Cynulliad Cenedlaethol Cymru
The National Assembly for Wales
Y Pwyllgor Menter a Busnes
The Enterprise and Business Committee

Dydd Mercher, 16 Tachwedd 2011
Wednesday, 16 November 2011

Cynnwys
Contents

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi 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

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Keith Davies	Llafur Labour
Julie James	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales

Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
David Rees	Llafur Labour
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Veronica Gaffey	Cyfarwyddwr Dros Dro, Cyfarwyddiaeth Datblygu y Gyfarwyddiaeth Gyffredinol ar gyfer Polisi Rhanbarthol Acting Director, Policy Development Directorate DG Regional Policy

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

Gwyn Griffiths	Uwch Ymgynghorydd Cyfreithiol Senior Legal Adviser
Gregg Jones	Gwasanaeth Ymchwil Research Service
Siân Phipps	Clerc Clerk
Meriel Singleton	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.31 a.m.
The meeting began at 9.31 a.m.

Ymddiheuriadau, Cyflwyniad a Dirprwyon
Apologies, Introductions and Substitutions

[1] **Nick Ramsay:** I welcome Members, witnesses and members of the public to this meeting of the Enterprise and Business Committee. The meeting will be bilingual: headphones can be used to listen to the simultaneous translation from Welsh to English on channel 1 or for amplification on channel 0. The meeting is being broadcast, and a transcript of the proceedings will be published. I remind people to turn off their mobile phones and other electronic equipment. Also, you do not need to touch the microphone—given that the witness is in Brussels, that is perhaps not so relevant. If the fire alarm should sound, the ushers will show us to the relevant exit. We have received no apologies and there are no substitutions.

Ymchwiliad i'r Cynigion Deddfwriaethol Drafft ynghylch Cronfeydd Strwythurol yr UE ar gyfer 2014-20
Inquiry into the Draft Legislative Proposals for EU Structural Funds 2014-20

[2] **Nick Ramsay:** We are continuing the committee's inquiry into the draft legislative

proposals for EU structural funds 2014-20. This is the committee's first evidence session of this inquiry. The aim of the committee is to make recommendations to the Welsh Government on what it should prioritise in seeking to shape the UK Government position in the Council of Ministers and to influence negotiations on the draft legislative proposals through the European Parliament.

[3] I welcome to the meeting, by video-conference, Veronica Gaffey. She is the acting director of the policy development directorate within the Directorate-General for Regional Policy at the European Commission. I will give you an opportunity to make a short statement of no more than two minutes to set out your stall.

[4] **Ms Gaffey:** Thank you very much. I am delighted to have the opportunity to present to you this morning. It would be nice to be there physically, but it is also nice that we are able to make contact via video-conference. It is difficult to summarise everything that is in the Commission's proposals for the cohesion policy for 2014-20 in just a few minutes. I would just mention what are for us the particularly important main themes and key highlights in the Commission's proposals.

[5] The first point concerns the alignment with the Euro 2020 strategy. The objective is to have smart, sustainable and inclusive growth. For us, it is crucial that the cohesion policy resources are very much aligned with these European Union objectives in order to ensure that we deliver smart, sustainable and inclusive growth in future.

[6] The second point is one that I want to emphasise strongly—it is something very close to my heart, because as well as being the acting director for policy development in DG Regio, I am the head of evaluation. For us, the very strong focus on results for the future is very important. It sounds rather obvious to say it, but it is not so obvious; it is actually quite a radical shift. Cohesion policy has tended in the past to focus more on issues of spend, absorption and avoiding financial corrections, as if they were the end of the story. We wanted very much to introduce into the policy—it has been there to some extent, but it has not been sufficiently strong—a clearer articulation of what it is the programmes seek to change, what effect they seek to have, and that we then monitor and evaluate them as we go through the programmes.

[7] The third point that I would emphasise is the need to maximise the impact of EU funding through concentration. We have evidence that sometimes the programmes disperse the resources too much both geographically and thematically. We would like to see the concentration of resources to maximise the impact of the funding.

[8] The fourth area that I think you will probably be interested in is the issue of conditionalities. We have conditionalities in cohesion policy already, but the idea is to make them more systematic. Ex ante conditionalities are about having the right conditions in place to ensure the effective use of the funds. We propose a performance framework, which may take the form of milestones identified beforehand, to ensure that the programmes remain on track. We have also made proposals in relation to macro-economic conditionalities, which you may also be interested in talking about.

[9] The final point is that we have aimed for streamlining and simplification and for more coherence in the rules across the different funds, because we realise that, for the beneficiaries on the ground, it does not make much sense to have to respect different rules and regulations for different funds. So, that is the final area that we think is important.

[10] Those are the main themes that we think are the most important elements of change for the future. I would be happy to go into more detail on any of these issues, depending on your interests.

[11] **Nick Ramsay:** That is great; thanks for that, Veronica. You have touched on a number of areas on which we have a number of questions for you. I will open up the session to the committee. Alun Ffred Jones has the first question.

[12] **Alun Ffred Jones:** Bore da. Normally, I would ask my questions in Welsh, but I cannot, can I? Do you have translation?

[13] **Ms Gaffey:** I am sorry; I do not have interpretation.

[14] **Nick Ramsay:** Hold on a minute, Veronica; we will just sort out whether we can have a question in Welsh.

[15] **Alun Ffred Jones:** I have been told that it should be possible, so I shall try it.

[16] **Nick Ramsay:** We will try it anyway and, if you have problems understanding, let us know.

[17] **Alun Ffred Jones:** Beth yw'r risg y bydd y Cyngor Ewropeaidd yn ceisio gwneud arbedion ar linellau cyllideb y cronfeydd strwythurol yn y trafodaethau ar y fframwaith ariannol amlflwydd ar gyfer 20120? Dyna'r cwestiwn cyntaf.

Alun Ffred Jones: What risk is there that the European Council will seek to make savings in the structural funds budget lines in the negotiations on the multi-annual financial framework for 2014-20? That is the first question.

[18] **Nick Ramsay:** Was that okay, Veronica?

[19] **Ms Gaffey:** Yes, I heard the interpretation loud and clear.

[20] What you have in front of you are the proposals of the Commission for regulation for the future. Last June, the Commission also adopted its proposals for the multi-annual financial framework. These are the Commission's proposals. The current stage is negotiation by the Council and Parliament. So, there is a process under way, which will continue until probably early 2013. The final budget will not be decided until that point in time.

[21] In terms of the discussions that have started at the Council, there are different views. Some member states want reductions to the budget, some want the budget to be as proposed by the Commission, and others want increases. So, I cannot tell you what will be the outcome of the discussions, but there is a risk that the Council will seek to make savings, but I cannot possibly predict the outcome at this stage.

[22] **Alun Ffred Jones:** Iawn. Yr wyf yn deall yr anhawster wrth ateb. Mae gennyf un cwestiwn pellach, ac efallai fod hwn hefyd yn gwestiwn annheg. Pa elfennau o'r cronfeydd strwythurol sy'n fwyaf tebygol o gael eu cwtogi pe bai cwtogi cyffredinol?

Alun Ffred Jones: Okay. I understand the difficulty in providing an answer. I have one further question, which may also be an unfair question. Which elements of the structural funds do you consider to be most vulnerable to major reductions should there be a general cut across the board?

[23] **Ms Gaffey:** If there is a general cut across the board, it will be a decision for the Council as to where that will fall. For the current proposal, we have three groups of regions: the less-developed regions, the transitional regions, and other regions. So, once again, I cannot possibly predict what the outcome will be, but there could be a decision to shift the balance between the different types of regions.

[24] It is unlikely that there will be a reduction in one fund over another, but again, I cannot predict what will happen. If there is any shift, it is likely to be in the percentage of the overall resources that will be allocated to the different types of regions. As you are probably aware, we have proposed that there would be a concentration of funding across different thematic areas, and that is an area where there could also be change. At this stage, it is too early to say what the final outcome will be.

[25] **Joyce Watson:** Good morning, Veronica. We have touched on the capitalisation of the regions. How much of a consensus do you anticipate in the council for the three categories of regions proposed in the draft regulation?

[26] **Ms Gaffey:** There is complete consensus on the need to target resources on the less-developed regions. That is absolutely clear. There is not yet consensus on the transition regions, but there probably is consensus that there should be cohesion policy resources invested in all regions. The controversial area would be around transitional regions.

[27] **Joyce Watson:** The draft regulation includes a reference period of 2006 to 2008 for the regional GDP data used to determine the category that a region falls into. What is the latest reference period that could be used to determine the final categorisation?

[28] **Ms Gaffey:** That would depend when the decision is taken. If the decision is taken by the end of 2012, the reference period would probably be 2008, 2009 and 2010. If the decision is not taken until 2013, then, after March 2013, there is a possibility that you would be talking about data relating to 2009, 2010 and 2011.

[29] **Joyce Watson:** Finally, on categorisation of the regions, would that be set for the whole programming period, or is it possible that there might be a mid-term adjustment to take account of the impact of the ongoing economic crisis on regional disparity?

[30] **Ms Gaffey:** There is, even in the current period, the possibility for some adjustment to take place. It would be unlikely that a region would change its status over the period. If you are a less-developed region at the beginning of the period you are likely to stay in that category for the period. I do not think there are provisions for regions that fall back into the less-developed category over the period. There are no provisions in the regulation relating to that.

[31] **Byron Davies:** Good morning. The allocation of funding to member states will be determined using a range of criteria, including eligible population, unemployment rate, education level, and so on. It is not clear what time period is used for these various criteria. Is it on the basis of application of these criteria that we will know how much funding will come to Wales? Can you explain and expand on how the allocation of funding between member states, and to regions, is determined?

[32] **Ms Gaffey:** I cannot explain in great detail because it is a rather complex area, but the Berlin method has been published and is publicly available. Basically, there is a range of indicators that are used, as you have mentioned, and the latest data are used, at the point in time when the regulations are adopted and the financial framework is adopted. At that point in time, the latest data in relation to all these different statistics will be used. That will determine the precise amounts that go to all the different regions. I do not know whether that answers your question, but I am not sure what additional detail I can give you on this issue.

9.45 a.m.

[33] **Byron Davies:** Okay. If I say that Wales has an allocation of around €2 billion in support from the EU structural funds for 2007-2103, are you able to give an indication at this

stage as to whether we can expect a similar level of funding for 2014-2020?

[34] **Ms Gaffey:** I cannot, basically because the calculations change all the time, depending on the new information that becomes available. So, it will only be known when we have a decision on the scale of the overall budget, how it is divided between the different funding instruments available, and the precise evolution of the statistics and the application of the method. In general, the current Polish presidency of the European council and the one that follows, the Danish presidency, have asked for the focus not to be on the precise amounts that are likely to be obtained for each region, and have said that we should first focus on what we do with the resources and how we spend the money, because if we focus too soon on the precise amounts, that will be the only issue that gets discussed. So, we are trying to focus on what we spend the money on, and how we would spend it to maximise effective use of the funds. However, in terms of what is likely to happen to Wales, it looks as if west Wales and the Valleys will continue to have less developed region status and east Wales will have more prosperous region status.

[35] **Byron Davies:** That is helpful, thank you. Sorry, I have just looked at my notes, and they say 'EU Structural Funds for 2007-2103', which is clearly wrong; it should be 2013.

[36] **Nick Ramsay:** That is quite a span of time. We can assume that we are talking about a five-year period. We have a question now from David Rees.

[37] **David Rees:** Good morning. You mentioned in your introduction that two points of focus were the alignment with the Europe 2020 strategy and the strong focus on outcomes, namely what the programme will achieve. Leading towards that are proposals for a stronger strategic framework, within which there is mention of possible new structures of partnership contracts. Do you see any risks from introducing these contracts of centralisation within member states, therefore allowing member states to have greater control over regional operational programmes?

[38] **Ms Gaffey:** We do not see the partnership contract as increasing centralised control, but as enhancing strategic direction. However, that does not mean that things should be designed in a top-down fashion. We would expect programmes at the regional level to be designed to meet the needs of those regions, and that is still a very strong element of the proposals for the future. In fact, if you look at the provisions in the regulation in relation to the programme level at the level of the region, you will see that we are very clear that the programme should identify the thematic objectives—there will be a menu of these from which to select, and these are in line with the Europe 2020 strategy. However, the important point is that the thematic objective is selected and then the programme outlines the specific objective for the region concerned and the associated result or outcome indicator. So, we are emphasising much more strongly for the future a clearer articulation of the policy objectives within the programmes at the regional level.

[39] The idea is that you will say what you want to change in your region, what will show that you have been effective in implementing the structural funds, and how you believe that spending a certain amount of resources on particular things will deliver change. That is at the heart of the programming process. So, there is a more strategic approach at the programme level, and then what the partnership contract should do is to bring together at the national level what is being done across the different operational programmes. There will be a process, which will be different in different member states depending on their institutional structures. In some cases, there may be more of a centralised process than in others, but I would imagine that the key level, in the case of devolved administrations, is the programme level. What the partnership contract does is to summarise what is being done across all the operational programmes, and it allows a useful process of identifying whether policies are coherent across a country.

[40] **David Rees:** Can I take from that that it is unlikely that a region will have a partnership contract, and that the regions will be focusing on getting the operational programmes correct for their particular region?

[41] **Ms Gaffey:** Yes. The partnership contract applies at a national level, so there will be 27 partnership contracts across Europe—or 28 once Croatia joins. At a regional level, you are talking about the operational programmes. For Wales, we would expect two operational programmes—one for west Wales and the Valleys and one for east Wales.

[42] **David Rees:** Okay, thanks for that. A code of conduct for partnership is also mentioned. Will you clarify further how the code of conduct will work in practice?

[43] **Ms Gaffey:** This will be led on by our colleagues in DG Employment, and I believe you will hold a session with some of those colleagues at some stage. So, they will be able to give you more detail on this. The idea is that we will specify good practice in the operation of partnership and that this will become the code of conduct. From my knowledge of how Wales operates, we would regard Wales as an example of good practice in the operation of partnership. However, some member states are less experienced, and the idea is to try to draw out examples of best practice and encourage others to follow them.

[44] **David Rees:** As a final point on that, will the code be a requirement on member states or will it be more of a guide to good behaviour? Will there be an expectation that member states will adhere to the code of conduct rather than a requirement to do so?

[45] **Ms Gaffey:** My understanding is that it will be guidance to establish what good practice is; it will not create additional obligations. In any case, I do not think that it is something that is problematic in the Welsh context.

[46] **Keith Davies:** Yr oeddech yn sôn yn eich cyflwyniad y bydd canlyniadau'n bwysig. Ai dyna'r rheswm pam eich bod yn cyflwyno amodau i gynigion cronfeydd strwythurol newydd, yn arbennig y posibilrwydd o atal neu ganslo cronfeydd?

Keith Davies: You mentioned in your introduction that outcomes will be important. Is that why you are introducing conditionalities into the new structural fund proposals, particularly the potential to suspend or cancel funds?

[47] **Ms Gaffey:** It is crucial that we shift our implementation of structural funds towards a focus on outcomes and results. We have tended too much in the past to think that the only important issue is absorbing the money and avoiding financial corrections. So, we have not had enough focus on why we are spending the money on these things, why we need these kilometres of roads and how we believe supporting these businesses will bring about change, what the education deficits are that we want to fix, and what actually happens as a result of spending the money. We are not spending the money just for the sake of it—we are spending the resources in order to bring about change to benefit the lives of citizens in our regions. That is a fundamental principle of the shift that we want to see in future.

[48] The conditionalities are of different types and we would hope that they would be seen to be supportive of enhancing outcomes, rather than being punitive. There are provisions that would lead to suspension of funds, but only in cases where it is absolutely clear that the funds are not being spent in a way that is delivering for EU citizens. So, if you have a seriously ineffective use of funds, the provisions are there to suspend them. The conditionalities are much more about supporting effective use of the funds. The ex-ante conditionalities are about formalising some elements that are already in place, but we know that the conditions are there in order to make the expenditure of the resources more likely to be effective. In terms of the performance framework, the idea is that we plan ahead what is likely to happen by a

particular point in time and ensure that the programmes are on course. Ultimately, if there is a complete non-delivery of what has been set out in the programmes, the Commission has proposed that we have the right to apply financial corrections at that stage. The other type of conditionalities are the macro-economic conditionalities, which are, as I am sure that you are aware, more controversial. However, we are talking there about really extreme cases, so the approach that we are taking is that we try to ensure that the conditions are in place to maximise the effective use of the funds and the outcomes for the citizens for whom the funds are meant.

[49] **Keith Davies:** Diolch am hynny. Mae Llywodraeth y Deyrnas Unedig wedi dweud na fydd yr amodau macro-economaidd yn bodoli yn Lloegr. A fydd hynny'n wir am Gymru hefyd?

Keith Davies: Thank you for that. The UK Government has said that the macro-economic conditionalities would not apply to England. Will that also be the case in Wales?

[50] **Ms Gaffey:** I heard this morning that there was a position paper on this, but I do not have a Commission position on this. As far as I know, our view would be that the provisions would apply to the UK. However, this is with our lawyers at the moment.

[51] **Eluned Parrott:** I want to talk about how we effect a change from the input-and-output-based approach that we have at the moment to managing the structural funds. How do you expect to be able to move within the Commission to an approach that is outcomes and results orientated?

[52] **Ms Gaffey:** That is a subject that is very dear to my heart. Over the last few years, we have been tasked, as the evaluation unit of DG Regio, to report on the use of the funds and to carry out ex-post evaluation of the 2000 to 2006 period. We worked on this for three or four years, through various evaluation contracts, and it was quite a frustrating exercise. As we went through it, we discovered, when we looked at some of our programmes, that it was nearly impossible in some cases to tell whether they had been effective or not. Many programmes did not set out what they wanted to change. Many of our programmes contain perhaps a few hundred pages of analysis of basically every statistic that exists within a region. Then we find—this is the caricature—that the next chapter of the programme says, 'therefore the strategy is X' and gives a financial table of what the money will be spent on. It is difficult to say whether that programme is effective, other than in terms of whether it spent the resources in the areas that it said it wanted to. So, we believe strongly that more effective use of funds starts with the programmes, where the programmes clearly identify what you want to change in a region and how you will know that you have been successful. We have undertaken some work on this.

10.00 a.m.

[53] We have had an expert group of academics working with us on this issue, and we have published some of its papers on our website. One thing that we did to follow up on that work was to invite regions to volunteer to pilot this approach. Basically, we said, 'Let us take some of our current programmes and look at what they would look like if we had a result and outcome approach'. We have had pilot programmes in about 10 regions; they have been in both convergence objective regions and regional competitiveness and employment objective regions. We have discovered that this means quite a shift in thinking, in terms of the design of the programme, working out why we are spending resources on these things and, basically, improving the intervention logic of the programmes.

[54] For instance, I had the experience of going to the south of Sweden, which is a rich region. We discovered that the indicators in the programme did not, in fact, relate to the things that the programme was really trying to change. This is what we are talking about. We

are very much interested in talking to and working with regions over the next few years to help us with strategies that identify clearly the change that is sought in the region, to ensure that strategies have a strong intervention logic, and to ensure that it is clear that a strategy based on spending a certain amount of resources on a certain set of outputs is likely to bring about certain changes. That is the approach that we want to take in the future.

[55] **Eluned Parrott:** That is very clear; let us now move on from how your approach will change. There are already structures in place to manage and assess regions that have benefited from convergence funds in the past. Obviously, the approach will change, but how much of a change would you expect to see in the management structures that we have in Wales in order to be able to implement this new approach?

[56] **Ms Gaffey:** For Wales, I do not think that there would be a huge change. You have the structures in place and you also have good evaluation capacity in place. This is about being clearer about the strategic choices that you make at the point where you design the programme. Once that is done, the structures are in place. I do not think that there is a significant change in approach. The capacities are clearly there in Wales. The challenge for you and for many regions would come if we achieve concentration and the strategic choice is made, as this would also mean deciding not to fund certain things. In some cases, that is the real challenge—identifying where you concentrate the resources rather than making sure that you spread the resources across all sectors and geographic areas.

[57] **Eluned Parrott:** I have a final, brief follow-up question. How do you see the Commission's role in helping us to manage that procedural change? What kind of support will be available to us to ensure that we are able to go on this journey with you?

[58] **Ms Gaffey:** As your partners, we are available to discuss issues with you. However, I think that you have the capacities in Wales to bring about this change. This is evolution rather than revolution, except in terms of some strategic choices. Nevertheless, those choices will have to be made at the regional level. We can perhaps point out cases in which we see that those choices have not been made, if concentration does not seem to be there and if the intervention logic is not clear. This would be part of the process of discussing the programmes. You would, of course, have an ex-ante evaluation, so that would also be in place to help you. Therefore, between the managing authority, the ex-ante evaluators and our colleagues here at the Commission, we would do our best to design the best programmes that we can.

[59] **Nick Ramsay:** We are now going to focus on thematic concentration.

[60] **Kenneth Skates:** Good morning, Veronica. Given the drive to align priorities with the Europe 2020 strategy and national reform programmes, to what extent will investment priorities be determined at a regional—or operational programme—level rather than at a member state level?

[61] **Ms Gaffey:** Our view is that the thematic priorities should be determined at the operational programme level, in line with the challenges that the regions concerned face. There are some requirements, particularly in relation to the more developed regions, which have a shorter menu of thematic objectives to choose from. Less developed regions have a larger menu. We believe that the appropriate level for that choice is at the level of the region, because it is you who know what the needs of your region are, and you should be making the decisions on where the resources should be spent.

[62] **Kenneth Skates:** How will adjustments be made to operational programmes and partnership contracts, taking into account country-specific recommendations coming out of the European semester approach to Europe 2020?

[63] **Ms Gaffey:** As the process evolves, the Commission will make recommendations to individual member states. We anticipate that, if a recommendation is made and there is a need for change to a programme, the member state, the region, would propose a modification to the programme. Under the macroeconomic conditionality proposals in the regulation, there are provisions that, if a member state were to ignore the recommendations of the Commission or the Council, there would be procedures whereby the Commission could ask for changes to the programme to be made. If that were ignored, which I think is highly unlikely, there is a provision that the Commission could change the programmes unilaterally. However, we think it highly unlikely that that would happen.

[64] **Nick Ramsay:** We have some questions now on community-led development from Julie James.

[65] **Julie James:** Good morning, Veronica. Here in Wales, we are very interested—as our Deputy Minister has said specifically—in the use of financial engineering instruments, such as the new loan finance guarantees and all of that more private-sector-type funding that, hitherto, has not been in the structural funding. Will you be setting minimum targets for that sort of funding as a way of carrying on the legacy funding? We know that there have been issues to do with maintenance and ongoing funding once programmes have finished. If you are doing that, what level might you set that at—operational or partnership contract level?

[66] **Ms Gaffey:** We will not be fixing targets for the amount of resources that should be spent through financial engineering instruments. We recommend the greater use of financial engineering instruments. Over the current period, we have built up a great deal of expertise across Europe on how these instruments can be managed and made effective. The rules and regulations that we propose for the future are clearer than those that we have at the moment, so we encourage the use of these instruments, which should maximise the value of the resources. However, we will not be setting targets for the amounts that should be spent through these instruments.

[67] **Leanne Wood:** Can you clarify whether community-led development strategies will be mandatory or optional?

[68] **Ms Gaffey:** They will be optional. We propose a number of tools in the draft regulations, but they are options if you want to use them. This relates to the provisions on community-led local development and equally to the financial engineering instruments and the integrated territorial instruments. These are instruments at your disposal, but it is up to you whether you want to use them.

[69] **Leanne Wood:** Will there be scope to produce community-led development strategies on a multi-fund-based approach, using, for example, ERDF, ESF and, potentially, the rural development and fisheries fund?

[70] **Ms Gaffey:** Yes. This is one of the things that we are proud of—that we have managed to propose something in relation to local development where the same rules will apply across the four funds: the ESF, the ERDF, the agricultural fund and the fisheries fund. The idea is that these funds can be mobilised in an integrated way, with the same rules applying across the board. We hope that we have managed to put something on the table that is less administratively burdensome for the people who benefit from the funds on the ground.

[71] **Leanne Wood:** How would that work, then, in the application of different intervention rates to the different funds for action supported?

[72] **Ms Gaffey:** You have got me on that; that is a level of detail that I do not have at the

moment. I think that there are provisions in relation to this issue, but I do not have the information to hand. I can find out and send something on to committee later.

[73] **Leanne Wood:** Do you see that being developed as part of the preparation of the partnership contracts? Is that something that you would like to come back on as well?

[74] **Ms Gaffey:** It would be more likely to be part of the operational programmes and then summarised in the partnership contract. If you think of the partnership contract for the UK, it is going to cover all of the English programmes, and Scotland, Wales and Northern Ireland. I would have thought that the local development strategies would probably be more at the level of the operational programmes, with just a summary in the partnership contract.

[75] **Nick Ramsay:** The draft regulations introduce a new instrument on the potential for joint action plans to be set up within operational programmes. Could you tell us a little about how these are likely to work in practice?

[76] **Ms Gaffey:** This is something that we think will probably relate to the European social fund more than to the ERDF. The idea is that, in certain areas where you have very standard unit costs, we could move away from an input-based payment process to one that is more output based. If you are running a training programme, for instance, and know that you will have a throughput on the particular number of trainees, the whole system of payments could be based on the outputs. It is unlikely to be based on the results, because they will be dependent on factors outside the programme, but you could structure the administration of your payments on the basis of the outputs. We think that it is less likely to be relevant for the ERDF, because our interventions tend to be so very different, and even where you think they could be similar, we know that the unit cost data are very different, so you could not really base a payment system on the outputs that you will deliver. We think that it will be something that will feature more with the ESF than with the ERDF. If you want a session with our colleagues from DG Employment, they have some developed examples of how they see the joint action plans working.

[77] **Joyce Watson:** Can you explain to us how the ring-fenced 5 per cent allocation of EU funding to member states will be used to support urban development?

[78] **Ms Gaffey:** Basically, the idea is that 5 per cent of the funds will be allocated to sustainable urban development. Precisely how this is done, or what the resources will be spent on, will be something to be decided in the context of each individual programme. However, the idea is that, at a national level, we will be able to see that the 5 per cent has been allocated to this thematic area.

[79] **Joyce Watson:** You have said that it will be managed at a national member state level. Does that mean that there are likely to be some ring-fenced actions within regional programmes as a consequence?

[80] **Ms Gaffey:** Yes. If we are to have certain percentages respected at national level, it would clearly have to translate down into the programmes also. The whole thing needs to add up to the 5 per cent at the end of the day. However, how this is done across the individual programmes will be for member states and regions to decide.

10.15 a.m.

[81] **Julie James:** We are looking at the simplification of the financial management of future programmes, which I very much welcome, having tried to make sense of this for many years. Will you clarify what the changes will mean in practice for those managing the programmes? How would they work for potential project sponsors and applicants?

[82] **Ms Gaffey:** This will depend very much on yourselves and how you implement the rules. One thing that always amazes me is that, even though we have common rules, how they are applied in individual regions and member states varies radically. It really is a question of taking the rules and seeing how you can exploit the potential for simplification. Sometimes, when we go out to the regions and are blamed for something that happened in relation to the financial management and control, we discover afterwards that it is, in fact, something that has been dragged up at the regional or national level, and it is not actually something that is imposed by us. So, it is about looking at the provisions and the current systems and seeing where there is potential to simplify matters. In particular, we would encourage the simplification for beneficiaries. We understand that some of the elements that we are proposing are not simplification for the people who are managing the programmes—the focus on results and some of the new requirements are not really simplifying matters. However, the area where we would really like to see progress is simplification for beneficiaries and, in particular, implementing the provisions on e-cohesion and making it easier for the beneficiaries to access and report on their use of the funds.

[83] **Nick Ramsay:** Rules are relative, a bit like time, is the message that came out from that. Thank you, Veronica, you have answered our questions fully and succinctly; we have rattled through them. Are there any follow-up or supplementary questions that committee members would like to ask on the basis of what we have heard? I see that there are not. Veronica, is there anything that you would like to add before we close the evidence session?

[84] **Ms Gaffey:** I think that we have managed to cover an extraordinary amount of issues in a relatively short time. I congratulate you on your mastery of the regulations at this stage. You are clearly going through them with a fine-toothed comb. We welcome this, because it is very important for us that the regulations are examined closely. They may not be perfect, they probably need to be improved in some areas, and it is crucial that you feed your views through to the UK position as well. We think that that is very important. Sometimes, when we discuss things at the council, we get the feeling that it is not fully aware of how the funds operate in the regions. I congratulate you on the work that you are doing; it is extremely useful.

[85] **Nick Ramsay:** Thank you, Veronica Gaffey; this has been really useful in helping to advise us and inform our inquiry as the structural funds process progresses. Thank you for being with us today.

10.19 a.m.

Cynnig Gweithdrefnol
Procedural Motion

[86] **Nick Ramsay:** At this point, we need to bring the public part of the meeting to an end so that we can discuss the draft report. I ask a Member to move the appropriate motion.

[87] **Joyce Watson:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[88] **Nick Ramsay:** I see that the committee is in agreement.

Derbyniwyd y cynnig.
Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10.19 a.m.
The public part of the meeting ended at 10.19 a.m.