite honestly. Certainly, we need to look at outputs and outcomes. The new legislation that the Commission published in October demonstrates very clearly that it is going to be output focused, and I agree with that, and there will be managing from a European perspective on project achievements. I think that that is right and good. The Welsh Government supports that proposal. Certainly, there is a strong commitment from this Government, as I said earlier, to change the life experiences of people in these communities and that means a strong emphasis

on what these projects are actually achieving. That does not mean that we need to make the choice, and I do not believe that we do. That is why I find the evidence that you quoted so difficult, as it implies that we have to somehow make a choice between doing one or the other. We are accountable for spending over £1 billion of public money. Are we simply saying that we do not have to put structures in place to monitor that performance effectively? I just find that inexplicable. I reject that completely. We have to put in place significant management structures and we are aware of reasons for that. Were we not to do so, I think that there would be very fair criticism of us for not being an effective and mature guardian of public moneys.

[193] **Jocelyn Davies:** I think the point that the WLGA was making is that the quality and the impact data do not exist, but that there is an awful lot of data in relation to expenditure. I do not think that it was suggesting that you should ditch the one for the other, but it did make that point that the quality data simply have not been captured. I think that that was its point. It could be that I have interpreted it in a slightly different way. I think that I voice the committee's interpretation of what the WLGA said, although, Deputy Minister, you are entitled to your own. Chris, did you want to come back in?

[194] **Christine Chapman:** Yes. I agree with what you are saying about the impact, because this must be the essence of the programmes. They must be about changing people's life chances. If you are talking about extra data looking at impact, how would that play out as far as the criticisms around extra bureaucracy and counting? I wonder whether there is a balance to be struck there and how you would anticipate doing that.

11.00 a.m.

[195] **Alun Davies:** I understand the Chair's points about the WLGA's evidence and I understand the point that it makes on evaluation. I again reject that evidence and viewpoint completely. Evaluation is done. I published a written statement in the last month outlining how we are making more data available now. We go far beyond what the law says and what regulations state are required in terms of openness, accountability and transparency. We go beyond what is done in almost any other member state or territory in the European Union in ensuring that this information is available to people. That information is made available in a way that I hope is publicly accessible—accessible to this committee and anybody else. As I said, I reject that criticism.

[196] In terms of where we are now, Christine, there is, and always has been, a level of criticism about the hoops that people have to jump through in order to gain European funding. It is right and proper that we set the bar reasonably high to access this public money. I understand the particular criticism made in that session. I think that it was the Wales Council for Voluntary Action that said that there was a gap between the end of the last set of programmes and the beginning of this set. I understand that criticism and that is why we are responding two years before any further programmes are commenced in Wales, with work on planning and policy. The reflections exercise was completed two months ago. I will, in the next few months, publish a Green Paper on how we take these programmes forward. So, we are ensuring that people have had the opportunity to make comments and have a debate with us across the whole of Wales on how we manage these European funding streams. We will be looking at the structures that we have in place over the coming year or so. Therefore, we will not be simply going into 2013 in the same way as we finished 2012. We will be looking hard at how we manage these funds and we will be taking a very public view on that. We are looking at all these different matters.

[197] I say to people again that we are managing very significant sums of money here. We have to have effective measures in place to manage those funds correctly. That does not mean, Peter, that we only manage and do not look at what we are seeking to achieve.

[198] **Peter Black:** I never said that.

[199] **Alun Davies:** I am making a point. This committee would be aghast, and rightly so, if we sought in any way to reduce the level of auditing or internal management structures that we have in place. We will certainly be trying to achieve a balance, if you like, between those different imperatives over the coming years. I think that Damien wants to add something on the more technical side.

[200] **Mr O'Brien:** On the issue of evaluation, WEFO is responsible for evaluating at programme level, but we require all of our projects that have grants in excess of £2 million—which is most of them—to carry out independent evaluation. Those evaluation reports will be published and be on our website. However, evaluation does not tend to come until towards the end of a project. The Deputy Minister referred to the intention to publish a report on the 2000 to 2006 programmes. We are only now really getting a handle on what the impact of those programmes has been. There tends to be a six or seven year time lag before you can really assess the impact of these sorts of programmes.

[201] **Jocelyn Davies:** The point has been made to the committee that building evaluation into projects, so that you can adjust things as you go along rather than waiting until the end, has been very valuable. We heard this morning that mid-way evaluation was very useful. I would be amazed if this committee were to recommend that we do not have proper scrutiny of the expenditure of public money. I do not think that you will find that in our final report or recommendations to you. Chris, have you finished?

[202] **Christine Chapman:** Quickly, I would like to follow up on Damien's response about independent evaluations. I asked the representatives from Higher Education Wales earlier whether this was something that Wales required or whether it was required by Europe, and they were not sure. What is the situation?

[203] **Mr O'Brien:** It is a requirement of ours.

[204] **Christine Chapman:** Okay, I just wanted to be clear about that.

[205] **Mr O'Brien:** I suppose that it reflects the lessons learned from 2000 to 2006, when evaluation was a bit patchy. We have tried to raise our game on this. The key thing is that this information will be in the public domain. As the Deputy Minister indicated, for the first time, we will be publishing data on what individual projects have achieved. Those will be on our website, and projects will have to account for their achievements or explain their underachievements. That goes much further than most other European regions.

[206] **Christine Chapman:** Okay. I want to ask a quick question about the dissemination of information. We have heard from stakeholders that it would be useful for project managers to be able to access live output data for projects in their local area or region in order to benchmark their progress. Is there any scope for WEFO to publish output data for live projects rather than only for completed projects, as is currently the case?

[207] **Mr O'Brien:** I think that that is probably the next logical step. Getting projects to agree to their data being published at the end was quite challenging. A number of projects do not deliver their outputs until a year or two after they have finished. ERDF projects tend to be end-loaded in terms of their achievements. We thought that we would start with this, but I very much agree that our systems could deliver it, so it would be good to see the live data made available, perhaps for the next programme round.

[208] **Ieuan Wyn Jones:** Mae nifer o **Ieuan Wyn Jones:** A number of stakeholders

randdeiliaid wedi dweud bod prosesau caffael wedi achosi tipyn o drafferth iddynt ar ddechrau prosiectau. Sut ydych yn ymateb i hynny?

have said that the procurement processes caused them significant problems at the outset of projects. How do you respond to that?

[209] **Alun Davies:** I understand that that was a criticism made by the WCVA. Is that correct?

[210] **Ieuan Wyn Jones:** I think it is all stakeholders, to an extent.

[211] **Alun Davies:** With regard to achieving value for money, we have, I hope, taken a far more strategic approach in the current round of funding. I hope that what we have been able to do is ensure that there is less duplication of activities and greater use of open and competitive procurement and performance reviews within the lifetime of a project, ensuring that we are able to give greater guarantees to the taxpayer that we are achieving greater value for money as well as increasing the market, if you like—and I use that word carefully—for the management of projects. Looking at the procurement exercise that we have undertaken, something like £900 million at the moment is being procured—

[212] **Mr O'Brien:** It is £1 billion.

[213] **Alun Davies:** That is £1 billion through procurement. That is a considerable injection of funding into the Welsh economy. I understand that does not work equally well for all stakeholders and all potential project managers, but, for argument's sake, when I was giving evidence to the Enterprise and Business Committee, committee members were very concerned that we should make more funding available to business to allow businesses to run projects, and, of course, it is through procurement that we are best able to do that. So, although I recognise that not all stakeholders will have the same view on these things, we need to ensure that we have a mixed economy of management within European programmes. I think that there is a total project investment of £740 million to help businesses at the moment, which has largely come as a result of the procurement processes that we are using. However, I understand that many people would prefer to go back to a grants system or a competitive grants system, which has its strengths. With regard to moving forward and how we are going to structure this in the next round of funding, I have an open mind at the moment, frankly. I will be looking at advice, consulting and making decisions on that in the next few months—this year, shall we say.

[214] **Ieuan Wyn Jones:** Wnaethoch gyfeirio at osgoi dyblygu, er enghraifft. Mae'r dystiolaeth rydym wedi ei derbyn yw bod defnyddio prosesau caffael i gyflawni prosiectau wedi'i gwneud hi'n amhosibl i chi reoli'r hyn sydd yn cael eu cyflawni ac ym mhle, ac felly nad ydych mewn sefyllfa i nodi os oes dyblygu. Felly, ar un llaw, y dystiolaeth rydych yn ei rhoi heddiw yw bod y system caffael yn eich galluogi i sicrhau nad yw pethau yn cael eu dyblygu, ond, ar y naill law, mae profiad rhanddeiliaid yw ei bod yn amhosibl i chi wybod.

Ieuan Wyn Jones: You referred to the need to avoid duplication, for example. The evidence that we have had is that using procurement processes to deliver projects has made it impossible for you to control what is being delivered and where, and therefore you are not in a position to note whether there is duplication. So, on one hand, the evidence that you are giving today is that the procurement system allows you to ensure that things are not duplicated, but, on the other hand, the experience of stakeholders is that it is impossible for you to know.

[215] **Alun Davies:** Rwyf yn gwybod eich bod wedi derbyn y math hwnnw o dystiolaeth ond byddwn yn anghytuno â hynny, a hoffwn weld tystiolaeth i gadarnhau'r hyn y mae

Alun Davies: I know that you have received that type of evidence, but I would disagree with that. I would like to see evidence to back up what people are saying. You are right to

pobl yn ei ddweud. Rydych yn iawn i ddweud fod pobl wedi dweud hynny, ond nid wyf wedi gweld tystiolaeth o le y mae hynny wedi digwydd. Nid wyf wedi gweld tystiolaeth i gefnogi'r achos y mae pobl wedi'i wneud i chi. Yr wyf yn sicr o'r ffaith ein bod yn cadarnhau ac yn edrych yn rheolaidd ar berfformiad pob prosiect. Mae gan y rhanddeiliaid neu reolwyr prosiect i gyd gytundeb â Swyddfa Cyllid Ewropeaidd Cymru lle mae'r swyddfa yn asesu perfformiad y prosiectau hynny. Nid wyf wedi gweld unrhyw dystiolaeth i gefnogi'r achos nad yw'r system yn gweithio, na thystiolaeth i ddangos bod problemau gyda'r ffordd honno o reoli. Gall hyn ganfod problemau penodol gyda phrosiectau unigol, a dyna pam mae'r broses rheoli hon yn ei lle. Fodd bynnag, nid wyf wedi gweld unrhyw dystiolaeth o gwbl bod problem gyda'r broses hon.

[216] **Ieuan Wyn Jones:** Tynnaf eich sylw yn sydyn at eich tystiolaeth lle rydych yn dweud, ym mharagraff 18, o'r 260 o brosiectau a gytunwyd, fod 98 ohonynt yn adrannau'r Llywodraeth a 67 yn awdurdodau lleol. Mae gan y cyrff hynny swyddogion caffael proffesiynol. Dim ond 10 prosiect sydd yn y sector preifat a 38 yn y trydydd sector, sy'n awgrymu mai rhan o'r broblem yw'r ffaith nad oes ganddynt swyddogion caffael proffesiynol a'u bod, o'r herwydd, yn ei chael yn anodd i wneud cais am brosiectau. Onid ydych yn ystyried hynny'n dystiolaeth?

[217] **Alun Davies:** Nac ydw, oherwydd rydych yn sôn am y rhai sy'n rheoli'r prosiectau ac nid am y rheini sy'n elwa, ac mae hwnnw'n bwynt gwahanol. Pan oeddwn yn rhedeg busnes, cyn imi gael fy ethol i'r Cynulliad, ni fyddwn wedi ceisio rheoli prosiect, ond byddwn wedi bod eisiau gwneud cais am waith o dan brosiect. Felly, nid wyf o reidrwydd yn ystyried hynny'n broblem. Rwy'n gwybod bod y sector preifat yn awyddus i elwa o brosiectau Ewropeaidd ac i gymryd rhan yn y gwaith o'u delifro, ond mae gwahaniaeth rhwng cymryd rhan a delifro, a rheoli. Yn aml, nid yw busnesau yn dymuno rheoli prosiectau, ond maent am gymryd rhan yn eu delifro. Mae honno'n rôl wahanol. Byddaf yn cyhoeddi, dros y misoedd nesaf, rhywfaint o waith ar y sector preifat a sut y gallwn hyrwyddo cyfranogiad

say that people have said that, but I have not seen evidence of where that has happened. I have not seen evidence to support the case that people have made to you. I know for certain that we confirm and look regularly at the performance of all projects. All stakeholders or project managers have an agreement with Welsh European Funding Office whereby WEFO assesses the performance of those projects. I have seen no evidence to support the case that the system is not working or to show that there are problems with that management method. This can identify certain problems with individual projects, which is why we have the process in place. However, I have not seen any evidence whatsoever that there is a problem with this process.

Ieuan Wyn Jones: I draw your attention briefly to your evidence where you say, in paragraph 18, that of the 260 projects agreed, 98 of them are in Government departments and 67 in local authorities. These are bodies that have professional procurement officers. Only 10 projects are in the private sector and 38 in the third sector, which would suggest that part of the problem is the lack of professional procurement officials and that, as a result, they find it difficult to apply for projects. Do you not consider that to be evidence?

Alun Davies: No, because you are talking about those managing the projects and not about those who benefit, and that is a different point. I know that when I ran a business, before I was elected to the Assembly, I would not have tried to manage a project, but I would have wanted to apply for work under a project. So, I do not necessarily consider that to be a problem. I know that the private sector is eager to benefit from and to participate in delivering European projects, but there is a difference between participating and delivering, and managing. Often, businesses do not want to manage projects, but want to participate in their delivery. That is a different role. I will announce, over the next few months, some work on the private sector and how we can promote the involvement of businesses in the

busnesau yn y cylch nesaf o brosiectau Ewropeaidd. next round of European projects.

[218] Mae gennyf feddwl agored o ran sut y gallwn wneud hynny. Cytunaf â'r hyn y mae'r Pwyllgor Menter a Busnes wedi'i ddweud, sef bod angen i ni estyn allan i'r sector preifat. Rwyf am ystyried sut y gallwn gyflawni hynny yn ystod y cylch nesaf o raglenni. Fodd bynnag, mae'r paragraff y gwnaethoch ddyfynnu ohono yn adlewyrchu'r sefyllfa fel y mae ar hyn o bryd. Rwyf yn cydnabod y gall fod yna broblem; nid wyf yn ei weld fel tystiolaeth o broblem, ond fel tystiolaeth o'r gwahanol ffyrdd y gall y sector preifat gymryd rhan wrth ddelifro prosiectau.

I have an open mind as to how we can do that. I agree with what the Enterprise and Business Committee has said, namely that we need to reach out to the private sector. I want to consider how we can achieve that during the next round of programmes. However, the paragraph that you quoted reflects the situation as it currently exists. I acknowledge that there may be a problem; I do not see it as evidence of a problem, but as evidence of the different ways in which the private sector can participate in the delivery of projects.

[219] **Ieuan Wyn Jones:** Wrth gwrs, bydd cronfeydd newydd fel Horizon 2020 yn rhoi llawer mwy o bwyslais ar weithio gyda busnesau, felly mae'n rhaid i fusnesau chwarae rhan fwy canolog yn y cynlluniau yn y dyfodol.

Ieuan Wyn Jones: Of course, the new funds such as Horizon 2020 will place much greater emphasis on working with businesses, so businesses must play a more central part in future plans.

[220] **Alun Davies:** Gobeithio bod hynny wedi bod yn rhan o'm tystiolaeth y bore yma. Dyna pam rwyf am gyhoeddi dogfen a fydd yn trafod hynny yn ystod y mis nesaf.

Alun Davies: I hope that that has come through in my evidence this morning. That is why I wish to publish a document that will discuss that over the next month.

[221] **Jocelyn Davies:** Before we move on from this point, it appeared to me from evidence that we took that the complication arose when going through the procurement process if you were then also providing match funding. That was the difficulty, and I think that it was Valleys Kids made that point. That is a voluntary sector organisation, not a business. It delivers an important project and it has a lot of experience of match funding. It said that having to go through the procurement process was causing a tension that was difficult to overcome. The old grant system was easier for them in terms of their processes. We could always go back to the Minister and officials and ask them to provide evidence. That was the tension that I felt was coming over, but I could be wrong.

11.15 a.m.

[222] **Alun Davies:** As somebody who, in private business, looked at the possibility of tendering and going through this procurement process, I have great sympathy with those comments. Procurement has to have particular quality thresholds of course, but within that it needs to be made as simple as possible for anybody, not just the private sector. We do not want people spending hours and days of their lives form filling. We want to be able to manage this money effectively and to get out there to spend it effectively. I should say, Chair, that in terms of where we are on the WCVA and the evidence it gave, we are the only part of the United Kingdom, or one of the few parts of the Union, that accepts match funding in kind, which is a great incentive for the voluntary sector to be a part of this. I think that Damien wants to come in on this.

[223] **Jocelyn Davies:** I interrupted Ieuan, so we ought to go back to him first.

[224] **Ieuan Wyn Jones:** Ym mis Hydref 2010, cyhoeddodd eich rhagflaenydd ganllawiau newydd mewn perthynas â defnyddio prosesau caffael er mwyn cyflawni prosiectau. Mae'n gwestiwn gwirion i mi ei ofyn i chi wrth gwrs, ond pam gwnaed hynny?

Ieuan Wyn Jones: In October 2010, your predecessor published new guidelines in relation to using procurement processes to deliver projects. It is a silly question to ask you, of course, but why was that done?

[225] **Alun Davies:** I would have to ask the person who did that. [*Laughter.*]

[226] **Ieuan Wyn Jones:** A gaf ei adael, felly, a symud ymlaen. A dilyn y pwynt a wnaed gan y Cadeirydd ynglŷn â'r trydydd sector, Weinidog, mae'r canllawiau newydd yn amlinellu dull gweithredu tebyg i'r canllawiau blaenorol o ran defnyddio prosesau caffael a chynlluniau grant. Maent yn nodi y bydd WEFO yn ystyried defnyddio proses gystadleuol i ddyfarnu cyllid cynlluniau grant. Gan fod hynny wedi digwydd, mae hynny ynddo'i hun yn cydnabod bod rhai yn y trydydd sector wedi cael y math o drafferthion soniwyd amdanynt gan y Cadeirydd. Rwyf yn cymryd eich bod yn derbyn hynny.

Ieuan Wyn Jones: May I leave it, therefore, and move on. Following the point made by the Chair regarding the third sector, Minister, the new guidelines outline an operational approach similar to the previous guidelines in terms of using procurement processes and grant schemes. They note that WEFO will consider using a competitive process to award grant scheme money. Given that that has happened, that in itself recognises that some in the third sector have experienced the sort of problems mentioned by the Chair. I take it that you accept that.

[227] **Alun Davies:** Ydw.

Alun Davies: Yes.

[228] **Ieuan Wyn Jones:** Cyrhaeddod ni yno o'r diwedd.

Ieuan Wyn Jones: We got there in the end.

[229] **Ann Jones:** A number of stakeholders have suggested to the Committee that the regulations governing the use of structural funds penalise projects for generating an income by reducing the grant intervention rate, meaning that projects are inherently sustainable. Is this a correct interpretation of that regulation?

[230] **Alun Davies:** I will turn to Damien.

[231] **Mr O'Brien:** This is a reference to article 55 in the general regulation.

[232] **Ann Jones:** Yes.

[233] **Mr O'Brien:** This article is less about sustainability and more about managing the investment of public funds. If I may explain, the general principle is that European funding fills the gap. We only put European money in where there is a need. During our appraisal processes we work hard with projects to ensure that we are providing only what is actually needed, because some projects tell us that everything is needed. We work hard to try to ensure that we are only funding the gap. Where projects have the potential to generate significant revenue, we take that into account in assessing what the funding gap is. That is essentially what article 55 is about. So, it is not about making a project sustainable; it is about controlling the investment of public funds. There is a more general issue around how we can encourage projects to become more sustainable through developing alternative income streams. Our main approach to that has been through procurement. If someone comes in through procurement, they can make a profit and keep it. That is why it is particularly attractive to the private sector, and of the 900 organisations involved in the programme, 300 are third sector

organisations that have come in under procurement. Where they make a profit, they can keep it. It is not taken into account in assessing the funding gap.

[234] **Ann Jones:** So, have the stakeholders given us, as a committee, a correct interpretation? Have they made a correct interpretation of the regulation or is it wrong?

[235] **Mr O'Brien:** I think that they are looking at article 55 as something that inhibits sustainability, whereas article 55 is about ensuring that public money is used only where it is needed.

[236] **Ann Jones:** There is consternation among stakeholders about this issue. Do you think you should issue further guidance on it?

[237] **Mr O'Brien:** There is clearly some confusion around this. We are now focusing our efforts on trying to ensure that the next round and regulations are more flexible in order to encourage sustainability. The chances of changing article 55 at this late stage in the programmes are very slim, because the Commission would not agree to it and it would not get through the European Parliament. So, we have to live with it as it is. However, for the next programme period, one of the simplifications we are looking for is scope for projects to generate more income.

[238] **Alun Davies:** I should also say that the last piece of guidance on this matter was issued in September, so we have issued guidance relatively recently to stakeholders.

[239] **Jocelyn Davies:** Perhaps the committee could have a look at that. Peter, do you want come in on this very quickly?

[240] **Peter Black:** Yes. The two definitions of article 55 are not mutually exclusive. WEFO says that public funding fills the gap, and the evidence we have had said that it inhibits sustainability. Just because it is filling the gap does not mean that you are not inhibiting sustainability. Do you have concerns that you are inhibiting sustainability by applying that regulation?

[241] **Mr O'Brien:** It does not help organisations to become sustainable—I accept that. However, equally, we were under a regulatory requirement to ensure that, where projects have the potential to generate significant revenue—and you have to be able to anticipate that at the beginning of a project and it affects only those projects with a total project cost of more than €1 million—we legally have to take that into account in making our calculations. If we do not and the European auditors come in, look at the project and see that level of income being generated, they can disallow the entire investment and we will end up paying all of the money back to the European Commission. So, we have to apply it as the letter of the law. However, for the next programme period, because we see this as the last major round of funding, we are very keen to encourage that sustainability. That is why instruments such as JEREMIE and JESSICA are so important to us.

[242] **Jocelyn Davies:** Mr O'Brien, of course, if you apply it you can fund more projects. Why fund a project fully if it could generate income itself? You could fund more projects, so perhaps this is not a negative. Perhaps you should look at this in a more positive way. I guess that is what article 55 was put together to achieve.

[243] **Alun Davies:** That is what we are saying actually.

[244] **Jocelyn Davies:** That is what you are saying, but—

[245] **Alun Davies:** This funding exists to fill the gap, not to provide additional comfort. It

is there to provide the mechanism by which these projects can be delivered.

[246] **Ann Jones:** The evidence we received from Coleg Morgannwg suggests that greater focus and scrutiny need to be placed on the strength of the projects' exit strategies. What consideration does WEFO give to the future sustainability of projects during the application process?

[247] **Mr O'Brien:** One of the criteria that the programme monitoring committee has agreed for appraising projects is called the legacy potential, which is essentially about sustainability. So, it is one of the five key criteria we use in assessing projects. Not all projects will be sustainable and, in those circumstances, we seek to agree exit strategies with those organisations. However, it is very difficult, particularly with the European social fund, because many of the organisations we support are supporting people who are very marginalised and there is not an abundance of those organisations. These are people who are working with the homeless and people with drug and alcohol problems. There is not a very buoyant market of organisations out there to work with people—

[248] **Ann Jones:** I might take exception to that. There is an abundance of people out there who can help people with drug and alcohol problems. What you should be looking at is how they help them and whether the project works. There is an abundance of organisations out there that will do this. The issue is whether they simply see that they can get a grant for it in a particular area, not really wanting to help those people and wanting the grant to do something else. I think that is the reality of it.

[249] **Mr O'Brien:** I agree that the markets are changing.

[250] **Jocelyn Davies:** No doubt, you will be getting e-mails from organisations. Your inbox is probably full right now. [*Laughter.*]

[251] **Ann Jones:** How robust is the scrutiny of the exit strategies? It is often the case that, when grants are coming to an end, people come to tell us that they have not prepared an exit strategy or, if they have written one, it has never been scrutinised for it to be carried out, and that is where it causes issues.

[252] **Mr O'Brien:** It is an essential requirement of projects that are not able to be sustainable that they must have an exit strategy, and that is taken into account in our appraisal processes and the scoring system related to that legacy potential. I would be wrong to suggest that all of these organisations have a well-worked-out exit strategy that will mean that they will not be knocking on our doors looking for other sources of funding come the next programme period. The Wales Council for Voluntary Action indicated that in its evidence, when it talked about gap funding, which seemed to create the impression of an expectation that this funding would continue to flow to organisations that currently receive it. That is not what the structural funds are about.

[253] **Alun Davies:** We need to be clear on that as well; as we move forward to any future programmes, we will make it clear that this money exists for a particular purpose. It is public money, it exists for a public purpose, and we will manage and regulate how it is spent. We will look at the outcomes as well as the outputs, and we anticipate that this money is time limited. Therefore, anyone seeking and accepting public money on that basis needs to understand clearly that this is not ongoing core support forever and a day; it is ring-fenced funding for a particular purpose over a particular time frame, and we need to be clear about that going forward to the future.

[254] **Jocelyn Davies:** All Members have seen very good projects and because they are good projects that do good work, they do not want to see them come to an end. Mike, did you

have a supplementary question on this?

[255] **Mike Hedges:** Yes, and I will be brief. A number of colleges, including Coleg Morgannwg, spend less European money now on courses than they did under the old Objective 2 situation. They have gone through their exit strategies and reduced the amount of European money that they are relying on, but that does not mean that there is not huge unmet demand out there. Have you any comments on that?

[256] **Mr O'Brien:** The further education sector is extensively involved in our programmes. We do not have that many projects that are led by further education colleges, but they are delivering many Welsh Government projects.

[257] **Mike Hedges:** I will rephrase the question. Do you accept that, under the old Objective 2 ESF funding, colleges such as Coleg Morgannwg had more money coming in to provide courses than they do under the current system?

[258] **Jocelyn Davies:** You might not know the answer to that; you can send us a written answer.

[259] **Mr O'Brien:** I will do.

[260] **Jocelyn Davies:** This is a little subtext that we are pursuing from time to time on this particular question.

[261] **Alun Davies:** I look forward to your conclusions. [*Laughter.*]

[262] **Paul Davies:** Hoffwn ofyn cwestiynau ichi, Ddirprwy Weinidog, ynglŷn â'r sector preifat. Rwyf wedi gwrandod'n astud ar eich atebion y bore yma, ac rwy'n credu bod y pwyllgor wedi cael atebion diddorol. Yn y gorffennol, rydych wedi dweud wrth y Pwyllgor Menter a Busnes mai Cymru yw'r gorau ond un o blith gwledydd Ewrop o ran gweithio gyda'r sector preifat ar y cronfeydd strwythurol. Rydych wedi anfon llythyr at y Pwyllgor Menter a Busnes i egluro hyn, ac mae'r llythyr gennyf yn y fan hon, ac rydych yn dweud mai eich barn chi fel Llywodraeth yw hyn ac nad oes gennych dystiolaeth i'w brofi. A ydych, felly, yn dweud nad ydych bellach yn gwybod lle rydych yn sefyll o gymharu â gwledydd eraill?

Paul Davies: I would like to ask questions to you, Deputy Minister, regarding the private sector. I have listened carefully to your answers this morning, and I think that the committee has had interesting answers. You have previously told the Enterprise and Business Committee that Wales is second from the top of the European countries in terms of working with the private sector on the structural funds. You have sent a letter to the Enterprise and Business Committee explaining this, and I have the letter here, and you say that this is your opinion as a Government and that you have no evidence to prove it. Are you, therefore, saying that you no longer know where we stand in comparison with other countries?

[263] **Alun Davies:** Rwyf wedi ysgrifennu at Nick Ramsay, Cadeirydd y pwyllgor hwnnw, ac at aelodau'r pwyllgor i egluro hynny, oherwydd roeddwn yn poeni, wrth edrych ar le yr ydym ni ac ar y ffeithiau yn yr ymchwil sydd gennym, fod pobl, o bosibl, wedi cael eu camarwain. Felly, roeddwn yn awyddus i ysgrifennu atynt i sicrhau nad yw pobl yn teimlo eu bod wedi cael eu camarwain. Rwyf wrthi'n edrych ar hyn.

Alun Davies: I have written to Nick Ramsay, the Chair of that committee, and to committee members to explain that, because I was concerned that, in looking at where we are and at the facts in the research that we have, people may have been misled. Therefore, I was keen to write to them to ensure that people did not feel that they had been misled. I am currently looking at this. The Government has stated that we are

Mae'r Llywodraeth wedi dweud ein bod yn ail i'r Iseldiroedd sawl gwaith yn ystod y blynyddoedd diwethaf. Rydym nawr yn dechrau gwneud gwaith ymchwil ac, fel y dywedais, rwy'n rhyddhau dogfen, gobeithio yn ystod y mis nesaf, i hybu trafodaeth ac i ymgynghori ar sut all fusnesau gydweithio yn y rhaglen Ewropeaidd, trwy eu rheoli, fel rydym wedi'i drafod yn barod, a hefyd trwy eu delifro.

second to the Netherlands many times in recent years. We are now starting to undertake research and, as I have said, I am to publish a document, hopefully during the next month, to promote discussion and to consult on how businesses can collaborate in the European programme, by managing them, as we have discussed already, and also by delivering them.

11.30 a.m.

[264] Rwy'n hapus iawn i fusnesau gymryd rhan yn y rhaglen Ewropeaidd ym mha ffordd bynnag sydd orau iddynt hwy. Bydd rhai busnesau, wrth gwrs, eisiau gwneud pethau yn wahanol. Felly, rydym wedi bod yn gwneud llawer o waith ar hyn yn ystod y misoedd diwethaf ac rwy'n gobeithio y byddwn yn gallu cyhoeddi rhywbeth cyn bo hir a fydd yn symud y broses hon yn ei blaen. Dywedais yn y llythyr, a gallaf ei gylchredeg i bob Aelod, os hoffech i mi wneud hynny, oherwydd credaf fod Paul yn awyddus imi wneud-

I am happy for businesses to participate in the European programme in which ever way is best for them. Some businesses, of course, will want to do things differently. So, we have been carrying out a great deal of work on this over the past few months, and I hope to be able to publish something in the near future that will take this process forward. I stated in the letter, and I can circulate that to every Member, if you would like me to do so, because I believe that Paul is eager for me to do so—

[265] **Jocelyn Davies:** No, the committee clerks have circulated it, so we already have a copy. Thank you for putting an explanation on the record.

[266] **Alun Davies:** Hoffwn bwysleisio'r hyn a ddywedaf ym mharagraff olaf y llythyr hwnnw. Fy nghred i yw bod rhaid i fusnes yrru twf yn economi Cymru. Rydym yn awyddus iawn i alluogi busnes i fod yn rhan o'r rhaglen Ewropeaidd, ac i gydweithio gyda busnesau i greu swyddi a thwf yn yr economi, trwy ba bynnag ffordd sydd orau i wneud hynny.

Alun Davies: I want to emphasise my comments in the final paragraph of that letter. It is my belief that business has to drive growth in the Welsh economy. We are very eager to enable business to be part of the European programme, and to collaborate with businesses to create employment and economic growth, through whichever way is the best way of achieving that.

[267] **Paul Davies:** Rwy'n derbyn hynny, Ddirprwy Weinidog. Fodd bynnag, er mwyn egluro'r pwynt hwn ymhellach, ni fyddwch, fel Llywodraeth, yn gwybod lle rydych yn sefyll mewn cymhariaeth â gwledydd Ewropeaidd eraill hyd nes y byddwch wedi cael mwy o'r data a grybwyllwyd gennych. Ai dyna rydych yn ei ddweud?

Paul Davies: I accept that, Deputy Minister. However, to explain that point further, as a Government, you will not know where you stand in comparison with other European countries until you have more of the data that you have mentioned. Is that what you are saying?

[268] **Alun Davies:** Rhaid inni gael mwy o ddata, a rhaid inni ddadansoddi'r data hynny hefyd. Y broblem sydd gennym yw bod gwledydd gwahanol yn casglu ac yn dadansoddi data mewn ffyrdd gwahanol. Felly, mae'n gallu bod yn anodd iawn

Alun Davies: We need more data, and we also need to analyse that data. The problem that we have is that different nations collect and analyse data in different ways. Therefore, it can be extremely difficult to make comparisons that we would have confidence

gwneud cymariaethau y byddem yn hyderus eu cynnig ichi. Dyna pam rwyf wedi ysgrifennu at y pwyllgor hwnnw, oherwydd nid wyf yn hyderus, gyda'r data sydd gennym yn barod, ein bod yn gallu cadarnhau hynny. Os nad wyf yn gallu cadarnhau hynny ichi, yna byddaf yn ysgrifennu atoch i ddweud hynny, oherwydd mae'n well gwneud hynny na gadael i rywbeth barhau mewn cofnodion heb ei gywiro.

[269] **Paul Davies:** Felly, rydych yn dweud yn glir nad ydych eto'n gwybod lle'r ydych yn sefyll ar hyn fel Llywodraeth.

[270] Rydych wedi sôn am JESSICA, ac mae'n glir bellach nad yw'r gronfa wedi gwneud ei buddsoddiad cyntaf eto. A ydych yn fodlon â'r cynnydd a wnaethpwyd ers sefydlu'r gronfa?

[271] **Alun Davies:** Ydw.

[272] **Paul Davies:** A ydych yn hapus nad ydyw wedi gwneud buddsoddiad hyd yn hyn?

[273] **Alun Davies:** Rwyf yn hapus bod y broses wedi mynd yn ei blaen yn y ffordd y mae wedi. Rydym wedi sefydlu JESSICA, a chyn gofyn i Damien ddod i mewn ar hyn, hoffwn ichi ddeall fel pwyllgor fod JESSICA, a JEREMIE hefyd, yn hynod bwysig fel ffyrdd o fuddsoddi yn yr economi. Rydym i gyd wedi clywed yr hyn a ddywedodd Barroso am hyn a'r ffordd rydym yn symud ymlaen. Rwyf eisiau i'r offerynnau ariannol hyn fod yn rhan ganolog o sut rydym yn buddsoddi yn yr economi yn ystod unrhyw raglenni newydd. Felly, mae'n bwysig bod hyn yn gweithio. Rydym ni yng Nghymru yn arweinwyr yn y ffordd y caiff hyn ei reoli ar hyn o bryd. Mae'n wir dweud nad oes buddsoddiad wedi'i wneud eto, ond nid yw hynny'n feirniadaeth o raglen JESSICA. Mae buddsoddiadau ar y gweill sy'n mynd trwy'r system ar hyn o bryd. Rydym yn disgwyl gwneud y buddsoddiad cyntaf *shortly*, yn ystod y mis neu ddau nesaf, ac rwyf yn siŵr y bydd y pwyllgor yn croesawu hynny.

[274] Hoffwn ddweud hyn wrthy, Paul: unwaith byddwn yn dechrau'r broses, ac unwaith y bydd y buddsoddiadau'n dod allan

in providing to you. That is why I have written to that committee, because I am not confident that, with the data that we already have, we are able to confirm that. If I cannot confirm that to you, then I will write to you to make that clear, because it is better to do that than to allow something to stay on the record without it being corrected.

Paul Davies: So, you are stating clearly that you do not know as yet where you stand on this as a Government.

You have mentioned JESSICA, and it is clear that that fund has not made its first investment yet. Are you satisfied with the progress that has been made since the fund was established?

Alun Davies: Yes.

Paul Davies: Are you happy that it has not made an investment thus far?

Alun Davies: I am happy that the process has progressed in the way that it has. We have established JESSICA, and before I ask Damien to come in on this, I want you as a committee to understand that JESSICA, and JEREMIE as well, are very important as means of investing in the economy. We have all heard what Barroso has said about this and the way that we are progressing with this. I want these financial instruments to be a central part of how we invest in the economy during any new programmes. So, it is important that this works. We in Wales are in the vanguard in terms of how this is currently being managed. It is true to say that investment has not been made to date, but that is not a criticism of the JESSICA programme. Investments are in the pipeline and are currently going through the system. We expect to make the first investment shortly, during the next month or two, and I am sure that the committee will welcome that.

I would like to say this to you, Paul: once we start the process, and once the investments start to emerge from this machine, there will

o'r peiriant hwn, bydd mwy o fuddsoddiadau'n dod yn rheolaidd. Creu'r ffordd hon o fuddsoddi yn yr economi oedd y peth pwysig yn ystod y flwyddyn ddiwethaf. Gan ein bod bellach wedi creu'r strwythur a bod y broses yn ei lle, nawr rydym yn ceisio sicrhau bod y broses honno'n gweithio.

[275] **Paul Davies:** Mae Cymdeithas Llywodraeth Leol Cymru, yn ei thystiolaeth inni—ac nid ydych yn cytuno llawer â'r gymdeithas, o'r hyn rwyf wedi'i glywed bore yma—wedi dweud wrthym nad yw cronfa buddsoddi Cymru er mwyn adfywio yn ddeniadol i awdurdodau lleol yn ei ffurf bresennol gan eu bod yn gallu cael benthyciadau rhatach o fannau eraill. Felly, nid yw'r system ar hyn o bryd yn ddeniadol iddynt nac i'r sector preifat chwaith. Beth yw eich ymateb—

[276] **Alun Davies:** Pa gronfa?

[277] **Paul Davies:** Y gronfa buddsoddi adfywio.

[278] **Alun Davies:** Rwyf wedi clywed y feirniadaeth honno yn y fan hon, ond nid wyf wedi ei chlywed unrhyw le arall. Mae 39 o fuddsoddiadau ar y ffordd drwy JESSICA ar hyn o bryd, a byddant yn cyrraedd cyn bo hir. Fodd bynnag, gyda chronfeydd eraill, gwelais i'r hyn a ddywedodd Cymdeithas Llywodraeth Leol Cymru wrthyhych ac ystyriais ei beirniadaeth, ond mae'n rhaid dweud nad wyf wedi ei chlywed ganddi o'r blaen. Mae'r gymdeithas yn rhan o bob fforwm sydd gennym ac nid wyf wedi clywed ei bod wedi gwneud y feirniadaeth honno o'r blaen, felly mae'n anodd ymateb i rywbeth a ddywedwyd yn y fan hon gan ei bod wedi bod yn rhan o'r broses o'r dechrau.

[279] **Jocelyn Davies:** Would you agree that, of the projects in the pipeline, none are local authority projects? Perhaps we could have a note on that as well, Mr O'Brien. Have local authorities taken any interest or are any of the 39 projects in the JESSICA pipeline theirs?

[280] **Mr O'Brien:** I do not know the answer.

[281] **Jocelyn Davies:** You can include it in the note.

[282] **Mr O'Brien:** The financial market has changed significantly since the fund was developed, and it was quite an innovative instrument. The ideas coming forward have not really been investment-ready, so the investment managers have had to work hard with these applicants. However, we are told that seven expressions of interest are now close to a

be further investments happening regularly. Creating this method of investing in the economy was the important thing during the past year. Now that we have created a structure and the process is in place, we are trying to ensure that that process works.

Paul Davies: The Welsh Local Government Association, in its written evidence—and you do not agree much with the association, from what I have heard this morning—has told us that the regeneration investment fund for Wales is not attractive to local authorities in its current form because they can borrow money more cheaply elsewhere. Therefore, the system at present is not attractive to them or to the private sector. What is your response—

Alun Davies: Which fund?

Paul Davies: The regeneration investment fund.

Alun Davies: I have heard that criticism expressed here, but I have not heard it expressed elsewhere. There are 39 investments in the JESSICA pipeline, and they will emerge soon. However, on other funds, I saw what the Welsh Local Government Association told you and I considered its criticism, but I have to say that I have not heard that criticism from it in the past. It is part of all the fora that we have, and I have not heard it make that criticism previously, so it is difficult to respond to something that was said here, as it has been part of the process from the outset.

decision. These include schemes in Neath Port Talbot, Tenby, Caernarfon, Mumbles, Swansea, Pontypridd, Newport, Porthcawl, Hay-on-Wye and St Asaph. Whether they are partnerships between the private sector and local government, I am not sure. Some of them probably are, but I will see what I can find out. There may be sensitivity about putting information—

[283] **Jocelyn Davies:** We do not want to know about individual projects; just let us know whether there are any local authority projects in the pipeline for JESSICA funding. I am sorry that I interrupted you, Paul. We have only a few minutes left, so please continue, Paul.

[284] **Paul Davies:** Fel pwyllgor, rydym hefyd wedi derbyn tystiolaeth sy'n awgrymu bod nifer o randdeiliaid wedi mynegi pryderon ynghylch y broses o wneud cais am gymorth gan y gronfa arian cyfatebol a dargedir er eu bod yn credu bod yr adnodd yn werthfawr. Unwaith eto, disgrifiodd Cymdeithas Lywodraeth Leol Cymru wrthym y broses o wneud cais i'r gronfa arian cyfatebol a dargedir fel un sy'n cynnwys dyblygu a biwrocraatiaeth ddiangen, nad yw'n agored na thryloyw. A ydych yn ymwybodol o'r pryderon hynny?

Paul Davies: As a committee, we have also received evidence that suggests that a number of stakeholders have expressed concerns about the process of applying for support from the targeted match fund, even though they believe that it is a valuable resource. Once again, the Welsh Local Government Association described the process of making an application to the targeted match fund as one that includes unnecessary duplication and bureaucracy with a lack of openness and transparency. Are you aware of those concerns?

[285] **Alun Davies:** Rwyf wedi clywed y pryderon hynny a'r feirniadaeth honno. Gwnaethoch sôn am Gymdeithas Llywodraeth Leol Cymru, ac mae gan lywodraeth leol yr hawl i fenthyca'n ddarbodus. Os yw'n gwneud hynny, mae'n cael ei warantu gan Lywodraeth y Deyrnas Unedig; felly, mae ganddi ffyrdd gwahanol o godi arian i ni fel Llywodraeth. Felly, mae'n rhwydd gwneud y feirniadaeth honno oherwydd bod ganddi ffordd statudol o godi arian ar y farchnad. Ar hyn o bryd, wrth inni edrych ar y marchnadoedd ariannol gwahanol, gwyddom fod giltiau'r DU dal yn gymharol ddiogel. Mae gan lywodraeth leol ffyrdd gwahanol o godi arian, felly, ambell waith, gall y feirniadaeth honno fod braidd yn annheg. Mae eisiau pot arall—wrth gwrs ei bod—ac un sy'n hawdd i gael mynediad ato. Nid wyf yn gweld hynny fel beirniadaeth, ond fel datganiad o ffaith. Mae angen rhoi hynny ar glawr.

Alun Davies: I have heard those concerns and that criticism. You mentioned the Welsh Local Government Association, and local government has the right to undertake prudential borrowing. If it does that, it is underwritten by the United Kingdom Government; therefore, it has alternative ways of raising funding to the ones that we have as a Government. Therefore, it is easy to make that criticism, because it has a statutory way of raising funds on the market. At the moment, as we look at the various financial markets, we know that UK gilts are still relatively safe. Local government has alternative ways of raising funding, so, on occasion, that criticism can be somewhat unfair. It wants another pot—of course it does—and one that is easily accessible. I do not see that as a criticism, but as a statement of fact. That needs to be put on the record.

[286] Pan rydym yn sôn am dorri'r arian cyfatebol a dargedir, mae hynny'n *funding of last resort*. Nid wyf yn credu bod y gyllideb honno yn parhau i fodoli yn yr un ffordd ag yr oedd. Mae £98 miliwn o'r gronfa honno wedi mynd at 35 o brosiectau gwahanol, gan gynnwys llawer o'r rhaglenni a arweinir gan lywodraeth leol i adfywio canol trefi. Buom

When we are talking about targeted match funding, it is a fund of last resort. I do not think that that fund is still in existence in the way that it was. Some £98 million from that fund has been given to 35 different projects, including many local-authority-led programmes to regenerate town centres. We were working with the Chair here on

yn cydweithio gyda'r Cadeirydd yma ar ganol tref Abertyleri ychydig yn ôl. Felly, rydym i gyd wedi gweld sut y mae llywodraeth leol wedi defnyddio hynny.

[287] Mae beirniadaeth bod biwrocratiaeth—deallaf hynny—ond rwyf am weld enghraifft o hynny. Nid ydym ni yn y Llywodraeth am greu biwrocratiaeth ddiangen. Un o'r sgysiau rwy'n eu cael gyda'r Comisiwn Ewropeaidd yw ein bod am weld symleiddio. Wrth gwrs, mae'r symleiddio y mae pob un am ei weld yn wahanol, ac rwy'n derbyn hynny. Ond, os gall Cymdeithas Llywodraeth Leol Cymru ddod atom gydag enghreifftiau o'r fiwrocratiaeth hon, yn lle cyflwyno beirniadaeth fan hyn a fan draw, byddwn yn hapus iawn yn trafod sut y gallwn leihau'r problemau a wynebir. Rydych yn clywed pobl yn yr etholaethau yn sôn am *red tape* ac ati, ond pan ofynnwch i rywun, 'Beth rydych yn ei feddwl? Am beth rydych yn sôn?', anaml iawn rydych yn clywed llawer mwy am y peth. Felly, rwyf am weld mwy na'r feirniadaeth fflat hon; rwyf am weld enghraifft o'r modd y gallwn newid y ffordd rydym yn rheoli a rhedeg prosiectau i wneud pethau'n rhwyddach ac yn well i bobl. Os yw pobl yn dod atom gyda hynny, mae'n rhywbeth y gallwn, gobeithio, fynd i'r afael ag ef yn ddigon buan.

[288] **Paul Davies:** Yn olaf, a allwch egluro'r pwynt hwn? Rydych yn derbyn bod pryderon, ond nid ydych yn derbyn eich bod wedi gweld tystiolaeth o'r pryderon.

[289] **Alun Davies:** Rwyf eisiau gweld tystiolaeth o hynny. Rwy'n gwybod am y feirniadaeth, achos rydym wedi ei chlywed gan bobl. Yr hyn rwy'n ei ddweud wrth y pwyllgor yw hyn: mae'n rhwydd iawn beirniadu, ac er nad oes gennyf broblem o gwbl gyda phobl yn gwneud hynny, yn hytrach na'r feirniadaeth fflat hon, sy'n rhwydd i'w gwneud, rwyf am weld tystiolaeth ac enghraifft o'r hyn a olygir wrth 'fiwrocratiaeth'. Peth rhwydd yw beirniadu—gwelwn hynny yn y papurau bob dydd—ond beth a olygir wrthi? Sut rydych am inni newid y ffordd rydym yn rheoli'r prosiectau hyn, i wneud y broses yn rhwyddach i chi? Dyna'r drafodaeth rwyf am ei chael gyda phobl. Os yw pobl yn gwneud dim mwy nag

Abertillery town centre not too long ago. So, we have all seen how local government has accessed that.

A criticism of bureaucracy has been levelled—I understand that—but I want to see an example of it. We in the Government do not want to create unnecessary bureaucracy. One of the conversations that I have with the European Commission is that we want to see simplification. Of course, everybody wants to see a different type of simplification, and I accept that. However, if the Welsh Local Government Association can bring us examples of that type of bureaucracy, instead of voicing criticisms here and there, I would be very happy to discuss how we can reduce the problems being faced. You hear people in the constituencies talking about red tape and so on, but when you ask someone, 'What do you mean? What are you talking about?', you seldom hear much more about it. So, I want to see more than that flat criticism; I want to see an example of how we can change the way we manage and run projects to make things simpler and better for people. If people come to us with those, it is something that I hope we can address immediately.

Paul Davies: Finally, can you clarify this point? You accept that there are concerns, but you do not accept that you have seen evidence of those concerns.

Alun Davies: I want to see evidence of that. I am aware of the criticism, because we have heard it from people. What I am telling the committee is this: it is very easy to criticise, and while I do not have any problem whatsoever with people doing that, instead of that flat criticism, which is easy to do, I want to see evidence and an example of what is meant by 'bureaucracy'. Criticising is easy—we see it in the papers every day—but what is meant by it? How do you want us to change the way we manage these projects, to make the process smoother for you? That is the discussion that I want to have with people. If people do nothing other than sit at the other end of the table and criticise, then fine—anyone can do that; it is the easiest

eistedd ar ben arall y bwrdd a beirniadu, mae hynny'n iawn—gall unrhyw un wneud hynny; dyna'r peth rhwyddaf yn y byd i'w wneud—ond rwyf eisiau gweld enghraifft a thystiolaeth. Pan gawn dystiolaeth gadarn, gallwn weithredu yn ei chylch.

thing in the world to do—but I want to see examples and evidence. When we have hard evidence, we can act on it.

[290] **Jocelyn Davies:** Deputy Minister, I think that you have made that point, but the WLGA has avenues to explore that with you other than this committee. However, we are very pleased that you are open to that discussion should evidence be provided.

[291] **Alun Davies:** Absolutely.

[292] **Jocelyn Davies:** I would say that anybody who has ever applied for a grant from a local authority could show you what bureaucracy really is—that is my experience. Deputy Minister, we have not quite run out of questions, but we have run out of time. In fact, you came early and we have kept you late, so thank you for the hour and a half that you have spent with us. It has been an excellent session. As normal, we will send you a copy of the transcript for you to check the factual accuracy. Thank you.

11.43 p.m.

Papurau i'w Nodi Papers to Note

[293] **Jocelyn Davies:** There is a paper to note from the Minister for Finance and Leader of the House. If you remember, the Minister promised to send us a note on the £6.7 million that had been switched in the central services. We have had an explanation there. Are Members happy to note that, and to note the minutes of the previous meeting? I see that you are. Thank you.

Cynnig Gweithdrefnol Procedural Motion

[294] **Jocelyn Davies :** I move that

the committee resolves to exclude the public from the remainder of the meeting under Standing Order No. 17.42.

[295] I do not see any objections.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.44 a.m.
The public part of the meeting ended at 11.44 a.m.*