



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

**Y Pwyllgor Menter a Dysgu
The Enterprise and Learning Committee**

**Dydd Iau, 18 Mawrth 2010
Thursday, 18 March 2010**

Cynnwys
Contents

- 3 Cyflwyniad ac Ymddiheuriadau
Introduction and Apologies
- 4 Cronfeydd Strwythurol—Gweithredu Rhaglen 2007-13
Structural Friends—Implementation of the 2007-13 Programme
- 30 Cynnig Trefniadol
Procedural Motion

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

Jeff Cuthbert	Llafur Labour
Andrew Davies	Llafur Labour
Nerys Evans	Plaid Cymru The Party of Wales
Brian Gibbons	Llafur Labour
Gareth Jones	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Chair of the Committee)
David Melding	Ceidwadwyr Cymreig Welsh Conservatives
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

Eraill yn bresennol
Others in attendance

Yr Athro/Professor Dylan Jones-Evans	Cyfarwyddwr Ymchwil ac Arloesi, Prifysgol Cymru Research and Innovation Director, University of Wales
Phil McVey	Cyfarwyddwr Polisi a Rhaglenni Ewropeaidd, Asiantaeth Datblygu Rhanbarthol De-orllewin Lloegr Director of Policy and European Programmes, South-West England Regional Development Agency

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

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Siân Phipps	Clerc Clerk
Ben Stokes	Gwasanaeth Ymchwil yr Aelodau Members' Research Service

Dechreuodd y cyfarfod am 9.16 a.m.
The meeting began at 9.16 a.m.

Cyflwyniad ac Ymddiheuriadau
Introduction and Apologies

[1] **Gareth Jones:** Bore da, a chroeso i'r cyfarfod. Mae clustffonau ar gael i dderbyn gwasanaeth cyfieithu ar y pryd o'r Gymraeg i Saesneg ar sianel 1 ac i chwyddleisio'r sain ar sianel 0. Darperir cofnod o'r cyfan a ddywedir yn gyhoeddus. Atgoffaf bawb i ddiffodd ffonau symudol ac unrhyw ddyfais electronig arall. Nid oes angen cyffwrdd y

Gareth Jones: Good morning and welcome to the meeting. Headphones are available if you require a simultaneous translation from Welsh to English; that is on channel 1 and the amplification of sound is on channel 0. A record of all that is said in public will be provided. I remind everyone to turn off mobile phones or any other electronic

meicroffonau yn ystod ein trafodaethau. Gan nad ydym yn disgwyl ymarfer tân, os bydd argyfwng, bydd yn rhaid i ni adael yr ystafell a'r adeilad dan gyfarwyddiadau'r tywysyddion. Mae dau ymddiheuriad ar gyfer y bore yma oddi wrth Christine Chapman a Paul Davies; nid oes dirprwyon ar eu rhan. Gwahoddaf Aelodau i wneud unrhyw ddatganiad o fuddiant yn awr.

devices. There is no need to touch the microphones during proceedings. As we do not anticipate a fire drill, if there is an emergency, we will have to exit the room and the building, following the instruction of the ushers. We have received apologies for this morning from Christine Chapman and Paul Davies; there are no substitutions. I invite Members to make any declarations of interest now.

[2] **Jeff Cuthbert:** I must declare in relation to the second item on the agenda, on structural funds, that I am the chair of the programme monitoring committee for structural funds, which is a Welsh Assembly Government appointment. So, that will have to be borne in mind with regard to any contribution that I make during the discussion today. I should also declare, in view of the paper that will be presented by Professor Dylan Jones-Evans, which concentrates on Objective 1, that I am still the chair of the Objective 1 programme monitoring committee. That was not a WAG appointment, but an appointment by the First Minister. That committee still exists.

[3] **Gareth Jones:** Diolch, Jeff. Gwelaf nad oes datganiadau ychwanegol o fuddiant.

Gareth Jones: Thank you, Jeff. I see that there are no other declarations of interest.

9.17 a.m.

Cronfeydd Strwythurol—Gweithredu Rhaglen 2007-13 Structural Funds—Implementation of the 2007-13 Programme

[4] **Gareth Jones:** Dyma'r bedwaredd sesiwn yn ein hymchwiliad newydd i gronfeydd strwythurol 2007-13. Mae'n bleser o'r mwyaf gennyf estyn croeso i'r Athro Dylan Jones-Evans, sy'n cynrychioli Prifysgol Cymru. Yr ydym yn hynod ddiolchgar i chi am dderbyn ein gwahoddiad. Diolch hefyd am eich papur—yr ydym wedi cael cyfle i'w ddarllen—sydd yn canolbwyntio ar raglen flaenorol Amcan 1 a pha wersi y dylid eu dysgu o'r rhaglen honno. Yr ydych yn gyfarwydd â'n cyfundrefn. Os ydych yn dymuno, gallwch wneud datganiad byr o ryw bum munud ac yna byddwn yn gofyn cwestiynau.

Gareth Jones: This is the fourth session in our new inquiry into the structural funds for 2007-13. It is my great pleasure to welcome Professor Dylan Jones-Evans, who is representing the University of Wales. We are extremely grateful to you for accepting our invitation. We also thank you for your paper—we have had an opportunity to read it—which focuses on the previous Objective 1 scheme and what lessons should be learned from it. You are familiar with how we do things. If you wish, you can make a brief statement of some five minutes and we will then ask you questions.

[5] **Yr Athro Jones-Evans:** Y rheswm yr ysgrifennwyd y papur hwn sy'n edrych yn benodol ar Amcan 1 yw bod gwersi arbennig i'w dysgu o edrych ar wahanol fesurau a ariannwyd gan y Comisiwn Ewropeaidd drwy Gynulliad Cenedlaethol Cymru. Os edrychwch ar y papur, gwelwch ein bod wedi canolbwyntio ar y darn a oedd yn delio gydag arloesi. Y rheswm am hynny oedd, os edrychwch ar y rhaglen cydgyfeiriant a ddechreuodd yn 2007, fod 65 y cant o'r

Professor Jones-Evans: This paper, which specifically looks at Objective 1, was written because there are particular lessons to be learned from looking at various measures that were funded by the European Commission through the National Assembly for Wales. If you look at the paper, you will see that we have concentrated on the part that dealt with innovation. The reason for that was that, if you look at the convergence programme that began in 2007, 65 per cent of that programme

rhaglen honno i fod i ddelio'n uniongyrchol ag agenda Lisbon, sy'n ymwneud ag edrych yn arbennig ac yn fanwl ar sut yr ydym yn mynd i godi mantais gystadleuol Cymru, yn arbennig yn y meysydd arloesi a menter. Felly, byddai'n haws edrych yn ôl ar rai o'r gwersi yr ydym eisoes wedi'u dysgu o'r rhaglen flaenorol, ac ar sut yr ydym yn rhoi'r gwersi hynny ar waith yn y rhaglen newydd.

is supposed to deal directly with the Lisbon agenda, looking specifically and in detail at how we are going to raise the competitive advantage of Wales, particularly in the innovation and enterprise fields. Therefore, it would be easier to look back at some of the lessons that we have already learned from the previous programme, and at how we can implement those lessons in the new programme.

9.20 a.m.

[6] Mae'n ddrwg gennyf—yr wyf yn clywed eco ac mae'r cyfieithiad yn dod yn ôl drwy'r clustffonau.

I am sorry—I can hear an echo and the translation is coming back through the headset.

[7] Aethom ati i edrych ar y papur hwn ac ar y ffeithiau oherwydd, os edrychwch yn fanwl ar y gwahanol brosiectau ardderchog a ariannwyd o dan raglen Amcan 1, gwelwch fod problem wedi datblygu gan na chyflawnwyd nifer o'r targedau o dan y rhaglen honno. Gallech ddweud, efallai, y gallai'r bobl a oedd yn rhoi'r rhaglen at ei gilydd fod wedi cyrraedd targedau llawer yn uwch, ond y pwynt yw, os ydych yn creu rhaglen fel hon ac yn gosod targedau, sy'n aml yn canolbwyntio ar fusnesau newydd, y gall problemau godi gan mai dim ond nifer fach o'r busnesau hynny sydd wedi'u creu o dan y rhaglen hon. Yr ydym yn gweld, yn arbennig gyda'r ffordd mae'r Llywodraeth yn canolbwyntio ar arloesi ac ar greu busnesau newydd mewn meysydd technolegol, y bydd hynny'n bwysig yn y dyfodol.

We started to look at this paper and at the facts because, if you look in detail at the various excellent projects funded under Objective 1, you will see that a problem arose because many of the targets were not achieved under that programme. You could say that, perhaps, the people who put the programme together could have achieved higher targets, but the point is that, if you create a programme like this and set targets, many of which concentrate on new businesses, problems can arise because only a small number of those businesses were created under this programme. We have seen, particularly with the Government's focus on innovation and the creation of new businesses in technical fields, that that will be important for the future.

[8] Credaf fod clerod y pwyllgor wedi cael cathod bach o weld papur academiaidd, gan ei fod yn naw tudalen o hyd, gyda'r papur ehangach yn 15 tudalen o hyd, sy'n edrych ar rai o'r ffeithiau ac ar sut mae'r sector addysg uwch wedi datblygu dros y saith mlynedd o dan raglen Amcan 1, a hefyd ar y sector preifat. Yr hyn y gallwn weld yn glir yw bod arian anferth wedi mynd i brifysgolion—maent wedi derbyn £50 miliwn o'r arian hwn o dan y mesurau arloesi—ac i'r Llywodraeth, ond mai ychydig o arian uniongyrchol a gafodd y sector preifat. Fodd bynnag, mae'n glir nad yw lefelau ymchwil ac arloesi yn y prifysgolion wedi cynyddu o gwbl yn yr amser hwnnw. Un o'r prif fwiadau oedd datblygu capasiti prifysgolion i gydweithio â phrifysgolion eraill a chyd

I think that the committee clerks had kittens when they saw an academic paper, because it is nine pages long, although there is a 15-page paper that is much wider in its scope, and that examines the facts and the way in which the higher education sector has developed over the past seven years under the Objective 1 programme and also at the private sector. What we can see clearly is that a huge amount of money has been given to universities—they have received £50 million under the innovation measures—and to the Government, but that the private sector has received little direct money. However, it is clear that the level of research and innovation within universities has not increased at all during that period. One of the main aims was to develop the capacity of universities to

busnesau. Mae'n glir, os edrychwch ar ffeithiau Cyngor Cyllido Addysg Uwch Cymru, er enghraifft, mai dim ond rhywbeth fel 3 y cant o arian cyngorau ymchwil Prydain mae prifysgolion Cymru yn ei gael. Dengys hynny fwch blyneddol o £60 miliwn. Mae hynny'n ddiddorol gan eu bod wedi derbyn £50 miliwn i greu prosiectau newydd, ond bod bwch enfawr o £60 miliwn yn dal i fodoli yn flynyddol. Pe baem yn edrych ar hyn o safbwynt Barnett, dylem gael 5 y cant, ond yr ydym yn cael rhywbeth fel 3 y cant. Os edrychwch ar lefel yr arian mae'r sector preifat wedi'i wario ar ymchwil a datblygu yn yr un cyfnod, gwelwn ei fod o gwmpas £200 miliwn dros y chwech neu saith mlynedd diwethaf.

[9] Yr hyn sy'n ddiddorol yn strategaeth economaidd y Cynulliad yn ôl yn 2003-04, 'Cymru: Economi yn Ffynnu', yw bod targed o 1 y cant o'r cynnyrch mewnwladol crynswth wedi'i roi ar gyfer rhaglenni fel Amcan 1, ac ar codi gwariant y sector preifat i'r lefel honno. Mae hyn bellach wedi disgyn yn ôl i 0.5 y cant o GDP. Yr ydym yn dal i wario rhyw £200 miliwn er ei fod i gyrraedd £0.5 biliwn erbyn hyn. Felly, hyd yn oed pe baem ond yn edrych ar y problemau sydd wedi dod drwy'r rhaglen a'r diffyg o ran cyrraedd y targedau gwaith a sgiliau, ac os edrychwch ar y targedau allanol, er enghraifft, gydag ymchwil yn y sector preifat ac yn y prifysgolion, gwelwch fod y targedau hynny heb eu cyrraedd ychwaith.

[10] O ran y rheswm dros edrych yn ôl ar hyn, un broblem a welsom yn glir drwy raglen Amcan 1 oedd y seilos, lle mae'r prosiectau hyn wedi bod yn gweithio ar eu pennau eu hunain heb unrhyw fath o gydweithio. Os ydych yn sôn am system arloesi ranbarthol, gyda phob gwlad, bron â bod, yn edrych i ddatblygu'r system hon i gael llywodraeth, busnesau a phrifysgolion i gydweithio, mae'n bwysig cael y prosiectau i gydweithio hefyd. Mae'n amlwg nad yw hynny wedi digwydd o dan Amcan 1. Mae gennym brosiect o dan y rhaglen newydd ac mae'n amlwg nad yw hynny'n digwydd o dan y rhaglen newydd ar hyn o bryd. Y wers bwysig o safbwynt y gwaith hwn yw mai'r rheswm pam nad yw wedi gweithio, yn ein barn ni—fi a Dr Gillian Bristow o Brifysgol Caerdydd—yw'r ffaith nad yw'r system hon

collaborate with other universities and with businesses. It is clear, if you look at the Higher Education Funding Council for Wales facts, for example, that only something like 3 per cent of British research council funding comes to Welsh universities. That shows an annual gap of £60 million. That is interesting because they have received £50 million to create new projects, but there remains a huge gap of £60 million a year. If we looked at this from a Barnett perspective, we should receive 5 per cent, but we only receive something like 3 per cent. If we look at the level that the private sector has spent on research and development over that period, we will see that it has been around £200 million over the last six or seven years.

What is interesting in the Assembly's economic strategy back in 2003-04, 'Wales: A Vibrant Economy', is that a target of 1 per cent of gross domestic produce was set for programmes such as Objective 1, and on increasing private sector expenditure to that level. It has now fallen back to 0.5 per cent of GDP. We are still spending around £200 million, when it was meant to have reached £0.5 billion by now. So, if we were only to look at the problems that have arisen through the programme and the failure to reach the work and skills targets, and if you look at the external targets, for example, with research in the private sector and in the university sector, you will see that those targets have not been achieved either.

In terms of why we have looked back at this, one problem that we have clearly seen throughout the Objective 1 programme is the silos problem, where these projects have been working independently without any sort of collaboration. If you consider a regional innovation system where nearly every country looks to develop this system, so that governments, businesses and universities collaborate, it is important to get the projects to collaborate too. It is clear that that has not happened under Objective 1. We currently have a project under the new programme, and it is quite clear that that is not happening under the new programme either. The important lesson on this work is that the reason why it has not worked, in our opinion—me and Dr Gillian Bristow of Cardiff University—is that the system does

yn gweithio. O ran pwy sydd i gymryd cyfrifoldeb am y system, efallai fod hynny'n rhywbeth mae'n rhaid i'r pwyllgor ei drafod. Os na ddaw'r Llywodraeth, y prifysgolion a diwydiant at ei gilydd i gydweithio, gwariant ar brosiectau yn unig fydd hyn, ac ni fydd dim yn parhau ar ôl 2015.

not work. In terms of who should take responsibility for the system, perhaps that is something for the committee to discuss. If we do not bring the Government, the universities and industry together to collaborate, this will merely be expenditure on projects, and there will be nothing to show for it post-2015.

[11] **Gareth Jones:** Diolch yn fawr iawn am y neges bwysig honno, Dylan. Hoffwn droi yn awr at David Melding, sydd am ofyn y cwestiwn cyntaf.

Gareth Jones: Thank you for that important message, Dylan. I now turn to David Melding, who has the first question.

[12] **David Melding:** I think that it is fair to say that the conclusion of your report is that there has been no real fundamental change in innovative culture. While the Objective 1 projects achieved many things, if you look at the intended legacy of really making the region more enterprising and innovative, you will see that that is where it is difficult to really trace lasting benefit. From your initial analysis of the convergence programme, do you think that it is more promising, to date, that that legacy will be established?

[13] The committee has already chased the point about greater private sector engagement. The Welsh European Funding Office and the Government come back to say that there is an awful lot of private sector activity, if you look at delivering services and the contracts under the programme. I suspect that you mean a bit more by private sector involvement than that, but I am not quite sure whether we have had a good model yet, in which the private sector could lead projects extensively. I do not know whether that happens in other parts of Europe, but it would be interesting to hear whether you know of anywhere where that has happened. I am not quite sure that our private sector is biting at the bit, as it were, to get ahead and to lead some of the major programmes that have been brought forward, given that the Government wanted a much more strategic approach this time—fewer projects but bigger hitting, strategic projects. How could they have been led and managed by the private sector? Is the model that you are suggesting, perhaps, what you alluded to just at the end, that there needs to be greater collaboration between Government, higher education and the private sector?

[14] **Professor Jones-Evans:** There were around five questions, David, so I will start with the first question, which is about targets. If you look quite carefully, you will see that, overall, in terms of targets, you can make the case that the Objective 1 programme was a success. Overall, it met nearly all of its targets. You will see that, when we were looking at this research, we looked at spending and requested information specifically on funding for the targets from the Welsh European Funding Office, and it provided us with the targets. These are the final targets as of the official end of the programme on 31 December 2008. You can see quite clearly that, for these particular measures, there has been a failure to reach a number of targets—particularly on innovation skills, the number of new jobs created in particular sectors, and also, more importantly, the number of new or high-technology businesses. The point that I raised previously is that one could say that those targets were aspirational, particularly if you will say that you will create 2,000 new high-tech businesses. That is like creating Silicon Valley in seven years.

9.30 a.m.

[15] **David Melding:** It was a huge target.

[16] **Professor Jones-Evans:** It was, so the question is whether that target was acceptable or not, and one would hope that, under the new programme, the targets would be acceptable. I think that they are—to be fair, they have learned from that previous target. As for the legacy

and an innovation culture, I go back to my earlier point that a culture perhaps existed, unfortunately, where projects tended to operate in specific silos, so that you ended up with the whole being less than the sum of the parts, which is not what you would expect with projects such as these. There was a failure in getting different projects to work together, and that is probably the vital lesson, that even now, two years into this particular convergence programme, you need greater co-ordination between projects.

[17] **David Melding:** To which the Government would probably say that that is exactly what it is trying to do with its more strategic approach. Why is that not the answer?

[18] **Professor Jones-Evans:** There are bigger projects now, but I still think that there is a failure of communication. The strategy was set six or seven years ago, and it is not rocket science. We need to become more enterprising, more innovative and more outward-looking. It is about how you implement that, and, to be honest, there are some fantastic projects. Let us take the technium programme, for example. The issue there is not a lack of great buildings in strategic locations; it is the lack of a programme to create the innovation and enterprise culture that would see people banging on the door to be let in to start a business. That is slowly starting to happen. The Institute of Life Sciences is now linking with Sony Technium so that the medical devices being developed at the ILS are, hopefully, being manufactured by the small companies. That is relatively new, so what I think that you need—and it would be interesting for this committee to ask the question, or perhaps for another academic study to be done by people such as me—is to look at the links between these different projects, and between the wider university and industry community in Wales.

[19] You also talk about private sector involvement. It is clear that what has happened under the previous programme, and increasingly under this one, is that the Welsh Assembly Government, and the Welsh Development Agency before it, used the private sector as a conduit for getting programmes out. The issue, I suppose—and this is another legacy—is that those programmes were developed and initiated in many respects from the civil service, without any interaction with the private sector. Yes, the private sector got the funding, but we did not draw on the knowledge, experience and expertise of how to develop such programmes within the private sector, particularly within the international community. We need to reach out, because there is more research and development being done in the private sector in Wales than in the university sector. That is still the case, if you look at the figures—particularly so in the convergence fund area—and that is just Wales alone. Look at some of the large organisations in the world. Why can we not reach out to the Microsofts, the Googles and the IBMs of this world and ask how they can come and help us, working in partnership with our universities and with Government—because Government drives a lot of this in Wales—so that we can get the triple helix model, to use the academic term, whereby academia, Government and industry work together? You talk about examples—there are examples from all over the world of this working successfully, so the question is whether we can learn from those. However, in terms of the private sector, please do not think that it is about including the private sector in Wales alone; there is a massive international community out there that, believe it or not, has a great deal of money to invest at the moment. That community is looking at where to invest, and we could lever that money in, particularly in terms of higher-level research and development, and get that working for Wales.

[20] **David Melding:** Is there a particular area that you are concerned about where we have not yet extracted the value that we could have done—perhaps this link with research and development and combining higher-end manufacturing and life sciences? There is a network, so is convergence perhaps trying to improve the take-up and the use effectively? Is that in place now? I am not quite sure what other levers you think that we should be using under the convergence programme to really get this connection between Government-sponsored research and development and university-sponsored research and development and business and industry. I noted that Lord Mandelson spoke about the German model yesterday. I cannot

remember what the German term is, but Germany has these institutes that are specifically designed to bring together these sectors.

[21] **Professor Jones-Evans:** Lord Mandelson was probably talking about the Fraunhofer model.

[22] **David Melding:** Yes, that is right.

[23] **Professor Jones-Evans:** They are independent research institutes that work alongside universities and industry, acting as this bridge. I know that a number of people have suggested this previously, saying that Wales does not have this model in place and that it could work well, because with a small nation such as Wales it is frankly ridiculous that you would have small world-excellent research departments fighting—let me correct that and say ‘competing’—

[24] **David Melding:** Not co-operating fully. [*Laughter.*]

[25] **Professor Jones-Evans:** —competing with each other for the same funds. Scotland is looking to develop a very different, devolved model of co-operation with higher education. A number of years ago, it set up the Institute of Physics in Scotland. Why? It was because it realised that all of its physics departments were far too small, individually, to compete, so Scotland looked at how to bring them together to create the critical mass that can have a real impact nationally and internationally.

[26] **Gareth Jones:** I think that Andrew wants to come in on one or two of those points.

[27] **Andrew Davies:** I apologise for being late, Chair. I apologise to you, Dylan, as well. I would like to explore this area. The Finance Committee is looking at further and higher education funding, and some of the issues that Dylan has touched on are things that the Finance Committee is looking at, not least of which is the fairly poor performance of the higher education sector in Wales, whether it is in terms of the research assessment exercise or in terms of drawing down research council funding, the share of which at UK level has hardly moved over 10 years. To develop your ideas, I fully support your idea that the private sector should be fully engaged. The problem, as you have just said, is not the strategy, but the implementation. That has been my theme for many years now. The problem is that the public sector is trying to second-guess what the private sector wants and needs. You mentioned my particular *bête noire*, which is the civil service’s ability to understand the challenges that Wales is facing, with regard to the role of higher education and the role of the private sector. You referred to the technium programme, obviously, and the Institute of Life Science, which is not part of the technium.

[28] **Professor Jones-Evans:** Exactly.

[29] **Andrew Davies:** However, it is a public-private partnership with IBM.

[30] **Professor Jones-Evans:** And with Boots.

[31] **Andrew Davies:** Yes, through the Boots Centre for Innovation. However, those are two very unusual areas. What I would say is that £100 million has been spent on the technium programme, but there is very little evidence of it being successful. As you said, that is almost entirely down to implementation. So the challenge we have is how a public sector that does not understand the needs of the private sector engages with the private sector.

[32] **Professor Jones-Evans:** I could spend about four hours on that, Andrew. The real issue is how you perceive convergence funding in particular. Do you see convergence funding

simply as an amount of money you spend within Wales, or do you use it as a venture capitalist would, to lever in other funding? Clearly, that is what has happened with the Institute of Life Science; it has levered in money from major international organisations. It is saying, ‘Don’t go anywhere else, because you know we have the academic expertise, but we also have the funding in place—this twice-in-a-lifetime-opportunity as you could now call it—to de-risk the project’. We forget the importance of that for the private sector. What we focus on is the fact that we should have wonderful academic institutions, but the accountants of any organisation that is going to invest in an area for the next 20 years will look at that and ask what the risk is in doing that. If you can ‘de-risk’ that in any way, as has happened, it is more likely that the IBMs, the Boots-type companies, and, hopefully, over the next three to four years, the Googles and the Microsofts of this world will come to Wales. So, it is about that particular aspect.

9.40 a.m.

[33] It is also about—and I remember this committee mentioning this issue many moons ago, and it is quite important—the civil service understanding the needs of business, and I believe that there was a programme when you were Minister, Andrew, about getting the civil service into industry. I do not know whether any of your civil servants actually spent any time in industry.

[34] **Andrew Davies:** I think that you know the answer.

[35] **Professor Jones-Evans:** Yes, well, there we are. I was just wanting you to—

[36] **Brian Gibbons:** Are you sure that you have the right Government? [*Laughter.*]

[37] **Professor Jones-Evans:** The whole point is that people are saying that this is the wrong time to invest, but, as you come out of recession, there are many companies looking to do that. I was in California two weeks ago, and venture capital houses there, such as Sequoia Capital, have a massive amount of money that they want to invest. They just need the right project.

[38] **Andrew Davies:** Would Sequoia invest in Wales?

[39] **Professor Jones-Evans:** No, it probably would not, but there are other venture capitalists, investors, and other large companies that would. The fact is that, during the recession, many American companies have retracted, and President Obama is trying to encourage them to spend more in their own country. However, the point is that they will have to expand again as the world economy expands, and they will be looking to invest in Europe again. Wales needs to use convergence funding as a leverage to get them to invest next to our universities, with Government playing a vital role to ensure that they can set up these centres, which would then become global centres for those companies.

[40] **Gareth Jones:** Brian, did you have a supplementary question?

[41] **Brian Gibbons:** Yes, Chair. I wonder whether there is a more fundamental and pessimistic reality, which is that business just does not want to know. It is not that we have not provided enough projects, or that we have not thrown enough money at them, or that, with all the projects and all the money, the programmes are wrong, but that there is something fundamentally different about the enterprise culture that operates in the United Kingdom and in Wales. In other European countries, and further afield, the business culture is one of being much more willing to work with Government and to engage with it. The headline message that we hear, at least from the voices of business, is, ‘If you are not giving us a direct grant, we do not want to know anything about Government.’ They want less regulation, less

intervention, and they say that the only ones who know about business are the businesses themselves—that is, the directors and shareholders. David Melding touched on that at the beginning, when he indicated that business was not biting—I believe that was the phrase that he used. The reason why business is not biting is perhaps because we have a fundamental cultural problem in the way in which business relates to Government. If we accept that that is potentially the case then, going back to your second point, perhaps in order to make business happen in Wales we have to look internationally, and the way forward would be to bring in international companies, which will contribute to creating a new business culture. By continually looking inward—although culture may change; it is not immutable—the reality is that we are trying to sow corn in pretty barren territory.

[42] **Professor Jones-Evans:** I would disagree with that, for the simple reason that, first of all, it is not an either/or strategy. There is enormous talent out there. If you go to our universities and look among our young people, you will find an enormous amount of talent. If you look at the statistics, such as those of the Global Entrepreneurship Monitor, you will find the following major disconnect: the age group with the highest motivation to start up a business is the 18 to 24-year-olds, but this is also the age group that does not set up businesses. You ask people in this group whether they want to start up a business in the future and they say, ‘Yes, of course we do’. However, when you look at how many people in this age group do set up a business, you see that it is the lowest number among all the age groups. There is a disconnect in terms of whether anyone has looked at this and asked where we are going wrong, whether we are demotivating people, whether they are getting access to finance and whether they are getting access to mentoring.

[43] David touched upon this whole idea of an innovation culture. I would urge everyone on this committee to read the story of Google. There is a book called *The Google Story*, which was released in paperback recently. It is a fascinating account. People say that you can never replicate Silicon Valley and what goes on at Stanford University. However, you have an environment there where all the young university people naturally think, ‘Perhaps we will go and work for a large company, or perhaps we will set up our own company’. In terms of the careers available to these people, they can flit between one and the other.

[44] **Brian Gibbons:** Sorry, but that is not the point. We know that in the United States, in particular, the Government, through the defence industry, has been a massive driver of innovation and business development, even though the defence industry may operate below a certain level. You mentioned some of the programmes in Germany, and we know that government and business are natural bedfellows in some of the countries in the far east. In the United Kingdom, that culture does not exist.

[45] **Professor Jones-Evans:** Do you mean in terms of defence spending?

[46] **Brian Gibbons:** It does to a certain extent in relation to defence spending. A lot of what has happened in the United States has been primed by the defence industry; in other words, it is Government working with business and business working with Government in a very coherent and holistic way, and in a way that does not happen in Britain. It does to a certain extent in the defence industry, but we do not have much of a defence industry left, as it turns out. There is a culture in which British business does not want to engage with the Government, except on a handout basis. The fundamental loyalty is to shareholders and maybe to directors, but businesses do not engage in national projects and so forth. That is not the British way.

[47] **Professor Jones-Evans:** I would like to mention the procurement issue, which is quite an important one. One of the issues that we have in Wales is the proportion of public procurement that goes to small businesses. This is to be found in the last place that you might expect in the USA. The United States Department of Defense has a specific quota that says it

must spend so many billions of defence dollars within small and medium-sized businesses. The department works alongside those businesses. You are saying that, potentially, businesses here do not want to play, but, at the same time, the Government is not offering them the opportunity to play.

[48] **Brian Gibbons:** That is what you are saying, and the issue that we have to resolve is whether businesses out there are straining at the leash and waiting for the right product or service, or whether we have more fundamental challenges in the way that we address entrepreneurship and our business development model in Wales.

[49] **Gareth Jones:** This is a point that we could continue debating, but I think in all fairness that Dylan has pointed us in the right direction. You can debate the issue of the Government's relationship with the business sector and vice versa, but the point that Dylan is making quite potently is how business ties in with research and development, the commercialisation of ideas and so on, and what possible guidance or leadership a government could provide in Wales to enable that to happen. It is not an either/or issue, as you say. It is about getting local businesses and the small and medium-sized enterprises engaged, whatever their view.

9.50 a.m.

[50] Then again, as you mentioned, there are the higher level, international companies. It is about getting a strategy and a recommendation from this committee, if we are firmly convinced that that is the way forward. That is not new to this committee, because we have been down this road before, as Dylan knows. If that is the challenge, that is where we need to focus, and we need to try to focus our debate on that particular issue.

[51] I accept what you say, Brian. It is a very interesting topic that goes to the heart of our inquiry. I will turn now to Nerys, however.

[52] **Nerys Evans:** Diolch yn fawr am y papur. Mae'n cynnig dadansoddiad diddorol o raglen Amcan 1. Yr wyf yn siŵr eich bod yn ymwybodol ein bod yn awr yn edrych ar gronfeydd strwythurol a gweithredu'r rhaglen o 2007 hyd 2013—yr ydym hanner ffordd drwy honno.

Nerys Evans: Thank you very much for the paper. It offers an interesting analysis of the Objective 1 programme. I am sure that you are aware that we are now considering the structural fund and the implementation of the programme from 2007 to 2013—we are halfway through that.

[53] Mae'r dystiolaeth yn dangos bod y rhaglen gyfredol yn wahanol iawn i Amcan 1; mae iddi fwy o strwythur a ffocws. Dywedwch yng nghasgliadau'ch papur fod angen agwedd wahanol tuag at y cronfeydd strwythurol a bod angen i'r Llywodraeth beidio ag ailadrodd polisiau blaenorol. A ydych yn credu bod hynny wedi digwydd o dan gynllun y cronfeydd strwythurol? A ydych o'r farn bod y newid hwnnw wedi digwydd yn ddigonol, ac a oes gennych chi dystiolaeth o hynny?

The evidence shows that this programme is very different to Objective 1; it is more structured and focused. You say in your paper's conclusions that the structural funds need a different approach and that the Government should avoid repeating previous policies. Do you think that that has happened under the structural funds scheme? Are you of the opinion there has been enough of a shift in that direction, and do you have evidence of that?

[54] Yn eich papur, dywedwch fod y system arloesi rhanbarthol wedi cael ei gorlywodraethu o dan Amcan 1. A yw hynny'n wir yn awr o dan y cronfeydd

In your paper, you state that the regional innovation system has been subjected to overgovernance under Objective 1. Is that true now under the structural funds? In our

strwythurol? Yn ein hymchwiliad, er ei bod yn bwysig edrych ymlaen o Amcan 1, mae'n bwysig ein bod yn dysgu'r gwersi yr ydych wedi'u nodi, ac mae angen tystiolaeth arnom i weld a gawsant eu dysgu yn y cynllun newydd hwn.

[55] **Yr Athro Jones-Evans:** Mae'n anodd i rywun ysgrifennu papur ar y maes hwn oherwydd bod diffyg gwybodaeth, yn arbennig yn gyhoeddus, am sut y mae WEFO yn rhedeg y rhaglen. Gwn fod papurau'n dod allan yn aml drwy'r pwyllgor sy'n rheoli'r rhaglen, ond mae'n anodd dod o hyd i ffeithiau am sut y mae gwahanol brosiectau'r rhaglen yn cael eu datblygu.

[56] Y pwynt diddorol am faes arloesi yn arbennig—a dyma bwynt y rhaglen hon—yw bod tua 65 y cant, o dan gytuniad Lisbon, i'w ganolbwyntio ar roi mantais gystadleuol i Gymru ym meysydd arloesi a menter. Felly, mae'n ddiddorol edrych ar y mesur newydd sy'n canolbwyntio ar y maes hwn.

[57] Yr hyn sy'n ddiddorol y tro hwn yw mai gan y prifysgolion a'r Cynulliad unwaith eto y mae'r prosiectau sydd wedi cael eu pasio a'u hariannu hyd yn hyn. Nid wyf yn deall pam nad yw'r sector preifat wedi dod â chynnig cryf gerbron ar gyfer prosiectau arloesi. Mae gan Brifysgol Cymru brosiect ar y funud sydd wedi cael ei ariannu. Yn ddiddorol iawn, mae'r prosiect hwnnw'n cael ei ariannu gan Brifysgol Cymru, gan WEFO, a chan y sector preifat. Felly, yr ydym ni fel corff wedi dweud bod yn rhaid i'r Llywodraeth, y sector preifat a'r prifysgolion gydweithio yn y prosiect hwn fel model ar gyfer y dyfodol.

[58] Wrth reoli'r prosiect, gallwn ofyn sut y mae'r prosiect yn ffio i mewn gyda phob dim arall sy'n cael ei ariannu o dan y rhaglen newydd. Dyna'r cwestiwn pwysig. Pwy sy'n gyfrifol am sicrhau bod y prosiect yn ffio i mewn? Wrth gynnig y prosiect, maent yn dweud, 'Wel, mae'n rhaid ichi ddangos eich bod am gydweithio â'r corff hwn a'r prosiect hwn hefyd'. I roi enghraifft, mae gennym y prosiect hwn, ac mae prosiect ysgoloriaethau arloesi am ddod â rhyw 100 o raddedigion o dros y byd i gyd i greu prosiectau i gwmmniau yng Nghymru. Y cwestiwn yw sut mae

inquiry, despite the importance of looking ahead from Objective 1, it is also important that we learn the lesson that you have highlighted, and we need the evidence in order to see whether they have been learnt in this new scheme.

Professor Jones-Evans: It is difficult for anyone to write a paper on this subject because of the shortage of public information in particular about how WEFO runs the programme. I know that the committee managing the programme regularly releases papers, but it is difficult to find facts about how the programme's various projects are developed.

The interesting point about the field of innovation in particular—and this is the point of the programme—is that, under the Lisbon treaty, some 65 per cent is intended to focus on giving Wales a competitive edge in innovation and enterprise. So, it is interesting to look at the new measure that is focusing on this area.

What is interesting this time is that it is the universities and the Assembly that once again have the projects that have been approved and financed so far. I do not understand why the private sector has not come up with a single robust proposal for innovation projects. The University of Wales currently has a project that has been financed. Interestingly enough, that project is being financed by the University of Wales, by WEFO, and by the private sector. So, we as an organisation have said that the Government, the private sector and the universities must collaborate in this project as a model for the future.

In managing this project, we can ask how the project fits in with everything else that is funded under the new programme. That is the important question. Who is responsible for ensuring that the project fits in? When you submit the project, they say, 'Well, you have to show that you are collaborating with this organisation or that project'. To give an example, we have this project, and the innovation scholarship project wants to bring in something like 100 graduates from all over the world to create projects for companies in Wales. The question is how that fits with

hynny'n ffitio gyda phrosiectau eraill sy'n cael eu hariannu, megis prosiectau Cyllid Cymru. Sut y gallwn sicrhau bod unrhyw brosiect yr ydym yn ei ddatblygu yn ffitio gyda'r math o arian a ddyrennir gan Cyllid Cymru o dan y rhaglen Ewropeaidd hon, a llond lle o raglenni eraill?

other projects that are being funded, such as Finance Wales projects. How can we ensure that any project that we develop fits in with the type of funding allocated by Finance Wales under this European programme, and a myriad of other programmes?

[59] Yr ydym yn hollol sicr y bydd ein prosiect yn llwyddo; mae gennym brosiectau yn eu lle yn barod, ac yr ydym yn gweithio'n galed i sicrhau y byddwn yn mynd y tu hwnt i'n targedau. Fodd bynnag, yn y diwedd, ni fydd hynny yn helpu Cymru ar ei ben ei hun. Yr hyn fydd yn helpu economi Cymru yw bod y prosiect hwn yn cydweithio â phrosiectau eraill, felly drwy ddod â dau neu dri o brosiectau at ei gilydd, yr ydym yn cael llawer mwy allan o'r prosiectau hynny na dim ond y prosiectau ar eu pennau eu hunain.

We are absolutely certain that our project will succeed; we have projects already in place, and we are working hard to ensure that we exceed our targets. However, ultimately, that project on its own will not help Wales. What will help the Welsh economy is that this project works with other projects, and, therefore, by bringing two or three projects together, we get far more out of those projects than we would from the projects on their own.

[60] **Jeff Cuthbert:** According to the translation, Dylan referred to the provisions of the Treaty of Lisbon, but I think that he meant the agenda.

[61] **Professor Jones-Evans:** Sorry, my apologies; they are definitely not the same. You know what I meant, Jeff; people mix up between the two. I meant the Lisbon agenda, not the treaty—you are absolutely right.

[62] **Nerys Evans:** Yr ydych yn dweud ei bod yn anodd iawn ichi wneud unrhyw asesiad o'r rhaglen newydd ac a yw'r beirniadaethau a wnaethoch o Amcan 1 a'r angen i newid y cronfeydd strwythurol yn ddilys, gan fod diffyg tystiolaeth gyhoeddus ar y pwnc, ac eithrio'ch profiad chi gyda'ch prosiect unigol.

Nerys Evans: You say that it has been very difficult for you to make any assessment of the new programme and whether or not the criticisms that you made of Objective 1 and the need to the to change the structural funds are valid, as there is a lack of publicly available evidence on the subject, apart from your experience via your individual project.

[63] **Yr Athro Jones-Evans:** Y ffaith yw bod nifer o'r prosiectau wedi cychwyn yn hwyr. Er enghraifft, yn y mesur ar gyfer arloesi, dim ond tri neu bedwar o brosiectau sydd wedi dechrau. Mae rhai wedi cychwyn er 2007. Os ydym yn sôn am y ffordd y datblygwyd y rhaglen ers iddi gael ei lansio, yr ydych yn rhoi'r hyn a elwir yn ffurflen PIP, sef tudalen i ddweud beth yr ydych am ei wneud. Yr ydych wedyn yn symud ymlaen i edrych yn fwy manwl ar bethau, cyn cyflwyno cynllun busnes. Felly, mae'n broses hir iawn—gall rai prosiectau aros dwy flynedd ar ôl cyflwyno'r cais cyn cael yr arian. Felly, nid oes llawer o'r prosiectau hynny wedi dechrau, felly mae'n anodd gweld pa effaith a gafodd y prosiectau hynny hyd yn hyn. Y cwestiwn pwysicaf yw: a fydd

Professor Jones-Evans: The fact is that many of the projects started late. For example, in the innovation measure, only three or four projects have begun. Some have begun since 2007. If we are talking about the way in which the programme has been developed since its launch, you submit the PIP form, which is a sheet of paper to say what you will you do. You then move on to look at things in more detail, before submitting a business case. So, it is a long process—some projects wait two years after submitting the case before receiving the funding. So, not many of the projects have begun, so it is difficult to see what impact they have had thus far. The most important question is: will there be a system from this point onwards—because we are midway

system o hyn ymlaen—oherwydd yr ydym hanner ffordd drwy'r rhaglen—lle gallwn fesur effaith y prosiectau? Os ydyw'r prosiectau hyn ddwy flynedd yn hwyr, bydd yn rhaid iddynt wthio'r effaith yr oeddych i fod i'w chael, yn ôl y rhaglen, yn llawer mwy nag a welsom yn y gorffennol er mwyn sicrhau bod y rhaglen yn llwyddo.

[64] **Nerys Evans:** Holais hefyd am orlywodraethu'r system arloesi. Yr ydych yn arbenigwr ar arloesi a busnes, ac yr ydych yn dweud yn eich papur fod y system arloesi rhanbarthol wedi ei gorlywodraethu o dan raglen Amcan 1. A oes digon o dystiolaeth gennych i asesu a yw hynny'n parhau i ddigwydd?

[65] **Yr Athro Jones-Evans:** Os cofiaf yn iawn, yr oeddem yn dweud ei bod yn bosibl bod hynny'n digwydd. Yr oedd y system o dan yr un adran, ac yr oedd yr adran honno yn weddol bwerus. Gan fod y system cymorth i fusnesau wedi newid dros y pedair blynedd diwethaf, hwyrach nad yw hynny'n wir mwyach. Efallai nad gorlywodraethu yw'r broblem. Y pwynt yw bod yn rhaid cael rhyw fath o arweinyddiaeth ym maes arloesi, ac, yn fy marn i, mae diffyg arweinyddiaeth gan y Llywodraeth neu'r gymdeithas ddinesig yng Nghymru o ran gwthio arloesi yn ei blaen yn y gymdeithas a'r economi.

[66] **Gareth Jones:** Cyn i mi alw Jeff, yr wyf yn derbyn y pwynt a wnewch eich bod wedi edrych yn ôl a gweld y seilos a'r peryglon o fynd i lawr y llwybr hwnnw. Yr ydych yn pwysleisio'n gryf iawn yr elfen o gydlynw a chydweithio fel bod pawb yn deall sut mae un prosiect yn rhyngweithio â'r llall, ac mai dyna sut y cawn y fantais orau o'r buddsoddiad hwn. Yr ydych, yr wyf yn siŵr, wedi darllen y dogfennau, ac, felly, byddwch yn gyfarwydd iawn â dyletswyddau Swyddfa Cyllid Ewropeaidd Cymru, er enghraifft, ac â'r pwyllgor y mae Jeff yn ei gadeirio, sef pwyllgor monitro'r rhaglen. A gredwch y dylai'r Llywodraeth ailedrych ar y cyfrifoldebau a'r dyletswyddau hynny a chyflwyno haen arall o'r fath oruchwyliaeth neu fonitro a fyddai'n cyd-fynd â'r hyn yr ydych am ei weld?

10.00 a.m.

through the programme—through which we can measure the impact of the projects? If these projects are two years late, they will have to drive the impact that they were meant to have in the programme much more than we have seen in the past in order to ensure that the programme succeeds.

Nerys Evans: I also asked about the overgovernance of the innovation system. You are an innovation and business expert, and you state in your paper that the regional innovation system has been overgoverned under Objective 1. Do you have enough evidence to assess whether that continues to be the case?

Professor Jones-Evans: If I remember correctly, we stated that it is possible that that was happening. The system in place was under the same department, which was quite a powerful department. Given that the business support system has changed over the last four years, perhaps that is no longer the case. Overgovernance might not be the problem. The point is that some kind of leadership is required in the field of innovation, and, in my opinion, there is a lack of leadership from the Government or civic society in Wales as regards driving forward innovation in society and the economy.

Gareth Jones: Before I call Jeff, I accept the point that you make that you have looked back and seen these silos and the risks of following that route. You emphasise very strongly the element of co-ordination and collaboration so that everyone understands how one project interacts with the other, and that that is how we can optimise the return on this investment. You have, I am sure, read the documents, and you will therefore be very familiar with the duties of the Welsh European Funding Office, for example, and with the committee chaired by Jeff, namely the programme monitoring committee. Do you believe that the Government should look again at those responsibilities and duties and introduce another similar level of oversight or monitoring that would be in line with what you want to see?

[67] **Yr Athro Jones-Evans:** Mae hynny'n gwestiwn diddorol. Yr wyf wedi gweithio gyda gweision sifil yn WEFO, ac maent wedi ein helpu i ddatblygu'r prosiect i fod yn llawer gwell na'r hyn yr oeddem yn ei ddisgwyl. Mae'n rhaid imi roi clod iddynt am hynny. Y broblem fwyaf, a'r hyn sy'n poeni gweision sifil yn WEFO yn fwy na dim yw rheolau cymorth gwladwriaethol. Maent yn poeni y bydd prosiect yn cael ei basio ac y bydd rhywbeth yn mynd o'i le ac, oherwydd bod un prosiect bach neu un cwmni mewn prosiect bach yn torri rheolau cymorth gwladwriaethol, bydd gweddill y rhaglen yn cwmpo. Maent yn poeni am hynny ddydd ar ôl dydd.

[68] Yr wyf yn deall hynny, ond o ran ariannu rhaglen ar gyfer corff fel Prifysgol Cymru, Prifysgol Caerdydd, neu Brifysgol Abertawe, nid wyf yn deall pam mae swyddogion yn ein holi am y cwmni yr ydym yn ei helpu ac eisiau gwybod pob dim amdano a sut y mae'n ffitio i mewn i'r rhaglen. Microreoli yw hynny. Rôl y swyddogion yw gofalu am y rhaglen yn gyffredinol. Ein dyletswydd ni fel noddwr y prosiect yw gofalu am y cwmni hwnnw. Deallaf pam maent yn gwneud hynny ac nid wyf yn dweud bod hynny y tu hwnt i'w dyletswyddau fel y maent yn eu gweld. Fodd bynnag, rhaid i'r person sy'n rhedeg y prosiect ddweud mai arno ef mae'r ddyletswydd oherwydd, pe bai rhywbeth yn mynd o'i le, Prifysgol Cymru fyddai'n gorfod ad-dalu'r arian i gyd, nid WEFO.

[69] Nid wyf yn eu beio am hynny, gan mai dyma'r system sydd wedi ei sefydlu. Y neges yw: os gwariwn geiniog yn anghywir o dan gymorth gwladwriaethol, bydd y Gymuned Ewropeaidd yn cymryd arian y rhaglen i gyd yn ôl. Yr ydym yn clywed drwy'r adeg mai dyma yw'r broblem. Mae'n rhaid newid hynny, oherwydd yr ydym yn llenwi ffurflen ar ôl ffurflen i wneud yn siŵr nad ydym yn torri'r rheolau hynny, ac mae gweledigaeth y rhaglen yn cael ei cholli.

[70] **Gareth Jones:** Yr wyf yn dilyn y pwyntiau pwysig yr ydych yn eu gwneud, ond, wedi clywed y pryderon, y manteision a'r anfanteision, beth fyddai'ch argymhelliad chi i'r Llywodraeth? Dyna ein rôl ni fel pwyllgor.

Professor Jones-Evans: That is an interesting question. I have worked with civil servants in WEFO, and they have helped us to develop the project into something much better than we expected. I have to praise them for that. The biggest problem, and what concerns civil servants in WEFO more than anything, is state aid rules. They are concerned that a project will be approved, that something will then go wrong and, because one small project or one company within a small project breaks the state aid rules, the rest of the programme will fall. They worry about that day after day.

I understand this, but in terms of funding a programme for a body such as the University of Wales, Cardiff University, or Swansea University, I do not understand why officials ask about the company that we are helping and why they want to know everything about it and how it fits in to the programme. That is micromanagement. The role of the officials is to look after the programme as a whole. It is our duty as the sponsor of the project to worry about that company. I understand why they do this, and I am not trying to say that it is beyond their duties as they see it. However, the person running the project has to say that the duty falls to them because, should anything go wrong, it is Cardiff University that would have to repay all the money, not WEFO.

I do not blame them for this, as this is the system that has developed. The message is: if we spend a single penny improperly under state aid, the European Community will take back all of the money for the programme. We are told time and again that that is the problem. That needs to be changed, because we are filling form after form to ensure that we are not breaking those rules, and the vision behind the programme is lost.

Gareth Jones: I follow the important points that you make, but, having heard the concerns, the advantages and the disadvantages, what would your recommendation be to the Government? That is our role as a committee.

[71] **Yr Athro Jones-Evans:** Mae'n rhaid inni sicrhau bod WEFO a'r cyrff sy'n cyflwyno'r prosiectau yn gallu ymddiried yn ei gilydd, ac nid dim ond o ran cyrff y tu allan i'r Llywodraeth; mae'r un peth wedi digwydd rhwng WEFO ac Adran yr Economi a Thrafnidiaeth, er enghraifft. Rhaid i'r Llywodraeth ddweud mai rôl WEFO yw monitro, a rheoli a dosbarthu arian. Pan fydd prosiect yn dod i mewn, y cyfan y dylai'r swyddogion ei wneud yw mynd drwyddo, rhoi tic yn y blwch, arwyddo'r contract ac yna monitro'r prosiect. Os ydynt yn gwirio pob dim, mae'r corff sy'n ymgeisio yn canolbwyntio mwy ar lenwi'r ffurflenni nag ar redeg y prosiect a gwneud gwahaniaeth i'r economi.

Professor Jones-Evans: We have to ensure that WEFO and the bodies running projects put their trust in each other, and not only with bodies outside the Government; the same thing has happened between WEFO and the Department for the Economy and Transport, for example. The Government has to say that WEFO's role is to monitor, manage and distribute money. When a project comes in, all that the officials should do is to go through it, tick the box, sign the contract and then monitor the project. If they check everything, the body making the application will end up concentrating more on filling the forms than on running the project and making a difference to the economy.

[72] Rhaid i'r pwyllgor hwn edrych yn fanwl iawn ar sut mae'r broses honno'n gweithio. Credaf ein bod yn gorwneud pethau yng Nghymru, felly mae angen gofyn a yw hwn yn digwydd mewn rhanbarthau eraill, fel Cernyw, ond hefyd mewn rhannau eraill o Ewrop. Yn y pen draw, y Gymuned Ewropeaidd sy'n rheoli; y ffordd yr ydym yn dehongli'r rheolau hynny sy'n bwysig. Efallai ein bod yn gorwneud hynny.

This committee needs to look closely at how this process works. I believe that we overdo things in Wales, so we need to ask whether this happens in other regions, such as Cornwall, but also in other parts of Europe. Ultimately, this is managed by the European Community manages; it is how we interpret those rules that is important. Perhaps we overdo that.

[73] **Andrew Davies:** I declare an interest as a former Minister. I was also a member of the Cabinet committee on structural funds. I will not discuss specifics, but Dylan has made a valid point. Government, and WEFO, in a way, is a microcosm of that—it cannot make up its mind if it is going to be strategic or whether it is going to micromanage, and the danger is that it does not do either very well. However, it is difficult for Ministers if the legal advice from lawyers is that there is an issue about state aid—you either have to be thick-skinned or throw all caution to the wind if you go against legal advice. However, you are absolutely right about the risk-averse culture. It always amazes me that, for example, France allows virtually no competition in the energy market and EDF has a virtual monopoly. As other countries point out, EDF is buying up energy companies all over the world. So, European state aid rules do not seem to operate in some areas.

[74] However, we do obsess at a certain level. This is a real issue that the Government has to deal with. This comes down to the point that Dylan made earlier, which is a point that I have made frequently, that the strategy is fine—I think that you would agree with that—it is the implementation that is the problem. This interpretation of state aid is a very restrictive interpretation.

[75] **Professor Jones-Evans:** I would like to make one point about this. It is an area that causes some confusion for any applicant. If you present a project, you are asked whether it is state-aid compliant. We would say that the Welsh Assembly Government has a state aid unit that should be able to advise on that point. The response would be that we would have to have our own advice on state aid for it. We would then go to a lawyer who is an expert on state aid and present the information that the lawyer gives us, but we would then be told that there was a difference of opinion between the lawyers. You either have to have—

[76] **David Melding:** A third lawyer.

[77] **Professor Jones-Evans:** Obviously, that is how they make their money.

[78] You have to have a consistent approach. If we are signing up to it, it is far better that WEFO or WAG has the final say on that state aid. If there are problems, there is no point passing the buck and saying, 'Your lawyer said this'. The entire programme will fall if there is an issue with state aid. Therefore, that interpretation of state aid must be defensible not only from the point of view of the project, but from that of the Welsh Assembly Government.

[79] **Gareth Jones:** The final question is from Jeff Cuthbert.

[80] **Jeff Cuthbert:** Given the declaration that I made earlier, I will keep my questions general. The committees that I chair have a degree of responsibility for the overall performance of the programmes, but not for any individual project. That is a matter for WEFO.

[81] Your evidence concentrated on priority 2 of Objective 1.

[82] **Professor Jones-Evans:** As well as priorities 3 and 4 in particular.

[83] **Jeff Cuthbert:** Yes, that is right. Overall, in relation to private match funding, Commissioner Hübner, before she was elevated and became an MEP—if that is an elevation, perhaps it is a sideways shift, or even down a bit—praised us and the Dutch for the degree of private match funding that we had. We were apparently well ahead of other regions of Europe that were benefiting from Objective 1 at that time. That is a factual statement.

[84] I accept that there is an issue relating to state aid. Unfortunately, we are where we are, and we are obliged to take account of European rules; we cannot duck that issue. I know that WEFO has spent an enormous amount of time on this, especially on the renegotiation of the intervention rate as a result of the recession, so that programmes can be adjusted, modified and so on. However, we are where we are, and we have to proceed.

[85] You are quite right that one of the criticisms, which had merit, of the Objective 1 programme was that it was project led. There was enormous duplication and wastage between various partnerships that did not necessarily co-ordinate their activities. I trust that that lesson has been learned when it comes to convergence and competitiveness funding—for example, we have one PMC that tries to bring it all together—and that there is a more strategic approach, ensuring that we learn the best lessons from Objective 1.

[86] What seems to be coming through from Europe is a move away from the grant culture towards loans, hence the JEREMIE project among others. This will benefit sustainability in the longer term. When European funding ends, we may have transitional funding, but it is too early to say as we have only one year of figures and there are concerns regarding those; there is plenty of time to go before we know exactly what our position will be.

10.10 a.m.

[87] However, it is important that our exit strategies are right because it would raise an eyebrow or two when sponsors said that they did not realise that all the money was going to end when the programme ended, which was strange. However, there was valid criticism in that perhaps it should have been reviewed more regularly to ensure that they were preparing for sustainability or the logical end of the project, but this time around, we cannot have that problem. So, on sustainability of the convergence and competitiveness programme, do you

feel that we are heading in the right direction? Do you think that there are lessons to be learnt and that we need to do some things differently in the longer term?

[88] **Professor Jones-Evans:** I suppose you could have just created a massive £2 billion loan fund and maybe that would have solved all of your problems. That may have been the easiest way to do it. However, Europe would have balked at having one priority and one measure with £2 billion to spend on it.

[89] **Jeff Cuthbert:** Yes, I think so.

[90] **Professor Jones-Evans:** The sustainability issue is quite a complex one. To be honest, I am quite surprised, particularly in terms of the initial rate of spend, that there have not been as many capital projects as could have been developed, and I understand why because the European Commission hinted otherwise. There have been some and they have been catching up, but clearly if you want to increase the rate of spend, you do a capital project; you can build something in nine months, spend £20 million on it and your rate of spend increases. Even though we have reached the first N+2 target, as you know, Jeff, the issue with the first N+2 is that we get a big bonus at the beginning. The question is about the second N+2. Taking Brian's point, the biggest threat to that is not the programmes themselves, but whether companies will take up those programmes—you can take a horse to water and so on.

[91] On long-term sustainability, again, if you are talking about a proper sustainable programme, it is about whether you invest in the skills and potential of people in Wales. To an extent, much of our focus has been on the ERDF programme, if you look at all of the projects that are funded under that. However, the real difference will be in ESF. If this committee gets the opportunity, I suggest that it looks at some of the programmes and whether it truly believes that some of those will have an effect because, again, when you say that there is only a small number of programmes, if you look at, for example, the work-based learning programme, that has been given to one organisation so that it looks like one project, but under it, around 40 other different projects are being funded. In some cases, you could argue that some of them are competing with each other and with other projects that have been funded.

[92] To an extent, you have to look carefully at that whole area of ESF. However, on sustainability, as I said, that goes to the heart of economic policy in terms of grants versus loans and investment versus giving the money away. Even if you look at Finance Wales or any sort of loan, they will have 20 per cent bad debt. However, if you had £100 million and gave £100 million away in loans, then you would still have £80 million to re-circulate. If you give £100 million away in grants, you will not get that funding back. That is the emphasis. However, to be fair, if you look carefully at some of the programmes that are being funded under convergence, and if you are saying that this is what the commission is saying, there are still essentially what we call grants being given away to businesses. As you know, if you give a business a grant, there is no commitment in that. If you want to look at some of those programmes, you should just say 'no' to anything that is to be funded again. You should just turn around and say, 'We will not give any grants, but we will give loans, repayable loans and interest-free loans'. If you want to make this programme sustainable, those funds would then remain in Wales and help the Welsh economy post-2015.

[93] **David Melding:** I have one other question; it will be a fairly focused one, Chair. We talked about the ERDF programme, and it is not fair to say that it is slipping behind us, but the spending has not been brought on as quickly as it has with the other programmes, and the Government says that it will catch up. However, some of us are concerned that some of the projects will be chosen in haste rather than by thinking about the strategic value. Do you have any idea why the Government has not pushed for broadband provision much more in the

Valleys and in rural areas? These are the railways of our age, almost, and there is obvious market failure in those areas to provide that sort of network. Would you focus on something as specific as that?

[94] **Professor Jones-Evans:** I do not know. I suppose that you have to ask the questions: who is providing overall strategic leadership for the programme, is there a prioritisation of some of these projects or is it a case of how quickly you can get them through the system? For example, for our project—I still do not believe that I did this, particularly as I teach business planning—we submitted a 120-page business plan, which was not double-spaced. I had to produce a five-year, monthly cashflow forecast. I would never tell a business to give a six month, monthly cashflow forecast, but every penny had to be accounted for and this is a £12 million project. We had to do that on a monthly basis. It took me two months to get the spreadsheet correct for that, so you can imagine other projects having to deal with that. So, when you get down to that level of management, that is the problem that you encounter. If you have done it before, and some of us have already done it, you will find that it is easier, but some projects devote four or five people to developing the project, which then still takes 12 to 18 months to get through the system. How can you cut that down? It then becomes an issue of, ‘We are not spending the money quickly enough, so which projects can we accelerate now to get through the system?’

[95] Andrew emphasised that the next programme was supposed to be more strategic, but my worry is that there is a strategy of panic: rather than ask ‘Which programmes should we prioritise?’ it is a case of ‘Which programmes should we be spending?’ Again, the committee should look, perhaps, at that balance. This is reality; if you are not spending quickly enough, you have to look to those programmes that will spend the money, because the last thing that we want is to send back 1p of this programme.

[96] So, on strategic projects, remember that the programme did not start for nine or 10 months—I think it started properly at the end of 2007 or the beginning of 2008—

[97] **Jeff Cuthbert:** They would say that— [*Inaudible.*]

[98] **Professor Jones-Evans:** I understand that, but the point is that, in May, when the call went out, around 30 or 40 bids were in and the question is whether each bid was assessed individually. It is possible that they had completed the project idea form and the various different processes to get to the business plan, but no-one looked at the overall range of programmes and asked, ‘How do you develop a strategy based on what people are prepared to do?’, rather than just saying, ‘We will go through the assessment process for each programme’.

[99] I know that with the university programmes on innovation, they are now prioritising programmes. That only happened in October 2009. They only started to prioritise then because the euro had strengthened and there was the potential for more funding, but there was no overall strategic approach to see what was needed. For example, no-one said, ‘We need to develop innovation and more high-tech businesses, so which programmes are there?’ or, ‘We need to develop ICT, so which programmes are there?’ There was no overall strategic viewpoint. It was left for the programmes to go through the process of being assessed and only when they got to that point, did they say, ‘That is the sort of programme we want to back’. So, to be honest, it is very democratic in its approach, because anyone can put a programme in, but, is it strategic? I doubt it.

[100] **Andrew Davies:** It is very laissez-faire.

[101] **Gareth Jones:** Ar y nodyn hwnnw, **Gareth Jones:** On that note, I thank you, diolchaf i chi, Dylan, ar ran y pwyllgor am Dylan on behalf of the committee for coming

ddod yma i rannu eich sylwadau a'ch arbenigedd gyda ni. Deallwn fod gwersi i'w dysgu ac yr ydym wedi gwrando'n ofalus a bydd eich cyfraniad o ddefnydd mawr inni wrth lunio'r adroddiad terfynol a'r argymhellion. Os ydych am gadw mewn cysylltiad, byddem yn gwerthfawrogi hynny, gan ei bod yn bwysig ein bod yn cael y rhaglen hon yn iawn ac yn effeithiol er lles Cymru.

here to share your comments and expertise with us. We understand that there are lessons to be learned and we have listened carefully and your contribution will be of great use to us in drafting the final report and the recommendations. If you wish to keep in touch, we would appreciate that, because it is important that we get this programme right and do so effectively for the benefit of Wales.

10.20 a.m.

[102] **Yr Athro Jones-Evans:** Mae Prifysgol Cymru newydd gael prosiect gan y Gwaddol Cenedlaethol ar gyfer Gwyddoniaeth, Technoleg a'r Celfyddydau i edrych yn fanwl ar y berthynas rhwng busnes, prifysgolion a'r Llywodraeth. Byddwn yn edrych ar hyn dros y tair blynedd nesaf. Gobeithio y gallwn ddod â'r gwaith i'ch sylw.

Professor Jones-Evans: The University of Wales has just been awarded a project by the National Endowment for Science, Technology and the Arts to look in detail at the relationship between business, universities and the Government. We will be looking at that over the next three years. I hope that we can bring that work to your attention.

[103] **Gareth Jones:** Cadwch mewn cysylltiad. Diolch yn fawr, Dylan.

Gareth Jones: Keep in touch. Thank you, Dylan.

[104] We turn now to our video conference with Mr McVey. Can you hear me, Mr McVey? Apparently not. There appear to be technical difficulties, so with Members' approval, I will suspend the meeting for a few minutes.

*Gohiriwyd y cyfarfod rhwng 10.22 a.m. a 10.35 a.m.
The meeting adjourned between 10.22 a.m. and 10.35 a.m.*

[105] **Gareth Jones:** Drwy'r offer fideo-gynadledda, mae'n bleser gennyf, ar ran y pwyllgor, groesawu Phil McVey, cyfarwyddwr polisi a rhaglenni Ewropeaidd, Asiantaeth Datblygu Rhanbarthol De-orllewin Lloegr. Diolch yn fawr ichi am eich tystiolaeth ysgrifenedig yr ydym eisoes wedi ei derbyn ac wedi cael cyfle i'w darllen. Byddem yn falch pe byddech yn gwneud cyflwyniad byr o rhyw bum munud er mwyn olrhain y prif bwyntiau. Cawn gyfle wedyn i ofyn cwestiynau.

Gareth Jones: It is my pleasure, on behalf of the committee, to welcome Phil McVey, director of European policy and programmes for the South West of England Regional Development Agency, to give evidence via video-conferencing. Thank you for your written evidence, which we have already received and had an opportunity to read. We would be grateful if you made an introduction of about five minutes to outline the main points. We will then have an opportunity to ask questions.

[106] **Mr McVey:** Good morning everyone; I hope that you can hear me loud and clear. Thank you for arranging for me to give evidence via video-conferencing, which is much appreciated, even though we had a small technical difficulty.

[107] To add one or two things to the written evidence, as the director of European policy and programmes in the South West of England Regional Development Agency, we are the intermediary body for the European regional development fund programmes in the south-west of England. There are two programmes, namely the convergence programme in Cornwall and the Isles of Scilly, and the competitiveness programme in the rest of the south-west region,

stretching from Devon to Gloucestershire and across to Wiltshire and Dorset. Communities and Local Government is the management authority for the programme, and it has delegated all but a very few functions to us. So, in day to day terms we are responsible for the delivery of the programmes on behalf of the partnership in the region, and we work very closely with the European Commission.

[108] To give figures for each programme, the convergence programme has a total value of £660 million, although the committee will be aware that the exchange rate has caused that to fluctuate somewhat. The competitiveness programme has a total value of about £250 million. Those figures include match funding as well as the European element. So, our programmes are somewhat smaller than those in Wales, but, nevertheless, have similar aims. The programmes are very much focused on delivering the so-called Lisbon agenda, so it is about growth and jobs with an emphasis on direct support for business, investment in research and development facilities and a degree of infrastructure to directly support business. For example, in the convergence programme, the biggest investment is something called next generation broadband, which ensures that businesses in Cornwall and the Isles of Scilly have access to the fastest possible internet facilities to enable them to grow their businesses and provide more better jobs in the future. That follows on from a very successful project in the previous Objective 1 programme. That project is worth about £120 million, including a considerable amount of private sector contribution. A fair element of the programme will be used on that project.

[109] In the competitiveness programme for the rest of the south-west outside of Cornwall and the Isles of Scilly, the emphasis is on providing revenue support for businesses, such as advice, guidance, and knowledge transfer from higher education into business, so we are very much involved with universities in the region. We also provide targeted support in the west of the region, which includes Devon, Somerset and parts of Dorset, because analysis of those regions shows that their economy does not perform as well as that in the area around Bristol and Gloucester. In terms of large competitiveness projects, there are no particularly large projects—they tend to be much smaller scale than in the convergence programme.

[110] In addition to those two European regional development fund programmes, we provide a strategic link for the territorial co-operation programme in the south-west region. We do not manage any of those programmes, as such, but we ensure that the regional partnership is best placed to take advantage of those. We do not directly manage the European social fund programmes, because there is a different structure in the south-west of England, and all of England, for those programmes. Nevertheless, by working with the European social fund managing authority, we have put in place a joint programme monitoring committee for ESF and ERDF. There are joint structures below that, which ensure that, wherever possible, we get the ESF and the ERDF programmes to work together. I will close with those words, but I am happy to take any questions.

10.40 a.m.

[111] **Gareth Jones:** Thank you, Mr McVey. That introduction has been helpful to us in providing the setting in your area. I now turn to individual Members, and the first question is from David Melding.

[112] **David Melding:** Good morning, Mr McVey. I want to concentrate on the role of the private sector. Although it has not been established as being entirely legitimate, some concern has been expressed to us that the private sector has a role in procurement and delivering services but its presence has not been seen enough at the strategic level, for instance in leading on or shaping projects. That is the sort of criticism that we have received from some people. Have you received similar criticisms, particularly in relation to the lessons learned from Objective 1 and bringing those into convergence? How have you operated to give the

private sector a strategic role, as is necessary to ensure that the legacy is as strong as possible and that the various projects are relevant?

[113] **Mr McVey:** Thank you for the question. We devote a lot of attention to engaging with the private sector at all levels in both programmes. I will answer the question from the convergence programme point of view, given that you alluded to the Objective 1 programme in particular. We sought to build on the experience of Objective 1, when a lot of attention was devoted to enabling the private sector to set up structures and networks so that it could engage with the programme appropriately. For example, we used technical assistance to fund a post in the private sector that enables private sector organisations to engage with the programme. That post ensures that programme monitoring committee members from the private sector are properly aware of what is going on, and also that businesses are aware of the opportunities through the programme.

[114] At this point, I should clarify the difference between our two programme areas, although I have not researched this properly. The employment base in Cornwall is very different from that in the rest of south-west England. For instance, the self-employment rate in Cornwall and the Isles of Scilly stands at 16 per cent, which means that there is quite a diverse private sector, but, historically, there have not been major networks and organisations.

[115] To turn to your point about criticisms, we have been asked questions—let me put it that way—about private sector engagement, and I will illustrate a couple of those. In comparison with the old programmes, these programmes are very much what we describe as commissioning ones, which means that we do not have an open door to bids from all corners as we did previously. This strategy was agreed by the partners before the beginning of the programme. However, concerns were raised by the private sector that it may reduce its ability to engage. In practice, the private sector has been very active and vocal at the programme monitoring committee—and I mean that in a positive way. We also have excellent private sector engagement in the external groups that we facilitate to approve projects, which are quite influential in giving projects the go-ahead.

[116] Before commenting on the private sector leading projects, I must emphasise the difference between the programmes. We have two areas in which the private sector leads quite a few projects. One is that we have a framework for the programme that offers a grant for modern business works. So, where a business identifies a growth opportunity, we offer a grant to support that. We have set aside £60 million in the programme for that, and the private sector is leading those projects. The other area, which I have mentioned already, is next-generation access, which is led by the private sector and which has levered considerable investment into the programme.

[117] **Gareth Jones:** Thank you for that, Mr McVey. We turn now to Jenny Randerson.

[118] **Jenny Randerson:** You mentioned in your introduction the investment in broadband. We in Wales have not yet got to that point within the programme, although I think that there is a possibility of that later on. However, I am aware that, in both Cornwall and Northern Ireland, investment in broadband is well advanced under the programme. For the benefit of our comparison, if and when we get things together to make some investment in broadband under this round of funding, can you tell us exactly how you approached that? What is the precise size of the investment? You mentioned £120 million, including money from the private sector, but how much is the European proportion of that? Is your partnership with one private sector provider or a number of them? Perhaps you could tell us how advanced you are on that.

[119] **Mr McVey:** Thank you for asking that question. Before I begin to answer it, I should say that we have a briefing note on this that would probably be helpful, but I do not have it

with me. I would be happy to share that with you.

[120] **Jenny Randerson:** Thank you.

[121] **Mr McVey:** I will make a few key points to begin with, starting with the European Union. The structural fund contribution to the project is £51 million. I do not have the total figure, but it is about £120 million, and I can confirm that in the briefing note.

[122] As for the approach that we have taken to this, I mentioned earlier that, under Objective 1, we had a project called Act Now, which improved broadband access in Cornwall and offered business support, so that businesses were equipped to make use of that facility. The approach that we have taken under convergence funding was, first, to agree a way forward with Cornwall County Council—or Cornwall Council, as it is now—for it to lead the development of this project. About £630,000 of European regional development fund money was set aside to carry out feasibility work and to ensure that a proper, full public procurement exercise was carried out within European procurement rules. The process involved a steering group being set up, led by Cornwall County Council, with private and public partners, including potential telecommunications providers. They got around a table and defined what was needed, and then the second stage was to go through the process of selecting a preferred bidder for the service.

[123] In answer to one of your questions, we now have a preferred bidder for the service from the private sector, although we have not yet been able to announce it. However, the key part of the structure is to enable a range of internet service providers to use the service. The second bit that I mentioned is to allow other private sector organisations to provide the programs, software, training, advice and guidance to businesses so that they can grow. We hope to be able to make an announcement on all that in due course, although currently, the major project application is with the European Commission for approval.

[124] I hope that that answers the key questions, but I am very happy to provide a briefing note, as I said.

[125] **Jenny Randerson:** That is fine. Thank you very much indeed.

10.50 a.m.

[126] **Andrew Davies:** Mr McVey, on that briefing, it would be very useful for us to understand the balance between supply and demand in any market intervention and how you dealt with the issue of state aid.

[127] **Mr McVey:** Thank you. Those are live issues for us, so we will include those.

[128] **Jeff Cuthbert:** I should point out that I chair the all-Wales programme monitoring committee, so I understand the system, I think—others will judge that. On your intervention rates, under the subheading ‘Progress’, you say that

[129] ‘The Cornwall & Isles of Scilly Programme is committed to finding sufficient match funding to reach a 68% ERDF intervention rate in investments at a Programme level.’

[130] That is a much higher intervention rate than we have in Wales. Even following renegotiation, our intervention rates are 57.5 per cent for ERDF convergence, 64 per cent for ESF, and 45.3 per cent for ERDF competitiveness. Why did you feel it necessary to have these relatively high intervention rates? We know that one of the themes coming out of Europe now is the reduction of the grant culture. In other words, it is about getting greater contributions from the project sponsors to ensure that they are fully engaged in the

programmes. You go on to say that

[131] ‘the European Commission has retrospectively allowed the inclusion of private sector match funding, although no amount was indicated in the original Operational Programme’.

[132] Was that quite deliberate or was there a lack of interest from private match funding providers? Is there another reason why it was not considered the first time around?

[133] **Mr McVey:** That is a good question. I think that there was a variety of things at play here. I will try to deal with them all. The first is a bit of history in that, when the convergence operational programme in particular was being developed, it was being done in parallel with all the other English operational programmes. I mentioned Communities and Local Government as the managing authority for those programmes. Forgive me, but my memory is slightly hazy now, but there was a general decision taken at the time that, on the whole, private sector contributions would not be included in the operational programmes. For the benefit of the committee, I will seek to discover more about that and provide you with information.

[134] Secondly, perhaps more importantly from our regional perspective, the convergence programme in Cornwall and the Isles of Scilly is different from most other convergence programmes in that it has a very high Lisbon rate. Nearly 75 per cent of the programme is earmarked for Lisbon-type investments rather than what might be described as regeneration infrastructure-type projects. In light of that, the European Commission was prepared to accept a higher intervention rate. Some of you might be familiar with the negotiating of operational programmes. We were able to agree a higher intervention rate through that negotiation.

[135] The third thing, which also relates to the private sector, is that we were unsure at the time what amount of private sector match funding, if any, might come forward. In the early days of the programme, we were what I can only describe as pleasantly surprised by the amount of private sector interest and the level of contributions coming forward. The table below the paragraph that you just referred to shows the private sector contribution. It shows it as 6 per cent of the total value, and that is much higher than we had expected at that point in the programme.

[136] So, I think that that makes sense. There were three factors: there was an England-level decision on private-sector funding, which I will seek to find out more about; there was a negotiation with the European Commission on the basis of this being a very high-level Lisbon programme, which affected the intervention rate; and more private sector match funding has come forward than we expected, hence the real intervention rate at the moment.

[137] **Gareth Jones:** Diolch yn fawr, Mr McVey. Yr wyf yn troi yn awr at Nerys Evans am y cwestiwn nesaf.

Gareth Jones: Thank you very much, Mr McVey. I now turn to Nerys Evans for the next question.

[138] **Nerys Evans:** Diolch yn fawr am eich tystiolaeth. Ar fand eang, yr wyf yn deall bydd y cynllun a fydd yn cael ei ddatblygu yng Nghymru yn llawer mwy eang, yn defnyddio sawl cronfa wahanol o gyllid Ewropeaidd ac yn cynnwys unigolion yn ogystal â busnesau. Felly, bydd eich gwybodaeth chi yn ddefnyddiol iawn er mwyn edrych ar yr hyn yr ydych chi'n ei wneud.

Nerys Evans: Thank you very much for your evidence. On broadband, I understand that the scheme that will be developed in Wales will be much broader, will use funds from many different European sources and will include individuals as well as businesses. So, your information on that point will be very useful so that we can look at what you are doing.

[139] O ran gwerthuso, mae'ch papur chi yn sôn eich bod yn disgwyl adroddiad ar ddiwedd mis Mehefin a fydd yn gwerthuso'r prosiect hyd yn hyn. A yw'r gwerthusiad hwnnw yr un peth ag adolygiad canol tymor Amcan 1? Yr wyf yn deall bod rheoliadau Ewrop wedi newid ac nad oes rhaid cael gwerthusiad canol tymor, felly pam yr ydych wedi penderfynu cynnal y gwerthusiad hwn? Beth yw'r buddiannau yr ydych yn gobeithio eu cael o ganlyniad i'r gwerthusiad a'r adroddiad? A ydych wedi adolygu eich cynllun i weld sut y mae'n ymateb i anghenion o ganlyniad i'r dirwasgiad? A oes unrhyw newid wedi bod yn eich cynlluniau oherwydd hynny?

On evaluation, your paper mentions that you are expecting a report at the end of June that will evaluate the project to date. Is that evaluation the same as the Objective 1 mid-term review? I understand that European regulations have changed and that a mid-term review is no longer necessary, so why have you decided to undertake this evaluation? What do you expect the benefits to be of that evaluation and report? Have you reviewed your scheme to see how it is responding to needs as a result of the recession? Have there been any changes to your schemes as a result?

[140] **Mr McVey:** First, on the broadband issue, you are right, if I understood you correctly: our broadband investment is very much focused on business and the needs of business. There will also be a degree of geographical targeting, which I have not mentioned so far, so that there might be broader bandwidth—to use a technical term—in some areas than others. However, what is happening in the European social fund programme is that, at the mid-term review of that programme, there has been a stock take of the need to provide skills and training to individuals to be able to better use the enhanced broadband in Cornwall. So, there will be significant ESF investment in giving individuals the opportunity to take advantage of it as well. What it is not doing, as a direct output of the ERDF, is providing 100 per cent domestic coverage. That may be a side effect, but the purpose of the investment is very much to assist business.

[141] On the evaluation and the mid-programme review, yes, it is correct that the regulations no longer require a mid-term evaluation of the programmes. We are not carrying out a mid-term evaluation in European terms; we are conducting a review of the programme that can be conducted quite quickly. The work is just about to begin and will report at the end of June. There is a link between this review and the final part of your question about the recession. Certainly, for the past year at least, programme partners have been asking through the programme monitoring committee whether what the programmes are doing is still right in terms of the economy as it is now. So, a part of that review will be to question whether the sorts of activities in the programme are still the right ones. There is an overlying assumption that the strategy of the programme is still the right one and that the pursuit of more and high-quality jobs is what we should be doing. This review will be slightly different from a mid-term evaluation because it will not examine everything, but we have asked it to look at, for example, whether we need to move money between priorities because some priorities in the programme are doing better than others. We have asked it to look at whether the environment and equality teams in the programme are working as well as they could be. However, it will not examine all the nuts and bolts of the programmes.

[142] **Gareth Jones:** The next question is from Dr Brian Gibbons.

11.00 a.m.

[143] **Brian Gibbons:** Good morning, Mr McVey. I would like to follow up on the 'mid-term review'. Who is undertaking that? Have you procured the services of an outside agency to undertake it?

[144] You mentioned in your document that you think that, depending on what emerges

from that, the commission may require some persuading to accept a reassessment of your programme, although the message that I took from the evidence that we received from the commission was that the ball was very much in the court of the programme monitoring committee to make the case and that it would be receptive. Therefore, there seems to be a slightly different emphasis in terms of the persuadability of the commission in what you have and what it has said to us.

[145] I would like to ask about your use of the procurement process. We have received evidence that, while the procurement process has helped non-governmental organisations to get involved in delivery, very often the procurement process has added anything from six to 15 months to the timescale for delivery, it has not been an easy process and, furthermore, in Wales, the beginning of the programme was bedevilled by a lack of clarity about the procurement process. Did you go through a similar period of uncertainty as to the ground rules about state aid, procurement and so on? Is your procurement exercise adding extra time to the process?

[146] My final question relates to something that I thought was an interesting idea. The idea is that, if you were going to do this again, you would not have a separate programme document, if that is what is called, and that the programme document for structural funds should be the local economic strategy, end of story. So, Wales—or the south-west of England—would submit its economic strategy as it is devised, which might then be tweaked by the commission, but you would not go through an intensive, separate exercise to introduce a separate programming document.

[147] **Mr McVey:** Thank you for those questions. On the first question relating to the mid-programme review, without going into too much detail, the programme monitoring committee set up a sub-group, which is chaired by an independent member of the PMC, if I can use that term—so, not a member of our organisation. That group worked on a brief for the mid-programme review. We are now in the process of selecting a firm of consultants to carry out the work. So, the answer to your question is that, yes, we have procured it. However, we have done so quite easily, because we have a panel of consultants whom we can invite to tender using accelerated processes. They have previously been through a procurement pool.

[148] Regarding your question on the European Commission, our comments were based on the fact that, like you, we have heard promising noises about it being in the court of the programme monitoring committee to decide what it wants to do. That is counterbalanced by strong messages from colleagues in the European Commission that they will want strong and persuasive evidence to make any changes. We are uncertain at the moment what that strong and persuasive evidence might be. Until we have done the review, we will not know what the likely changes will be. It is difficult to answer the question more fully at the moment.

[149] In relation to procurement, we have set out through our programme, on the whole, to use a grant-giving process. So, we have established frameworks for the programme, into which people put applications for ERDF. Once that ERDF has been awarded to an organisation in the way of grant, then we would require it, in any sub-contracting, to ensure that the procurement is carried out properly. We, as an organisation for the ERDF, have not carried out major procurement exercises. The next generation broadband one is an exception, even though that was carried out by another partner on our behalf.

[150] However, we have used, and I agree with the point that you made, an expression-of-interest route into the programme, followed by formal business plans. That is, I suppose, an almost procurement route. It is not procurement of services in the way that European directives might understand it, but we have used a procurement model to select projects. It takes longer to do that than to have a straightforward grant application to the programme and an award of grant. However, we are already seeing, first, new private sector organisations

delivering, for example, different support to companies in Cornwall. Secondly, although we do not have full impact evidence at this stage, we are seeing evidence that the quality is better than we may have seen in the past. It can take a little bit longer, but it does offer higher quality, we hope, ultimately.

[151] At the beginning of the programme, we set out this commissioning route clearly. We said that this was the process by which we would get to projects. We also made it clear that any procurement beyond that would need to be in line with European Commission regulations. So, I do not know what uncertainty there was, but I hope that we were clear about the route.

[152] Your fourth question was about the separate document. Again, this is following on from what we are already trying to do with the programme, which is with the regional economic strategy in our case. In Cornwall and the Isles of Scilly, their own sub-regional economic strategy very much shaped the operational programmes. Clearly, the operational programmes are also new to the European Commission, but were driven by existing economic strategies. So, I think that the questions for the next stage are: could we move to a position whereby, as you rightly described it, the existing strategies are used as the basis for the programmes, rather than our having separate documents, but will still give assurance to the European Commission that we are also delivering its needs through the programme?

[153] I have a paper that I will submit in writing, if I may, to add to the other papers, from Cornwall Council on its views as to how this might work after 2013. I am happy to provide that.

[154] **Gareth Jones:** Thank you. The final question is from Andrew Davies.

[155] **Andrew Davies:** I think that it would be useful to explore the issue of procurement. You say that it is up to the project sponsor to arrange procurement. It would be useful to know to what extent you, as a managing authority, monitor that and your involvement at that level.

[156] I have two questions. First, is there a mechanism or forum by which the managing authorities of the various European-funded areas in the UK meet or share intelligence information, best practice or interpretation of European judgments and so on? Is there some way in which that information is shared between the managing authorities?

[157] Secondly, you said that there is a different employment structure in Cornwall and the Isles of Scilly in that 16 per cent of the workforce are self-employed. The other difference between Wales and Cornwall and the Isles of Scilly is that the geography and population are also very different, as are the economic and historical structures. What is the population of Cornwall and the Isles of Scilly and, from your understanding, what are the differences between the convergence area in the south-west and in Wales?

11.10 a.m.

[158] **Mr McVey:** Thank you for the question. Briefly, on the procurement monitoring, the answer is that we have a monitoring team that visits the project sponsors and examines their procurement processes. It is quite closely examined to ensure that procurement is carried out properly and that sub-contractors are selected and worked with in a proper way.

[159] On the second point, there are two levels of sharing. First, the English intermediary body for ERDF—that is, the regional development authorities and Communities and Local Government—meets on a regular basis to share good practice and issues and how they might be resolved. In addition to that, the Department for Business, Innovation and Skills—Lord Mandelson's department—as the lead department for European matters, brings together

England and the devolved administrations on a regular basis. I have forgotten the name of the forum, but there is a group that meets on a regular basis.

[160] On structural differences, Cornwall's population is now around about 550,000. It has been the fastest growing part of south-west England for some time, and south-west England has been the fastest growing part of England for some time, and not only from inward migration. What might be a key difference between the two regions—I speak from a degree of ignorance, so forgive me—is that historically a lot of the inward migration to Cornwall consisted of people aged over 50 and a mix of economically active and inactive people. So, there were people coming to set up businesses, maybe in the tourist trade, for example, and a lot coming for early retirement. We have a very large outward flow of young people. There was a statistic that showed that something like 90 per cent of young people from Cornwall and the Isles of Scilly who wanted to study above the age of 18 left, and, of that 90 per cent, 90 per cent did not return. So, you had quite an exit of potentially talented and economically productive young people from Cornwall and the Isles of Scilly. One thing that has changed is that there is evidence now, particularly following the Objective 1 investment in higher education, which has continued into convergence, that we are seeing an inward flow of young people starting businesses and also studying at the new higher education institutions in the county.

[161] I think that the other significant difference—I do not have the west Wales figures with me—is that unemployment in Cornwall at the moment is at about 3.3 per cent. The UK is at about 4.3 per cent, so unemployment levels are low and have remained low, although there has been a slight increase throughout the recession. Hence the focus of the convergence programme has been not necessarily on tackling unemployment, although clearly there is an emphasis on that through the European programme, but on lifting the levels of the jobs and salaries available and therefore changing the shape of the economy in that way. We are trying to do that, but building on the basis that the economy is a small-business economy not a large-business economy. Those are some of the key differences that occur to me off the top of my head.

[162] **Andrew Davies:** That was very helpful, Mr McVey, but I am sorry to say that I missed the figure that you gave on the population.

[163] **Mr McVey:** I was looking for the current figure, which I am sure that I must have here with me, but it is about 550,000.

[164] **Gareth Jones:** Mr McVey, that was the final question from our side. Do you wish to make any further comment or are you quite happy? We are perfectly happy.

[165] **Mr McVey:** I am quite happy. Thank you very much indeed.

[166] **Gareth Jones:** On behalf of the Enterprise and Learning Committee, I thank you very much for participating and for your time. Your contribution has been very interesting and very relevant to us. We have highlighted certain similarities but also contrasts, which will be useful to us in our inquiry. I wish you all the very best in this important work with the agency in south-west England, and thank you very much indeed for joining us this morning. Diolch yn fawr iawn.

[167] **Mr McVey:** Thank you. Goodbye.

[168] **Andrew Davies:** Is the 550,000 for Cornwall and the Isles of Scilly?

[169] **David Melding:** It is.

[170] **Andrew Davies:** That figure was much higher than I expected.

[171] **Brian Gibbons:** Would that be the wider competitiveness figure?

[172] **David Melding:** No, he made a point of saying that it was the convergence area. It was Cornwall and the Isles of Scilly that was 550,000.

[173] **Brian Gibbons:** So, that is the size of Cardiff and Swansea together?

[174] **Gareth Jones:** Yes.

[175] Dyna ddiwedd yr eitem honno. Mae papurau i'w nodi, sef y papurau ar weithredu'r rhaglen cronfeydd strwythurol 2007-13 gan Gymdeithas Llywodraeth Lleol Cymru, ColegauCymru a Chyngor Gwynedd. Mae cofnodion y cyfarfod blaenorol hefyd i'w nodi.

That is the end of that item. There are papers to note, namely the papers on the implementation of the 2017-13 structural funds programme from the Welsh Local Government Association, CollegesWales and Gwynedd Council. The minutes of the previous meeting are also to be noted.

11.16 a.m.

Cynnig Trefniadol Procedural Motion

[176] **Gareth Jones:** A wnaiff un o'r Aelodau gynnig ein bod yn mynd yn breifat?

Gareth Jones: Will a Member propose that we move into private session?

[177] **Nerys Evans:** Cynigiaf fod

Nerys Evans: I move that

y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog Rhif 10.37(vi).

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

[178] **Gareth Jones:** Gwelaf fod y pwyllgor yn gytûn.

Gareth Jones: I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11.16 a.m.
The public part of the meeting ended at 11.16 a.m.*