



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

**Y Pwyllgor Materion Ewropeaidd ac Allanol
The Committee on European and External Affairs**

**Dydd Mawrth, 27 Tachwedd 2007
Tuesday, 27 November 2007**

Cynnwys
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National Assembly for Wales European and International Relations Strategy

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

Nick Bourne	Ceidwadwyr Cymreig Welsh Conservatives
Christine Chapman	Llafur Labour
Jeff Cuthbert	Llafur Labour
Nerys Evans	Plaid Cymru The Party of Wales
Michael German	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
William Graham	Ceidwadwyr Cymreig Welsh Conservatives
Gareth Jones	Plaid Cymru The Party of Wales
Janice Gregory	Llafur (yn dirprwyo ar ran Val Lloyd) Labour (substitute for Val Lloyd)
Sandy Mewies	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)

Eraill yn bresennol
Others in attendance

Anna Daniel	Pennaeth Swyddfa UE, Cynulliad Cenedlaethol Cymru Head of the National Assembly for Wales EU Office
Cheryl Fisher	Pennaeth y Is-adran, Banc Buddsoddi Ewrop Head of Division, European Investment Bank
Rebecca Johnson	Tim Atebion Ariannu, Adran Yr Economi a Thrafnidiaeth Funding Solutions Team, Department for Economy and Transport
Peter Kellam	Pennaeth y Tim Rhyngwladol ac Ewropeaidd Head of European and International Team
Andy Klom	Pennaeth Swyddfa'r Comisiwn Ewropeaidd yng Nghymru Head of European Commission Office in Wales
Laurent de Mautort	Cyfarwyddwr Adran Gorllewin Ewrop, Banc Buddsoddi Ewrop Director of Western Europe Department, European Investment Bank
Adam McDonagh	Pennaeth Swyddfa Llundain, Banc Buddsoddi Ewrop Head of London Office, European Investment Bank
Nick Moon	Cyfarwyddwr Strategaeth a Chyfathrebu, Cyllid Cymru Director of Strategy and Communications, Finance Wales
Sara Piller	Comisiwn Ewropeaidd European Commission
Cathy Presland	Pennaeth y Gangen Polisi a'r Uned Trawsbynciol, Swyddfa Cyllid Ewropeaidd Cymru Head of Policy Branch and Cross Cutting Unit, Welsh European Funding Office
Robert Schofield	Pennaeth yr Is-adran sy'n gyfrifol am fenthyca yn y DU, Banc Buddsoddi Ewrop Head of Division covering UK lending, European Investment Bank

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Gwyn Griffiths	Cynghorydd Cyfreithiol y Pwyllgor Legal Adviser to the Committee
Olga Lewis	Dirprwy Glerc Deputy Clerk
Chris Reading	Clerc Clerk

Dechreuodd y cyfarfod am 9.30 a.m.
The meeting began at 9.30 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Sandy Mewies:** I welcome everyone here. Some of you have had quite long journeys to get here and you are all very welcome. I need to make a few announcements. Headsets are available for translation as we have a system here where we operate in both English and Welsh. Channel one is the translation system, but those who might be hard of hearing can also use the headsets to amplify the proceedings. I ask our guests not to try to operate the microphones as they work on their own. If you have any electronic devices with you such as mobile phones or Blackberries, they should be switched off as they affect the broadcast. I have had apologies from Val Lloyd, and I welcome Janice Gregory; we have long awaited your arrival at this committee, Janice.

[2] **Janice Gregory:** We will not go there, Chair, thank you.

[3] **Sandy Mewies:** On housekeeping details, if there is any sort of emergency, it probably is an emergency. We do not know of any drills today and the ushers will see that we all get out safely. I will be in the front and Janice will be behind me.

[4] Members have been provided with European briefing, number 21, prepared by the Members' Research Service. I attended the meeting of the European Committee's UK Forum yesterday, which we set up in 2003 when I first became Chair of this committee. It includes the House of Lords, Westminster, the Northern Ireland Assembly, the Welsh Assembly and the Scottish Parliament. We try to meet on a reasonably regular basis to share good practice and look at where we are going. It provides us, in particular, with a network, which I hope will be strengthened, because they have bigger and better facilities and more people—not better people—than us to do the research, so it was an interesting meeting.

[5] I have also had apologies from Jonathan Evans, Jill Evans, Glenys Kinnock and Eluned Morgan, our Members of the European Parliament, and Janice is here as a substitute.

[6] I must also inform you that Jeff Cuthbert has been appointed Chair of the All-Wales Programme Monitoring Committee of EU structural funds for 2007-13 and we knew that, in its previous guise, as the Wales European Funding Office, representatives of which are also here today. Given that, Jeff will not be able to speak on certain items. He has not been struck dumb on items 2 and 3, but he has, quite rightly, decided that he cannot comment on some issues. However, I am sure that, after that, Jeff will be back to his usual contributing self.

[7] **Sandy Mewies:** I will bring in Chris to address a point on the minutes.

[8] **Mr Reading:** Thank you, Chair. I do not want to take too much time on this. The

Leader of the Opposition raised a couple of detailed points regarding the minutes of the last meeting, which I have discussed with him and we have agreed a way forward.

[9] **Sandy Mewies:** One of the things that Nick suggested is that it is a matter for the clerks to look at the purposes of and see some consistency in what is happening. We are going to have a working break at around 10.25 a.m., because we will have a presentation from Sarah Piller, the European Commission DG Market, on the single market review. She is sitting at the back, but will come forward eventually. If Andy wants to speak, I have told him that he will have to wave to me. If Members are happy with that, we can get a cup of coffee and come back, rather than wait around. She is time-limited and I do not want to miss the opportunity of hearing a few words from her.

9.33 a.m.

Ymchwiliad i Fanc Buddsoddi Ewrop: Banc Buddsoddi Ewrop European Investment Bank Inquiry: European Investment Bank

[10] **Sandy Mewies:** I welcome Cheryl, Laurent, Robert and Adam, who are going to lead on the first item and then will be happy to take Members' questions afterwards?

[11] **Mr de Mautort:** Adam is the head of EIB's London office. Robert is head of all the operations in the UK and Ireland relating to corporate and bank relations as well as education. Cheryl is head of a team working on all project finance in the western Europe department and I am responsible for all lending activity in what we call in our jargon 'western Europe', which means UK, Ireland, France, and the Benelux countries. So, on behalf of the EIB group, I thank the committee for inviting us to explain its role and scope of activity and I shall do so by explaining what we can do for Wales.

[12] The EIB group consists of two distinct entities: the Europe Investment Bank, which is the source of long-term financing, and the European Investment Fund, which specialises in venture capital and guarantees for small and medium-sized enterprises. I will focus mainly on the EIB. The EIB is the European Union's bank set up to finance capital investment projects that meet EU economic objectives. Owned by the 27 member states, the EIB operates largely on a self-financing basis by raising funds on capital markets, mainly through bond issues. The bank has a major focus within the union, but it also supports external mandates of the European Union, financing projects in neighbouring countries—south and east; it also has a limited mandate in Africa, the Pacific, Latin America, and Asia, but that is a very small mandate. The EIB is a long-term lender, with a triple A credit rating, enabling it to borrow the funds at prime rates and because the EIB is working on a not-for-profit basis, it makes the benefit of this pricing available to the EIB's borrowers.

[13] As the EIB will not lend more than 50 per cent of a project cost, it works closely with other funders, often commercial banks, in financing a project. The EIB finances major investment schemes, costing from about €100 million directly, or more, in both the public and private sectors. Private sector means large corporate and mid-sized corporations, and it is very active in supporting public private partnership schemes in the UK. Small-scale investments from SMEs or from small-scale infrastructure schemes can also be financed, but indirectly through credit lines arranged with banks and other financial intermediaries. The EIB provides long-term finance—up to 20 years or more—depending on the financial needs of each specific project. That can range from a normal single debt to a quasi equity in certain cases.

[14] The EIB, as I said, is the EU's long-term banking institution and for precise corporate objectives, we have six priorities. One is economic and social cohesion to support projects in the poorer European regions and so in the cohesion areas. Second is the development of a competitive and innovative European economy, which means sustaining investment in our

research and development, university research laboratories, informatics, telecommunications, and so on.

9.40 a.m.

[15] The third core objective is the trans-European transport and energy network to develop all the connections within Europe in terms of transport and energy. Last week, a list of priorities was published to allocate funds available at commission level, but we could deal not only with the priorities, but also with the other things. I will come back to activities on sustaining small and medium-sized enterprises later. The fifth objective is environmental protection, and the last relates to energy efficiency, diversification, and a secure energy supply, so those are the six core objectives.

[16] To talk about just one of them relating to the small and medium-sized enterprise, the EIB group supports SMEs investments through both the EIB and the European Investment Fund. The EIB does so through its credit line with banks and a financial intermediary, ensuring that tangible benefits flow to the final beneficiary, namely the SMEs. However, it is not an activity per se to finance the banks or the intermediary; we have a clear objective to be sure that an advantage flows to the finance beneficiary. The European Investment Fund works for SMEs through venture capital financing, guarantee facilities and securitisation.

[17] The EIF is a form of a public-private institution, in which the EIB is a majority shareholder, alongside the commission, and public and private sector banks from the European Union. The EIF acts as a fund of funds, taking equity in venture capital funds investing in business and in business incubators, with a focus on high-tech and early-stage development. For its SME guarantees, which is the second type of activity it does, and for securitisation, it provides a guarantee for a counterparty—which is a bank or a financial intermediary— portfolio of SMEs loans or guaranteeing a lower charge in a securitisation structure for SMEs. Therefore, it is a way to allow banks to do more business with the SMEs sector. So the EIF and EIB credit lines are complementary instruments.

[18] On what we have done in the UK and in Wales, over the five last years, the EIB signed loans of over £12 billion in the UK and, in the same period, the bank channelled around £250 million for investment in Wales. In the UK, nearly two-thirds of our lending has gone towards projects under economic and social region headings, at the time when there was much more for Objectives 1 and 2 areas, than is the case today. In the UK, the EIB is one of the largest sources of finance in certain types of projects. For example, transport, education, health and environmental waste disposal sectors. Such finance has been provided through different forms, including in PPP form, where we are one of the major players.

[19] The EIB has long been active in Wales. The first project was in 1973, financing a steel project at that time with British Steel. In the last five years, our intervention has been towards major investment for water supply improvement and wastewater infrastructure schemes and for investment in research and development for a large car manufacturer for the development of new engines. We have also channelled finances through UK banks for SMEs and we have listed, over the last five years, 400 interventions representing £50 million. We are now in contact with Finance Wales to set up a so-called JEREMIE fund and we are also in close contact to see whether we could participate through a housing transfer with Torfaen.

[20] So to deepen and diversify our support in Wales, we have taken the opportunity to address this committee, to hold talks with the Welsh Assembly Government Ministers, including the First Minister, as well as with other agencies involved in encouraging development in Wales. So, Chairman, on behalf of the EIB team, I thank the committee for the opportunity to present the EIB.

[21] **Sandy Mewies:** Thank you. Do any of your colleagues want to add anything? I see that they do not. Mike German is going to ask the first question.

[22] **Michael German:** I start by raising the obvious question. Given the larger number of interventions in the UK and the large amount of money involved, namely £12 billion, and given that only £250 million is coming to Wales—which is considerably less than the 5 per cent of Wales's population—and given that two-thirds of Wales have also been the recipients of Objective 1 funding and that large parts of the rest of Wales have been recipients of Objective 2 funding, could you explain why you feel that Wales has not done well out of the European Investment Bank's investments in the UK? Secondly, a great number of your interventions are, as you say in your paper, for funding PPP projects, which you mention are in England and Scotland. Is that because you have not received requests for support for PPP projects in Wales? Is that an ongoing trend that is more present in England and Scotland and less so in Wales?

[23] **Mr de Mautort:** When we talk about the EIB intervention, we have to go from a budget approach to a project approach in the sense that what is important here is what projects we can do. An obvious first remark is that the capital spending per capita in Wales has probably been lower than it is in other parts of the country. This is not the answer to the whole thing, but we are talking about relatively large investments, and when it comes to that, we could finance them. So, we are not related to the budgetary approach, but to specific projects. We are talking about comparison with the UK. We could also make a comparison with other regions in Europe. There is the example of the Walloon region in Belgium, where the level of the EIB's intervention was higher than it is in Wales and covered a wide range of interventions with the utilities owned by the public sector, private utilities, corporations and large infrastructures. So, it depends on the type of project. Ultimately, there are a number of conditions that have to be met to have any EIB intervention. If those are not always fulfilled, then that does not mean that it is a problem, it is simply a question of a certain group of elements that must come together.

9.50 a.m.

[24] First, you have to have eligible projects on a relatively large scale. It can also be a re-grouping of small schemes, but it has to be a project. A project means having an initial date, an end period, the scope of the project and such elements. You have to have a borrower because we are not in the field of issuing grants, but of providing loans. We are ready to take risks, but they have to be bankable. We have to find a payback and a way to refinance the operation, so we have to have a borrower. We have to have a structure which is compatible with EIB intervention. There are cases—and I am not talking about Wales, but generally—where we are informed of the project much too late in the process, which means that we are not in a position to react and be able to contribute to the operation. Therefore, early involvement in the whole process is quite important.

[25] Finally, EIB finance also has to provide value in the sense that we are in a financial market; we are in the situation where normally the EIB could provide very convenient conditions, but there could also be a situation where, at a certain point in time, the commercial banks provided funds that were more competitive than the EIB's. That is the normal situation in a sense that we are not administrating the rates; they are market rates, which are the lowest possible, but that does not mean that on specific deals, the public sector or the counterparty could not get more convenient rates from the banks. So, all those conditions have to be taken together.

[26] **Ms Fisher:** We have funded a PPP project in Wales; we funded the A55 project in north Wales and we are one of the largest debt funders for PPP projects in the UK. We also fund projects in England, Scotland and Northern Ireland. We have quite a major lending

frame in Northern Ireland. We have kept in regular touch with what we believe have been relevant promoters in the Welsh administration and, indeed, there was discussion some years ago, on the M4 being taken forward as a PPP and we spoke to them about the project then. Certainly we are very open to funding PPP transactions in Wales, just as much as we are in the other regions in the UK and if a major programme came forward, we would look at that with great interest in the same way that we did in Northern Ireland, when they developed a major capital programme. So we are very open to it and we have tried to ensure that we scan the market properly to pick up those transactions. However, unfortunately, not many transactions seem to have come through.

[27] **Michael German:** What percentage of your £12 billion in the UK is PPP?

[28] **Ms Fisher:** I will provide an annual figure instead because I find it hard to think in terms of the five-year figure. In general, we would lend somewhere between—sorry, but I am going to quote in terms of euros now—€700 to €1 billion a year, typically, for PPPs. That varies dramatically year-on-year. As Laurent said, you find that larger transactions might come along that skew the figures significantly for one year. For example, the London Underground PPP was a major transaction, but we do many small PPPs, for example in Dumfries and Galloway or in Argyll and Bute. There are many small projects and when I say small, just to be clear, I am talking about projects that are more than 50 million.

[29] **Michael Geman:** Is that euros?

[30] **Ms Fisher:** No, sterling. A project that is less than £50 million would be the limit that we would look to. For example, Cornwall, which is an Objective 1 region, had quite a small project involving refurbishment of their rural schools in the primary school sector and that was a loan of around £20 million. So, we will do smaller projects, but the figures overall tend to be significantly affected by the larger projects, which skew one way or the other.

[31] **William Graham:** Thank you for the presentation; it was a great help in amplifying the written notes that we have. I have two questions. I notice that one of your priorities is education and this touches on the former question to an extent. You have lent money to some of the English universities, but how can you make your sources of funding more available to vocational academic institutions? My second question relates to what Cheryl just mentioned, namely are you engaged in promoting the funding for the new M4 relief road?

[32] **Sandy Mewies:** Robert, did you want to answer that?

[33] **Mr Schofield:** Yes. We have lent to a number of universities in England and the facilities we originally set up were done in league with the Higher Education Funding Council for England, although since that time, some years ago now, we have also talked to the universities directly and we are happy to lend directly to a university. We have also talked to Cardiff University, and to universities in Scotland. It is merely a matter of chance that we have not concluded the financing. We would be very happy to finance universities in Wales if they had projects that they needed debt funding for. Until recently, British universities throughout the UK were either not willing, or not allowed, to raise much debt. Given that fees have come back into the income mix of the universities, that makes their position rather different and they are happier to take on a significant amount of debt, which is when they start talking to us.

[34] **Ms Fisher:** On the M4 question, we had an initial approach from the Welsh Assembly Government on funding the M4, which forms part of the trans-European road network, and from a first look point of view, it would certainly be an eligible project that we would want to consider. Clearly, we would need to undertake due diligence of the project, which we always need to do, in order to confirm its eligibility, but, in principle, we would

certainly follow this project with interest.

[35] **Nerys Evans:** Thank you for your presentation. One of the basic issues that we are grappling with is Treasury rules, and whether Treasury consent is needed for Welsh Assembly Government borrowing. How do you work with other devolved institutions, compared with the member states, in a wider context?

[36] **Ms Fisher:** On public lending in the United Kingdom context, we can lend to parties that have the power to borrow from us. For example, UK local authorities have powers to borrow, as do quasi-public bodies, such as Network Rail. Money is lent to such bodies in the United Kingdom, but obviously, we do not lend to bodies that do not have the power to borrow.

[37] **Mr de Mautort:** To provide a European perspective on this issue, in the past, the EIB has financed many projects at the central level, but more and more we are doing it at the regional level. The simple reason for that is that, in the past it was possible to lend to all national governments, but it is of less interest now; the value that we provide is extremely limited, so we have more and more intervention at the regional level.

[38] **Nick Bourne:** Picking up on that, the Treasury consent issue is important, and it might go some way towards explaining why we are borrowing less in Wales than elsewhere. Clearly, the National Assembly for Wales does not have the power to borrow. Presumably, this will be part of the remit of the commission on financing when it is set up. I do not know the timescale for that, except that it is not due to happen until after the convention is up and running. However, this is an important issue, and perhaps less controversial and more deliverable than Barnett, so we need to get that message across because, as I say, it affects our power as the National Assembly for Wales, to benefit from some of this drawdown of funds. As Michael said, we are punching well below our weight here, because we are getting about 2 per cent when we should be getting 5 per cent, based on a very rough and ready population score. We should probably be getting slightly more in terms of our convergence funding covering and given the competitive rates that are on offer. It is not the case that institutions in Wales are not borrowing; it is probably that they are borrowing at higher rates of interest. Therefore, we need to get the message across that there is an opportunity that we should be taking up.

10.00 a.m.

[39] These are less questions perhaps than observations. My last point, which is highly political but again needs to be communicated, is that if we are not participating as much as we used to in PFI and PPP—to put it in perhaps slightly less controversial terms—the drawdown is going to be that much less. Therefore, our competitive edge or our ability vis-à-vis the rest of the UK, including Scotland, to draw down funds is diminished. As I say, those are more observations than questions, but they are important points that we need to get across.

[40] **Sandy Mewies:** Cheryl, would you like to comment on that?

[41] **Ms Fisher:** May I make an observation on your observations? It is worth highlighting the fact that, when, for example, a local authority or Transport for London or Network Rail considers borrowing from EIB, it always compares the cost of funding from EIB to alternative costs, which is the UK Government—effectively Public Works Loan Board funding. EIB's rates are attractive only to borrowers who can borrow from the Public Works Loan Board in very specific circumstances. We can work with a body such as Transport for London to offer it attractive funding, but it is because of some quite particular things about the projects that it funds and the nature of those projects that we can offer it something that perhaps PWLB does not. However, normally, for general capital expenditure for UK public borrowers, the Public

Works Loan Board would be cheaper than the EIB. I just wish to make the point that we do not lend significant amounts of money to UK public bodies in general, because PWLB would normally be a more attractive source of funding.

[42] **Nick Bourne:** Is the Public Works Loan Board available to us, because it is something that is news to me?

[43] **Ms Fisher:** I do not know about the details of Welsh financing, but when UK local authorities borrow, they borrow effectively from Treasury, and that is for you to investigate. However, I would be surprised if the UK Government was offering different rates to different authorities; I believe that there is a single rate for all authorities.

[44] **Nick Bourne:** I think that local authorities can borrow from it, but I do not think the National Assembly for Wales could.

[45] **Ms Fisher:** Yes, and indeed, I do not touch on whether the Assembly Government has the power to borrow; it may well be the case that it does not. I just wished to point out that PWLB is as attractive as EIB in terms of funding. It is actually about your borrowing powers and then the attractiveness of the funding available to you.

[46] **Gareth Jones:** Diolch am y cyflwyniad. Yr wyf yn cydnabod bod her arbennig rhyngom ni a'r Trysorlys, ac efallai fod hynny yn cael ei adlewyrchu hefyd yn y lefel benthyciadau cymharol isel sy'n bodoli yng Nghymru. Ond, mae'n bosibl hefyd, wrth gwrs, fod hyn yn ymwneud â'ch blaenoriaethau a sut y maent wedi'u gosod. I gyfeirio at y flaenoriaeth gyntaf, yr ydych yn sôn am gydlynedd economaidd a chymdeithasol. Un agwedd hollbwysig ar hyn i ni yng Nghymru sy'n cynnal gwead cymdeithasol cefn gwlad, yn arbennig, yw'r iaith Gymraeg a'i chynnal i'r dyfodol. Mae bygythiad mawr mewn rhai ardaloedd ar hyn o bryd, yn enwedig o edrych ar yr argyfwng yng nghefn gwlad. A fydddech yn fodlon ystyried estyn cymorth a benthyciadau i hyrwyddo'r iaith Gymraeg a sicrhau ei dyfodol mewn perthynas â'r flaenoriaeth gyntaf? Wedi'r cyfan, mae rhan helaeth o Gymru, hyd y gwn i, yn eithaf tlawd, yn ôl y dynodiad tloidi yn y rhanbarthau cydgyfeiriant. Mae elfen o her yn hynny o ran y gefnogaeth i'r iaith Gymraeg.

Gareth Jones: Thank you for the presentation. I recognise that there is a particular challenge between us and the Treasury and that that may be reflected in the relatively low rate of lending in Wales. However, it is also possible, of course, that that relates to your priorities and how they are set. Turning to the first priority, you talk of economic and social cohesion. One crucial aspect of that in Wales, which maintains the fabric of rural Wales, especially, is the Welsh language and its survival. There is a great threat at present in some areas, especially given the crisis in rural Wales. Would you be willing to consider assisting and borrowing to promote the Welsh language and to secure its survival in relation to the first priority? After all, a large part of Wales is, as far as I am aware, relatively poor, according to the designation of poverty in the convergence regions. There is an element of challenge there in relation to support for the Welsh language.

[47] Sylwaf hefyd, o edrych ar y blaenoriaethau, bod posibilrwydd o wrthdaro rhwng rhai prosiectau. Os ydych yn datblygu diwydiant, bydd hynny'n cael effaith ar yr amgylchedd, a gall hynny greu tyndra. Pwy fydd yn dyfarnu ac yn mynd i'r afael â thyndra neu wrthdaro o'r fath? Pwy fydd yn gwneud y penderfyniad o ran benthycia arian?

I also notice, having looked at the priorities, that there is potential for conflict between some projects. If you are developing industry, that will affect the environment, which can cause tension. Who will adjudicate and deal with such tension or conflict? Who would make the decision on lending money?

[48] **Mr Schofield:** On the question of whether we can lend for social projects, and specifically for supporting the Welsh language, I refer you back to what Laurent said earlier, that we need a borrower and a bankable project. Therefore, social projects of that type tend to be funded through grant; we provide loans, and we can provide loans only to an entity that, first, has the power to borrow and, secondly, has the capacity to pay us back. In many cases, for instance, in our work in urban renewal where we have funded social housing programmes, there has been an element of social support of one type or another, such as community centres and so on, so that, in the overall scheme of things run by a housing association, the housing association has been able to afford to put those social facilities in place, but can still afford to pay us back our money. In such a situation, those social facilities are, of course, already encompassed.

[49] **Gareth Jones:** Looking specifically at the borrower, as an example, in order to develop Welsh-medium higher education, would you consider working with the institutions in Wales to help to promote the development of Welsh-medium higher education?

[50] **Mr Schofield:** Again, the same thing stands. We would be happy to talk to universities in Wales about their general education purposes, and if that included a Welsh language programme, that would certainly be okay.

[51] **Gareth Jones:** Thank you for that. I had a second point.

[52] **Mr de Mautort:** The environment is an extremely important consideration for EIB. It is probably a unique feature of EIB that we finance and analyse projects on different aspects; obviously, there are the financial considerations, but, on top of these, we have the economic, technical and environmental aspects. Therefore, the environmental aspect is absolutely essential for each project that we do. All projects must respect all the EU environment directives, which in some cases means an environmental impact study with a public inquiry. When that is the case, we publish on our website the non-technical résumé of the environmental inquiry. So, we are extremely careful that all the directives are respected, and we put this type of project on our website before it is approved by our board, allowing the public to have access to the information and eventually to react to it. We have a very precise policy on this.

[53] **Sandy Mewies:** Thank you. Before I go on, I am going to bring in Gwyn. I do not expect this to start a debate, but he is going to give us some information on borrowing. It is always useful to have a lawyer with you.

10.10 a.m.

[54] **Mr Griffiths:** Yr oeddwn am wneud sylw byr ynglŷn â'r cyfeiriad at y bwrdd benthyciadau gwaith cyhoeddus, a'ch cyfeirio yn benodol at adrannau 121 a 122 Deddf Llywodraeth Cymru 2006. Mae adran 121 yn cyfeirio at fenthyciadau gan Weinidogion Cymru—gallant fenthycu arian gan yr Ysgrifennydd Gwladol i'r dibenion a nodir yn yr adran honno. Mae adran 122 yn dweud y caiff y Trysorlys ganiatáu i'r Ysgrifennydd Gwladol dynnu arian o'r gronfa benthyciadau cenedlaethol ar gyfer gwneud benthyciadau i Weinidogion.

Mr Griffiths: I wanted to make a brief comment on the reference to the public works loans board, and to refer you in particular to section 121 and 122 of the Government of Wales Act 2006. Section 121 refers to loans by Welsh Ministers—they can borrow money from the Secretary of State for the purposes noted there. Section 122 states that the Treasury can allow the Secretary of State to draw moneys down from the national loans fund for making loans to Ministers.

[55] **Sandy Mewies:** I think that that is a useful clarification.

[56] **Michael German:** The First Minister told this committee that we have the legal powers to borrow, but usually the powers are ineffective because the Treasury rules say that it is an addition to the borrowing requirement and that it retains overall responsibility for the fiscal framing through the borrowing powers. Therefore, presumably, the sections of the Act to which you refer, refer to any borrowing whatsoever that has to come through the Treasury. Is that what Gwyn has explained?

[57] **Mr Griffiths:** Yes.

[58] **Sandy Mewies:** I think that we have had our clarification and the short debate that followed.

[59] **Janice Gregory:** Thank you for your presentation. I wish to go back to something that Cheryl said about the attractive rates and the people who are able to borrow. On housing stock transfer, which is currently an issue in Wales, I see that you were in discussions with Welsh Assembly Government officials and Rhondda Cynon Taf, but that Rhondda Cynon Taf chose to go to an entirely commercial lender. Why is that if your rates are attractive? Why would someone choose to go to a lender that, presumably, charges higher? What experience do you have in this in other parts of the United Kingdom, and is there anything that we can learn from your negotiations in England on this issue?

[60] **Mr Schofield:** I know some of the commercial detail of the arrangement between the commercial funder and Rhondda Cynon Taf. I am not aware of the latest state of negotiations, but I know that they signed up last week. EIB did not participate in that mainly because the commercial banks had bid so aggressively to fund that transaction that we felt that we would add very little value. In normal circumstances, as we have said before, EIB funding would be more attractive than a commercial bank funder. In that situation, over the whole life of the transaction, we would have been slightly more attractive, but the difference was marginal and it was easier for the borrower to go with just one commercial bank. That may be repeated in the other transfers in Wales; we have yet to see. The experience in England and Scotland until recently was that we were always attractive. We were possibly in the realm of 20 to 30 basis points cheaper than a commercial funder, but commercial funding rates have been whittled away over the years, and commercial funders are becoming more and more aggressive in their pricing. We will get involved only if we think that we add value.

[61] **Janice Gregory:** Thank you for that, Robert. There are 22 authorities in Wales; my authority, Bridgened, was the first to go to stock transfer. Other authorities may do that; we will have to see the results of the tenant ballots. However, if this is going to be a pattern, are you on a hiding to nothing? If commercial lenders are going to be more aggressive because they can see the beauty of lending to bodies such as Rhondda Cynon Taf or indeed Valleys to Coast, is there anything that you can do to counteract that or will you always be a loser?

[62] **Sandy Mewies:** That is why we have waited for Janice to come. [*Laughter.*]

[63] **Mr Schofield:** It is important to stress that we must remain relevant to the market but that we are not part of the market, and therefore our pricing tends to change less rapidly than commercial funders, which are fighting for a slice of the business. As a result, when they are fighting very hard, they may well exclude us by their pricing or their attitude. When, as in the very recent past, there is turmoil in the credit markets, EIB is suddenly somewhat more interesting. As I said on Rhondda Cynon Taf, our price was not that interesting. We do not know whether that will still be the case for the transfers that are currently being discussed.

[64] **Mr de Mautort:** It is quite typical of what EIB is supposed to be, in the sense that we

are a long-term stable partner. We do not change our pricing policy because of an event, and we do not enter into competition with the commercial banks. I have an example, not from the housing sector but the water sector, in the Walloon region in Belgium. Two years ago, the advantage of EIB was more than 30 basis points as compared with the commercial banks. Two years later, with the same risk, the same profile, and the same pricing from us, the advantage was two basis points, and it could change again. However, we have a stable position, and normally commercial banks have changing rates with different criteria.

[65] **Sandy Mewies:** It was interesting when Valleys to Coast and Nationwide came to committee. They talked about the fact that the points had dropped, that the gap had narrowed. There has been quite a lot of churn and turmoil in the market since then, and it is interesting to know that you provide this stability. I have been struck by the difference between EIB and a bank, where people are normally beating on the doors asking to borrow. Perhaps in the markets up to now not enough thought has been given to the payback situation. That is very useful.

[66] **Christine Chapman:** I wish to follow on from Janice's point about the situation with Rhondda Cynon Taf. I notice in your report that you say that you offer qualitative investment, and you have mentioned stability. These are factors that all of us would want to see for a housing stock transfer, but are you marketing the bank? Do you think that you might need to do more marketing of your bank? Those are really positive factors that all of us would be interested in.

[67] **Mr Schofield:** The question chimed with the Chair's comments about our work on the Bridgend transfer. On the question of marketing, we are a wholesale bank based in Luxembourg, and we cannot hope to cover the national markets in every member state in the way that a commercial bank will do here in the UK, for example. There would be a very limited number of projects that we could finance directly in the housing transfer market, for example. By very limited, I probably mean one a year. We do not have the staff and the resources to do more than that by lending directly. The Rhondda Cynon Taf and Torfaen transactions, for example, were of a size and in an area where we would be interested to lend directly. The Nationwide example is an illustration of what we do to cover the rest of the market. We lend to financial intermediaries so that they can parcel up our lending and provide benefit to their clients. We generally find that the advantage of using EIB is greater when we lend direct and obviously lesser when we go through a financial intermediary. As it turned out, in the transfer market in Wales, that was not the case in the two examples that have been quoted. However, that would normally be the case. We do market ourselves in very specific niches. We tend not to do blanket brand marketing, because we would not be able to cope with the resulting demand. We are very clear on the mandates we have and the areas we expect to lend money to.

10.20 a.m.

[68] **Christine Chapman:** Are you content that enough people understand what you are about? Do you consider that, possibly, more work should be done or that you need to work more with the partnerships? There is value here, but do enough people know about it?

[69] **Mr Schofield:** The answer is possibly twofold: first, with regard to specific sectors, such as housing, and secondly, more generally. On the specific housing question, the advisors, and certainly the Welsh Assembly Government, know of our activities in the social housing arena and, on the larger transactions in the UK, we are aware of them and the sponsors are generally aware of us. Therefore, we hope that we would get a fair whack at the transactions that occur. However, as I said earlier, if the price is very fine anyway, we think that our work has been done in that the borrower has already got a good rate and so, in effect, does not need us any longer. My colleague might wish to pick up on the wider issue.

[70] **Ms Fisher:** To pick up a little on the qualitative aspects of EIB's contribution, in the areas that we lend in, there is a culture that, once people have done a transaction with us they want to do more transactions. Therefore, there is a concept that success breeds success. We spend time, particularly in the context of PPPs, for example, explaining to local authorities what differentiates EIB from the other funders in a transaction, so that they understand not only the financial value added that we bring, but the qualitative aspects. In the context of lending to England, Scotland and Northern Ireland, we will, wherever possible, try to find a body that can help us in that education process with authorities that might have, for example, a schools investment programme. However, as Robert says, when we can identify projects that are of potential interest to us, we will try to find appropriate counterparts to help us to communicate the qualitative message as well as the quantitative message.

[71] **Sandy Mewies:** We have two minutes left for this, so, Mike, please ask a short question, and can we have a short answer please?

[72] **Michael German:** It is a short question because I had to work out the mathematics from the answer I got earlier. From what you said, about a third to 40 per cent of your lending in the United Kingdom is for PPP projects. Do you have a breakdown for those projects of the split between health, education and transport?

[73] **Ms Fisher:** Yes, but I do not have it with me now. We can provide that to Members.

[74] **Sandy Mewies:** We will circulate it to Members. Is that okay?

[75] **Michael German:** Yes, thank you. I would like to see the split between education, housing and transport, however you can show that.

[76] **Sandy Mewies:** Thank you, Mike. Thank you very much for a fascinating presentation. I have certainly learned a great deal today, and it has actually given food for thought for the future. You are welcome to join us for coffee now, but Members are going to come back as soon as possible to hear Sarah speak.

*Gohiriwyd y cyfarfod rhwng 10.21 a.m. a 10.30 a.m.
The meeting adjourned between 10.21 a.m. and 10.30 a.m.*

[77] **Sandy Mewies:** We need to keep questions and answers brief or we will not get through the agenda. Welcome, Sarah.

[78] **Ms Pillar:** Thank you. As you know I work in the European Commission. I work in the DG for Internal Market and Services, and we have just completed a review of the single market. A lot of people do not realise quite what a success the single market is. In the 15 years it has been operating, it has delivered approximately £1,300 billion worth of extra added value to the European economy. It has created 2.75 million jobs. The single market is a work in progress and it needs to change, to adapt to meet the new challenges that are developing in Europe. This is a Europe with a single market that was designed for a Europe of 12 member states, but where we now have 27. It is a Europe where manufacturing no longer dominates, where services represent something like 70 per cent of the EU economy and are responsible for 96 per cent of the jobs that are turning up. It is a Europe where there are lots of societal changes and where, as we all know, there is a possibility of a big problem with pensions. At the moment, there is something like four people of working age for one pensioner. In 2050, that is expected to be a ratio of three working people to two pensioners. In addition, there are all the environmental things that are happening, the issues around climate change, about energy and dependency. A single market is perhaps one of Europe's best tools to meet some of those challenges.

[79] We spent a while looking into what the single market does, and part of the single market review has been looking at how well it already delivers. Part of that, however, is that a work in progress always means that we need to plug some gaps, to move forward, to improve things. We talk about a new approach to the single market, but, basically, it is making the single market work even better and helping the single market adapt to the new challenges. Legal integration is no longer sufficient, and although we will continue to bring forward laws wherever they are necessary, there are other ways of doing things—there are other ways of reaching agreement that can benefit Europe. One of the biggest things is that we now need to understand our markets better. We need to find out where the remaining barriers are and we need to make sure that we have a single European market for everyone. The benefits of the single European market feed through to citizens, to small businesses, to everyone in the union.

[80] When we talk about how we want to deliver these results, we are really aiming to focus even more, because the better regulation agenda has already existed for a long while—at least since the start of this commission. We want to go forward into more evidence-based and impact-driven policy-making. That means that we are going to do more on monitoring. As part of the single market review, a preliminary methodology has been produced for looking at the markets. We want to focus on the big markets, where we make a change and it makes a big impact for European citizens. That means that we have come up with ways of assessing that. We have identified 23 sectors, which are pretty much split equally between manufacturing and services, where we know that barriers exist. The next step is to look further to find out exactly what those barriers are and to work out what it is that we can do to change those things.

[81] People always say Europe is all about rules. We have brought forward a lot of rules in the last 50 years, but that has been of benefit to a lot of people, because 27 different sets of rules have now been brought together into one set of coherent rules. However, there are other ways of achieving things. We can get the banking industry, for example, to think about codes of conduct. We can get co-operation and communication to find different ways of doing things—ways that will work practically and quickly rather than a long, protracted legislative process. Brussels cannot do this alone and it becomes more and more clear that we must work very closely with the member states, with government at all levels, to come forward with ideas that are going to work for everybody. Perhaps one of the biggest points coming out of the single market review is that we need to make it more accessible. We need to make it better communicated. We need to know, when citizens have a problem, when they are trying to export to another country and they cannot make something work, where they go to get that solved quickly.

[82] We are coming up with some concrete actions, but the single market review is not an action plan per se and the package that was announced last week will focus on a variety of areas. Some of the concrete things that we are going to do are in the area of retail financial service, which are the sorts of products that every citizen can buy. We are going to look at issues like product tie-in—when you buy your mortgage, how is it that you have to buy insurance from the same person? That is not a fair and open process. We are going to look into ways of improving customer choice and mobility. In the UK it is fairly easy, when you switch banks, that some of your customer details follow with you, but in a lot of member states that is not the case. We want to ensure that citizens are better educated in the financial area. We want to make it as easy for them to buy these financial products that can affect their futures, their pensions and their retirements, as it is to find information when they want to change their car or their television. We want to bring forward things that are going to be practical for them. We also want to look into ways to strengthen consumer rights or to make it easier for them to gain information. For example, we are going to introduce a consumer score board that will focus on issues around prices, complaints, switching, satisfaction and safety—

all the things that are important to the consumer that the market already delivers but maybe they cannot access.

[83] There are also a lot of things that we want to do for businesses. The European small business Act is being spoken of a lot. The idea with that is that there are already something like 20 million small businesses in Europe, employing something like 100 million people. We need to make best use of those, and make sure that they can grow and develop, because they are a great source of growth and prosperity for everybody. There is the idea that the small business Act will bring together a lot of the legislation relating to small businesses. It will look at ways of reducing the administrative burden tasks that they face. It will look at bringing together, in one place, the things that can benefit small businesses and make things practical for them.

[84] One of the biggest issues that we face is globalisation, and the single market is already a great springboard for European firms to enter into the world economy. We want to ensure that we build on those opportunities for European business and that we open up new markets in other countries. We also want extend the reach of the single market. Issues like standards in chemicals or safety, or the GSM standard that is used by 2.5 billion people worldwide, come out of Europe. If we can export our rules and our standards, we can make it easier for businesses to operate on the same basis across the world. We want to ensure that that market delivers and we want to ensure that everything follows through for citizens.

[85] To do that, one of the things that we really need to build on is promoting knowledge and innovation as the fifth freedom. We already have the freedom of movement, of people, of property, of services, and we now want this fifth freedom in knowledge and innovation. We want to make it easier for researchers to move around Europe, taking with them their grants, their skills and their knowledge. We want to make it easier. If you have introduced a product, if you have intellectual property rights, we want you to know how to enforce those rights and we want other people to respect them.

[86] We are never going to forget the societal dimension of the single market. This single market helps build and fund the social models of all the member states, because of the prosperity and growth that it creates. Alongside the package on the single market review, we have also produced papers on services of general interest and on a vision for Europe in the twenty-first century. The package comes together and we hope that, as we take the single market forward, we build a twenty-first century single market for a twenty-first century Europe.

[87] **Sandy Mewies:** Thank you, Sarah. That was remarkably interesting and remarkably succinct. Janice, do you have a short question? It will have to be short.

[88] **Janice Gregory:** Thank you, Chair. Thank you for that presentation, which was very interesting and succinct. One thing that attracted my attention was the issue about financial literacy. I am sure that you have a role in this, but I wonder how you can ensure that the member states are signed up to education, of our school children more than anything, in terms of financial literacy. It is vitally important that this is started off at a very young age.

[89] **Ms Piller:** I would agree with that. I think that these sorts of things—[*Inaudible.*]—where the rules stop and the national starts. The point is that we can facilitate ways of learning from best practice in other member states. We can bring people together to talk about things and work out ways that will work for them. It is very much on the soft side of issues at that point. It would not be that we would say, ‘This is the education standard that needs to be introduced’. The learning process is a joint process.

[90] **Sandy Mewies:** May I just add something? Financial literacy is something that we

have been closely interested in, in the Social Justice and Regeneration Committee that Janice chaired. I have also been involved in financial literacy projects with young people, of which we have introduced an element into the national curriculum. Is there any way that you can support that financially? I know that, every time people see Europe, pound signs come up. Is there any advice and guidance that you can give?

10.40 a.m.

[91] **Ms Piller:** Primarily we would be working in the area of advice and guidance, but within that I do not know what room there is for financial support. Anything that we do that fosters people coming together, such as seminars or something of that nature, presumably we fund, but I assume that programmes that are introduced by member states would be at member state level.

[92] **Sandy Mewies:** So, the message is to ask.

[93] **Ms Piller:** Exactly. It does no harm to ask.

[94] **Nick Bourne:** I have a few points. Thank you for the presentation, which was very helpful. I certainly agree with the analysis. The single market has clearly been a massive success, but I have a plea. Rhodri promised growth rates on a regular basis from the British countries and from the US. They are outperforming us—India, China, and the US; it is not just a matter of developed and undeveloped nations. The first question is: why do you think that is?

[95] The second question is on an issue that you did not mention—probably very wisely; I should, perhaps, not be asking this question—namely the euro. Is that an essential part of the single market? There were two doomsday scenarios. The first was that the euro would not work, that it would collapse and that it would not be a success; it has been. The other doomsday scenario was that we would suffer massively from being outside of it; that has not happened. Neither was true, but given that 24 of the member states will be in the euro, ultimately, and three, potentially, will not, where do you see that going?

[96] **Ms Piller:** Your first question related to why other countries are outperforming us, but that is not necessarily the case anymore. We are starting to challenge the Americans. We have, this year, overtaken the US on some factors for productivity and things like that. The Lisbon agenda is actually starting to deliver. The number of jobs and prosperity being created in Europe are improving. It does not mean that we cannot do better. A lot of that comes from the different social mixes and the different social models that exist in member states—they have different attitudes to market opening and things like that. However, Lisbon is actually more on track now than it has been; we are moving forward and we are getting better. In terms of productivity and prosperity, the efforts that we have made, the issues that we are looking into, the fact that we want to promote things like knowledge and innovation, that we want to take advantage of and use the single market and Europe as a springboard into the rest of the world, are starting to deliver. I think that Europe, as a whole, is starting to deliver a bit more.

[97] **Nick Bourne:** Did you say that Europe is ‘challenging America’?

[98] **Ms Piller:** Our productivity rates are up there and our employment gains are getting stronger all the time. I did have some figures with me but I have left most of my details behind.

[99] **Sandy Mewies:** It would be helpful if you could give us a note on this, because it is interesting and I am sure that we would all be interested to see that.

[100] **Ms Piller:** I am not sure whether it is December or January when they come forward with the next information on the Lisbon strategy. They are collecting statistics at the moment, and I think that that is where you will see the information delivered more concretely about how the improvements are coming through.

[101] In terms of the euro, that is a bit of a double-edged question and it is very hard to answer. The euro was viewed as one step in financial integration—the single market, the euro, one zone for payments and things like that. I think that Britain has proved that it can work very well with the dual system. Before, it was Britain trading with 26 currencies and now it is Britain trading with a maximum of three or four, and then we have all the other world currencies. It is difficult for me to say how that will work going forward, but I do not think that it has harmed us. The beauty of that is that we retain our ability to have a choice.

[102] **Sandy Mewies:** We will ask for that information, Nick.

[103] **Nick Bourne:** If we could, it would be useful. Even given the success vis-à-vis the States, there is still Brazil, Russia, India and China.

[104] **Sandy Mewies:** We will get them and we would be very interested to hear about any information to date. If there is any new information that has come out, if that is not too much trouble, we would like to see it.

[105] **Ms Piller:** They are preparing the information, and it is due in January. I will see what I can do.

[106] **Sandy Mewies:** Thank you. William?

[107] **William Graham:** Referring to the single market, we are well aware of difficulties in terms of economic development for recognition, and more particularly enforcement, of property rights. What is being done about that currently?

[108] **Ms Piller:** I have some notes on this. There are a lot of things that we hope to do in the area of intellectual property rights. A strategy for intellectual property rights will be presented in 2008, which will include the setting up of a network of helpdesks across Europe to improve the awareness and enforcement of IPR. There is also going to be more work on the European patent.

[109] **William Graham:** I was referring to property rights, not intellectual property rights.

[110] **Ms Piller:** I am sorry. I am not so clear on the distinction in terms of property rights.

[111] **William Graham:** It is the enforcement of property rights, particularly, in certain member states in terms of purchasing property for development, such as a new factory, and the differences. It was hoped that the single market would at least reduce some of the practices that are pertinent in some countries, which our people have no knowledge of.

[112] **Ms Piller:** Where we see barriers like that, we will continue to act.

[113] **William Graham:** Is there any specific information on that?

[114] **Ms Piller:** I do not have anything specific, other than that we will continue to pursue an active infringement policy where necessary. If you have particular instances of that, please bring them to our attention and we will do our best to act on them.

[115] **William Graham:** Thank you.

[116] **Sandy Mewies:** Thank you, Sarah. I am also grateful to Members for keeping questions short. That was fascinating—I am sure that we could have gone on and on, but we did only have a short time. We appreciate you taking time out to talk to us today, on what was really quite short notice.

[117] **Ms Piller:** Thank you.

10.48 a.m.

Ymchwiliad i Fanc Buddsoddi Ewrop: Swyddfa Cyllid Ewropeaidd Cymru European Investment Bank Inquiry: Welsh European Funding Office

[118] **Sandy Mewies:** We have representatives of the Welsh European Funding Office with us, unless it has changed its name. Cathy Presland is head of the policy branch, Nick Moon is director of strategy and communications at Finance Wales, and Rebecca Johnson is representing the funding solutions team of the Department for the Economy and Transport. Cathy, I think that you are going to lead off on the presentation. Your colleagues you can involve as necessary, and then we will take some Members' questions.

[119] **Ms Presland:** Thank you, Chair. I thought that I would give you a very short introduction to the paper and then I am very happy to answer questions and involve my colleagues. Nick from Finance Wales will be able to answer any detailed questions on the JEREMIE instrument, and Rebecca will be able to answer some of the more complex questions, perhaps, around urban development funds, if not JESSICA. I will field general questions.

[120] Our paper discusses two of the three new facilities that have been made available under the structural funds regulations for 2007-13—JEREMIE and JESSICA. There is a third J, JASPERS, which is something that is not applicable to the UK, so we have concentrated on the two that are. What these facilities offer are different ways of using European structural funds in this round. They bring the possibility of working more closely with the EIB and the EIF, and it opens up the potential for EIB/EIF lending, which has always been there, but this formalises it in a particular way. From a structural funds perspective, the main attraction of both of these instruments is the legacy effect that they bring. The JEREMIE facility, which is a financial instrument for SME finance and also for microfinance, is very similar to the venture capital provisions in the old structural funds regulations, in that we can make an European regional development fund grant available to a holding fund that is then recycled in a very similar way to the current project that we have with Finance Wales. What is slightly different about it is that it brings with it an easier way of accessing EIF finance, and opens up the option of the EIF lending facility, as match funding for that. We are very positive about the JEREMIE facility, and the EIF has conducted a scoping study for the UK with particular details about the funding options for Wales. We have asked Finance Wales to prepare a project proposal on the basis of the scoping study that has now been conducted.

[121] The JESSICA instrument allows ERDF to be used in conjunction with urban development instruments and it anticipates that an urban development fund will be established in a particular geographical area, and that we can make ERDF available to these funds that would operate on a commercial basis. The funds would be set up in partnership and the way in which we anticipate that this would work is in a similar way to funds of the Welsh Assembly Government in the past, in that we would intend that they would be public/private partnerships. This is something that is quite important from the perspective of debt finance, which I know that you raised in a previous discussion.

10.50 a.m.

[122] If the fund is established on a basis where the public partnership element is 50 per cent or less, then it would not count towards the public sector borrowing requirement, which clearly is quite attractive from that perspective. ERDF could be made available as part of the public contribution to this, but we anticipate that the public contribution will come in the form of landholdings—whether local authority landholdings or Welsh Assembly Government landholdings, or, indeed, other public or private landholdings. This is where we come back to the definition of what is urban. You can see clearly from the title of this instrument that it is intended for city areas. We would regard urban in perhaps a fairly broad understanding of it in the Welsh context. The root issue for us is going to be one of scale and the quantity of assets that were available within any particular geographical area, which could constrain the potential funds that we established.

[123] The attraction for putting structural funds into this would be about a legacy effect—the fund would then own and manage the assets that were transferred into it. ERDF or private lending would be used to develop the assets, which would then be managed to generate a commercial return, and this commercial return could be reinvested in the fund, or, in the case of ERDF, could be reinvested in other kinds of urban development initiatives. What this means is that we have a longer term legacy, over and above something that would operate as a grant instrument. This makes it very attractive to us. The ERDF element could only be spent on activities within the portfolio of projects that was eligible activity, and the urban development funds might have a portfolio of projects of different types, some of which would be eligible—for example, sites and premises, office developments—and some of which may not be eligible for ERDF; housing is an obvious example.

[124] JESSICA is running on a slightly slower track to the JEREMIE facility and we are still in discussion on the final details of the scheme with the European Commission and the European Investment Bank. What the Welsh Assembly Government wants to do is to ask the EIB to commission a scoping study for us, which the EIB would probably commission consultants to carry out. We are in discussion at the moment with the EIB about the terms of reference for that scoping study, and this would identify in more detail what the potential benefits for Wales would be in using the JESSICA instrument and where, geographically, we might be able to set up some specific schemes. That is where we are with those two particular instruments. We are happy to answer any questions that the committee has.

[125] **Nerys Evans:** Diolch am y cyflwyniad ac am y papur. Fel awdurdod rheoli, yr ydych yn ystyried ceisiadau ar gyfer mecanwaith JEREMIE, ac yr ydych yn dweud y byddwch yn ymgynhyrdd at ddibenion dichonadwy. Sut y byddech yn asesu hynny yn nhermau amcanion a blaenoriaethau Llywodraeth y Cynulliad gydag amcanion a blaenoriaethau Ewrop? Hefyd, beth yw'r amserlen ar gyfer dechrau defnyddio mecanwaith JEREMIE yng Nghymru?

Nerys Evans: Thank you for your presentation and your paper. As a managing authority, you consider applications for the JEREMIE mechanism, and you say that you would aim for feasible objectives. How would you assess this in terms of the objectives and priorities of the Assembly Government alongside European objectives and priorities? Also, what is the timetable for starting to use the JEREMIE mechanism in Wales?

[126] **Ms Presland:** I am not sure that I got the first part of the question. I wonder if we could have it again.

[127] **Nerys Evans:** Yr ydych yn ystyried ceisiadau JEREMIE, ac yr ydych yn sôn am

Nerys Evans: You consider bids against JEREMIE, and you talk of aiming for

ymgyrraedd at ddibenion dichonadwy. Sut yr feasible objectives. How do you assess ydych yn asesu blaenoriaethau Llywodraeth y Assembly Government and European Cynulliad a rhai Ewrop, ac yn blaenoriaethu priorities, and prioritise between them? rhyngddynt?

[128] **Ms Presland:** I think that I got that; please follow up if I have not understood it correctly. Any ERDF that we make available to either of these instruments, or any other instruments, needs to meet the objectives of the structural funds programmes. In the case of JEREMIE—I think that the question was specifically directed at JEREMIE—we would need to ensure that any project that was developed met the objective and was eligible within the scope of the structural funds programme. The business finance element of the convergence programme aims to overcome any market failures or gaps in the provision of finance to small and medium-sized enterprises. The study has been conducted within the context of the drafting of the operational programme. We would anticipate that there would be a very good fit between any projects that came forward. If there were elements of a project or request for funding that did not fit with the operational programmes, then it would not be possible to proceed with that part of the project.

[129] In terms of the timetable for it, we would hope to see something coming forward, perhaps, in the early part of next year. There are various processes that need to be undertaken, on one side from the WEFO perspective, but also, in the case of JEREMIE, from the EIB/EIF perspective. They conduct quite rigorous due diligence on, in this case, Finance Wales, to make sure it is an appropriate organisation to lend money to. This we would see taking place over the coming months, and we would hope to have something operational by the middle of next year.

[130] **William Graham:** In the JEREMIE programme, I see the development of micro credit. That is something that Members have pushed for over the years here. I see that they are going to offer not just a loan, but a service mentoring the borrower, which is, again, an excellent facility. How is that going to be paid for? Is that being paid for by the borrower within the loan, or is it specifically something that will be funded by the cohesion policy? That is on JEREMIE. On JESSICA, I think that I saw that Swansea had received about £80 million from various European funds. JESSICA is particularly applicable in Newport and I know that some funds have been made available, but what funds have been made available in Newport under JESSICA?

[131] **Ms Presland:** Do you want to answer the question on micro credit?

[132] **Mr Moon:** One of the issues that we find with micro finance is that, often, the businesses are relatively unsophisticated in managing their finances and their general business practice. Quite rightly, it has been noted that there is a need to provide additional informal advice in this area above just purely financial support. This element of the fund will be funded through the overall fund, which will be a blend of ERDF, national contribution and EIB money. So, in that sense, it will be included within the overall package.

[133] **William Graham:** Is this made plain to the applicant in the first instance?

[134] **Mr Moon:** Yes.

[135] **William Graham:** Are they told, 'If you want the additional help, it is going to cost x'?

[136] **Mr Moon:** No. We tend to provide informal support through Finance Wales. One of the differences between us and a normal commercial lender is that we will go above the board in terms of the other service that we can provide to a business through our investment

executives, who will often be much more hands-on in helping the business get to that level of investor-readiness that is required.

[137] **William Graham:** Will that go through the period of the loan?

[138] **Mr Moon:** Yes. It is in our interest as well to make sure that we are re-paid properly.

[139] **Ms Presland:** In terms of JESSICA, there are a number of potential sources for funding under the structural funds programmes. We would like the scoping study to look at the potential for funding from priority 3, which is our strategic infrastructure priority, and there is an element of that available to fund sites and premises infrastructure. We would also like to consider making funds available out of priority 5, which is our sustainable communities priority, so there is the scope for using some combination of funds from either one or both of those priorities in the convergence region. I think that you asked about Swansea as an example, but, under the competitiveness programme, we have almost no money available for infrastructure provision. The only option for funding any JESSICA schemes, or making ERDF available for JESSICA schemes, is from our priority for regeneration for growth, which has a very small allocation of about £7 million over the programme period.

[140] **William Graham:** How much money has been spent, or committed, in Newport over the next three years?

[141] **Ms Presland:** Are you asking how much has been spent or how much will be spent?

[142] **William Graham:** Both.

[143] **Ms Presland:** I could not tell you how much has been spent.

[144] **William Graham:** Could you tell the committee in time?

11.00 a.m.

[145] **Ms Presland:** We would be able to provide data on funds in the old programmes that have been made available within the Newport spatial area for Objective 2. We would definitely be able to give you that information historically. In terms of future funding, we have not made, and do not intend to make, any spatial allocations. We will assess projects as they come forward, but we are not giving, at this point in the programmes, financial allocations on a spatial basis. So, the £7 million that I referred to in priority 4 is available for the whole of the east Wales region and Newport clearly would be in competition with other projects that might come forward.

[146] **Janice Gregory:** May I draw you a little on the definition of urban? In my own constituency, that is a really important issue for local authorities. I may have missed it, and I do apologise if I have, but I do not see that there is a very clear definition for local authorities to follow. I am sure that we can all think of local authorities where there would be this competition between urban and rural. I just wondered what work is being done on that, so that local authorities and others have a very clear idea as to which is meant by urban. That is for JESSICA, is it not?

[147] **Ms Presland:** We have not given a definition and we would not want to give one in a very detailed sense. We are not looking at a particular administrative boundary or a particular statutory boundary. What we would want to do is ensure that these funds are established in areas that were relevant and appropriate. I think that, practically, what will influence where it is feasible to establish a JESSICA-type instrument is the amount of land that is available to

put into a fund. There are two perspectives to this. On the one hand, if any EIB lending was to be made available, you have heard from the bank about the minimum loan size that they would normally consider, but also, from a practical perspective, any fund would need to generate a commercial return and would also need to generate sufficient return to cover the overheads of establishing the fund and any management charge in running it. So, we would anticipate they would need to be of a reasonable size and we are thinking that some tens of millions of pounds is the kind of size that is needed. Obviously, the scoping study will give us more information about what is feasible. In practical terms, we see that these would need to operate within a geographical area that is appropriate and that we would need to work very closely, during the scoping study, with local authorities across the whole of Wales, not just west Wales and the Valleys, so that we can make a very thorough assessment of what assets are available and where it would be relevant to put these into a fund. We would not want to exclude anywhere and we would want to look at where local authorities could work together. We have a number of small authorities, for example, across the Heads of the Valleys area where we would want to consider whether they could perhaps come together and work together with one fund that may potentially cover a number of local authority areas. It may be practical or it may not be.

[148] **Ms Johnson:** If I may add to that, Cathy has talked about funds needing to be commercially viable. That is for the overall fund structure. It is possible to be able to take development opportunities or particular aspects of the fund that are loss leaders, if you like, or the requirement for initial investment being quite high with the payback being over a longer period, bearing in mind a holistic approach to regeneration. That is often what we find and is one of the key advantages of JESSICA. I do not think that JESSICA would be such a neat little name without the use of the city area, but it is something that we have spoken to the EIB about, so that it is clear as to the context of Wales.

[149] **Michael German:** May I just follow up on that last point on whether there are any specific criteria that the commission is saying should be applied in a definition of what is urban? Will you have the flexibility to do what you may think is right for Wales, or are there constraining criteria in this matter? On JEREMIE, the EIF says that there is £155 million of a gap on SME financing in Wales. Are you expecting JEREMIE to create a viable fund to fill that gap or are you expecting other forms of financial intervention and other forms of lending to be made available? How does that fit in with Finance Wales's current position for lending and its current portfolio of bank investment that it can lay its hands on?

[150] **Ms Presland:** I will ask Nick perhaps to pick up the JEREMIE point. In terms of the definitions that we have had from the commission, the structural funds regulations, the ERDF regulation, particularly, contains a very strong emphasis on urban interventions and urban regeneration. This is intentionally so, because it is intended to work in a complementary fashion to the rural development programme and other European programmes that are available for rural areas. However, in terms of the JESSICA instrument, we have not had any specific definition that would include or exclude particular parts of Wales. We have had discussions with the EIB about the geographical and economic context of Wales and it is very much aware that we do not have a large number of cities, that we do not have large cities, and that our urban context is a little different to that that they will come across in other countries. There is no specific definition that would necessarily exclude Wales from being eligible for JESSICA.

[151] **Michael German:** There was maybe a suggestion that you did not intend to give, that you could not have JESSICA where the rural development fund would be applicable. There are difficulties there, of course, because the rural development fund—apart from in Cardiff, I think, but certainly in virtually every other local authority area in Wales—is a beneficiary of that. Is that definitely a boundary line or is it simply something that you must be mindful of when you define what your areas would be for it?

[152] **Ms Presland:** No. It is something that we have been mindful of when drafting the programmes and the activities that we list in our ERDF programme are complementary and, to a large degree, exclusive of those activities that are in the RDP. The two funds are not able to fund the same kinds of activity, but that does not mean that we will not fund activities in rural areas.

[153] **Michael German:** So, it is not spatial?

[154] **Ms Presland:** It just means that we will not fund activities that are also being funded by the RDP in those areas. In terms of JESSICA, it is more around the practicality of whether the fund is operational within a particular geographic area, rather than whether the area is designated as urban or rural.

[155] **Mr Moon:** The SME financing gap is identified as £150 million over the next six years and I think that Finance Wales agrees with the nature and scale of that market need, based on our experience of the last five years of investing. We are looking to raise a fund that will fully meet that gap through JEREMIE; at the moment that is proceeding on the basis that EIB will provide half of that funding in the form of a commercial loan to Finance Wales. How does that fit with our current provision? You may be aware that most of our funds utilise structural funding from the previous period alongside private bank money, so those funds are coming to the end of their investment period. It is quite timely, therefore, that this fund should be able to begin sometime in 2008 to provide the continuity of investment there.

[156] **Michael German:** I—

[157] **Sandy Mewies:** Mike, I am going to bring some other speakers in now, because there are others who want to speak. Christine, and then Gareth.

[158] **Christine Chapman:** I have a very broad question. How will all this be supporting the Lisbon agenda? When we used to discuss Finance Wales, there was some concern quite early on about the allocation of funds, and I think that William mentioned the availability of spatial allocation. How are you going to ensure that this fund will reach the areas that really need it? Obviously that west Wales and the Valleys is an area in itself, but even within that area, there are areas where possibly a lot more proactive work needs to be taken. What is in place to ensure that you get to the places that need these funds?

[159] **Ms Presland:** Thanks, Christine. On the Lisbon question, we would say that all our structural fund activities are in support of the Lisbon agenda for jobs and growth. As members of the previous committee will know, the structural funds programmes have been drafted very firmly within this context—much more so than the previous round. In particular, we see the priorities that support business growth and productivity and a knowledge economy clearly having perhaps a more direct contribution. So, money that was made available, for example, from our priority that supports business and enterprise, our priority that supports strategic infrastructure, we would see as being very directly contributing to the growth of the knowledge economy.

11.10 a.m.

[160] We also see that it is very important to spread that prosperity across Wales. The convergence priority that builds sustainable communities we would see as something that was contributing to the jobs and growth agenda, but in the more deprived areas of Wales. This would not, perhaps, be directly contributing to the knowledge economy, but certainly it would be providing a basis for sustainable economic growth. We clearly see the programmes as making a firm contribution in a way that also comes onto the spatial question in that we

anticipate that, in certain parts of the programmes, money will tend to flow to certain parts of Wales. For example, parts of the money that is available in priority 1 for knowledge and innovation for growth will flow to the higher education sector, to the universities—clearly, that money will go to where those universities are located. Other parts of the programme have been designed very specifically to benefit other parts of the region of west Wales and the Valleys. The money that is available for building sustainable communities will go to the most deprived parts of west Wales and the Valleys. I do not know if there is anything that Nick wants to add in terms of the particular targeting of their interventions, but clearly we will look at projects across the board as they come forward and whether we feel they are appropriately meeting the market need and filling the gap in terms of need.

[161] **Mr Moon:** Obviously we have an all Wales remit that we take very seriously, though each fund, by the nature of its funding sources, will have its own geographical remit—the convergence fund will obviously be limited to that area. It is something that we work on very hard to make sure that each area of that region represents itself fully in terms of the number of investments. I think that we have seen a very high level of demand in this area. Our Objective 1 fund was invested a year ahead of target in the current period, which gives you an idea of just how much demand there is in that region for investment despite it being regarded as relatively less prosperous than the rest of the UK. We have a team of regional officers, so we have people in the region, based on the ground, and they have geographical patches to make sure that all of Wales is covered.

[162] **Christine Chapman:** You talk about the team of people out there, but if there are greater needs in some of those areas, do you think that greater activity needs to be taken in some of those areas as well to balance that?

[163] **Mr Moon:** We have tried to reflect that in our resource allocation, but, obviously, there is a role for the wider Assembly Government in stimulating entrepreneurship and enterprise. We only have part of a role to play there, I think.

[164] **Ms Presland:** If I could add very quickly that, in terms of particularly the enterprise activity, we are looking for more targeted activity in the new ERDF programme rather than generic activity that might be spatial or sectoral.

[165] **Gareth Jones:** Yn nodiadau cefndir y papur, yr ydych yn cyfeirio at JEREMIE a JESSICA fel offer neu gyfryngau a pheiriannau cytundebol. Ai'r rhain fydd y prif ddefnydd o raglenni ac arian cydgyfeirio? Pa mor bywisg yw'r rhain? A ydym yn sôn am ariannu 10 y cant neu 20 y cant fel hyn? Ynteu a ydynt yn llawer pwysicach na hynny?

Gareth Jones: In the background notes to this paper, you refer to JEREMIE and JESSICA as financial engineering instruments. Will these be the main modes of using convergence funding and programmes? How important are they? Are you talking of financing 10 per cent or 20 per cent in this way? Or are they much more important than that?

[166] Yr wyf yn meddwl fy mod wedi clywed digon i'm cysuro na fyddech yn dehongli 'trefol' yn gyfystyr â de Cymru a'r Cymoedd—bod lleoedd eraill yn y gogledd-orllewin y byddech yn eu hystyried dan eich dehongliad chi. Mae hynny yn bwysig. Yr ydych hefyd wedi cyfeirio mewn ateb i Janice at awdurdodau lleol. Nid wyf yn siŵr bod y neges honno wedi mynd allan mor glir â hynny i awdurdodau lleol. Mewn ardal fel Aberconwy, lle mae swyddi wedi'u colli yn

I think that I have heard enough to reassure me that you would not define 'urban' as relating to south Wales or the Valleys—that there are other places in north-west Wales that you would consider under your definition. That is important. You also referred, in an answer to Janice, to local authorities. I am not convinced that that message has gone out very clearly to local authorities. In an area such as Aberconwy, where there have been job losses recently,

ddiweddar, sut gydweithio yr ydych yn ei what sort of co-operation do you foresee, in
ragweld, mewn perthynas â JEREMIE, ar y relation to JEREMIE, on these funds?
cronfeydd hyn?

[167] **Ms Presland:** We see these instruments as only a part of our overall delivery and as something that could aid the delivery of particular parts of, primarily, the ERDF programme. We see them as something that is relevant to the ERDF programme. We obviously have other parts of the programme where we will not be using these financial instruments—we will be making more traditional finance available. Of course, we have the complementary ESF programmes, both for west Wales and the Valleys, and also in east Wales. At this stage I could not give you a definite percentage, because, obviously, for the JEREMIE instrument, we have not made any definite decisions, although we are aware of a kind of a ballpark figure. For JESSIA, we are at a much earlier stage and it would be very difficult to say. I think that these will be a small part of the delivery, certainly of the overall convergence and competitiveness programmes, but something that we see will bring us some very secure long-term benefits.

[168] The second part of the question about urban areas was, perhaps, a comment rather than a question, but I would agree with you that what we will do during the scoping study for JESSICA is to ask the EIB to look at relevant parts of Wales. I would imagine that the north-west Wales would be included as part of that scoping study. In terms of collaboration with local authorities, this is more relevant in the context of JESSICA, where any of these urban development funds that will be established will more than likely be established on the basis of a partnership between a local authority or a number of local authorities, perhaps also the Welsh Assembly Government, and a private organisation. We are working very closely with the Welsh Local Government Association, which, in turn, is working with its membership. There have been at least two seminars on this, one which the EIB ran in order to spread information to local authorities, in particular, and to other relevant partners. However, for JESSICA, we see local authorities as crucial to the establishment of any of these funds.

[169] **Sandy Mewies:** Thank you for that. It was another interesting session. I am sorry that you are being squeezed. The trouble is that, when it is interesting, we have more and more questions.

11.15 a.m.

**Strategaeth Cysylltiadau Ewropeaidd a Rhyngwladol Cynulliad Cenedlaethol
Cymru**
National Assembly for Wales European and International Relations Strategy

[170] **Sandy Mewies:** Janice and William now have to leave. Are we still quorate? I see that we are. Welcome, Peter. I think that most of us know Peter Kellam. He is going to give us a short presentation. We had a paper at our last meeting, but we did not have time to discuss it. If you kick off, Peter, we will then ask Members for their questions and their comments.

[171] **Mr Kellam:** Thank you. Perhaps I had better reintroduce myself, and place myself within the context of the Assembly Parliamentary Service. My team, the European and international team, formerly known as the overseas and external relations team—we have recently changed our name, which might have caused a little bit of confusion—is part of the external communication service area, which is Non Gwilym's domain, and then within the chief operating officer's directorate. The paper attempts to provide some thoughts as to where we could be going in terms of developing the European and international relations strategy for the Assembly. It tries to identify a strategy that goes further than visits and events—the reactive way that, possibly, we have been working in the past. It also is a strategy in which we

have been able to involve the Brussels office, and Chris Reading, in terms of developing ideas together and looking at the totality of relations, involving Assembly Members and parliamentary service staff.

11.20 a.m.

[172] It responds to the Assembly Commission, which at the moment is setting objectives for us. One of those overarching objectives is to develop our engagement and also to develop our communication, both internal and external. At this stage, this committee provides a particular opportunity to get some input from Assembly Members as to your thoughts on a paper that is not set in stone, as to where, how and what we could be doing and where our priorities should be.

[173] **Jeff Cuthbert:** Thank you, Peter. I feel very strongly that Wales, as a small but active country, needs to be punching above its weight in this arena; certainly, the external affairs side of our work gives us an opportunity to do that in a focused way. I have been impressed with some of the more informal contacts that we have been able to make with countries like Latvia, for example, that are similar to us in many respects, and developing stronger relationships there. One area not so far away that I feel that we should improve relationships with is Northern Ireland, not just in terms of joint working with the newly established Assembly, which we all hope very much will work with the power sharing agreement, but certainly in terms of the use of the European structural funds, sharing experiences and helping each other in that regard. I would like to see us strengthen relationships with Northern Ireland.

[174] **Mr Kellam:** I could offer a comment on that. We have a delegation at the British-Irish Inter-Parliamentary Body at the moment, which is an organisation that has been meeting over the last two days, and would describe itself, I think, as being at a crossroads in terms of needing to redevelop its role. This is a real opportunity for the Assembly and for Members from across the party groups to become involved in that. We have been able to contribute in the past in relation to structural funds and, in particular, the INTERREG programmes, and that is an area that we could develop in the future. There is discussion about how the body might operate in the future, and it has the potential to move towards themed meetings and conferences. It also provides the opportunity to develop contacts between Members, across party groups, with Members of the Legislative Assembly of Northern Ireland, and I believe that we already have some contacts on the staff side. I certainly correspond with my own opposite number—I have found out a lot as a result—and I believe that he is in contact with the Brussels office as well. So, there is that opportunity to network with them.

[175] **Sandy Mewies:** Peter, I have talked to you about this before. One of the issues that I have with what happens, certainly with the work we are doing in Europe and externally, is that there is a real communications issue. Other Assembly Members may pick it up in other ways, but I am always incredibly surprised at the amount of work that is going on, on developing links, the different levels that they are at, and the diplomatic links that we have. I am in favour of your strategy, but I would emphasise a few things. When you are communicating, I think that Assembly Members are interested to hear. At the moment, it is a chosen few, in some ways, who hear about what is going on and I suggest that a newsletter or something like that might be a good idea. Other people might not agree. I think that we are quite privileged here that we do know, to an extent, what is happening and there are so many good things going on. I think that it should be distributed more widely. I think that engaging young people is an important part of what needs to happen in the future. I go along with e-democracy, but I have always advised caution—good gracious me, look what happened last week when our server went down. It is not infallible and not everyone is able to participate, so it cannot be the only means of communicating. There must be other ways.

[176] **Mr Kellam:** May I respond to the point on e-democracy and communications? The

Assembly Commission has given us a very clear instruction that engagement in general is a priority for the Assembly, so we cannot look exclusively at any one means. We certainly have an example here to share in terms of our use of information and communications technology, and we possibly could learn from others as well, to meet the challenges that ICT can create. Communications internally, I think, is something on which we can really raise our game in a way, not just by regular reporting to this committee, which I think is very important in terms of feeding back, keeping us on an even path. You mentioned a newsletter; that is something that I am working on at present. It is one of my objectives and I hope, before the end of the week, to get web pages up that will try to explain what we do, partly for this meeting, but also to a wider audience, both internally and externally. I think that we are doing some good things, but we could possibly communicate them better, so I take that point.

[177] **Sandy Mewies:** Are there any more questions? I see not. I am sorry that this has been slightly disjointed for you, Peter. I was listening to what you said, and we will want to hear from you on a more regular basis. We could include it in the programme for the spring term, and get a progress report on the strategy. However, I hope that communications will have been lifted by then—and not just to us. Your definition of the purpose of these relations is the one that I have for the work of this committee, to some extent. So, we would all be interested to hear of that. One of the papers that we have to note is on taking part in subsidiarity monitoring with the Committee of the Regions, which is another way in which we look outwards. We will find that a useful tool.

[178] Thank you for that, Peter. There is a lot of good work going on, and it should be shared with everyone.

[179] We have two papers to not, colleagues. Is that okay? I see that it is. Thank you for your attendance. The next meeting in on 11 December.

*Daeth y cyfarfod i ben am 11.27 a.m.
The meeting ended at 11.27 a.m.*