



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

## **Y Pwyllgor Menter a Busnes** **The Enterprise and Business Committee**

**Dydd Iau, 27 Medi 2012**  
**Thursday, 27 September 2012**

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Yn y golofn chwith, cofnodwyd y trafodion yn yr iaith y llefarwyd hwy ynddi. Yn y golofn dde, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

In the left-hand column, the proceedings are recorded in the language in which they were spoken. The right-hand column contains a transcription of the simultaneous interpretation.

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

Byron Davies	Ceidwadwyr Cymreig Welsh Conservatives
Yr Arglwydd/Lord Elis-Thomas	Plaid Cymru The Party of Wales
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)
Jenny Rathbone	Llafur (yn dirprwyo ar ran Keith Davies) Labour (substituting for Keith Davies)
David Rees	Llafur Labour
Kenneth Skates	Llafur Labour
Joyce Watson	Llafur Labour

**Eraill yn bresennol**  
**Others in attendance**

Dr Alastair Davies	Pennaeth Polisi Arloesedd, Busnes, Menter, Technoleg a Gwyddoniaeth Head of Innovation Policy, Business, Enterprise, Technology and Science
Alun Davies	Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd Deputy Minister for Agriculture, Food, Fisheries and European Programmes
Jane Hutt	Y Gweinidog Cyllid ac Arweinydd y Tŷ Minister for Finance and Leader of the House
Damien O'Brien	Prif Weithredwr, Swyddfa Cyllid Ewropeaidd Cymru Chief Executive, Welsh European Funding Office
Alison Standfast	Dirprwy Gyfarwyddwr, Caffael, Gwerth Cymru Deputy Director, Procurement, Value Wales
Nick Sullivan	Pennaeth Polisi a Galluogrwydd, Gwerth Cymru Head of Policy and Capability, Value Wales

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

Kayleigh Driscoll	Dirprwy Glerc Deputy Clerk
Ffion Emyr Bourton	Dirprwy Glerc Deputy Clerk
Gregg Jones	Y Gwasanaeth Ymchwil Research Service
Siân Phipps	Clerc Clerk
Anne Thomas	Y Gwasanaeth Ymchwil Research Service

Robin Wilkinson

Y Gwasanaeth Ymchwil  
Research Service

*Dechreuodd rhan gyhoeddus y cyfarfod am 1.28 p.m.  
The public part of the meeting began at 1.28 p.m.*

### **Cyflwyniad, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions**

[1] **Nick Ramsay:** I welcome Members and members of the public to today's meeting of the Enterprise and Business Committee. The meeting will be bilingual and headphones can be used to hear 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 Members to turn off their mobile phones and other electronic equipment. There is no need to touch the microphones, as they should operate automatically. In the event of a fire alarm sounding, please follow the directions of the ushers.

[2] We have apologies from Dafydd Elis-Thomas, and Jenny Rathbone has kindly agreed to substitute for Keith Davies, so I welcome her to the committee. I also welcome the Minister.

1.29 p.m.

### **Sesiwn Ddiweddarau gyda'r Gweinidog Cyllid am Bolisi Caffael yr Undeb Ewropeaidd**

#### **Update Session with the Minister for Finance on European Union Procurement Policy**

[3] **Nick Ramsay:** The aim of today's meeting is for the committee to be updated on developments since we debated the committee's task and finish group's report on modernising EU procurement policy. This will inform our visit to Brussels in November to speak to a number of key European Commission officials and Members of the European Parliament concerning the draft legislative proposals that will affect procurement policy in Wales.

[4] I welcome Jane Hutt, the Minister for Finance and Leader of the House, along with Alison Standfast, deputy director of procurement for Value Wales, and Jeff Andrews—although, as I look up, I realise that it is not Jeff Andrews before me. Perhaps you could introduce yourself.

1.30 p.m.

[5] **Mr Sullivan:** I am Nick Sullivan. I work in Alison Standfast's Value Wales team as head of policy and capability.

[6] **Nick Ramsay:** Great. Thank you for clearing that up. You are more up to date than my script is. We are looking forward to your update on procurement issues, Minister, and we have a number of questions for you, so I propose that we move straight to those questions. Byron Davies has the first question.

[7] **Byron Davies:** The first question is a general one. Can you please tell us to what extent, if any, the UK Government has had meaningful engagement with the Welsh Government regarding the procurement proposals?

[8] **The Minister for Finance and Leader of the House (Jane Hutt):** I just want to say first, Chair, that I am very pleased to be here to follow up with this update on your very important inquiry. We had an excellent debate on many of these issues yesterday.

[9] On our engagement with the UK Government, you will know that I have corresponded with Francis Maude on a number of these issues. Also, our officials in Value Wales have initiated some co-ordinated meetings not just with the UK Government Cabinet Office, but also with officials from Scotland and Northern Ireland because it was important to include UK devolved administrations as well as to influence. My officials have kept me very engaged on the negotiation process. I believe that we have had a very strong voice in the UK negotiating stance. As I discussed previously, before the inquiry group, when there have been real issues of concern, I have raised them at ministerial level with Francis Maude. For example, one was ensuring that the UK Government would fully transpose the directives, which was an important point raised by the sub-committee looking at the EU regulations. We have had common ground, particularly with Scotland and Northern Ireland, on many of these issues. I think that we have had an impact, and we feel that we have made progress on the negotiations at UK Government level.

[10] **Byron Davies:** You talk about ‘real issues of concern’. Do you have any friends or have you formed any alliances with like-minded countries to strengthen the voice of Wales on issues where you diverge or differ from the UK negotiating position?

[11] **Jane Hutt:** Our work with Scotland and Northern Ireland is probably the best example of working with other countries. It has been appropriate that we do so, as we do on many policy issues of this kind, and we have been very much in accord on the concerns that we have raised. I think that that has been reflected in the outcomes of the negotiations. Many concerns were raised, for example about the national oversight bodies, and you gave me some forewarning of that one. We were opposed to the proposal for a national oversight body, but things have moved on already, of course, as we were informed in August that that proposal had been dropped, as I know you are aware. Other member states have also raised their concerns, as we have done, alongside the UK Government. So, there has been common cause with the UK Government and other member states, and something has changed as a result of that.

[12] Clearly, there have been tensions between our Government’s viewpoint and the UK position, but we have managed to raise these at ministerial level and have a very close dialogue, as I said. We feel that we have made an impact. Of course, there are working group meetings in Brussels, and there are some key issues of detail that we have worked on with our colleagues and which you may want to deal with.

[13] **Jenny Rathbone:** How much of the problem can be put down to the culture of civil servants? I recall people from other countries telling us, ‘We’d never allow that to happen in our country.’ How much are we working with civil servants to develop the creativity that was identified in the task and finish group? As opposed to battling away on the regulations, we could simply be getting people to be more creative in how they can take advantage of the regulations.

[14] **Jane Hutt:** The McClelland review has been very helpful in this respect, as has the review undertaken by this committee’s task and finish group, in recognising some of the outstanding practice, which I have to say was very much reflected in the contributions of Value Wales, which my officials are leading to get the best value in taking our public procurement policies forward. I feel that the McClelland review and the work of this committee in its inquiry have helped to clarify where we have a good culture, as far as our officials are concerned, in delivering within the EU regulations as they were—there are lots of new opportunities now under the changes to the EU regulations.

[15] As for culture and influence on what we have been doing, there has been a lot of debate about, and scrutiny of, procurement in the Assembly, and I have certainly valued that. I think that it has helped to ensure that our culture is a less risk averse one, although we know that there are still issues with procedures and policy, and we have to deal with them.

[16] One of the problems that we have, which was reflected yesterday in the Plenary debate on the McClelland review, and in comments and contributions from Members across the Chamber, is that we still do not have consistency in professional competence. Of course, when you have professional competence, you can deliver without being constrained and you have the right culture.

[17] **Julie James:** Good afternoon, Minister. With regard to the progress that has been made so far, we have been briefed on some of the things that had been left in or taken out and so on. I continue to be concerned about a couple of them with regard to access to services and so on. One is the issue of this removal of the A/B distinction, which I know the Welsh Government and the UK Government wanted to see continue. However, I understand that it has been removed. We understand that that is going to be replaced by a lighter touch regime for a wider range of services other than health and social care—so we are briefed, anyway. My concern, which was reflected in the work of the task and finish group and in the McClelland report, is that we have a tendency in the UK and in a couple of other European countries such as Germany to apply the weight of the regulations to everything, even when there is no need to. I am very aware that Value Wales guidance says that you ought not to do that, but I am also very aware of that a number of people told me very proudly in the task and finish group that they did exactly that and that they wanted some—

[18] **Nick Ramsay:** Julie, you are in danger of answering your question.

[19] **Julie James:** No; I am coming to my question.

[20] They wanted some very serious brownie points for doing that. Minister, in yesterday's debate, we talked a lot about having teeth of some kind for imposing or ensuring compliance with the excellence strategy and guidance. If we are to see that lighter touch regime put across more services than it currently attaches to, can we be assured that there will be a carrot-and-stick approach to get people to actually comply with it?

[21] **Jane Hutt:** Recognising all the work that you took forward in the inquiry and how it dovetailed very much with the findings of the McClelland review, it is now for us to deliver on the recommendations and, as I said yesterday in the debate, to give teeth, as you say, to the policy that we have developed. Just looking at the latest progress in terms of the EU regulations, I have mentioned that the national oversight body proposals have been removed and that the European procurement passport proposal is also being removed. Now, in terms of issues of ongoing discussion, the distinction between Part A and Part B services is likely to be abolished, despite opposition from the UK Government. Also the presidency has suggested a compromise position of applying a light-touch regime to more services than previously proposed by the Commission. It is also important to know that there has been significant lobbying from the UK Government, and the Commission now proposes to review thresholds in 2017, but the UK Government is pushing for work to start as soon as possible. There is still ongoing work with regard to part A and part B. We feel that there are opportunities in terms of the revised directives. New proposals and social clauses are very much in accordance with our community benefits scheme. A simplified selection process will strengthen key facets of community benefits on SQuID, and also improve SME access to public contracts. We can use the work that was done by the Assembly, this committee and McClelland, alongside what will usefully come out of the EU regulations review, to remove those barriers and get on with the delivery of public procurement in the way that we expressed yesterday.

[22] **Julie James:** Does the Minister have any indication of the wider range of services that might be subject to a lighter touch? Do you have any idea of what might be included?

[23] **Jane Hutt:** Alison, do you want to comment?

[24] **Ms Standfast:** I do not know at this moment in time. As the Minister said earlier, we have regular video-conferences, so, as soon as we have more information on that, we will know, but at this moment in time, we do not.

[25] **Nick Ramsay:** I want to bring Alun Ffred Jones in at this point, because he has been waiting patiently to ask his question.

[26] **Alun Ffred Jones:** O ran yr **Alun Ffred Jones:** In terms of the EU review adolygiad rheolau caffael Undeb of procurement rules, do you have any idea Ewropeaidd, a oes gennychn unrhyw syniad when these new rules and regulations will be pryd bydd y rheolau newydd yn cael eu introduced? cyflwyno?

[27] **Jane Hutt:** Nick, have you got the latest in terms of introduction of the new rules and regulations?

[28] **Mr Sullivan:** We are approximately halfway through the negotiation process, so that process should be concluded in early spring or summer of next year, and then the UK Government and all other member states will have 18 months, I think, to transpose those into applicable national law. That is a maximum of 18 months.

[29] **Alun Ffred Jones:** Eighteen months after next summer?

[30] **Mr Sullivan:** After concluding the negotiation process.

[31] **Alun Ffred Jones:** Diolch yn fawr. **Alun Ffred Jones:** Thank you. In terms of O ran y cyfeiriad at rannu cytundebau neu the reference to splitting contracts into lots, dendrau yn lotiau, fel y'i gelwir, mae as they are described, there is a sentence here brawddeg fan hyn sy'n dweud bod hynny yn that states that that is to be done on a contract to contract basis depending on the purchasing yn dibynnu ar yr awdurdod sy'n pwrcasu. authority. Who will decide what the Pwy fydd yn penderfynu beth fydd yr appropriate circumstances would be for amgylchiadau priodol ar gyfer rhannu splitting the contracts into lots, or is it up to cytundeb yn lotiau, neu a yw i fyny i'r the authority that is purchasing? awdurdod sy'n pwrcasu?

[32] **Jane Hutt:** Do either of you want to respond to that?

[33] **Mr Sullivan:** It will be down to the public body letting the contract, but what the new proposals helpfully suggest is that this is more of a duty to break the overall requirement down to lots, and, where that is not done, there will be a requirement for the awarding organisation to justify that. So, we think that is quite a helpful in terms of providing SME access to some of the larger contracts.

[34] **Jane Hutt:** As I said yesterday, I am making a statement in the autumn on procurement policy and we will be looking at this more carefully. In terms of the lessons-learned review and the use of lots, public bodies are already encouraged to engage with a supply base using a SQuID approach to supplier selection and to lot requirements accordingly. There is still a concern about framework agreements and they should not

preclude the involvement of our local suppliers as we would wish. It is important to recognise again that, last year, 51 out of 71 contract and framework awards for major construction contracts were won by Welsh contractors. That is crucial in terms of improving SME access.

1.45 p.m.

[35] **Nick Ramsay:** We only have a relatively short time with the Minister, so I will bring in Julie James at this point—

[36] **Alun Ffred Jones:** Hold on; I have only asked one question.

[37] **Nick Ramsay:** Sorry, I thought you had finished.

[38] **Alun Ffred Jones:** Ynghylch yr amserlen, mae awgrym yn y nodiadau y bydd y cyfnod rhybudd ar gyfer tendro yn cael ei wneud yn fyrrach. A ydym yn gwybod beth fydd y cyfnod newydd hwnnw? Beth yw'r cyfnod presennol?  
**Alun Ffred Jones:** On the timescales, there is a suggestion in the notes that the notice period for tendering will be shortened. Do we know what the new timescale will be? What is the current timescale?

[39] **Jane Hutt:** We do not support reducing timescales if there is then a danger that smaller firms cannot engage. We do not support that. We have different views from the UK Government on this point because small SMEs and new start-ups do not always have the capacity at that stage to meet tighter turnarounds. So, clearly that is an area where we are working to ensure that our voice is heard. That also relates to reduced use of pre-qualification questionnaires, because we do not support the UK Government's plans to reduce the use of PQQs, which we believe are helpful in terms of the use of the SQuID for our potential suppliers.

[40] **Julie James:** Would you consider issuing statutory guidance of some sort, enforcing various lotting provisions and so on? My understanding is that European procurement laws are a minimum and that there are some things that we could do in Wales, and that, as long as they did not breach the rules, we could impose some other things. Would you consider doing something like that, once we know what these rules say?

[41] **Jane Hutt:** I am happy to look at that. In accepting all of the McClelland recommendations, we have looked at the need to consider enforcement and it may be through statute, strengthening guidance. Clearly, I am open to that. I will make my expectations clear in my autumn statement. There is already a local government compact in terms of the use of community benefits clauses for any contract that is over £2 million.

[42] **Joyce Watson:** Is there conformity between the Welsh and UK Government views on SME-friendly measures in the procurement proposals?

[43] **Jane Hutt:** I think that we have covered some of those points already in some of the answers to questions, particularly issues relating to the use of lots. We are very much in accord in terms of increasing e-procurement and e-communication; there is no issue or difference on that. We agreed that we did not need a national oversight body. We are also keen, with the UK Government, to see mutuals and employee-led delivery agents being established in terms of opportunities for competition. So, those are areas where we are working closely with the UK Government.

[44] We are also keen on looking at reviewing procurement thresholds so that more contract opportunities are open to smaller firms. In fact, the UK Government is pushing to see that this issue is revisited sooner rather than later—possibly by 2013. Those are just some

examples.

[45] **Eluned Parrott:** We have heard a lot of evidence about the use of social environmental criteria within procurement contracts and the opportunity to kill two birds with one stone, as it were, but we have heard about the barriers to SMEs competing for contracts. What assessment have you made of the balance between putting in social or environmental clauses and the likelihood that that might act as a disincentive for local SMEs to apply?

[46] **Jane Hutt:** There are opportunities in terms of the policy objectives, because there are those expressed provisions that will help us with our community benefits clauses, which will be built into contract performance conditions. So, that really does help us in terms of our policy area. That can only be good in terms of local supply chains and local contracting opportunities. Of course, that includes training and measures to fight unemployment. I think that you will be aware that—we discussed this when I came in front of the inquiry committee—on the issue of reserved contracts for businesses, the proposed directive contains provision to allow projects to expand the definition of ‘disadvantage’. It suggests reserved contracts for business where 30% of the workforce is disadvantaged, but with a broadening of the provision for disabled people. So, it would be a further expansion of that. I think that that is helpful. It is about promotion of life-cycle costing and taking account of whole-life costs, including, for example, energy and recycling costs, which is helpful on the environmental front.

[47] **Eluned Parrott:** Do you feel that the UK Government agrees with your approach on the use of social clauses?

[48] **Jane Hutt:** Certainly, when he was interviewed, Francis Maude said that he was very interested. I know that I bore people when I talk about the Radio 4 programme that I appeared on, but Wales was extolled by *File on 4* for what we are doing with the community benefits clauses. I was talking to a private sector company last week that works outside Wales as well as in Wales. It employs people to work on the community benefits clauses and says that this practice is now being adopted in England as a result of a private sector contractor seeing the benefits of it in terms of accessing a local skilled workforce and being able to train local people. So, I have invited Francis Maude to come to see what we are doing in Wales.

[49] **Eluned Parrott:** We are, as you say, leading the way in terms of the use of social clauses, which is to be welcomed. However, of the UK nations, we are the least successful in sourcing locally. Is there a causal link?

[50] **Jane Hutt:** I think that we could agree or disagree on statistics in terms of sourcing locally, but I would be very happy to give the committee up-to-date evidence on that.

[51] **David Rees:** My question has been answered, so I will ask another. Based on that aspect, we have not discussed the remedies directive. We were discussing that in our previous discussion and it is a major issue. What progress has been made on looking at the remedies directive and are there going to be changes to it so that it might encourage more local companies to get involved?

[52] **Jane Hutt:** I remember talking about the remedies directive. Of course, there are tensions between the two directives, which we are monitoring very closely. Our sponsor divisions are asking public sector colleagues to share experience of the impact of the remedies directive, because we need to have evidence in this area.

[53] **David Rees:** Does the UK Government support the view on that, as part of the negotiations?



[54] **Mr Sullivan:** I am not sure that we have any specific details on that. It is certainly not something that I am aware of.

[55] **Ms Standfast:** Although we consider it an issue, it is not something that is being looked at now. We are gathering the evidence so that we can raise it, but it is going to be raised separately.

[56] **Julie James:** One other thing that has been raised with us on numerous occasions is whether we can have an exemption for European regional development fund streams for some procurement. I understand that certain reserved matters are staying in the procurement exemption rules, like Remploy, sheltered workshops, disabled workers and so on. My understanding is that they are staying in; I hope that that is your understanding too. Has there been any negotiation around convergence funding areas? I know that there is the whole issue of the budget and so on, but—

[57] **Ms Standfast:** There has not been negotiation on it. We did seek some internal legal advice on the likelihood of success, which they did not feel to be great, because they felt that the overriding principles of the treaty would supersede that.

[58] **Nick Ramsay:** Are there any further questions to the Minister or her officials?

[59] **Julie James:** The Minister has welcomed the report and all the rest of it, but does she feel that the direction of travel in Europe is sympathetic to the way that we are trying to go, or will we face more hurdles after the directive is put in place?

[60] **Jane Hutt:** My advice from officials—and Alison and Nick might want to make their own comments—is that there are huge opportunities here. It is not only very much in accord with the McClelland review and your inquiry report, but we have had an influence. If I were to make some closing remarks, Chair, I would say that this is a very exciting time for procurement, and it is about modernising the EU procurement directives. Your committee inquiry has had an influence—I have pressed the UK Government to take account of it—and our officials have helped to shape EU procurement policy in partnership with colleagues from Scotland and Northern Ireland.

[61] **Nick Ramsay:** We will take those as your closing remarks, Minister. Thank you for coming here today and for updating us on procurement issues. I also thank Alison Standfast and Nick Sullivan for attending today.

1.56 p.m.

**Sesiwn Ddiweddarau gyda'r Dirprwy Weinidog Amaethyddiaeth, Bwyd,  
Pysgodfeydd a Rhaglenni Ewropeaidd ynglŷn â Rhaglen Horizon 2020 a  
Chronfeydd Strwythurol yr UE**

**Update Session with the Deputy Minister for Agriculture, Food, Fisheries and  
European Programmes Regarding the Horizon 2020 Programme and EU  
Structural Funds**

[62] **Nick Ramsay:** I welcome the Deputy Minister. The aim of this session is for the committee to be updated on developments since we published our report on EU structural funds, and also to discuss the Welsh Government's response to our report on Horizon 2020, which was published in July. This discussion will inform our visit to Brussels in November.

[63] I welcome our witnesses. Would you like to state your names and titles for the record?

[64] **The Deputy Minister for Agriculture, Food, Fisheries and European Programmes (Alun Davies):** Good afternoon. My name is Alun Davies. I am the Deputy Minister for Agriculture, Food, Fisheries and European Programmes. My officials this afternoon are Damien O'Brien, chief executive of the Welsh European Funding Office, and Dr Alastair Davies, who is dealing with Horizon 2020.

[65] **Nick Ramsay:** Welcome to the committee, Deputy Minister, and thank you for finding the time to come to answer our questions today. Would you like to give the committee an update on the draft legislative proposals for EU structural funds 2014-20 and the draft proposals for Horizon 2020? Members will then ask you questions.

[66] **Alun Davies:** I will just say that I am very grateful to the committee for its interest in this matter and for the work that it has already completed on this subject area. It has helped us in our conclusions and in progressing our work as a Government on this. The committee will be aware that, since its inquiry, we have now concluded the reflection exercise that we discussed at that time, and I made my statement on that review to the National Assembly in May. The committee will also be aware that I have commissioned a review led by Dr Grahame Guilford on how we deliver structural funds in Wales. That review is taking place at the moment, and I expect its first part to be concluded before Christmas. I would be happy to ensure that the committee is kept up to date with information on that.

2.00 p.m.

[67] I am also very aware that the committee has taken a strong interest in Horizon 2020, and we are very grateful for the committee's report on that. In terms of taking forward the discussion today, Chair, do I understand from your question that you would like me to give you and the committee an update on the negotiations on the Commission's legislative proposals?

[68] **Nick Ramsay:** If you would like to, you can give us a brief update on that, or we can move on to questions.

[69] **Alun Davies:** In terms of where we are now, the last meeting of the General Affairs Council that I attended in Luxembourg in June completed discussions and negotiations on a block of particular areas of the proposals. Partial agreement has been reached on that. Part of the purpose of the General Affairs Council in October will be to seek a partial agreement on the second block of legislative proposals. When that has been done, the council will be in a position to begin conversations in a triologue with the European Parliament and the Commission. Members will also be aware that the respective committees in the Parliament are also at the moment dealing with a huge number of amendments to the Parliament's position. Parliament is dealing with those at present. I spoke to the rapporteur on the regional policy committee on Monday when she was visiting Wales. The current position is that they hope to be able to have an agreed mandate for the triologue negotiations in the next few weeks.

[70] **Byron Davies:** The president of the European Council, Herman van Rompuy, has called an extraordinary EU summit in Brussels in November, with the aim of agreeing the multi-annual financial framework for 2014 to 2020. I am interested in your view on this. Do you think that a deal will be reached?

[71] **Alun Davies:** I am tempted to suggest that we reconvene over the Sunday papers and take a view from there. [*Laughter.*] Let me say that there is a great deal of speculation about where we are on this. I do not really want to take up the committee's time speculating on these matters. There was a conversation earlier this week at the General Affairs Council in

Brussels during which it is probably fair to say that differing views were expressed on the direction of travel of the overall EU budget. Clearly, there are two games in town in financial terms. There are the debates that are taking place over the future of the eurozone and the structural changes that may or may not be necessary to ensure the stability of the euro. There are also discussions on the overall MFF.

[72] With regard to where we are, it is clear that the Cypriot presidency is anxious to table actual figures. At the moment negotiations are taking place not quite in abstract, but without any figures in the negotiating box. Clearly, the Cypriot presidency wants to move forward on that. If there is going to be agreement on 22 November, there needs to be a process of debate and discussion. I know that the presidency is anxious to ensure that the process of debate takes place. I anticipate that there will be a debate on this at the next General Affairs Council in the middle of October. That should prepare the way for the discussions taking place in November.

[73] As the Welsh Government, we are engaged in the process. We talk regularly to the UK Government on these matters. I will be attending a joint ministerial committee meeting on Europe in London at the beginning of October, at which we will discuss the UK's position on the MFF. We are maintaining an interest, if you like, in the UK position on this. At the moment, Byron, there are an awful lot of conversations taking place. When I speak to people in Brussels, Luxembourg, Strasbourg or wherever it happens to be, I hear very different views expressed. Given our position here in Wales, the earlier we have an agreement on the MFF the better for us as a country, because we will have certainty and knowledge about the budget available to us for Horizon 2020 as well as the common agricultural policy and structural funds.

[74] Of course, when we have an agreement on the budget, we will be able to move forward much more quickly with the legislative negotiations and discussions that we need to have, many of which are budget dependent and budget related. So, our position is that we want to see these negotiations reach a successful conclusion on 27 November, but we are under no illusions as to the difficulties and the barriers that might prevent that from taking place.

[75] **Byron Davies:** That is very comprehensive, and you have probably answered my next two questions, but what is your view on the potential funding allocations that Wales can expect from the EU structural funds?

[76] **Alun Davies:** It is difficult for me; I do not want to be pinned down on this, because I am aware that, by speculating, I might mislead the committee. The allocation will be dependent on two things. The first is the global size of the budget, and, clearly, there are differing positions on that, with the Commission wishing, broadly, to see the budget standing still in real terms, the Parliament wishing to see an increase in spending, and different member states wanting to see different outcomes. You will be aware that the current UK position is to see substantial cuts in the budget. The UK Government, I hope, will clarify its position, but, at the moment, it sees many of those cuts being targeted at CAP pillar 1. If that is the case, we do not know what impact that would have on structural funds. So, the global amount of the budget will have an impact and, secondly, so will the relative positions of the two main blocks of spending in the Commission budget: CAP and structural funds. We do not yet understand that, and our allocation will be a direct result of decisions on both those matters. So, at the moment, if you will forgive me, Byron, I would be speculating if I gave you a figure. The Welsh Government's position is that we would like to see spending being maintained reasonably close to current levels.

[77] **Nick Ramsay:** If you are brief and efficient in your answers, Deputy Minister, that is helpful to this end of the room.

[78] **David Rees:** Good afternoon, Deputy Minister. Based upon the intensive negotiations that are going on at the moment—it is a hectic time in Brussels—and because these cuts have a major impact on what we can expect to get out of them as a consequence, do you have sufficient resources at your disposal to ensure that our perspective is held up in those negotiations? Our perspective is impacted upon by those cuts.

[79] **Alun Davies:** I am content with the resources available to me at the moment in terms of our ability to take part in those negotiations and the staffing resource available to us. We have ensured that we have a staffing resource available in terms of the CAP negotiations, the structural funds and the work being done in parallel to that on Horizon 2020. So, within the Welsh Government, I am quite content that we have sufficient resources available to us. We have also sought to sponsor some secondments to UKRep to ensure that there is a specialism in or knowledge of the Welsh position in some of these negotiations. Perhaps the most important resource that we have available to us is time, to ensure that we are able to represent Wales well at all points of these negotiations. I know that opposition parties have been enormously co-operative on that, and the Government is grateful for that, because, given the current geometry, it is important that we have co-operation across all political parties in this place to ensure that there is effective representation of Wales in all of these negotiations or wherever necessary. So, I think and I hope that that consensus will continue.

[80] **David Rees:** I have a quick question on that. You mentioned time. Is it your view that the decisions on budgets will come during this presidency or during the Irish presidency?

[81] **Alun Davies:** I do not know; I really do not. There is great pressure on a number of different key players. It is clear from what has been going on that Van Rompuy wants to see agreement on 22 November; I think that all of us would. I do not think that there is anyone who is actively seeking to not reach agreement, but there are a lot of obstacles. It became clearer perhaps in the General Affairs Council on Monday, at which the negotiating positions of the different blocks of member states and different member states were outlined. However, member states remain far away from an agreed consensus position. As a consequence of that, the council does not have an agreed position yet. Although the council does not need the support of the Parliament in order to get the budget, there is a relationship between where the Parliament wants to be and where the council wants to be in terms of spending. So, many of these different discussions are dependent upon much wider discussions and debates. Of course, it all takes place within the context of the current economic situation and the position of the euro. So, although there are many people working hard to ensure that there will be agreement before the next Council of Europe in December, I do not think that any of us can be certain or confident that agreement will be reached. From a Welsh perspective, the earlier that agreement is reached, the better.

[82] **David Rees:** I would just like to ask one quick question. You mentioned the eurozone and, obviously, we have seen the issues being highlighted by the events in Greece and Spain at the moment. Is that driving the council more towards earlier agreement on the budget, or will it lose focus on the budget and focus mainly on how to deal with the eurozone?

[83] **Alun Davies:** It means that there is not the same focus that there would have been on the budget and the budget alone were we living in more benign economic times. It means that people are looking at the budget from different perspectives. There is also, as we know, an element of ideology involved, in that the UK Government wants to see spending cuts almost at any cost. That is not something that we feel comfortable with here in Wales, because we know the impact of a substantial cut. If the current UK position of a cut to pillar 1 of CAP played out, it would have an enormous impact on rural Wales and on the ability of the agricultural sector to survive. We also know that if there were similar, large cuts in structural funds, our ability to transform the Welsh economy would be compromised. So, in Wales, both

the large areas of funding that constitute this budget are critical to the way in which our economy can function.

[84] **Nick Ramsay:** We are about to move on to discuss structural funds, so I will stop you there. Jenny Rathbone has a supplementary question.

[85] **Jenny Rathbone:** The UK is part of Friends of Better Spending—a quaintly named group—in these budget negotiations and yet I read that France, which is also a member of that group, is set on preserving the CAP budget. That would mean continuing to subsidise tobacco as the greatest spend within the CAP budget. The Welsh Government spends huge sums of money on trying to suppress tobacco use, so why is Europe still subsidising the growing of tobacco?

[86] **Alun Davies:** I do not think that any subsidies to tobacco are a significant part of the overall budget. Conversations about this have taken place in council. I will write to you on the precise point.

[87] **Jenny Rathbone:** My understanding is that it is the recipient of the largest subsidy under the CAP.

[88] **Alun Davies:** France might be the largest recipient, but that does not necessarily mean that the tobacco element of that is a very significant sum. I will write to you on the issue of tobacco, because I do not have that information available here this afternoon. We know the French position on CAP and we know the British position on a rebate. These are immovable political positions. It is a part of what is almost a three-dimensional chess game that people need to play in order to achieve agreement. The CAP is enormously important to Wales. Without pillar 1 support for agriculture, you could argue whether the majority of Welsh farms would be bankrupt. However, Welsh agriculture would certainly suffer enormously if there were significant cuts in that regard.

[89] **Nick Ramsay:** You have made that point very strongly, Deputy Minister, about the importance of CAP. I want us to move on to the questions on structural funds. Julie James has the next questions.

[90] **Julie James:** Good afternoon, Deputy Minister. While we do not know how much money we will get, we have to assume that we will continue to get some money. I would like some reassurance that preparations for spending that money to ensure that our strategic gains are continued with it are under way and that you are happy with the arrangements for the various operational programmes, and so on. I would like some reassurance that we are not just all waiting to see whether there will be any money.

2.15 p.m.

[91] **Alun Davies:** I hope that I can give you that reassurance, Julie. You will be aware of the conversations that we have had at this committee over the last year. The reflection exercise was very useful from our point of view in looking at how we have spent money in the past and how we intend to do so in the future. You will be aware that I made an oral statement on that on 8 May. I will keep off the subjects of the common agricultural policy and the rural development plan for the purposes of this afternoon's conversation.

[92] In terms of structural funds, we have made clear where we want the principles and the priorities for spending to take place, and that has been broadly welcomed across the different communities of Wales. I have also appointed Dr Grahame Guilford to look at the future delivery arrangements for any post-2013 programmes. I made a statement asking people to tell us what they thought about that. The consultation finished on 31 August, and I know that

Grahame is working his way through it. I met him last month to discuss how that review was going; it is going very well. Damien will correct me if I am wrong here, but I expect that the first report will be published in late 2012, and that the second element of it will be published in early 2013.

[93] I am also exploring different options for greater integration of funding programmes. Part of our negotiating position is that we want a lot more clarity in terms of common regulations so that we have a single means of audit and reporting for different funding streams. We also want the ability to manage funding streams together to create greater efficiencies within Government, but we also want to see more multi-fund schemes and programmes so that we can bring funds together to have a greater impact in the economy and in different programmes and projects.

[94] I expect that the regulations will be finally agreed in the spring of next year. We will issue a statement possibly before Christmas, but certainly in January, on where we are going with the new programmes. We will be having a public consultation early in the new year on the new programmes. I have established a number of technical work streams, operational programmes and others so that we will be technically in a position to deliver new programmes from 1 January 2014. I would hope that, in the summer and autumn of next year, we will be in a position to submit and negotiate operational programmes with the European Commission. That will give us sufficient time to ensure that we will be able to fund new programmes, assuming that the programmes come on stream on 1 January 2014, as is currently expected.

[95] **Julie James:** Thank you very much, Deputy Minister. You will know that we have had a lot of conversation in this Assembly about smarter procurement, and so on, and that I have a bit of a tendency to stand on a soapbox on the subject. Can we be assured that we will use the very best practice in procurement to line up your aims as Deputy Minister with the wider aims of the Government in general to get the best economic drivers from the way in which we procure as well as what we procure?

[96] **Alun Davies:** You can be reassured. We have been looking at this matter; I think that the Finance Committee has spent some time looking at these matters. If I am correct, it is in the room next door deciding on its view of our performance. One of the reasons why I took the decision that the Guilford review would be in two stages was to focus not simply on the structure of what we do, but how we do it. One of the things I have asked him to look at is exactly that point. So, we will have a report back from Grahame in the next few months. Clearly, all of that will be published for people to see and review. I would be more than happy to speak to the committee when we have an opportunity to look at that work.

[97] **Yr Arglwydd Elis-Thomas:** A gaf i ofyn i'r Dirprwy Weinidog—a'i swyddogion os oes ganddynt unrhyw beth penodol i'w gyfrannu at hyn—sut fydd awydd Comisiwn yr Undeb Ewropeaidd i gydlynu gwahanol fathau o wariant yn fwy effeithlon yn newid y ffordd mae Llywodraeth Cymru yn cymryd trosolwg o'r rhaglenni hyn? Rwyf yn meddwl yn arbennig am yr hyn y buom yn ei drafod y pwyllgor hwn gyda chynllun Horizon 2020 o safbwynt ymchwil a buddsoddiad. Er enghraifft, sut mae'r berthynas rhwng ymchwil a buddsoddi mewn addysg uwch yn cydgyssylltu â gwariant Swyddfa Cyllid Ewropeaidd Cymru ar y cronfeydd strwythurol at y dyfodol?

**Lord Elis-Thomas:** May I ask the Deputy Minister—and his officials if they have anything specific to contribute to this—how the European Commission's desire to co-ordinate various types of expenditure more efficiently change the way in which the Welsh Government takes an overview of these programmes? I am thinking particularly of what we have been discussing in this committee in terms of the Horizon 2020 scheme with regard to research and investment. For example, how does the relationship between research and investment in higher education interlink with Welsh European Funding Office expenditure on the structural funds for the future?

[98] **Alun Davies:** Os edrychwch ar hyn ar lefel polisi, gwelwch fod gwahanol bolisiau Llywodraeth Cymru ar yr economi, buddsoddi, ymchwil ac addysg uwch wedi eu cydlynu ac yn ffitio, rwy'n gobeithio, gydag Ewrop 2020. Felly, mae'r polisi mae'r Comisiwn wedi ei benderfynu a'r ffordd mae'r Comisiwn wedi llunio'i bolisi ar gyfer y saith mlynedd nesaf yn adlewyrchu'r hyn rydym yn ei wneud yng Nghymru, neu mae'r hyn rydym yn ei wneud yng Nghymru yn adlewyrchu'r hyn mae'n ei fynnu. Felly, rydym yn edrych ar ddod â'r pethau hyn at ei gilydd—*smart, sustainable growth* a'r math o bethau rydym wedi bod yn eu trafod—ac hefyd adlewyrchu, rwy'n gobeithio, y datganiad a wnes yn ôl ym mis Mai. Felly, ar lefel polisi, rwy'n credu ein bod wedi cydlynu ein blaenoriaethau polisi gyda blaenoriaethau'r Comisiwn.

[99] Pan mae'n dod at y strwythur, yr hyn rydym yn ei wneud a sut rydym yn rheoli'r rhaglenni yng Nghymru, hoffwn ein gweld yn symud ymlaen mewn ffordd mwy integredig, fel ein bod yn gallu cydreoli'r cronfeydd strwythurol, arian PAC a Horizon 2020. Dyna yr hoffwn ei weld, sef ein bod yn gallu rheoli'r ffynonellau ariannol hynny gyda'i gilydd i sicrhau ein bod yn gweithredu ac yn rheoli pethau tu fewn i'r Llywodraeth mewn ffordd mwy effeithlon a'n bod yn creu mwy o gyfle i weld y fath integreiddio ar lawr gwlad.

[100] **Yr Arglwydd Elis-Thomas:** Pryd fyddwn ni gystal â Sacsoni, Ddirprwy Weinidog?

[101] **Alun Davies:** Roeddwn yn siarad gydag Aelod o Senedd Ewrop Sacsoni nos Lun, fel mae'n digwydd.

[102] **Yr Arglwydd Elis-Thomas:** Mae'n dda gennyf glywed hynny.

[103] **Alun Davies:** Mae hi wedi fy ngwahodd yno, rwyf wedi derbyn ei gwahoddiad, ac rwy'n edrych ymlaen at weld pa wersi—

[104] **Yr Arglwydd Elis-Thomas:** Efallai y dydwn ni gyda thi.

**Alun Davies:** If you look at this at a policy level, you will see that the various policies of the Welsh Government in terms of the economy, investment, research and higher education are co-ordinated and they fit in, I hope, with the Europe 2020 agenda. So, the policy that the Commission has decided and the way that the Commission's policy has been formulated for the next seven years reflects what we do in Wales, or what we do in Wales reflects what it aspires to. So, we are looking to join these things together—smart, sustainable growth and the kinds of things that we have been discussing—while, I hope, also reflecting the statement that I made back in May. So, at a policy level, I think that we have co-ordinated our policy priorities with the Commission's priorities.

When it comes to the structure, what we do and how we manage the programmes in Wales, I would like to see us progressing in a far more integrated way, so that we can jointly manage the structural funds, CAP funding and Horizon 2020. That is what I would like to see, namely that we could manage those funding sources jointly to ensure that we are more efficient in the way that we implement and manage things within the Government and that we generate more opportunities to see such integration on the ground.

**Lord Elis-Thomas:** When will we be as good as Saxony, Deputy Minister?

**Alun Davies:** I was speaking with the MEP from Saxony on Monday night, as it happens.

**Lord Elis-Thomas:** I am pleased to hear that.

**Alun Davies:** She has invited me there, I have accepted the invitation, and I look forward to seeing what lessons—

**Lord Elis-Thomas:** Perhaps we will come with you.

[105] **Alun Davies:** Mae croeso i chi ac i **Alun Davies:** You would be welcome to, as  
aelodau eraill y pwyllgor hwn. would the members of this committee.

[106] **David Rees:** Saxony actually—[*Inaudible.*]—particularly for Horizon 2020, and see  
how they have built upon it.

[107] **Alun Davies:** I was not being flippant. You are absolutely right.

[108] **David Rees:** It is an important area. However, I want to come back on one point  
quickly. You mentioned looking at how we deliver and how we manage, can I be reassured  
that you are also looking at how we assess whether we have been successful? It is a question  
of delivering and managing, but it is also about looking at whether we have achieved, how we  
are measuring what we have achieved, how we are assessing whether the funding has been  
used wisely and effectively, and whether those projects are now working effectively. It is not  
just about managing and delivering, but about looking at the other side of it. Can you reassure  
us that your review will look at that as well?

[109] **Alun Davies:** Absolutely. I have been very clear, I hope, in the time that I have been  
in office that European funding has to provide additionality and not just core funding that  
comes year after year, and that, as a consequence, there have to be high achievement targets  
for the different programmes and that funding is dependent on success and not failure. I will  
ask Damien to come in on this as well. Part of the new regulations include performance  
indicators, and one of the very good conversations that we had with Commissioner Johannes  
Hahn during his visit to Wales in April was about how we constantly develop the programmes  
and that we assess their success and performance. That message was misreported by the  
media at the time, but what we are seeking to achieve are programmes that are delivered  
efficiently and effectively and that exist to provide additionality in maximising the impact on  
changing and transforming our economy and our economic performance. Clearly, the current  
situation makes that more difficult than it would have been at other times. We accept and  
understand that, but I do not believe that that in itself is a reason to accept a lack of success or  
a lack of rigour in achieving and seeking success. So, I hope, Dave, that you can be reassured  
that not only are the structural regulations, namely the statutory framework, in place that will  
drive performance, but there is a very clear determination within this Government that  
performance is absolutely essential to future funding.

[110] I spoke this morning at a conference in the Millennium Stadium about different  
programmes on the sustainability side, and I made the very clear point there that we do not  
want to fund what we funded in the past because we funded it in the past. We want to fund, in  
the future, successful programmes that deliver successful outcomes.

[111] **Mr O'Brien:** The draft legislative framework for the next round of programmes  
places a very strong emphasis on the achievement of outputs and proper evaluation. In fact,  
the whole focus of the Commission now, in advising on the development of the programmes,  
is that we should start with being very clear about the outputs that we want to achieve and  
work back from that, in terms of the interventions that are best able to deliver those outputs.  
One of the criticisms of structural funds in the past has been that there is a strong emphasis on  
spending money and less attention paid to what we get in return for that. That will certainly  
change in the next funding round because the Commission has made it very clear that it will  
hold us to account for achievements, not just for the expenditure.

[112] **Nick Ramsay:** Briefly, before we move on, Deputy Minister, what are your views—  
if you have any—on the negotiating mandate agreed within the lead European Parliament  
committees on the draft EU structural funds, and on the approaches agreed in council?

[113] **Alun Davies:** We are very comfortable with the position that I mentioned earlier with



the Member for Saxony. She is a rapporteur on the regional policy committee of the European Parliament. We are very comfortable with its position, and very pleased that it has actually developed, if you like, some of the proposals from the Commission. I think, Damien, that it is fair to say that in terms of the conversation that we have had.

[114] In the last month I have spoken to Constanze Krehl and Jan Albrecht, who are the two key rapporteurs in the European Parliament. Jan Albrecht has a long association with Wales, which goes back to previous times, as the former Presiding Officer will be aware. He is very knowledgeable about what we have been trying to do in Wales. His position is very supportive or our position is very supportive of his. We are on the same page in that respect. Similarly, the regional policy committee is on the same page as us. There is a great deal of shared vision, if you like, on these matters between us and the Parliament.

[115] **Nick Ramsay:** That is great. Thank you. We will now move on to the preparations for future programmes in Wales, and the UK and I call on Joyce Watson.

[116] **Joyce Watson:** If possible, I would like an update on the review that is under way into the potential management arrangements for the future EU programmes in Wales, including any early conclusions about potential future arrangements; for example, the continuing role of the Welsh European Funding Office, and whether it is likely to be broadened to support and promote engagement beyond the EU structural funds and rural development, such as Horizon 2020 and the lifelong learning programmes.

[117] **Alun Davies:** In response to an earlier question from Dafydd Elis-Thomas I outlined my personal views on some of these matters. I am aware that I am very poor at resisting the temptation to speculate. At the end of the previous term, we saw conversations about independent reports and the rest of it. I asked Dr Guilford to do this work, rather than asking an official to do it or doing it myself, because I wanted an independent or fresh pair of eyes to look at these matters, rather than it being done internally within the Government. I am loath to start speculating on where he will actually arrive at. I have met him on two occasions, I think, since he started his work. I have ensured that he has resources and a secretariat available to him to ensure that he is able to fulfil his expectations. I know that he is currently meeting with Ministers and others within the European programmes community in Wales, and I am confident that that work is progressing. As I have said before, on a number of occasions, I feel, as a Minister, that we should be trying to integrate our work in a more coherent fashion because we simply do not have the embarrassment of riches, as a Government, to be able to duplicate work in different areas.

2.30 p.m.

[118] We need to be able to deliver efficient and effective governance for Wales. For me, that means bringing together the management of these programmes as closely as possible. At the moment, there are legal obstacles to that. I will say to the committee that we have been very active, and on your earlier question, Chair, on the position of the European Parliament committees, an example of where we are on the same page is harmonisation and the development of common regulations. The Welsh Government worked very closely with BIS on this, and with the UK Government we laid a statement of opinion at the June general affairs council that was signed by 17 member states. We are trying to work hard to ensure that we have as much harmonisation across the regulations as possible, which will then enable us not only to deliver multi-fund projects, but to streamline the management within governance and, importantly, to ensure that there is less administration, bureaucracy and the rest of it for people out there. We are working on all of those different subjects at the moment. I would not like to pre-empt the report of Dr Guildford, but I will—

[119] **Nick Ramsay:** But you are tempted. [*Laughter.*]

[120] **Alun Davies:** I am sorely tempted.

[121] **Lord Elis-Thomas:** Resist, Deputy Minister.

[122] **Alun Davies:** I will resist this afternoon. However, I will say that I will ensure that the committee has access to as much documentation and information on that review as is fair and possible.

[123] **Nick Ramsay:** The temptation to speculate was well resisted, Deputy Minister.

[124] Smart specialisation is next. I think that Ken Skates has some questions on this.

[125] **Kenneth Skates:** Thank you, Chair.

[126] Deputy Minister, are you able to tell us if there is a date for publication of the regional innovation strategy? Also, are you able to give some details on the role of the task and finish group set up to assist with this?

[127] **Alun Davies:** That sounds like a question for Alastair.

[128] **Dr Davies:** The task and finish group has been set up under the chairmanship of Professor Kevin Morgan and with Dr Adrian Healey, who has addressed this committee previously on the issue, as co-chair. Dr Grahame Guildford is also a member. They have met once to consider some of the background evidence. They are due to meet again next week. The target that we are working towards is to have a policy published in December. The task and finish group meets on 10 December, so I am assuming that, if the discussions and negotiations with the task and finish group and the advice go to plan, we will be in a position to publish after that. A draft will be made available before that date.

[129] **Kenneth Skates:** Does the Welsh Government intend to participate in the smart specialisation platform that was established by the Commission?

[130] **Dr Davies:** Yes. We recently joined that on the advice of Professor Morgan.

[131] **Nick Ramsay:** Eluned Parrott is next, on Horizon 2020.

[132] **Eluned Parrott:** With regard to Horizon 2020 and the report that this committee published back in July, the Welsh Government accepted a recommendation that it would publish a statement setting out its position on the proposals. Your response to that states that this is addressed in the 'Wales and the European Union Strategy', published in May. Actually, that document only appears to address the potential synergies between Horizon 2020 and structural funds; it does not give a position on Horizon 2020 itself. What is the Welsh Government's position on Horizon 2020?

[133] **Alun Davies:** The recommendation was that we urged Welsh Ministers to advocate this position with the UK Government and through the European Parliament. You are referring to recommendation 4, yes?

[134] **Eluned Parrott:** Yes, that is right; it asks that you publish a statement.

[135] **Alun Davies:** We published the document that you referred to in May. We have spoken to the UK Minister of State for Universities and Science since then, and there are a number of work streams involved, in which officials from Wales, Scotland and Northern Ireland are working alongside the relevant officials in the UK Government to deliver a UK-

wide view on this. So, in terms of delivering the documentation on this, that has already been done. However, in terms of progressing the policy of Horizon 2020, which I think is probably more important, and ensuring that it is linked into the wider context, we currently have a number of different working groups within the UK structures to ensure that that happens across the whole of the United Kingdom, and Wales is represented in the same way as the other devolved administrations in that. Do you want to add anything?

[136] **Dr Davies:** No, that sums it up fairly well. We are working alongside the other devolved administrations. Of course, negotiations are still ongoing about the precise form of Horizon 2020, the budget split and how it will actually work in practice. So, it is very much a live action, if you like; it is being progressed as negotiations develop.

[137] **Eluned Parrott:** Deputy Minister, I would hate to try to tempt you to speculate or do anything else, but can I tempt you to give us a progress report on the review that is being conducted by Dr Guilford at the moment and give us an idea of in what kind of time frame you are hoping for him to complete his work?

[138] **Alun Davies:** I think that that is the question that Joyce has just asked. I would not add anything to the answers that I have already given, but in terms of the timescale, I would anticipate seeing the initial report before Christmas. I hope that we would be able to publish something before Christmas, and the second part of that would be in January, perhaps early February, of next year. I am very anxious, Eluned, that we do not simply have this review, which takes place in private, in the dark, if you like, without any discussion or debate. I will be making an oral statement on these matters to the National Assembly when the reports are published; I will be making the report public at the earliest opportunity and I will be making statements on that—probably written statements—when the initial documentation is published. So, I will be ensuring that you, other Members, and others outside of this place, have an opportunity not only to see the report itself, but to see the basis upon which Grahame has arrived at his conclusions. I am anxious that it will be a very open and inclusive process. At the same time, when we launch the next public consultation, which I expect to be after Christmas, we would anticipate trying to stimulate quite a wide public debate about the nature of the programmes that we want to see starting in January 2014, based on the principles and priorities that I announced last May. It might be useful, Chair, if I wrote to the committee with a timescale laying out how we anticipate all these different themes playing out over the year, although I must say, in making that offer to the committee, that it would come with an enormous health warning, because much of this is dependent on budget agreements. So, we might say January, but it could be February or March, depending on matters outside of our control.

[139] However, one of the issues that I am trying to debate and discuss within Government at the moment is how we manage this process over the coming year to ensure that we have public debate and public scrutiny of what we are trying to do, while at the same time, building in sufficient time for us to do the work to deliver the results of that scrutiny and debate. So, I am more than happy to provide the committee with as early a copy of Dr Guilford's report as is possible, but I will resist the temptations that have been offered to me on numerous occasions this afternoon to prejudge any of that work.

[140] **Nick Ramsay:** I think that you have invented a new political soundbite in this committee, Deputy Minister: 'the temptation to speculate'. If you could provide us with that information, with that caveat, it would be very helpful. Do you have any further questions, Eluned?

[141] **Eluned Parrott:** A timetable would be extremely helpful. My last question was with regard to the potential of creating a co-fund initiative to support professional development in higher education within the academic and research sector in Wales more broadly, to help us

win more funding for research from schemes such as Horizon 2020. Have you had an opportunity to discuss this any further? Is there any progress to report? What assessment have you made of the size of any match funding that we might need to find?

[142] **Alun Davies:** When you get home today and watch *Wales Today* you will see that Edwina Hart has been in Aberystwyth today to launch the *Sêr Cymru* fund—it is a very well-timed question. It is a £50 million fund, which aims to enhance our research excellence by attracting world-class researchers and their teams to Wales—

[143] **Eluned Parrott:** I understood that *Sêr Cymru* was a programme to attract new researchers to Wales as opposed to providing continued professional development to the existing body.

[144] **Alun Davies:** That is a part of our overall attempt to improve the research capacity that we currently have in Wales. You will be aware that our current cut of research council funding is 3%; we are looking at getting the full 5%, which is the Barnett figure. We are looking at investing in the academic research infrastructure, in terms of people and capital, to enable us to do that. So, we are looking at a number of different elements in terms of how we invest in developing people and the overall research departments. Would you like to continue, Alastair?

[145] **Dr Davies:** Yes. *Sêr Cymru* is a large programme, elements of which are being announced at the moment. The national research network and other initiatives will provide a more detailed answer to the question that you ask about the professional development of people who are already here. Officials have held conversations about the co-fund potential with the Marie Curie Actions as part of the European Commission. So, we are actively investigating the opportunity to use the co-fund mechanism, which initially looks attractive, but, of course, there is a lot of detail to be discussed.

[146] **Alun Davies:** A key part of this is to nurture existing research staff.

[147] **David Rees:** I have a small point to make. Horizon 2020 is focusing on research and development in terms of trying to establish a base within Wales to drive the economy forward. However, are you looking at engaging with SMEs? How do you encourage more SMEs to partake in benefiting from the research and development? Have you looked at examples from other regions that may already be doing that with FP7?

[148] **Alun Davies:** We want to make the European funding streams that are available to us more attractive for SMEs. That is a principled approach, which covers all the different funds. On Horizon 2020, we have been pushing the simplification agenda, which will make this easier and will increase flat-rate reimbursement, which we hope will make Horizon 2020 more attractive for SMEs. At the moment, in delivering this programme, we are aware that SMEs will participate in different ways. The conversation that we have had here in committee and on other matters, in terms of the main structural funds, if you like, is reflected in the discussion on Horizon 2020. Horizon 2020 may not be equally available to all SMEs, because not all SMEs wish to participate as managers of a particular programme, but may wish to take part in or benefit from Horizon 2020 to deliver services or procurement. So, there will be different ways in which SMEs will want to participate. Certainly, as someone who ran an SME before I was elected, I would prefer to deliver rather than manage, but that is just me and my background. So, there will be different ways in which SMEs will be involved in Horizon 2020, in exactly the same way as there will be different ways in which business will be involved in delivering, managing or procuring delivery of services and other structural funds. Alastair, do you want to add more detail?

[149] **Dr Davies:** Yes. That is a good point. Horizon 2020 is not for every SME. There is

quite a high overhead in participating, but the benefits of participating for the right SME can be enormous—there can be huge benefits. It has been off-putting, and SME involvement has been falling off through the various framework programmes. Complexity, accounting rules, level of risk, timescale, intellectual property agreements and so on are barriers that SMEs commonly put forward. The Welsh Government has been supporting the simplification agenda that is being pursued by the European Commission on this with much simpler flat-rate rules, accepting members' own accounting standards in order for them to participate. So, we strongly support that.

[150] On looking at best practice elsewhere, we would like to look at that as part of smart specialisation and as part of the advice that we are taking. There is always something to learn from good practice elsewhere.

2.45 p.m.

[151] **David Rees:** So, you welcome the rapporteurs' views on the synergy with structural funding for Horizon 2020, but the concern is simplification, on both sides.

[152] **Dr Davies:** Yes, absolutely.

[153] **Nick Ramsay:** Finally, Deputy Minister, you caveated a lot of your answers today. Obviously, there is uncertainty over the eurozone area and what the future may hold there economically. I assume that the Welsh Government is following those developments closely and will be able to respond accordingly to whatever situation develops.

[154] **Alun Davies:** Yes. Let me be absolutely clear: these are reserved matters to the UK Government and it is the UK Government that is the member state, not the Welsh Government—

[155] **Lord Elis-Thomas:** At the moment.

[156] **Alun Davies:** That is clearly the position at the moment and, I hope, into the far distant future. In terms of where we are, we are involved in conversations with the Treasury about these matters. We have a structured relationship with the UK Government, whereby we have conversations and formal meetings on these matters. The multi-annual financial framework, the MFF, will be the topic of conversations with the UK Government, so we do have means of informing the debate, and the Treasury will seek our views on these matters. However, these matters are reserved to the United Kingdom Government and the final budget negotiations will be concluded by heads of Government in the Council of Europe in December, or possibly in November. So, while we are participants in a debate within the United Kingdom about the European budget, these are clearly matters upon which the Treasury and Downing Street will lead.

[157] **Nick Ramsay:** Are there any further questions from Members? I see that there are none. I thank the Deputy Minister for coming to update us today. It was very helpful for the committee's deliberations. I also thank Dr Alastair Davies and Damien O'Brien for attending.

2.47 p.m.

### **Cynnig Gweithdrefnol Procedural Motion**

[158] **Nick Ramsay:** 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).*

[159] This is so that the committee can discuss its forthcoming business. I see that the committee is in agreement.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 2.47 p.m.  
The public part of the meeting ended at 2.47 p.m.*