



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

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

Dydd Iau, 18 Gorffennaf 2013
Thursday, 18 July 2013

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniow	Llafur Labour
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
Joyce Watson	Llafur Labour
Nick Ramsay	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)

Eraill yn bresennol
Others in attendance

Ann Beynon	Cyfarwyddwraig, BT Cymru Director, BT Wales
Mike Galvin	Pennaeth Band Eang y Genhedlaeth Nesaf, Openreach, BT Cymru Head of Next Generation Broadband, Openreach, BT Wales
Rob Halford	Pennaeth Cynllunio a Strategaeth, Swyddfa Cyllid Ewropeaidd Cymru Head of Planning and Strategy, Welsh European Funding Office
David Hughes	Pennaeth Swyddfa'r Comisiwn Ewropeaidd yng Nghymru Head of Office of the European Commission in Wales
Ed Hunt	Cyfarwyddwr y Rhaglen Cyflymu Cymru, BT Cymru Programme Director, Superfast Cymru, BT Wales
Jane Hutt	Aelod Cynulliad, Llafur (Y Gweinidog Cyllid) Assembly Member, Labour (The Minister for Finance)
Nicholas Martyn	Dirprwy Gyfarwyddwr Cyffredinol dros Bolisi, Perfformiad a Chydymffurfiaeth, y Gyfarwyddiaeth Gyffredinol dros Bolisi Rhanbarthol a Threfol Deputy Director General for Policy, Performance and Compliance, DG Regional and Urban Policy
Peter Ryland	Dirprwy Gyfarwyddwr, Perfformiad Rhaglenni a Chyllid, Swyddfa Cyllid Ewropeaidd Cymru Deputy Director, Programme Performance and Finance, Welsh European Funding Office

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

Ffion Emyr Bourton	Clerc Clerc
Gregg Jones	Pennaeth Swyddfa Cynulliad Cenedlaethol Cymru yr UE Head of the National Assembly for Wales EU Office
Siân Phipps	Dirprwy Glerc Deputy Clerk
Ben Stokes	Y Gwasanaeth Ymchwil Research Service

*Dechreuodd y cyfarfod am 9.20 a.m.
The meeting began at 9.20 a.m.*

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Nick Ramsay:** Good morning, everyone. May I welcome Members, witnesses and members of the public to this morning's meeting of the Enterprise and Business Committee? The meeting is bilingual; headphones can be used for 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 available. Would Members please turn off their mobile phones and other electronic equipment? The microphones will operate automatically. In the event of a fire alarm, can you please follow the directions of the ushers? We have three apologies today from Dafydd Elis-Thomas, David Rees and Mick Antoniw. We have no substitutions.

[2] May I just remind Members that this will be the last meeting of the Enterprise and Business Committee that the deputy clerk, Ffion Emyr Bourton, and the team support, Rhodri Wyn Jones, will be attending? Rhodri recently started in his new position as learning and development adviser with human resources, and Ffion will be returning to the translation and reporting service at the end of the term. Thank you for all that you have done. We wish you all the best in the future.

9.21 a.m.

Band Eang y Genhedlaeth Newydd Next Generation Broadband

[3] **Nick Ramsay:** Item 2 on the agenda is looking at next generation broadband in Wales. With that, I welcome our witnesses to this morning's meeting. Thank you very much for finding the time to be with us today. Would you like to give your name and position for the Record of Proceedings?

[4] **Ms Beynon:** Diolch yn fawr iawn. Os caf i gychwyn, Ann Beynon ydw i a fi yw cyfarwyddwraig BT yng Nghymru. Diolch yn fawr am y gwahoddiad i ddod y bore yma. Rwyf yn gobeithio eich bod yn deall pam nad oeddem ni wedi gallu ymddangos o'r blaen, oherwydd na fyddai wedi bod yn gymwys i ni wneud hynny heb fod y Gweinidog ei hunan wedi rhoi ei thystiolaeth hi yn gyntaf.

Ms Beynon: Thank you very much. If I may start, I am Ann Beynon, the director of BT Wales. Thank you very much for the invitation to be here this morning. I hope that you understand why we were unable to appear earlier, because it would not have been appropriate for us to have done that until the Minister herself had given her evidence.

[5] **Nick Ramsay:** Diolch.

[6] **Mr Galvin:** Good morning. I am Mike Galvin; I am the managing director of network investment within Openreach, which is the external network division of BT. I am responsible for the national roll-out of next generation access for the part-Government-subsidised programme and for BT's own commercial programme.

[7] **Mr Hunt:** I am Ed Hunt; I am the programme director for Superfast Cymru and I am part of BT Group.

[8] **Nick Ramsay:** Thank you for being with us today. I should point out that this session follows on from the session on next generation broadband that we held with the Minister for Economy, Science and Transport, Edwina Hart, on 2 May. I suggest that we go straight into questions. We have a fair number for you and the first question is from Keith Davies.

[9] **Keith Davies:** Bore da i chi. Mi fyddaf yn gofyn yn Gymraeg. Mae'r cwestiynau rwy'n mynd i'w gofyn yn ymwneud â chefnidir. Os bydd costau ychwanegol nad ydych yn eu disgwyl, sut ydych chi'n mynd i gwrdd â hwy?
Keith Davies: Good morning to you. I am going to ask my questions in Welsh. The questions that I am going to ask relate to the background. If there are unexpected costs, how are you going to meet them?

[10] **Ms Beynon:** Mae'r cytundeb ar hyn o bryd yn gytundeb â phris sydd wedi ei osod yn benodol gan ein cwsmer ni, sef Llywodraeth Cymru. Felly, os oes unrhyw gyfrifoldeb ychwanegol o ran cost, mae'r costau hynny yn mynd i ddod arnom ni, nid ar Lywodraeth Cymru.
Ms Beynon: The contract at present is a fixed-price contract and that price has been fixed by our customer, the Welsh Government. So, if there are any additional responsibilities in terms of cost, those costs will fall on us, rather than the Welsh Government.

[11] **Keith Davies:** Sut ydych chi'n mynd i gwrdd â hwy?
Keith Davies: How are you going to meet them?

[12] **Ms Beynon:** Wel, mater masnachol i ni fyddai cwrdd â hwy, ond mi allaf eich sicrhau chi bod y cytundeb o ran Llywodraeth Cymru yn hollol glir bod pris sefydlog, a dyna yw'r pris.
Ms Beynon: Well, it would be a commercial issue for us to meet those costs, but I can assure you that the contract in terms of the Welsh Government is quite clear that there is a fixed cost and that cost will not change.

[13] **Keith Davies:** A ydych chi'n siŵr eich bod chi'n mynd i orffen cyn diwedd 2016?
Keith Davies: Are you sure that you will finish by the end of 2016?

[14] **Ms Beynon:** Rydym yn hyderus iawn ar hyn o bryd. Mi allaf ofyn i Ed mewn munud i esbonio lle yr ydym ni wedi ei gyrraedd, ond rydym ni chwe mis ar y blaen yn barod yn ein rhaglen ni, yn rhannol oherwydd, er inni arwyddo'r cytundeb gyda Llywodraeth Cymru ar 18 Gorffennaf y llynedd, ni chawsom ganiatâd gan yr Undeb Ewropeaidd i fwrw ymlaen â'r cytundeb tan ddiwedd mis Ionawr. Yn y cyfnod rhwng Gorffennaf y llynedd ac Ionawr eleni, fe wnaethom ni dipyn o waith ar ein risg ein hunain, oherwydd nid oeddem eisiau cael sefyllfa lle byddem ni'n cychwyn ym mis
Ms Beynon: We are very confident at present. I will ask Ed in a moment to explain where we are at present, but we are already six months ahead already on our programme, partly because, although we signed the agreement with the Welsh Government on 18 July last year, we were not given the green light by the European Union to continue with that until the end of January. In the period between July last year and January of this year, we did a fair bit of work at our own risk, because we did not want to find ourselves in a situation where we would commence in January and have to start

Ionawr a gorfod dechrau o'r dechrau. Felly, fe wnaethom ni waith rhagbaratoawl ac, o ganlyniad, rydym ni heddiw chwe mis ar y blaen o ran darpariaeth yn y rhaglen. afresh. So, we did some preparatory work and, as a result, today we are six months ahead of schedule in terms of the provision within the programme.

[15] **Mr Galvin:** We did £5 million-worth of work at our own risk before the state aid cleared, and that consisted of planning work, survey work, and ordering equipment in advance.

[16] **Keith Davies:** Sawl contract arall sydd gan BT yn y Deyrnas Unedig, neu a oes cwmnïau eraill wedi cystadlu, ac wedi eu hennill? **Keith Davies:** How many other contracts does BT have in the UK, or have other companies competed, and won them?

[17] **Mr Galvin:** How many other contracts does BT have? Currently, under the BDUK scheme—and including Wales and Scotland, which are outside the BDUK framework—BT has won 28 other contracts. There are more in progress, and there could be upwards of the low 30s of contracts awarded. BT might not necessarily win them all, over the scope of that BDUK system. As far as I am aware, within the BDUK framework, there are only two companies—BT and Fujitsu. You would have to ask Fujitsu what its position is, but it has made a public announcement, saying that it will not be taking any further part in the bidding. However, it remains within the contract, and that still remains an option for it should it choose to do so.

[18] **Keith Davies:** Sut byddwch chi'n sicrhau bod y cystadleuwyr yn cael defnyddio eich seilwaith chi yn y pen draw? **Keith Davies:** How will you ensure that competitors will be able to use your infrastructure eventually?

[19] **Mr Galvin:** Our competitors use our infrastructure now, and they use it at several different levels. This is going to be a technically complex answer. We sell access to our ducts and poles—that is called passive infrastructure access. We also sell access to what are called our sub-loops, which are the copper lines that go from cabinets that are out in the field, but not in exchanges, and then go to local premises from there. We also sell access to infrastructure via access to copper loops from our exchanges. Therefore, in terms of infrastructure access, virtually every aspect of our external network is open to competition. In addition to that, we wholesale superfast access itself. Therefore, the product that we provide for Wales is the same product that we provide nationally within our commercial programme, on identical terms as a wholesaler. Therefore, the same product that you see advertised in, say, London, or in the commercial areas of Cardiff that we have done, is the product that we are doing under the Welsh Government contract. In that, we provide access to our infrastructure for a number of retailers, and currently the number of retailers that have signed up to the scheme is over 50. That includes all the major retailers. For example, the three biggest consumer ones are BT Retail, TalkTalk, and Sky; they all wholesale our service. What they sell at full retail price is up to them, but they buy from us on identical terms and conditions, as a wholesale service. The network will be wide open to any other competitors who want to come in and also buy our service on a wholesale basis.

[20] **Mr Hunt:** May I add something to that? We are aware that there is an ecosystem of internet service providers that are based in Wales, and we have engaged with those. We have brought them into our offices, along with the Welsh Government, and have explained the programme. We are encouraging them so that, when we are rolled out, and during the process of rolling out, they can sell those wholesale services that Mike described. We have the next meeting, which we are pencilling in at the moment for October, to tell them about progress, and we are very hopeful that some of those will sell the fibre products as well.

[21] **Ms Beynon:** A gaf i ychwanegu rhywbeth? Mae'r rhaglen fasnachol eisoes wedi cyrraedd dros 500,000 o leoliadau yng Nghymru. Felly, byddai'r darparwyr eraill hyn yn gallu gwerthu i farchnad lawer iawn ehangach na'r farchnad yr ydym yn ei chreu ar hyn o bryd drwy Cyflymu Cymru.

Ms Beynon: May I add something? The commercial programme has already reached over 500,000 locations in Wales. Therefore, these other providers could sell to a far wider market than the market that we are currently creating through Superfast Cymru.

[22] **Keith Davies:** Mae targedau cyflymder gennych chi.

Keith Davies: You have speed targets.

[23] **Ms Beynon:** Oes.

Ms Beynon: Yes.

[24] **Keith Davies:** Ai targedau cyfartalog yw'r rheini, neu dargedau ar gyfer adegau pan na fydd llawer o bobl yn defnyddio'r seilwaith?

Keith Davies: Are those average-speed targets, or are they targets for off-peak times?

[25] **Ms Beynon:** Yr hyn y mae'n rhaid i ni ei ddarparu yn y cytundeb yw lefel o 95% sy'n gorfod cael 24 Mb o leiaf. Mae 90% yn gorfod cael 30 Mb. Mae potensial wedyn ar gael i bobl dderbyn cyflymderau uwch na hynny. Er mai dyna yw'r lefel isaf y mae'n rhaid i ni ei ddarparu, y gwirionedd yw y bydd mwyafrif y bobl sy'n derbyn y gwasanaethau newydd hyn yn cael cyfartaledd sydd, yn hawdd, yn mynd i fod tua 65 Mbps. Rydym yn gwybod, er enghraifft, fod pobl ym mhentref Llanfairpwll heddiw yn derbyn y math hwnnw o gyflymdra. Felly, rydym yn sôn am gyflymdra sylweddol uwch, ond, yn fanwl gytundebol, mae'n 24 Mb i 95%—30 Mb i 90%.

Ms Beynon: What we have to provide in the contract is a level of 95% that will have to have 24 Mb at least. Some 90% have to have 30 Mb. There is a potential then for people to access higher speeds than that. Although that is the minimum level that we have to provide, the truth is that the majority of people receiving these new services will have an average that will easily be around 65 Mbps. We know, for example, that people in the village of Llanfairpwll today are accessing that sort of speed. Therefore, we are talking about significantly improved speeds, but, in strictly contractual terms, it is 24 Mb to 95%—30 Mb to 90%.

9.30 a.m.

[26] **Keith Davies:** Ers i chi gael y contract, a yw eich gwaith wedi ehangu'n fawr?

Keith Davies: Since you have had the contract, has your work expanded greatly?

[27] **Ms Beynon:** O, ydy. [*Chwerthin.*] Yn fawr iawn. Mae'n ddiogel dweud bod o leiaf 100 o beirianwyr Openreach yn weithredol ar lawr gwlad yng Ngwynedd heddiw. Mae nifer gyffelyb yn mynd i fod yn gweithio ym Mlaenau'r Cymoedd—ym Mlaenau Gwent yn arbennig, ar hyn o bryd. Rydym wedi cyflogi prentisiaid newydd—rydym bellach wedi cyflogi dros 60 o'r rheini. [*Anghlyw.*]—ein bod ni'n cyflogi pobl newydd ond, wrth gwrs, yn gorfod bwrw ymlaen â'r gwaith hefyd gyda'r gweithlu sydd gennym ar hyn o bryd. Felly, rydym yn

Ms Beynon: Oh, yes indeed. [*Laughter.*] It has expanded greatly. It is safe to say that there are at least 100 Openreach engineers working on the ground in Gwynedd today. There will be a similar number working in the Heads of the Valleys—in Blaenau Gwent particularly, at present. We have employed new apprentices—we now have employed over 60 apprentices. [*Inaudible.*]—that we are employing new people, but, of course, we also have to continue with the work with the workforce that we have at present. So, we are extremely busy and I do think that it is

fishi dros ben ac rwy'n credu ei fod yn sioc weithiau i sylweddoli faint o waith sydd yn mynd ymlaen mewn ardaloedd, achos nad yw llawer o'r isadeiledd hwn yn weladwy. Nid yw fel pe baech chi'n adeiladu rheilffordd ac yn gallu gweld y trac. Mae llawer o hyn dan ddaear neu ar bolion, felly nid yw pobl yn sylweddoli, ond maent yn gweld ein faniau a'n pobl mas yno. Maent yn dechrau sylweddoli—yn sicr, byddwn yn dweud bod pobl yng Ngwynedd nawr yn deall yn gymwys fod pethau'n digwydd.

[28] **Keith Davies:** Faint sy'n cael eu cyflogi? Roeddech yn sôn am y prentisiaid a phethau fel hynny.

[29] **Ms Beynon:** Mae gennym weithlu sylweddol yn gweithio i Openreach yng Nghymru, beth bynnag. Rydym yn cyflogi bron 3,500 o bobl yng Nghymru ac mae o leiaf hanner y rheini yn gweithio i Openreach. Felly, mae gweithlu sylweddol ar gael.

[30] Hefyd, mae gennym gontractwyr. Mae'n deg i mi ddweud ein bod yn defnyddio cwmni Carillion telent i wneud gwaith i ni. Maent yn defnyddio isgontractwyr ac mae nifer o'r rheini yn gwmnïau cymharol fach, sydd wedi eu lleoli mewn gwahanol leoedd yng Nghymru. Felly mae tsiaen o ddarparwyr sy'n eistedd y tu ôl i ni, felly nid ein gweithlu yn unig rydym yn ei gyfrif; mae gweithluoedd eraill o ran ein darparwyr hefyd.

[31] **Mr Hunt:** Up in Gwynedd at the moment, we have around 120 people from the local population working for our subcontractors.

[32] **Nick Ramsay:** Thank you. The next question is from Alun Ffred Jones.

[33] **Alun Ffred Jones:** Os caf fanylu ychydig bach ar y gwaith—rwy'n gwerthfawrogi'n fawr bod y gwaith yn digwydd yng Ngwynedd—mae canran o bobl na fyddwch yn eu cyrraedd, ac mae honno wedi cael ei gosod yn y cytundeb. A ydych, ar hyn o bryd, yn ffeindio bod mwy o'r rheini nag oeddech yn ei feddwl, a ydych yn llwyddo i gyrraedd mwy o bobl nag oeddech yn ei ddisgwyl, neu onid ydych chi mewn sefyllfa i ddweud?

[34] **Ms Beynon:** A wyt ti eisiau ateb

sometimes comes as a shock to realise how much work is going on in areas, because much of this infrastructure is not visible. It is not like you are building a new railway, where you can see the track. Much of this is underground or on poles, so people do not realise, but they see our vans and our people out there working. They are starting to realise—certainly, I would say that people in Gwynedd now understand that things are moving ahead.

Keith Davies: How many are employed? You were talking about apprentices and things such as that.

Ms Beynon: We have a significant workforce working for Openreach in Wales, in any case. We employ almost 3,500 people in Wales, and at least half of those are working for Openreach. So, there is a significant workforce available.

We also have contractors. It is fair to say that we use Carillion talent to carry out work for us. They use subcontractors, and many of those are relatively small companies, which are located in different parts of Wales. So, there is a chain of providers sitting behind us, so it is not only our workforce that we are counting; there are also other workforces involved in terms of our providers.

Alun Ffred Jones: If I may get into a little more detail about the work—I appreciate very much that the work is happening in Gwynedd—there is a percentage of people that you will not reach, and that has been set out in the contract. Are you, at the moment, finding that there are more of those than you had thought, are you succeeding in reaching more people than you had expected, or are you not in a situation to say?

Ms Beynon: Do you want to answer that,

hynny, Ed?

Ed?

[35] **Mr Hunt:** Based on our experience in Gwynedd to date, I should point out—. Sorry, I am getting feedback.

[36] **Nick Ramsay:** Yes, it is quite distracting if you leave the headphones on; it annoys me as well.

[37] **Mr Hunt:** It is worth pointing out that, subject to verification—I will explain what that means in a second—we have passed 33,000 premises in Wales as of last week. So, we have run some figures on 17,000 premises up in Gwynedd. Right now, we are seeing over 96% of premises being able to receive those superfast speeds that have been defined in the contract. We have 0.8% at the moment that we are seeing at fewer than 5 Mbps, so we have around 3% that are between 5 Mbps and 24 Mbps. So, we are really happy with those results, and we have not finished in that geography yet.

[38] **Ms Beynon:** Yr hyn sy'n bwysig i ni ei esbonio yw nad yw'n golygu nad yw'r 5% yn cael dim byd. Mae tybiaeth, o bosibl, ymhlith pobl fod hynny'n golygu eu bod yn cael dim. Mewn gwirionedd, mae'r mwyafrif yn cael dros 5 Mbps, ond nid ydym yn cael ein talu am hynny. Felly, mae gwelliant cyffredinol yn digwydd. Yn ôl y ffigurau roedd Ed yn eu disgrifio, rhywbeth fel 0.9% sy'n cael llai na 5 Mbps.

Ms Beynon: What is important for us to explain is that it does not mean that the 5% will not get any service. There is an assumption, perhaps, among people that that will mean that they will not get any service. In reality, the majority will be able to access over 5 Mbps, but we are not paid for that. So, there is a general improvement taking place. According to the figures that Ed described, something like 0.9% will receive less than 5 Mbps.

[39] **Alun Ffred Jones:** Rwy'n deall, i ryw raddau, pam nad ydych yn awyddus i ddweud, 'Rydym ni wedi gorffen fan hyn ac rydym yn symud ymlaen'. Fodd bynnag, rwy'n ei ffeindio'n anodd iawn i gael unrhyw wybodaeth gennych ynglŷn ag a ydych wedi cwblhau eich gwaith mewn rhai ardaloedd. Mae rhai ardaloedd cyfagos, yn naturiol, yn gofyn, 'Pryd mae'n cyrraedd ni?' A ydych yn mynd i fod mewn sefyllfa i ryddhau unrhyw wybodaeth i'r cyhoedd i esbonio eich datblygiadau wrth iddynt ddigwydd?

Alun Ffred Jones: I understand, to some extent, why you are not keen to say, 'We've finished here and we're moving on'. However, I find it very difficult to get any information from you regarding whether you have completed your work in some areas. Some neighbouring areas are, naturally, asking, 'When are they getting to us?' Are you going to be in a position to release any information to the public to explain your developments as they happen?

[40] **Mr Hunt:** We will. We are not in a position where we have completed work in Gwynedd yet, but we have had conversations with Welsh Government about sharing that information when we have completed. So, there is a mix of technologies that we are deploying, and we are also looking at which geographies we are going to go to first. For example, in the Gwynedd area, we have a lot of work going on at the moment in Abersoch and Criccieth, which has taken longer, because of the technology that we are deploying, than some of the work that we have done in Bangor. So, we are by no means finished, but, yes, we will be sharing that information when we have completed, and we have had those conversations with Welsh Government officials.

[41] **Mr Galvin:** What also happens to us, because we have experience of rolling out superfast broadband in other areas, is that we do an area, we complete the fibre installation and we complete the cabinet installations, but, later on, new technology comes in, and we are able to go back to the areas that we have done and extend our reach in those areas. Now, we

have new technologies in our labs at the moment, particularly regenerators, which will sit on copper lines in the field, and we know that, when they are finished and are in service, we can take the areas where we are rolling out currently where that deployment has, let us say, nominally finished for the capital works, and we can go back to those areas and extend coverage and improve speeds with those new technologies. So, it is very difficult for us to actually say that we have absolutely finished an area and that is it. We have at least five major developments in progress at the moment, which will all make an impact on Wales in terms of technological coverage. Similarly, we will also make improvements in the cost that the service is going to be offered at.

[42] **Alun Ffred Jones:** Os caf, fe af ar ôl hynny am ychydig, achos profiad y gorffennol i lawer o bentrefi ymylol a'r pentrefi uchaf—mae hyn yn wir drwy Gymru—yw iddynt gael cyswllt band eang, ac, yn rhannol am i fwy o bobl ei ddefnyddio, mae'r gwasanaeth wedi dirywio a mynd yn ddiwerth. Yr ardaloedd hynny, rwy'n credu, yw'r mwyaf pryderus ac ansicr ynglŷn â'r hyn fydd yn digwydd ac a fyddent yn ei dderbyn, ac felly rwy'n meddwl mai siarad ar ran y cymunedau ymylol hynny yr wyf i. Rwy'n derbyn popeth yr ydych yn ei ddweud ac yn dymuno pob llwyddiant i chi, ond dyna lle y mae eu pryderon hwy.

Alun Ffred Jones: If I may, I will pursue that a little further, because the past experience of a number of peripheral and upland villages—this is true throughout Wales—is that they have had a broadband connection, and, partly because more people are using it, the service has deteriorated and is worthless. Those areas, I think, are the most concerned and unsure about what is going to happen and whether they will get it, and so I think I am speaking for those peripheral communities. I accept everything that you say and wish you every success, but that is where their concerns lie.

[43] **Mr Galvin:** There is one technology in particular, called vectoring. It uses a noise cancellation technique. It is like the headphones you wear on aeroplanes that cancel out the sound. It is currently in field trial with us at the moment and is to prevent the service deteriorating the more people are on the lines. We would expect to see that rolling out from late 2014. Again, it is still in the labs; we are not quite certain what its performance will be in service, but it is one of the technologies that I referred to. So, we are aware of that problem, and we are looking at potential technical solutions to it.

[44] **Alun Ffred Jones:** Mae dau gwestiwn arall yr wyf i fod eu gofyn i chi. Mae un ar yr ardaloedd menter a'r ardaloedd twf a benodwyd gan y Llywodraeth. Mae'r Llywodraeth yn dweud bod y rhain i fod i gael cysylltiadau band eang o flaen pawb arall. A yw hynny'n digwydd, ac a ydych wedi dod i gytundeb â'r Llywodraeth ar hynny?

Alun Ffred Jones: I have two other questions that I need to ask you. One of them relates to the enterprise zones and the growth zones designated by the Government. The Government says that they are supposed to have broadband connections before anybody else. Is that happening, and have you come to an agreement with the Government on that?

[45] **Ms Beynon:** Rydym wedi edrych ar bob un ardal twf, ac rydym wedi darparu cynlluniau i'r Llywodraeth yn esbonio'r hyn sy'n digwydd. Yr hyn mae'n rhaid i chi ei gofio yw bod y cytundeb yn gofyn i ni gyrraedd hyn a hyn o leoliadau. Os yw'r ardal twf yn ardal lle nad oes dim un lleoliad neu dŷ neu swyddfa ar hyn o bryd, nid yw'n bosibl iddi ddod o fewn y cynllun. Felly, rydym yn edrych i weld pa ffordd fyddai orau i ddatrys hynny.

Ms Beynon: We have looked at every growth zone, and we have provided plans to the Government explaining what is happening. What you have to bear in mind is that the contract asks us to cover a certain amount of locations. If the growth area is in an area where there are no homes, offices or other premises at present, then it cannot be included in our plan. So, we are looking at the best way of resolving that.

[46] Fodd bynnag, mae gwasanaethau ffibr, ac mae'n bosibl iawn bod yr ardaloedd twf am gael gwasanaethau ffibr uwch byth na'r rhai yr ydym yn eu darparu. Felly, rydym yn darparu gwybodaeth i'r Llywodraeth ar hyn o bryd am yr hyn yr ydym yn ei alw'n wasanaethau *ethernet*, gan fod cwmnïau mawrion—fel Magnox yn sir Fôn—am ddarpariaeth uwch na 330—

However, there are fibre services, and it is very possible that the growth zones will want fibre services at an even higher level than we are providing. We are already providing information to the Government on what we call ethernet services, as major companies, such as Magnox on Anglesey, will want a level of provision higher than 330—

[47] **Nick Ramsay:** What was that? Ethernet?

[48] **Ms Beynon:** Ie. Mae *ethernet* yn dechnoleg sy'n galluogi ffibr i weithio yn fwy effeithiol. Felly, os ydych yn gorff mawr, fel swyddfa llywodraeth leol neu'n gwmni mawr, byddech yn chwilio am y fath o gyflymder sydd, o bosibl, hyd at 1 Gbps, sy'n uchel iawn. Mae hynny uwchben lefel yr hyn yr ydym yn darparu yn y cytundeb ar hyn o bryd. Fodd bynnag, mae BT yn buddsoddi yng Nghymru yn fasnachol yn y ddarpariaeth *ethernet*. Bydd Amlwch, er enghraifft, cyn bo hir, yn derbyn technoleg *ethernet*. Felly, mae'r ffibr yn bodoli'n barod, ac mae'r *ethernet* yn galluogi'r ffibr i weithio yn fwy effeithiol achos bod pobl yn gallu rhannu'r un ffibr, ac mae hynny'n dod â'r pris i lawr. Mae'n allweddol ar gyfer signal ffôn symudol, achos mae cwmnïau ffôn symudol yn chwilio am y cyswllt *ethernet* agosaf yn ein cyfnewidfa agosaf. Felly, mae lot o gwmnïau ffonau symudol yn dod atom a gofyn ble mae'r *ethernet* agosaf, oherwydd mae'r signal yn mynd o'r ffôn i fast, mae'r mast yn chwilio am yr *ethernet*—

Ms Beynon: Yes. Ethernet is a technology that allows the fibre to work more effectively. Therefore, if you are a major organisation, such as a local government office or a major company, you would be seeking speeds of, perhaps, up to 1 Gbps, which is very high. That is over and above the level that we provide in the contract at present. However, BT is investing commercially in Wales in that ethernet provision. Amlwch, for example, will shortly have ethernet technology. So, the fibre is already in place, but the ethernet enables the fibre to work more effectively because people can share the same fibre, which brings the cost down. It is crucial for mobile phone signals, because mobile phone companies are looking for the nearest ethernet connection in our closest exchange. Therefore, many mobile telephone companies are coming to us and asking where the nearest ethernet is, because the signal goes from the phone to a mast, and the mast looks for the ethernet—

[49] **Nick Ramsay:** So, that is not a change to the fibre itself, that is the equipment that is put in place to allow it to be shared.

[50] **Ms Beynon:** Yes, you put the equipment in the exchange. Mike can explain this better than I can.

[51] **Mr Galvin:** Ethernet is a business service. The fibre broadband that we roll out, now that we are talking about the Welsh contract, is primarily aimed at consumers and small businesses. However, large businesses require extra services. Ethernet has a number of aspects to it. It can provide diverse routing, which is quite important if you are running an industrial process off the end of it: so, if a contractor digs up your cable, your factory does not stop. It also provides a non-blocking service and is what is called symmetrical, that is, it goes at the same speed in both directions. Businesses want these types of services. There are a number of other technical aspects to ethernet as well.

[52] For mobile companies, there is an extension on it called MEAS, mobile ethernet access service, which provides timing. That means that you can run a mobile mast off an

ethernet circuit. Indeed, most mobile masts in the UK are run off these MEAS-type circuits. The availability of ethernet locally greatly reduces the cost to mobile companies to put masts up in remote areas. So, there is always a great deal of interest from them as to where their nearest ethernet fibre is.

[53] The fibre that we are providing now under this contract can be used for ethernet. It was designed to be used for fibre broadband, but it also can be used for ethernet.

[54] **Nick Ramsay:** Thanks. Ffred, sorry, I interrupted your line of questioning.

[55] **Alun Ffred Jones:** Mae gennyf gwestiwn arall. Nid wyf yn gwybod faint o dyllu yr ydych yn ei wneud wrth fynd ymlaen. Rwy'n cymryd bod yn rhaid i chi osod ceblau newydd i lawr mewn rhai lleoedd. Faint o rannu gwybodaeth ydych chi'n ei wneud â llywodraeth leol a Llywodraeth Cymru er mwyn ceisio sicrhau nad yw'r gweithiau seilwaith hynny yn mynd ar draws ei gilydd ac nad ydych yn tyllu yn yr un lle ddwywaith?

Alun Ffred Jones: I have another question. I do not know how much digging you are doing as you progress. I take it that you have to lay new cables in some areas. How much sharing of information do you do with local government and the Welsh Government in order to try to ensure that the infrastructure works do not cut across each other and that you are not drilling holes in the same place twice?

[56] **Ms Beynon:** Cyn gynted ag yr ydym yn ymwybodol bod ardal ar fin cael darpariaeth a'n bod yn dechrau'r broses gynllunio, rydym yn siarad â'r cynllunwyr. Bu inni siarad â Chyngor Gwynedd yn gynnar iawn yn y broses. Mae adrannau priffyrdd a chynllunio Gwynedd wedi bod yn rhan o drafodaeth eang ag adrannau eraill y cyngor, ag Openreach yn benodol. Mae'r trafodaethau hynny yn parhau. Ar y cyfan, rydym yn darganfod bod y cynghorau lleol wedi bod yn dda iawn ac yn gefnogol iawn. Bu i Gyngor Gwynedd a Chyngor Sir Ynys Môn, er enghraifft, gau pont y Borth inni dros nos oherwydd roedd yn rhaid mynd â'r ffibr dros y bont. Roedd hynny'n help mawr. Rydym wedi cael sawl sialens, wrth gwrs, oherwydd nid yw'n hawdd gosod y ffibr newydd. Cawsom sialens ym Mhorthmadog, ond cafodd ei datrys drwy gydweithio hapus iawn. Felly, ar y cyfan, rydym yn darganfod ein bod yn cael cefnogaeth. Mae Llywodraeth Cymru hefyd, pan fyddwn yn sgwrsio â hi ynglŷn â hyn, yn hollol glir bod hon yn flaenoriaeth uchel iawn yn ei thyb hi, a ni fyddai am weld unrhyw drafferthion cynllunio na phriffyrdd yn golygu bod unrhyw ohirio neu ddiffyg symud ymlaen o ran y cynllun.

Ms Beynon: As soon as we are aware that the area is about to have provision and we are starting the design process, we talk to the planners. We spoke to Gwynedd Council very early in the process. The highways and planning departments in Gwynedd have been part of wide-ranging discussions with the other council departments, with Openreach specifically. Those discussions are continuing. On the whole, we find that local councils have been very good and extremely supportive. For example, Gwynedd Council and the Isle of Anglesey County Council, for example, closed the Menai bridge overnight because we had to take fibre over the bridge. That was of huge assistance to us. We have faced a number of challenges, of course, because it is not easy to install the new fibre. We had a challenge in Porthmadog, but that was resolved through happy co-operation. So, on the whole, we find that we get support. Also, the Welsh Government, when we speak to it about this, is absolutely clear that this is a very high priority in its eyes, and that it would not want any planning difficulties or highways issues meaning that there would be any delays or lack of progress in relation to the scheme.

[57] **Mr Hunt:** To add to that, we engage with the local authorities on an economic development basis, because infrastructure is really important and we need their support from a highways and planning point of view to lay the fibres, but it is also important that they are

ready to develop the economy in those areas. We have been working with Gwynedd Council, Blaenau Gwent County Borough Council, lots with City and County of Swansea, and many local authorities now, to ensure that they are also ready to ensure that the exploitation happens and that businesses can thrive as a result of having it.

9.45 a.m.

[58] **Mr Galvin:** More simply, we cannot do the work without local authority permission. So, if we work on a highway, we have to agree with the local authority what that work is, what the road guarding will be, whether traffic lights are required, and all those details. We have had exceptionally good co-operation from the local authorities, and I hope that they would say the same about us. The work is split roughly 50-50 in terms of where we have to dig in new duct, because new duct is required, and where we are actually reusing a lot of existing ducts. For example, with the Menai bridge work, which Ann talked about, we took out old, disused copper cables to make way for the fibres. We did not need to dig anything up; we just used existing duct.

[59] **Alun Ffred Jones:** Diolch yn fawr. **Alun Ffred Jones:** Thank you.

[60] **Nick Ramsay:** Eluned Parrott has the next set of questions.

[61] **Eluned Parrott:** I wish to ask about the way in which you are monitoring the implementation of this contract. What key performance indicators are you monitoring?

[62] **Mr Hunt:** We are monitoring premises passed by local authority area, and by what are called value zones, which are places that have been designated as being hard to reach. We are also monitoring by speed banding, as well as by the number of jobs that we have created. There is a whole schedule of the contracts—schedule 9—where there are those KPIs that we need to be reporting on regularly. We scrutinise them monthly at our operations board, with Welsh Government officials—indeed, we had that this week—and we also scrutinise them quarterly, at a programme board.

[63] **Ms Beynon:** And take-up.

[64] **Mr Hunt:** Yes, and take-up as well—apologies for that. We scrutinise that quarterly at our programme board, with Mike and Ann, and Welsh Government officials.

[65] **Eluned Parrott:** In terms of the KPI to do with the number of premises passed in a particular local authority, or a particular value zone—and you touched on this briefly earlier—do you have any targets to specifically complete, on a region-by-region basis, to different time schedules, or is it a percentage change over time across Wales that you are measuring?

[66] **Mr Hunt:** So far, our contract has defined where we are going to be going—the number of premises that we need to pass in particular areas, through until March 2014. We have to define with Welsh Government officials where we are going to be going to through until March 2014.

[67] **Mr Galvin:** There are 51 separate work zones in the Wales contract.

[68] **Eluned Parrott:** I am just wondering whether you have a timetable to complete this area in this time frame, and then another area in this time frame—whether they are in parallel or in sequence, shall we say.

[69] **Mr Galvin:** A timetable for that is defined in the contract for these different areas—

what has to be completed when. Therefore, it is an annualised, roll-out schedule, and then you have these value areas picked out separately, and we have to do that. Obviously, it does not stop us from doing more, and, at present, we are doing more.

[70] **Eluned Parrott:** Go for it.

[71] **Mr Hunt:** The principle is that we do not just focus our efforts on one particular part of Wales—we spread the effort as widely as we possibly can, so that the most people, across the biggest geography, can benefit, if that makes sense.

[72] **Nick Ramsay:** Alun Ffred Jones has the next question.

[73] **Alun Ffred Jones:** A yw'r **Alun Ffred Jones:** Is that information wybodaeth honno yn gyhoeddus, sef yr hyn a public, namely what has just been ddisgrifiwyd yn awr—y patrwm hwn o described—this pattern of areas and by ardaloedd ac erbyn pryd? when?

[74] **Ms Beynon:** Ar safle we Cyflymu **Ms Beynon:** On the Superfast Cymru Cymru, mae'r wybodaeth ar gael am website, the information is available a year flwyddyn ymlaen. Byddwn yn diweddarau'r hence. We will be updating that information wybodaeth honno ddiwedd mis Gorffennaf. at the end of July. When we get to Pan fyddwn yn cyrraedd mis Medi, bydd yr September, the information will look forward wybodaeth yn edrych ymlaen 18 mis. Felly, up to 18 months. Therefore, to that degree, i'r graddau hynny, ydy. Ar y safle gwe, o yes. On the website, within 12 months at fewn y 12 mis ar hyn o bryd, ac wedyn o present, and then within 18 months further on, you will be able to put your phone fewn y 18 mis yn nes ymlaen, byddwch yn gallu rhoi rhif ffôn a byddwch yn gallu gweld number and see clearly when your area will yn glir pryd bydd eich ardal chi yn cael y receive that provision. ddarpariaeth.

[75] **Mr Galvin:** And the postcode.

[76] **Ms Beynon:** A'r cod post. **Ms Beynon:** And the postcode.

[77] **Eluned Parrott:** Can you describe what mechanisms you have, or what the schedule is to which you have to report to the Welsh Government? Do you have particular timetables by which you have to report on these KPIs? Is the reporting in the meetings that you have with the Welsh Government as specific as that, going through the timetable?

[78] **Mr Hunt:** We report monthly, and some of the reports that it requests are less frequent than that, but we have an ongoing heartbeat every month. We even provide some reports fortnightly, I believe, which are not contractual. However, we are trying to give as much information as we possibly can as we go along.

[79] **Eluned Parrott:** Have those remained constant throughout the delivery of the programme so far, or have you been asked to perhaps include new or different KPIs to monitor as the contract has progressed?

[80] **Mr Hunt:** We have been asked for various forms of ad hoc information, but the general status of the contract has remained static.

[81] **Eluned Parrott:** You talked about the postcode checker and the importance of members of the public being able to see when, for example, their own area is going to be tackled. How accurate is the information that people are able to get now in terms of the kinds of speeds that they can expect from you?

[82] **Mr Galvin:** We have a general plan, which is actually pretty much the plan that is defined in the contract. Then, as we go into detail, we basically plan by quarters. So, we will do a survey quarter where we will survey the whole area. From that we will develop a more detailed plan. So, approximately a year in advance, we will know which exchanges we are going to go into and which cabinets we will use. From that, we will produce a plan. That plan will then give people a rough idea of the speed that they will get a year in advance. When we actually go down to do a detailed exchange plan, doing things like the duct routes and deciding exactly where the cabinets will go, we do a much more detailed plan around the customer's individual telephone number. It basically goes down to 10-figure grid references. It is all stored on a giant computer spreadsheet and it will then measure the electrical and optical lengths that are required, and it will look at the thickness of the wire, if you like, which also has a bearing on this, and the length of the drop wire at each side. That will be loaded into the system once the individual cabinets are planned, which is usually around two to three months in advance. From that, the customer will be able to get an engineeringly accurate estimate of the speed that they will get. We say, normally, plus or minus 10%. We find that, in urban areas, it is extremely accurate—it is probably plus or minus 2%—but in rural areas, it is a bit more of a challenge, because, sometimes, people have informally added to the network in rural areas, so you do not see what is going on. So, they will be able to get that accurate view probably three months in advance from that quite precise electrical characteristics information. We do not have that earlier because we have not done the survey and the design work before then.

[83] **Eluned Parrott:** How do you communicate to your customers if there has been slippage in the schedule, or if there are changes to the engineering? You will be aware, Ann, that I have a particular problem in my own region, with a large number of constituents in the centre of Cardiff unable to get decent broadband speeds, who have received changing information about that. How are you planning, as part of this process, to make sure that people know the most up-to-date picture?

[84] **Mr Galvin:** Are you talking about the commercial programme now?

[85] **Eluned Parrott:** Yes, I am talking about the commercial programme.

[86] **Mr Galvin:** The commercial programme is mostly on the way through its deployment. Approximately—*[Inaudible]*. We are now having experiences where, when we look at some cabinets that we thought that we could do in the commercial programme, and when we actually come to do them, we find that there are issues with doing the deployment. These issues are usually engineering issues. Some of them are planning issues with local authorities, but the vast majority of them are either issues of engineering or wayleave. We have to look at what we can do with these cabinets to either get them in the programme, otherwise, unfortunately, if it is actually not possible to solve the problem, those locations drop out of the programme. We update customers on our website and we do our best to include all the more difficult cabinets in the programme. In terms of cabinets in central Cardiff, there are engineering issues associated with congested duct routes and the inability to place the cabinets where we thought that we would place them, because of things like tree roots and, in some cases, walls or other underground structures.

[87] **Ms Beynon:** We have shown the Welsh Government that list, although it is the commercial—

[88] **Mr Galvin:** Sorry, as part of the Superfast Wales contract, what we have done is be really open about where we are with all the cabinets that are, if you like, in jeopardy, within the commercial programme as well, and we keep it up to date. I would also add that the Welsh Government and the Welsh local authorities, once we have explained some of the

difficulties that we are having with some of the cabinet locations, have been extremely helpful and have helped us to solve some of those problems.

[89] **Eluned Parrott:** You seem to have an approach to communications where you make the information available and the customer seeks it.

[90] **Nick Ramsay:** Can you—[*Inaudible.*]

[91] **Mr Galvin:** Yes.

[92] **Nick Ramsay:** That is exactly—

[93] **Eluned Parrott:** Fantastic.

[94] **Nick Ramsay:** I call on Byron Davies to ask questions on technology.

[95] **Byron Davies:** I have got some questions on technology. I am probably the most non-technical person in the room—

[96] **Alun Ffred Jones:** No. [*Laughter.*]

[97] **Byron Davies:** In your letter to us, you say that there are two types of fibre deployment, as you have explained: fibre cabinets and fibre premises. You say that,

[98] ‘It is not possible to describe the exact split at this time. The determining factors can be described at the meeting’.

[99] That is, today’s meeting, so perhaps you could do that for us, please.

[100] **Mr Galvin:** This is a very complicated subject.

[101] **Byron Davies:** I thought as much. [*Laughter.*]

[102] **Mr Galvin:** Those are the two main types of deployment. There are lots of subtypes of each category as well. What we basically do is look at the contract and we look at the coverage that we have to do, and then we match that to our maps, plans and duct work and we look at what the most economic solution for each area is. The important thing to understand is that all these solutions are compromises. So, you will, generally speaking, get better coverage with fibre to the cabinet than you will with fibre to the premises. That might sound odd, but we have a lot of wayleave problems with fibre to the premises.

[103] **Byron Davies:** Sorry, could you say that again? I missed that.

[104] **Mr Galvin:** I said that it may sound odd, but you will get better coverage with fibre to the cabinet than you will with fibre to the premises. So, that might sound odd or counterintuitive, but you have a lot of wayleave problems with fibre to the premises, where you have to ask for a lot of private wayleaves across people’s land. Telephone wires may already exist there, but putting fibre in requires you to go back to ask permission again. It also gives us particular problems with blocks of flats. So, we will take those things into account.

[105] Fibre to the premises gives you more reach. So, in Wales, in some of the areas where we are using fibre to the premises, we are getting a reach of, in some cases, 20 km, whereas the reach of fibre to cabinet is really 1 km from the cabinet. That is the maximum range. So, we will do the plans according to the right balance to get the right level of coverage, hitting cost profiles, coverage profiles and speed profiles, and then we will pick the plan that gives

the most benefit. It is very common to find an area with mixed fibre-to-the-cabinet coverage and fibre-to-the-premises coverage, with perhaps several hundred premises on fibre to the cabinet and maybe about a dozen or two dozen premises on fibre to the premises. In that case, it would be done for reach. However, what you have to do is to go down into the details for each area and look at what is best for that area. I would expect Wales to end up with somewhere around between 8% and 10% fibre to the premises, but that is an expectation, I do not actually know because I have not done the detailed planning yet. Also, fibre to the premises tends to be located in the more challenging areas, certainly in the very rural areas and, in many cases—I would not say that you would do those last, but you would do those as an add-on after you had done fibre to the cabinet. So, those tend to be the later planned ones.

[106] **Ms Beynon:** We have some areas with fibre to the premises only. In fact, Abersoch, which is being done at the moment, is being done by fibre-to-the-premises technology.

10.00 a.m.

[107] **Mr Galvin:** Do you want me to talk about fibre on demand?

[108] **Alun Ffred Jones:** Why?

[109] **Ms Beynon:** Because they are exchange-only lines. I will hand over to Mike.

[110] **Mr Galvin:** This is going to get very technical. [*Laughter.*]

[111] **Byron Davies:** Go for it.

[112] **Mr Galvin:** I will do my best, but you will have to stop me.

[113] One of the other problems we have is that, because the telephone network was designed in the 1950s, principally, it was not designed with broadband in mind. You get another type of line called an exchange-only line. This is when there is no cabinet. If you go out to the street, you will see the little green cabinets that we have, which are called PCPs. You have an E-side, which are great big, fat cables with thousands of wires in them, which go from the exchange to the cabinet, and then you have a D-side, the distribution side, which goes from the cabinet, usually via poles—in Wales, actually, and certainly in rural Wales, it is almost always by poles—to individual homes. Those are nice thin cables. They have different characteristics and they have steel in them to make them strong, et cetera.

[114] However, in some types of location, we have not put in those intermediate cabinets, the PCPs. Some 8% of Wales is built like that. The problem is that, when you put broadband technology on these exchange-only lines, you get very high levels of cross-talk, which is a radio electrical effect that greatly degrades, or in some cases completely stops, broadband being provided. When the digital subscriber line deployment happened, which is the current broadband—the ordinary broadband, if you like—and which uses lower frequencies, it was possible to do it over exchange-only lines, but you still had cross-talk and people on EO lines had slower speeds. With the technology that we are using now, which is called very-high-bit-rate digital subscriber line, which works to a much higher frequency of 17 MHz, the radio interference means that you cannot use EO lines at all to do this deployment.

[115] We have a process called ‘copper rearrangement’, where we take these cables and re-make the pairs. We separate out the pairs and the cables to reduce the cross-talk on the EO lines and put a new cabinet in, usually just outside the exchange. That is a very expensive process. It is so expensive that we do not do it in the commercial process at all, but it is possible to do it with the gap-funding model, because of the extra money available to pay for the cost of doing that. When we do the copper rearrangement, it sometimes costs in to do fibre

for the premises, because the copper rearrangement is so expensive for the complexity and the knitting that we have in the cables on those EO lines, that it sometimes makes sense for us to put in an extra cabinet. We have a model to do this. The model is not perfect. It is less than 12 months old, and we did our first EO line about 12 months ago as well, so it is still developing technology for us, but it is a technology that has made it possible—

[116] **Nick Ramsay:** Mike, could stop you there? I found it incredibly interesting, but we have only 10 minutes left, and I sense that—

[117] **Mr Galvin:** I did tell you to stop me, but it was a very technical question.

[118] **Nick Ramsay:** Yes, you are right, it was a technical question. As I said, the answer was fascinating, but I am aware that there are other Members with questions. It might be worth while if we could have some sort of explanation from you in writing. I would be interested in that. I would like to know a little more about how that works, and the ethernet as well.

[119] Byron, would you like to conclude your line of questioning? Please feel free to be succinct.

[120] **Byron Davies:** Also in your letter, you talk about the fact that the fibre on demand product is in its early days of deployment in limited parts of the UK. I would be interested to know whether any of the limited parts of the UK that currently have access to this fibre on demand service with fibre to the premises technology are in Wales.

[121] **Mr Galvin:** Cardiff is there at the moment. It is in trial at the moment, and the trial is nearly finished. It will be out to, we believe, 1,200 exchanges by December, so it will pretty much cover all of the major cities and towns, including Cardiff, by that time. The trial has been successful and it has nearly finished, so we very much take that as being a business-as-usual deployment.

[122] **Byron Davies:** Very lastly and briefly, can you tell me what work BT has undertaken to assess the potential use of alternative broadband technologies?

[123] **Mr Galvin:** That is also a very long answer. I will just talk about the main ones. We are looking at about two dozen. Obviously, you look at these things all the time, and we have a research lab that does this, and it is an important part of BT as a company that we can do this. A technology called G.fast is coming—probably in 2015—that will use short copper lines and will give speeds of 500 Mbps to ordinary consumers downstream, and 50 Mbps upstream. Therefore, you are basically talking about something that is 10 times faster than the current technology.

[124] **Byron Davies:** When will they be developed and be commercially sold on?

[125] **Mr Galvin:** I say this with a huge warning—this is still in the labs, and the international standards are not ratified, and you cannot buy the equipment anywhere today—but we would expect to see this rolling out from 2015.

[126] **Byron Davies:** From 2015?

[127] **Mr Galvin:** Yes, from 2015.

[128] **Byron Davies:** Thank you.

[129] **Nick Ramsay:** Julie James has the next questions.

[130] **Julie James:** This is not a technical question at all, I hope. [*Laughter.*] Can you tell us what effect you are expecting the whole programme to have on the cost to consumers and to businesses?

[131] **Ms Benyon:** As we said earlier on, the wholesale model, which has been created as the UK's primary model for telecommunications services, has already created a massive market in the retail sector. Therefore, you have a multiplicity of retail providers now, which means that there is competition and choice; in fact, the telecommunications industry here is probably more competitive than anywhere in Europe. Therefore, we would expect that to continue. I think that what is important is that those choices become available to people across the whole of Wales, so they will be standard prices, and they will be coming from a multiplicity of suppliers. We would love there to be more Wales-based service providers in that market place, so we can see that growing.

[132] However, it is also about the impact that that will have on all sectors. Therefore, it is pretty obvious to us, from all the research that we have seen, that, even using the basic technology to increase speeds, you can be talking about 250 jobs per local authority, say, as a general benchmark. However, if you then look at all major sectors of the economy, and particularly the information and communications sector, without this infrastructure there, any progress is not credible. For Wales to be a credible country, globally, in this kind of marketplace—or in the market—you have to have a community here, both business and consumer, that is fairly comfortable with all this new technology. That means being comfortable with all the new devices and all the new applications, that businesses are online, and are selling online, so that it is part of our culture to work in that way, so that we become, generally, a digital nation.

[133] I think that we are only just beginning that journey. The big challenge for us all is to get that digital journey speeded up, so we need to have more use in schools, more use for homework at home, more use in business, and more use in deprived communities. We can see that the people who are not buying broadband are the people who are poor, so how do we use it to tackle poverty? There is masses that we need to be doing. We are giving the platform for that, but all those different levels of activity also need to start to make a difference to Wales.

[134] **Julie James:** I could not agree with you more. However, one thing that I worry about is that, with that multiplicity of companies and choice, and so on, we will get ourselves into the same difficulty as we did with the utilities companies, where we have bills that are incomprehensible to normal mortals, because they do not understand the technology, and therefore they do not really understand what they are buying. I will give you an example. I have a postbag of correspondence from people—and I must say that I am one of them, so it is interesting—who have bought a broadband package that is adequate to their needs, and then their children all come home from university, and, in their first month, they are faced with a bill that is six times higher than they would have expected, because they did not understand the tariff that they were on in the first place. Therefore, I worry that, because it is becoming like a utility—and everyone has to have it—we are going to end up with a similar difficulty in understanding what it is you ought to buy.

[135] **Ms Beynon:** That is a very valid point. There are consumer groups out there that will provide advice. Age Cymru gives very good advice to people of pensionable age, so they can go there. Citizens Advice will also advise people. I guess that all we can do is to try to be as simple as we can be. However, if you are giving people choices, which means that they can either buy a very cheap-and-cheerful solution, or a more complicated solution, you cannot predict what people will want to choose to buy. An example of how the market has moved on is that, in the retail space, we have created a new business called Plusnet, because we could see that BT Retail had its products, which are kind of midmarket, but there was a marketplace

that was lower cost and cheap and cheerful. So, we created a new business called Plusnet to cater for that market. So, we have had to create new businesses, which adds to the complexity. I do not know what the answer is. We could—

[136] **Nick Ramsay:** I have to stop you there, Ann. We are now into the last five minutes and we have to stick to times because of the video link. I want to bring in Joyce Watson.

[137] **Joyce Watson:** Good morning, all. You have talked about hard-to-reach areas. You said that they would probably be the last to be done in the scheme of things. Do you have a time frame for completing that work?

[138] **Mr Hunt:** Against the contract, the time frame for completion is spring 2016.

[139] **Joyce Watson:** So, even the hard-to-reach areas will have been reached within that time frame.

[140] **Mr Hunt:** Yes, we need to have reached our deployment milestones, as defined in the contract, by spring 2016. We are doing some of the hard-to-reach areas now, and others are following on.

[141] **Ms Beynon:** We are not leaving all the hard-to-reach areas until the end.

[142] **Mr Galvin:** Some of the hard-to-reach areas are defined to be done earlier in the contract. Currently, we are well ahead of that.

[143] **Joyce Watson:** If you do come up against planning issues, how do you overcome those obstacles, or have you not come up against any?

[144] **Ms Beynon:** Obviously, we try to have conversations as early as we can.

[145] **Mr Galvin:** We share the plan with the local council planning office as early as we can. Usually, when we are doing the surveys for the cabinets, we write to tell them what we are doing and we offer to brief them on where the cabinets are going. Although we have code powers to stand cabinets, which means that we can stand cabinets without planning permission, we never do that. We always consult the council. We will have one of our surveyors walk around with the council surveyor, if that is what is required, and actually site the cabinets individually. For individual cabinets, we produce what is called a job pack, which has the precise location of a cabinet, a mocked up photograph of it, and details of the construction. We also take the council through that. We have found that the process of working collaboratively with councils in Wales has worked exceptionally well. I do not think that I have any cabinets today where we have purely not been able to do it because a council does not agree on the location.

[146] **Joyce Watson:** That is great news. I want to confirm whether 4% or 5% of premises in Wales will not be directly included in the Superfast Cymru project. Will that be the case?

[147] **Ms Beynon:** I think that we touched on that earlier.

[148] **Joyce Watson:** You did.

[149] **Ms Beynon:** I think that we explained that 5%. We can repeat that, but I think that that was the answer that we gave earlier.

[150] **Nick Ramsay:** We will have your next question.

[151] **Joyce Watson:** Will you be publishing in full the criteria that you use to determine whether an area will be covered by Superfast Cymru, so that communities can prepare themselves for that?

[152] **Ms Beynon:** I think, again, we have just covered that off and explained.

[153] **Joyce Watson:** That is great. That is fine. That is it.

[154] **Nick Ramsay:** Perhaps we could scoop up a couple of last questions. In terms of jobs and apprenticeships being made available as part of the Superfast Cymru project, can you give us a bit of detail about that and when they will be recruited?

[155] **Mr Hunt:** On the apprentices front, we have around about 70 people who have either started or had offers made to them. We had a commitment of 100 in the contract. So, we think that we are doing pretty well against that this early. We also made a commitment that we would create 50 full-time jobs for people who might already be experienced. I am sorry, I refer to apprentices. I had my figures mixed up. The figure was 70. Then, with the full-time employees, we have either made offers or we have started, with 90 people. So, we have exceeded our—

[156] **Nick Ramsay:** Are you working well with local small and medium-sized enterprises?

[157] **Mr Hunt:** We are working well with local SMEs, mostly up in Gwynedd at the moment. As I mentioned earlier—I ran a check the other day—around 120 people are working for local small businesses to roll out this network.

[158] **Mr Galvin:** We are absolutely delighted with the apprentices.

[159] **Ms Beynon:** The only issue that we have—this is my bugbear—is that we would like more women to apply.

[160] **Nick Ramsay:** Joyce has just asked, ‘What is the gender split like?’. You would like more women to apply.

[161] **Ms Beynon:** We have set up a little project team to look at that specifically because I think that it is a terrible shame that we cannot get women to apply for what is a very good job with good career prospects.

10.15 a.m.

[162] **Nick Ramsay:** Very finally, do you have a budget for demands stimulation, or has the budget changed in the lifetime of the superfast broadband project?

[163] **Mr Hunt:** We do have a budget for—I will call it marketing, but it is awareness-raising, because there is not going to be an all-singing, all-dancing marketing campaign. As we go into areas, when we get a critical mass of deployment, we will spend some money on some leaflet drops to say, ‘It’s coming’, and leaflet drops to say, ‘It’s arrived’. We might do some advertising on billboards, et cetera. So, there is a small amount of demands marketing work that we do. In addition, we will use various PR channels. Also, I mentioned earlier that we meet local authority economic development representatives, and we run through a number of things that we would ask for their assistance with. So far, they have been excellent.

[164] **Nick Ramsay:** Is the Welsh Government working with you as well in terms of dealing with social exclusion?

[165] **Mr Hunt:** Oh, yes. Absolutely.

[166] **Ms Beynon:** We meet with the local authorities. There are things that we will do with the marketing budget centrally, but we will always ask them to complement and add to that whenever they can. Ditto with Welsh business organisations—we have met with them and have asked them to tell their memberships what they are doing, and we are using their channels to market as well.

[167] **Mr Hunt:** Finally, we are also meeting some business groups in Wales—for example, the Federation of Small Businesses. I have been over in Carmarthenshire, introducing the programme to some of its members. So, we are using those channels as well.

[168] **Nick Ramsay:** Thank you, that has been really helpful. Sorry that it was a bit rushed in the end. That was not your fault; it was because we started the evidence session five minutes late, which makes all the difference sometimes, as there is a lot of information to cover.

[169] I thank Ann Beynon, Mike Galvin and Ed Hunt for being with us today. It has been really helpful to our look at this. Please keep us posted on the developments, and we will do likewise.

[170] **Ms Beynon:** We will come back.

[171] **Nick Ramsay:** Thank you.

[172] We need to setup the video link with Brussels for the next part of the session. I therefore propose a three-minute break.

*Gohiriwyd y cyfarfod rhwng 10.17 a.m. a 10.29 a.m.
The meeting adjourned between 10.17 a.m. and 10.29 a.m.*

Materion Ewropeaidd—Sesiwn Ddilynol European Issues—Follow-up Session

[173] **Nick Ramsay:** I welcome our witness to this morning's follow-up session on European issues of the Enterprise and Business Committee. Would you like to give your name and position for our Record of Proceedings?

[174] **Mr Hughes:** Bore da. Thank you, Nick. My name is David Hughes and I am head of the European Commission office in Wales.

[175] **Nick Ramsay:** That is great, David. It is good to see you again. Thank you for being with us to help us today. Our Members have a number of questions for you, but I wonder whether you would like to make a very brief two-minute statement on current issues just to guide us.

[176] **Mr Hughes:** Yes, if I may. Thank you for the opportunity to address you all this morning. You will be hearing from one of my colleagues in Brussels, who is much more senior and better-informed than I am as far as the structural funds are concerned—that is for sure. Of course, you will also be hearing from the Minister responsible later on this morning. Given that one of my main responsibilities is communication and communicating with the media and interfacing with politics, if I may, I would like to simply—in the space of two or three minutes—sketch out some of the major issues that the Commission is concerned with at the moment, and which the Commission sees coming up on the horizon, as it were, into 2014.

[177] Just briefly, on the structural funds, you will no doubt be aware that political agreement was reached on 20 June between the Council and the Parliament on the multi-annual financial framework. The Commission in Wales did not get everything that it wanted in that MFF, otherwise known as the budget for the next seven years. We would have liked to have seen a little more emphasis on growth-enhancing investment, but, nevertheless, the Commission recognised that it was, and is, in the interests of Europe to have a deal now. So, we are very pleased that things look like they will be wrapped up. I cannot give you, officially, any figures as to the budget for any particular programme, or even officially for the allocation of the structural funds in Wales. However, the Welsh European Funding Office and the Welsh Government are extremely well-informed. So, as a first impression, I would say that the figures that have been published are extremely well-informed. The expectations are rather accurate, I imagine. As I said, I am sure that you will hear more on the structural funds later, and in more detail.

[178] From the Commission's point of view, one of the very important things that we have been engaged in, and pushing recently, are the so-called country-specific recommendations. These are recommendations on economic policy issued by the Commission, and they were formally agreed and adopted at the European Council at the end of June. These are recommendations on macro-economic policy, basically, aimed at the member states. The legal basis for these is article 121 of the treaty, which states that the member states shall co-ordinate their economic policies. They receive less attention in the UK because the UK is not a member of the eurozone, as you know. The linkage between these recommendations and macro-economic policy is much stronger if you are in the eurozone. You will all be aware that there are a whole series of measures being put in place for member states in the eurozone to, for example, keep a better watch over excessive budget deficits and various other elements of macro-economic policy. Nevertheless, there were six recommendations issued for the UK, some of which are of interest for devolved administrations. I will just mention the areas very briefly. If Members are at all interested, I can provide more information afterwards.

[179] These recommendations are discussed well in advance with the member states. There have been intensive discussions between the Treasury and the Commission. The UK Government and the devolved administrations—because they are also involved in this process—are broadly satisfied, and broadly agree, with the recommendations. However, just for your information, the six that were issued to the UK were as follows. The first is implementing a reinforced budgetary strategy, so, trying to achieve a downward path for the deficit at the same time as focusing on growth-friendly investment, which is easier said than done. That is a really federal government area of responsibility, of course. The second was to take further action to increase the housing supply. I know that that has also been an issue in Wales. The third was building on the youth contract to put in place a youth guarantee, which refers to providing either employment or quality training for young people who have been out of work or education for more than four months. The most contentious is probably the one about universal credit and how to support low-income households to reduce child poverty at the same time as increasing incentives to work. Recommendation five was increasing access to finance, particularly for small and medium-sized enterprises. That is the one thing that we all agree on, I think. The final one was a recommendation to facilitate a timely increase in network infrastructure investment. That refers mainly to transport infrastructure and energy infrastructure.

[180] So, for what it is worth, that is how things look from the point of view of the Commission in Brussels and it has the advantage, I would say, of having a comparative overview. These are recommendations, of course.

[181] **Mick Antoniw:** Sorry, what was the fifth?

[182] **Mr Hughes:** The fifth was to take further steps to improve—this is very wooden language—the availability of bank and non-bank financing to the corporate sector, especially SMEs. So, it is the issue of access to finance.

[183] **Nick Ramsay:** Okay, thanks for that, David. There are a number of questions to you on the back of that. The first is from Byron Davies.

[184] **Byron Davies:** Good morning, David. I have always been, in my dealings with the Commission over the years, intrigued by terminology. Would you explain the importance of the European economic semester to the European Commission, and the purpose of the country-specific recommendations—and, more specifically, how those apply to the UK and how they are relevant to us in Wales?

[185] **Mr Hughes:** This is a complex thing that is difficult to explain in a nutshell, but I will try. As I said, the basis for the Commission's action in this area is article 121 of the treaty, which states that member states shall co-ordinate their economic policies. That is why it is done. With regard to the way in which it is done, it is done on an annual basis. At the end of November or in early December every year, the Commission publishes an annual growth survey. This is an overview of what is going on at the macro-economic level right across the union. In the spring, every member state produces a national reform programme, which is, basically, a plan on how to reform macro-economic instruments to enhance growth. Member states all produce a national reform programme. The UK Government did so. The UK Government supports this process. That national reform programme includes input from the devolved administrations, including Wales, of course. Scotland produces its own, but that has no legal value, as it were. The official national reform programme goes from the UK Government to the Commission.

[186] The Commission looks at all of these national reform programmes and comes out with recommendations to each member state. These are endorsed—I nearly said 'condoned'—by the heads of state in the European Council at the end of June every year. The consequences, or meaning, of these country-specific recommendations, if you like, are much more significant for the eurozone countries, because a raft of legislation has been put in place whereby eurozone countries that are running excessive budgetary deficits, for example, and not doing anything about it, can be sanctioned. So, for example, structural funds could be cut off, and there are various other measures. For non-eurozone countries, such as the UK, the effect of these country-specific recommendations is essentially political. It is, essentially, the Commission trying to draw attention to certain issues from an outside point of view. However, as I said, there is a lot of co-ordination and many discussions that go on with the Treasury before the Commission adopts any recommendations, because our interest is to try to understand what is really going on here. This year, even with the UK, it has been a non-controversial exercise.

[187] The only link that I would particularly draw your attention to is that the Commission sees that the use of the structural funds should take account of these as well. That is why, at the devolved level, there is at least an interest in being aware of what these recommendations are.

[188] **Nick Ramsay:** The next question is from Joyce Watson.

[189] **Joyce Watson:** Good morning. I want to talk about youth unemployment. What is the state of play on the measure to address youth unemployment? What sorts of actions is the European Commission proposing and will we be eligible, given that it talks about NUTS II areas with 25%—if I am reading it right—which we do not have.

[190] **Mr Hughes:** Perhaps I can say a few words about where this initiative comes from. It

is widely known that there are very high levels of youth unemployment in Europe, especially in the south. However, there are a few member states that have put in place what they call a youth guarantee—it is Austria and Finland, I think. Both those member states guarantee that any young person either leaving education or who has been made unemployed will not remain unemployed for longer than four months before they are offered either a job, good-quality training or further education. The idea is, in very simplistic terms, to bring this to the European level. So, the Commission has proposed a recommendation for the Council and the European Parliament—it is a recommendation, not legally binding—that member states also put in place a youth guarantee or something similar. That has been adopted by the Council, I believe. What we have also proposed is a front-loading, so the bringing forward of about €6 billion in structural funds to address this problem now.

[191] You mentioned the figure of 25%. May I just clarify something? Very often in the newspapers we read about 55% youth unemployment in Greece and 53% in Spain and so on, and that has created an impression that over half of the workforce is unemployed in that age bracket. That is not the case, because what we are talking about is the youth employment rate. If you look at the people in the 15 to 24 age group in Europe, you will see that the majority of them are not in the workforce. They are in school, in university or full-time vocational training, so we are looking at a minority, and it is among that minority that is in the workforce that we see the 50% unemployment. In fact, if you look at the whole population of Greece, you will see that the real level of unemployment in the total population is about 15%. So, I am saying that when we read these figures, we need to bear in mind that they do not mean that 50% of young people are unemployed; it means 50% of the workforce in the workforce in that age group is.

[192] However, the Commission has proposed 25% as the cut-off figure of the workforce, and it is true that the UK does not have that—I think that 21% is the average figure for the UK. Even the NUTS II west Wales and the Valleys region, I think, does not get that figure. So, as it stands, as I understand it, the UK would not be eligible for this money. However, it is not extra money; there is no extra money available. This is a front-loading, so it is taking money away from other initiatives to focus it on supporting member states in implementing the youth guarantee.

[193] **Joyce Watson:** So, in other words, this is top-slicing the budget before it arrives, if I have understood that rightly. You talked about west Wales and the Valleys, and you said that it does not meet that figure—I am taking that to be an average figure across the piece. Are we looking at any individual areas where, for example, out of the workforce—because I understand the difference—the figure might be tipped a bit higher?

[194] **Mr Hughes:** I think that the way that this works—again, I am not an expert on structural funds; you will have one later on—or that it is intended to work is that it is an instrument that is available for those member states that need it. However, nothing would prevent the use of the European social fund by the competent authority in Wales to focus on youth unemployment. I talked about €6 billion, and €3 billion of that is from the European social fund. The other €3 billion is a specific new budget line created for this purpose. Where does that €3 billion come from? It is not extra money; it is a bit of financial engineering, which means that the payments—I am sorry to be so complicated—for programmes like Horizons 2020, Erasmusplus and things like the new culture programme will be less in 2014 and 2015. That is, the payments, not the promise to pay. Therefore, it is a shifting forward of payments to focus on youth unemployment, and a delaying of payments under other programmes. Therefore, even if the threshold stays at 25%, nothing will prevent Wales from implementing its own focus, as it were, on youth unemployment.

10.45 a.m.

[195] **Nick Ramsay:** That is using the European social fund?

[196] **Mr Hughes:** Yes, that is using the European social fund. However, it would not be eligible, as it were, for that extra mechanism for front-loading. That is my understanding.

[197] **Joyce Watson:** Okay.

[198] **Nick Ramsay:** Mick Antoniw has a supplementary question.

[199] **Mick Antoniw:** On that point, this area is almost like the top of the hit list now, in terms of EU objectives. However, it is clearly focused on those countries that have been most hit within the eurozone, and particularly hit in terms of their economic situation, and the massive sudden growth in terms of youth unemployment. There are several projects that are being funded in the UK—I believe that there are five. Wales missed out, and that is partly because of the way in which the areas were designated. However, the fact of the matter is that no specific designated money will be coming to Wales as part of those particular projects.

[200] Furthermore, in terms of the youth guarantee and so on, those are all things that have been coming through, during the last Government, this Government and so on, which have been saying, 'We're going to create these guarantees'. However, is it not part of the danger with it all that—and the EU's own statistics show that there are something like 26 million unemployed and 2 million job vacancies—we are creating guarantees, but that there is an absolute limit on how many of those individuals are really going to go in to a proper job? It is not that it is not valuable, but the crux of it is obviously economic growth. Therefore, to some extent, this is tinkering with the cosmetics of the issue, rather than the actual core thing, which is growth.

[201] One concern that has come out of this is that, within the six recommendations, there is network infrastructure, and some of those big, capital intensive projects that might create jobs are right at the bottom of the pile. Is that a fair assessment of the policy? It seems to me that, to some extent, that indicates—

[202] **Nick Ramsay:** That is a very long question, so feel free to be succinct. [*Laughter.*]

[203] **Mick Antoniw:** I am sorry—[*Inaudible.*]

[204] **Mr Hughes:** It is not our view that you can solve the problem by creating a guarantee for a job or a training place if you do not undertake the more fundamental and more important work of restructuring the economy. That means—and in some places more than others—above all restructuring the labour market. I know what you mean, but it is interesting to look at the statistics and to see the huge difference across Europe. Germany has 70,000 apprenticeship places that it cannot fill—it is extraordinary. So there is a shortage in Germany. Another interesting statistic is that, by 2020, 73 million people in the EU will have retired. Therefore, the demographics mean that there is going to be a shortage later on. Therefore, you have to ensure—preparing for the future, and preparing for what, we hope, will be the upturn in growth—that you do not have a large section of youth who have, effectively, dropped out, not only of education and training, but out of participation in society. You are right to say that, by itself, it will not cure the problem; the bigger job and investment has to go into restructuring.

[205] **Mick Antoniw:** Right.

[206] **Nick Ramsay:** Thank you. I will now bring in Alun Ffred Jones.

[207] **Alun Ffred Jones:** Byddaf yn gofyn **Alun Ffred Jones:** I will be asking my

fy nghwestiwn yn Gymraeg. A allwch gadarnhau a oes penderfyniad wedi cael ei wneud ynglŷn â Blwyddyn Ewropeaidd 2014? question in Welsh. Can you confirm whether a decision has been taken regarding European Year 2014?

[208] **Mr Hughes:** Diolch yn fawr. Rwyf yn dysgu Cymraeg, ond nid wyf yn siarad yr iaith eto. **Mr Hughes:** Thank you. I am learning Welsh, but I do not speak the language yet.

[209] My understanding is that, yes, a decision has been made, and that next year will be the European Year for Reconciliation of Work and Family Life. I know that that does not trip off the tongue so easily, but that is the title. Apparently, it will be competing with the European year of the brain. The European Brain Council, with support from the Commission, has proposed that next year will be the European year of the brain.

[210] **Alun Ffred Jones:** Pa un fydd yn cael ei ddewis—ai blwyddyn yr ymennydd neu flwyddyn cyfuno teulu â gwaith? **Alun Ffred Jones:** Which will be chosen—will it be the year of the brain or the year of reconciling family and work?

[211] **Nick Ramsay:** We could have a year of the heart.

[212] **Mr Hughes:** I am sorry; I do not mean to be flippant. The European Commission's European Year is the European Year for Reconciling Work and the Family.

[213] **Alun Ffred Jones:** Beth yw ystyr hynny? **Alun Ffred Jones:** What does that mean?

[214] **Mr Hughes:** In essence, it is about trying to encourage everybody concerned to find flexible ways of allowing, in particular, young working parents to combine the needs of their children with the needs of working life.

[215] **Alun Ffred Jones:** Iawn. A oes gan Swyddfa'r Comisiwn Ewropeaidd yng Nghymru unrhyw ran yn y broses hon o benderfynu beth ddylai'r flwyddyn fod? A ydych wedi cyfleu, fel swyddfa yma yng Nghymru, unrhyw awgrymiadau ynglŷn â hynny? **Alun Ffred Jones:** Fine. Does the Office of the European Commission in Wales have any role in the process of deciding what the year should be? Have you put forward, as an office here in Wales, any suggestions on that?

[216] **Mr Hughes:** I personally have not, no. It is something that is decided by the college of commissioners in Brussels, as a result of a range of considerations of various interests. The current year is the European Year of Citizens, as you may know. Unfortunately, it has been rather difficult for us to implement that because, this year, the UK Government decided not to provide a national contact point for this particular year. So, the success of the years is very much dependent on a little bit of support and co-operation from member states. I do not know what the UK position is on next year's year.

[217] **Nick Ramsay:** I was going to ask you a question on this, David. Regarding the year of the brain, the year of the citizen and so forth, what does that mean? As well as branding those years, what does it mean in practice? Does it mean that European schemes are focused to deliver certain outcomes relating to the headings, or is it left to the member states to decide how they want to interpret the different schemes?

[218] **Mr Hughes:** I just wish to be absolutely clear on one point: regarding my flippant remark about the European year of the brain, there is one but it has nothing to do with the

European Commission, though it may be supported by one or two commissioners. The European Year of the European Union is a proposal from us. It comes with a very small budget. From memory, the last one was around €12 million, which is shared across the EU. It is about raising awareness of particular issues. Last year was the European Year of aging. It was quite an effective one. It was easy to understand—it was easy to understand what the problem was. In the UK, the closing conference was held in Cardiff, and the First Minister spoke there. Aging is clearly a challenge for all of us. The purpose of that year was to share ideas and raise awareness of the size of the challenge, what it means, and what could be done about it. It is more of an awareness-raising and focus exercise.

[219] **Nick Ramsay:** Great. That is very clear. I would not worry about being flippant to the committee. We have our own trouble trying to get our head around some of the terminology, so that helps us in many respects. I see that Ffred has finished with his questions, so I now bring in Keith Davies to ask the next question.

[220] **Keith Davies:** Byddaf yn gofyn fy nghwestiynau yn y Gymraeg hefyd. Pa gamau y mae'r Comisiwn yn eu cymryd i gryfhau'r farchnad sengl? A yw'r Comisiwn wedi dechrau arnynt, a sawl un ohonynt sy'n berthnasol i Gymru?

Keith Davies: I will be asking my questions in Welsh as well. What steps is the Commission taking to strengthen the single market? Has the Commission started on them, and how many of them are relevant to Wales?

[221] **Mr Hughes:** Last year, the Commission celebrated 20 years since the creation of the single market by launching a campaign to highlight areas where the single market needs to be deepened and extended. This was very much welcomed by several member states, particularly the United Kingdom. The focus was something that we called the Single Market Act. It has 12 legislative proposals within it addressing particular areas. I cannot remember them all, forgive me. One important one is the digital single market. For example, if you are roaming with your mobile phone around Europe, part of this initiative will be to create a genuinely single market so that when you are going with your mobile phone from the UK over to France, you will not have to pay for that privilege; it will be a genuinely single market. There are a few proposals in the area of access to finance as well. It is about deepening the single market. My end of it here is to try to raise awareness of that.

[222] Last year, we had a conference where the First Minister spoke. During that conference we tried to focus on SMEs in Wales and point out the advantages of the single market and the opportunities available and so on. It is hard getting that message across. We will be trying again this year. The Commission is launching the single market month, which is the last week of September and the first three weeks of October. In each week, we will address a particular theme, whether it is access to finance or doing trade online. We are going to do this particular month more as an online discussion in 24 languages. We are hoping to involve Members of the European Parliament and members of the European Economic and Social Committee. The idea is that there will be a permanent ongoing, online debate with citizens and, in particular, with SMEs to inform them about particular aspects of the single market. My role in this is more about awareness raising. I am working with the chamber of commerce in Cardiff on ways of putting together some kind of conference or action in the autumn, perhaps with the participation of a Welsh Member of the European Parliament, in order to address, perhaps, how to export to a particular country and exploit the opportunities of the single market. That is my role in that business, essentially.

[223] **Keith Davies:** I bobl sydd eisiau ein cadw yn Ewrop, un o'r pethau maen nhw'n ei ddweud yw bod cwmnïau rhyngwladol yn dod yma oherwydd bod gennym y farchnad sengl. Pe na baem ni'n rhan o Ewrop, ni

Keith Davies: For people who want to keep us in Europe, one of the things that they say is that international companies come here because we have the single market. If we were not part of Europe, they would not

fyddent yn dod yma. Yn awr, maen nhw'n edrych ar gytundeb masnach gyda'r Unol Daleithiau. Ble ydym wedi cyrraedd ar hwnnw ac a yw'n mynd i fod o unrhyw werth i Gymru? come here. Now, they are looking at a trade agreement with the United States. Where are we on that and is it going to be of any value to Wales?

[224] **Nick Ramsay:** If you can be brief, David, because we have a few minutes left and I know that there is another question.

[225] **Mr Hughes:** For me, it is incontestable that membership of the European Union is a significant incentive for inward investment in the UK and in Wales. You mentioned the trade agreement with the USA. This is known as the TTIP. You might hear a lot more about this over the next year. It is the transatlantic trade and investment partnership. It is not about getting rid of tariffs; tariffs have almost disappeared with the USA anyway. What it is about is getting rid of regulatory barriers, non-tariff barriers. The best example is the car industry, where you have US regulations and EU regulations. They both achieve the same objectives: cars are safe and have airbags. However, the regulations are different just for historical reasons, which mean that manufacturers have to go through expensive processes to get type approval here and in the US. If the US authorities recognised an EU type approval for a motor car, that would be a significant saving for exporters to the USA. We have done a few studies, or paid for a few studies, which purport to show that car exports to the USA would go up 149%. The same study showed that the major beneficiary of a transatlantic trade and investment partnership in the EU would be the UK. I do not know of any specific figures for Wales, but the sectors identified as benefiting the most were things like metals, chemicals, the car industry, which I mentioned, and manufactured goods. The UK seems to be the member state that would benefit the most and I think that Wales would see a lot of those benefits.

[226] **Nick Ramsay:** The final question is from Eluned Parrott.

[227] **Eluned Parrott:** Just to wrap up, I wonder whether you can tell us what three topics are emerging in the EU at the moment that we ought to prioritise in our work on this committee.

11.00 a.m.

[228] **Mr Hughes:** You mention this committee. I have to admit that I am still slightly traumatised by the poll in the *Western Mail* over the weekend. I do not know whether you have seen it.

[229] **Mick Antoniw:** We do not watch polls.

[230] **Mr Hughes:** I try not to, but this was a detailed one that revealed some very interesting facts or trends. One of those is that the people of Wales who are benefiting most from structural funds are the people who are the most Eurosceptic, which is very counterintuitive. As the First Minister said, we all need to look at that, the European Commission included. If we believe that there is benefit in remaining in the EU, the challenge is how the Commission—though, if I may say so, I think that this is also a task for everyone involved, including national politicians like yourselves—can address those people who are, according to the *Western Mail*, in classes C2, D and E. Those are people at the lower end of the socioeconomic scale, who are living in deprived areas and who are the most Eurosceptic. We do not have a problem with classes A and B: 48% of people in classes A and B in Wales are in favour of the EU, and 30% are against it. We do not have a problem with young people. Of the young people between 16 and 24, 43% are in favour of staying in the EU, and only 16% are in favour of leaving. That does not really answer your question, I am sorry; it goes much wider than this committee. However, there is a big question there and I think—

[231] **Nick Ramsay:** This committee may have certain abilities, but I do not know if we can single-handedly change those views.

[232] **Mr Hughes:** I wish that I could. More prosaically, I would say that the upcoming issues that are of particular interest to this committee would be the implementation of the structural funds and the jobs and growth agenda of the European Union. So, it is about the Europe 2020 strategy. Following that through over the coming years is crucial. It covers things like Horizon 2020, Erasmus plus and so on. It is about joining up all of those instruments with the structural funds to bring about jobs and growth.

[233] Other elements that would be important—apart from the big question mark that is hanging over all of us now, to be very honest, and gives a slightly surreal air to some of my work—are the single market, the TTIP with the USA and the benefits that that could bring.

[234] **Nick Ramsay:** On that note, I am going to have to stop you, David, because we are three minutes over. Thank you for that; it has been really helpful. I understand that you will stay in the room with us while we question our next witness. Thank you for answering our questions.

11.04 a.m.

**Materion Ewropeaidd—Sesiwn Ddilynol (Mewn Cynhadledd Fideo)
European Issues—Follow-up Session (Via Video-conference)**

[235] **Nick Ramsay:** I welcome our next witnesses. Thank you for joining us today for our follow-up session on European issues. Would you like to give your names and titles for the Record of Proceedings?

[236] **Mr Martyn:** Good morning and thank you very much for the invitation. My name is Nicholas Martyn; I am the deputy director general in the Directorate-General for Regional and Urban Policy in the European Commission. I have particular responsibility for the current negotiations that are going on regarding the European structural and investment funds.

[237] **Mr Jones:** I am Gregg Jones, the head of the National Assembly's office in Brussels. I am very much accompanying this session rather than appearing as a witness, I would say.

[238] **Nick Ramsay:** Our apologies for being a bit late joining you. We have a number of questions for you, so I propose that we go straight into those and the first is from Byron Davies.

[239] **Byron Davies:** Good morning. Mr Martyn, can you give us a brief overview of the state of play in the negotiations, focusing in particular on what has been agreed and the elements that are of most interest to Wales, from the perspective of preparing and implementing future programmes?

[240] **Mr Martyn:** Let me try to give you the picture of where we are, approaching the end of July. I would say that we are not quite as far ahead as we had hoped to be. We had, in our planning, hoped that, by now, we would have an agreement on the entirety of the legislative package for the next period. We are not quite there, but, nonetheless, a lot of progress has been made. There has been a provisional agreement between Council and Parliament on the most important blocks for the programming process. That is important for a reason that I will come to in just a minute. All the main programming blocks are there, namely, everything to do with how you set up partnership agreements and programmes, elements related to the territorial development and the core operational elements. We also have agreement on some

of the difficult but important areas, such as the thematic concentration. That is covered in the specific European regional development fund regulation. It is also covered in the cohesion fund regulation and the territorial co-operation regulation. All of these have been effectively agreed. Nonetheless, it leaves quite a workload, which is envisaged to be concluded in September.

[241] We are nearing agreement on two other important blocks on the financial instruments or financial engineering arrangements, and on the ex-ante conditionalities of one of the new elements, which are important to member states as they set up their programmes. What it will leave as difficult issues to address in September are the macro-economic conditionality—one of the other new elements—the financial management and some of the other financial issues that come out of the multi-annual financial framework agreement, including the performance reserve. It will also be important for member states to know the final shape of that. We see September as being an intensive month in terms of completing the negotiations. We see a strong commitment, both from Parliament and the current presidency, to reach an agreement by the end of September. That really is the critical date to be able to finalise the process in order to have the whole package of regulations adopted, published and available for everybody in November. It is a tight timetable, but there is a strong commitment to do that.

[242] To highlight the important elements in terms of what is currently going on in all member states, and in Wales, for the preparation of the programming, given that the programmes should have effect from the beginning of next year, there is a parallel process going on in terms of the dialogue between the Commission and member states for preparing partnership agreements and programmes. This evidently cannot be a sequential process because we want to have partnership agreements and programmes adopted as soon as possible. So, on the basis of the provisional agreements, this process is under way, and because we have all the main elements in place, in terms of the content of partnership agreements and programmes, and in terms of what we are looking for with some of the new elements—I mentioned the ex-ante conditionalities, but also the focus on results and the thematic concentration provisions—I think that it has been feasible for member states to do that. I think that you are aware of the progress that has been made. However, I can come back and give you some more information about that. I will stop there for this first intervention and come back on further, more detailed points that you want to go into.

[243] **Byron Davies:** Could you provide more detail for clarification purposes on the issues that remain outstanding in the negotiations?

[244] **Mr Martyn:** I can take you through it. We started out with five regulations. The big regulation is what we call ‘the common provisions regulation’, because it covers all five funds, which are now known as the European structural and investment funds. So, those are not just European regional development funds, the ESF and the cohesion fund, but also the rural development fund and the European maritime and fisheries fund. That is the big block and the one where work remains to be done. On the funds’ specific regulations, as I said, these have been pretty much concluded. Looking at what remains to be done with the common provisions regulation, we have these two blocks that are nearing completion, on financial instruments and ex-ante conditionalities. Effectively, there is a provisional agreement that has to go to COREPER next week on the Council side for validation. That leaves what we would say are the financial issues coming from the multi-annual financial framework agreement. So, what we have here are the elements relating to additionality, the elements relating to co-financing, and the detailed breakdowns on the funding. So, we have the aggregate figures in the MFF, but the more detailed breakdown in the common provisions regulations. That is one block.

[245] We have financial management. This is all about the delivery system: the way in which member states submit payment claims, the way in which they are paid, and the way in

which corrections can be made when irregularities are found or problems arise. Some new elements have been introduced here in order to try to strengthen the process. We know that there are some sensitive issues. For example, the Commission proposed that beneficiaries should systematically be paid before member states claim the reimbursement from the Commission. In the Council, in the partial general approach, this was eliminated. We still think that this is important, we think that we have some support from the Parliament, and this is one of the issues that will have to be resolved.

[246] We have the performance reserve. The Commission proposed a 5% performance reserve. This is a mechanism that we think will incentivise effective programme management because it keeps back a part of the funding, which is then allocated in 2018-19, once there is an analysis of which programmes are functioning well, based on milestones that are set. So, this is one of the ways of focusing on performance. In the MFF conclusions of the Council, this was increased to 7%. The European Parliament, in its amendments, has, effectively, proposed to eliminate it completely. So, this is again a sensitive issue, where the Commission will seek to keep the performance reserve, and we would certainly like to have it at 5% as a minimum. We then have the more technical elements of final and transitional provisions, and some extra elements that have come in because of the youth employment initiative, for example, which was also introduced in the agreement on the MFF by the Council in February. That required some additional modifications to be introduced. So, these elements are essentially technical in nature, but it will take a little time to ensure that they are fully aligned. That is the workload for September.

[247] Sorry, I should come back to macro-economic conditionality, which I mentioned before. This refers to a particular set of provisions that clearly link policy to economic governance measures. There are two elements to this: one is that, where there are country-specific recommendations that are relevant in terms of financing from the European structural and investment funds, there should be the possibility for the Commission to request reprogramming in order to address that. The second element is that, where a member state has failed to follow recommendations relating to the excessive deficit procedure and the macro-economic imbalance procedure, there should be a potential impact for the funds, with a possible suspension of commitments. I am sure that you know that—

[248] **Nick Ramsay:** That is really helpful. I would like to interrupt you there to bring in Mick Antoniw. I know that he has a number of interesting questions on the back of what you had to say.

[249] **Mick Antoniw:** I very much appreciate that information. It illustrates the complexity of managing this on an EU basis. In a country like Wales, our primary concern is how much we can get under the various funds, and how we can use those funds. I was wondering what the process issues are with regard to integration, because one of the dangers is that we create a series of separate projects but we do not gain the benefit of the integration of those projects and the potential additional leverage that they might achieve.

11.15 a.m.

[250] **Mr Martyn:** You are absolutely right: integration of the use of the funds is one of the key issues. It is one that the Commission sought to address in its proposals and we have tried to defend this throughout the negotiations. Having this common set of rules—the common provisions regulation—was one of the key ways of doing this and of having, as far as possible, common rules for all of the funds. We have not fully achieved this, but we have certainly taken a big step forward. So, for example, you have a common set of eligibility rules for all of the five funds that I mentioned and common rules, for example, on financial instruments. That is important. We also see through the programming more integrated use of funds. You can have multi-fund programmes with ESF money and with European regional

development fund money. You can also have multi-fund individual projects with funding coming from the different funds and from other policy areas. So, you can construct a project which, for example, has funding coming from Horizon 2020 sources together with ERDF. This is specifically made possible and there is a linkage in terms of eligibility. The document that elaborates on how to do this is the common strategic framework, which is now an annex to the common provisions regulations. This is, in a sense, a set of guidelines about how best to integrate the use of the funds and it is a kind of incentivising to try to achieve a better integration. In the end, of course, it will depend on how things are organised on the ground. We are well aware on our side that in Wales there is a lot of good practice that goes on in relation to constructing the governance arrangements in a way that can maximise the possibilities for integration. You can facilitate it by having the mechanisms in the regulation, but, in the end, it is for the responsible authorities to use this and deliver. Certainly, it is something that we will be looking at when we look at the partnership agreements to see whether this question of integrated use of the funds has been well addressed.

[251] **Mick Antoniw:** Following on from that, part of the partnership agreement is, of course, the Welsh chapter. What is the state or stage of discussions and negotiations, for example, with the Welsh Government, which is ultimately responsible for ensuring the delivery of the package across those five funds, as far as Wales is concerned? Is this a matter that is exclusively, in terms of discussion, with the Welsh Government, provided that there is compliance with the common provision regulations, or does it have to involve the UK Government as well?

[252] **Mr Martyn:** The partnership agreement itself is a national document. There is one single partnership agreement for every member state. That was always the idea in the proposal: to have an overarching strategy for the use by a member state of the entirety of its allocation for all the five funds. We always foresaw, and this flexibility is built into the regulation, that how this works in the member state will very much depend on its constitutional and institutional arrangements. Of course, in the United Kingdom, there will be an overarching element, but then sub-chapters which reflect the different constitutive parts of the United Kingdom. In terms of how we work, we have a dialogue both at a national level, with the department responsible in London, and direct contact with the authorities in Wales. That links to the parallel process of preparing the programmes. It is not a sequential process of first partnership agreement and then programmes. The two are very much articulated. The partnership agreement will be the overall reflection of the decisions that are made at the appropriate level on how the allocations are made. There has been dialogue already. We are in an informal dialogue stage because a formal submission and negotiations would only start once the regulations are adopted. However, in practice, this is a real and an important discussion that is going on in order to prepare the ground.

[253] **Mick Antoniw:** So, that discussion is under way at the moment, albeit on a semi-formal basis, with the Welsh Government.

[254] **Mr Martyn:** Indeed, yes.

[255] **Nick Ramsay:** Thank you, Mick. It is over to Keith Davies.

[256] **Keith Davies:** Rwy'n mynd i siarad yn Gymraeg. Beth mae'r Comisiwn eisiau ei weld yn sgîl rhaglenni gweithredol y dyfodol yng Nghymru o safbwynt trawsnewid? Beth ydych eisiau ei weld?
Keith Davies: I am going to speak in Welsh. What does the Commission want to see as a result of future operational programmes in Wales in terms of transformation? What do you want to see?

[257] **Nick Ramsay:** Are you getting the translation?

[258] **Mr Martyn:** Yes, we got it fine. Let me start by coming back to these core elements of a focus on results and performance. The key change that we were looking to achieve through the structure of the regulations, through the proposals, was to, in a sense, bring about a shift of mindset from spending money to achieving objectives. This is encapsulated in the term ‘intervention logic’: it is not just about spending money, but about determining, first of all, what you want to change through the use of the available funds. So, in the programming part, the question that is asked should be: what should be changed and how will I know whether that has been achieved? Then you come down from that to the other individual types of intervention that money should be spent on.

[259] The mechanisms to try to ensure this are the thematic concentrations, so avoiding the thin spreading of funding over many different areas, based on the clear evaluation results that you get better value for money if you focus the use of the funds on a limited number of areas, and having a structure of programming that puts the emphasis on the results and builds into the programming a set of indicators that will make it possible to track whether those results are being delivered. In Wales, I think that we see things going very much in a direction that is in line with what we have put into the programmes with this link to the core objectives coming from the Europe 2020 strategy, focused on the use of the funds for research and development and innovation, for support for small and medium-sized enterprises, and for energy efficiency. Those were the three core areas that we started from, particularly for the use of the European regional development fund. We also now see, added to that, information and communications technology as a fourth key objective. In more developed regions, at least 80% of the funding will go into these areas. In the less developed regions, it will be 50%. So, the focus that we see from the dialogue that has been going on is in line with that approach, but I think that the key message from our side would be to ensure that the analysis of the potentials and needs of the regions is at the basis of the decision making in terms of formulating the specific objectives for each of the programmes and each of the priorities.

[260] **Keith Davies:** Diolch am hynny. A ydych yn dweud, felly, wrth baratoi'r rhaglenni gweithredol y byddwch yn nodi prosiectau a buddsoddiadau clir a phenodol ym mlaen llaw, ac nad ydych yn cael pethau cyffredinol?
Keith Davies: Thank you for that. Are you saying, therefore, that, in preparing operational programmes, you will be identifying clear and specific projects and investments upfront, and not having general matters?

[261] **Mr Martyn:** I would say, rather, that it is the other way around. We do not want to start with the detailed projects. We want to start with the specific objectives—not something very general, but something that is identified as a specific result to be achieved. As I said, I think that we have a structure of the regulation that leads member states in that direction, because we start with 11 thematic objectives, which are the linkage that is made with the Europe 2020 strategy. Each of those thematic objectives is then broken down into a set of more detailed investment priorities. These are set out for the ERDF, ESF and so on. So, that is already a framework whereby a member state has to make a choice about where to put the funding. Then, in the context of the programming itself, the very specific objective for that block of funding should be identified, linked then to a set of results and indicators, which will enable you to see whether those results have been delivered. So, what comes later is saying, ‘In order to achieve these results, I will put money into this kind of infrastructure, this kind of SME or this other kind of investment’. The detail should come as a way of deciding that that is how I will make the change that I want to make in this particular area.

[262] **Nick Ramsay:** Thank you, Keith. I am mindful that we are into the last five minutes; so, it would be helpful if Members could be succinct. The next question is from Julie James.

[263] **Julie James:** We are just more interested in finding out whether the allocations, once they are made to member states, are set in stone, or whether there is some flexibility for that

allocation to move around; and then specifically whether there is flexibility between categories of region, because we are obviously anxious to secure our own funding with some certainty.

[264] **Mr Martyn:** There is some flexibility. The starting point is that a member state has an allocation, which is broken down by category of region in terms of the structural funds. There is flexibility, first of all, to make certain transfers between those allocations for each category of region. The current state of the negotiations—and this is one of the provisions that is not yet finalised, as it comes in the financial issues block—is that that flexibility is at the level of 3%. The Commission proposal was 2%; and the Council, in its agreement, decided that it should be 3%. However, as I say, it is not finalised yet; it is still one of the open issues. That gives flexibility for a member state to make a shift between, for example, its less-developed regions and its more developed regions, or from its transition regions to its more developed regions, and so on. That is a flexibility that member states have. It is then open to member states to decide, within a category of region, how actually to divide the funding between the different regions that make up that overall category. However, in terms of constructing the overall allocation for a member state for the multi-annual financial framework, the criteria used build up from NUTS II-level regions, a member state is not bound to deliver to each region the exact amount that comes from that calculation process. Indeed, member states do not have the detailed figures. It is a methodology, not a process for making allocations at individual regional level.

[265] In fact, we will shortly be sending a letter to member states in order to give them the figures for the allocations. We have not been able to do this before because we were waiting until there was a political agreement between Council and Parliament on the MFF. Now that that political agreement has been achieved, we will shortly send out a letter to each member state giving the breakdown of the allocations between the categories of region, so that member states are clear as to what the figures are. There may still be a few limited adjustments because there are still some issues on the performance reserve. I indicated also the aid for the most deprived that has a very minor implication, but, essentially, the figures will then be there. We will give an indication in that letter that member states should then determine the final breakdown—

[266] **Nick Ramsay:** I am just going to cut in there, thank you, Nicholas, because we are into the last couple of minutes and I am just mindful that there are a couple more questions for you, if that is okay. I turn to Julie.

[267] **Mr Martyn:** Of course.

[268] **Julie James:** You were just about to answer it, actually. What are the rules for determining the final outcomes? I think that you were just saying it.

11.30 a.m.

[269] **Mr Martyn:** The final outcome is presented by a member state in its partnership agreement, and this is adopted by the Commission. So, the Commission has to give its approval to the final distribution proposed by a member state.

[270] Obviously, the member state has to comply with the rules, so it cannot be more flexible than is allowed within the regulation. We would also expect the member state, in making the distribution, to take account of the respective needs and the respective use that can be made of the funds to achieve the objectives of those funds. It should therefore be an objectively-based distribution. We would also expect member states to ensure that, between one period and the next, there is a smooth transition—they should take account of that also in the way in which they allocate the funds. These are factors, but it is a decision initially of the

member state, which then effectively has to be approved by the Commission and can then be the subject of the negotiation process on the partnership agreement. However, these are elements that we would very much want to cover in the informal discussions that are now under way, because they are not issues that should still be open by the time we come to the final stages of adoption; they should be ironed out upfront, and should therefore be the subject of a dialogue now.

[271] **Julie James:** Thank you very much.

[272] **Nick Ramsay:** That is great. Thank you, Julie. We are now sadly out of time, but I thank Nicholas Martyn, the deputy director general for policy, performance and compliance, Directorate-General for Regional and Urban Policy, for being with us today. I also thank Gregg Jones for his input earlier—that has been really helpful. Thank you for that today.

[273] **Mr Martyn:** Thank you very much for the opportunity to participate.

11.32 a.m.

Materion Ewropeaidd: Sesiwn Ddilynol—Craffu ar Waith y Gweinidog European Issues: Follow-up Session—Ministerial Scrutiny

[274] **Nick Ramsay:** This item is, again, a follow-up session on European issues, and we now have a ministerial scrutiny session. I welcome our witnesses to this morning's meeting. Would you like to give your name and title for the record?

[275] **The Minister for Finance (Jane Hutt):** I am Jane Hutt, the Minister for Finance. With me are Rob Halford and Peter Ryland.

[276] **Mr Halford:** I am head of planning and strategy at the Welsh European Funding Office.

[277] **Mr Ryland:** I am the deputy director of WEFO, with particular responsibility for programme performance and finance.

[278] **Nick Ramsay:** Great, thank you for being with us today. I remind Members and members of the public that this session will focus on structural funds and Horizon 2020 in addition to other European issues.

[279] We have a number of questions, so I propose that we get straight into them, Minister. The first is from Alun Ffred Jones.

[280] **Alun Ffred Jones:** Bore da. **Alun Ffred Jones:** Good morning. My Cwestiwn cyffredinol sydd gennyf, question is a general one, Minister. Would Weinidog. A fyddech yn mynegi barn ar y you express your views on the provisional dyraniad damcaniaethol a gyhoeddwyd gan allocations to Wales announced by the UK Lywodraeth y Deyrnas Unedig ddiwedd mis Government at the end of June on the Mehefin ynglŷn â'r cronfeydd strwythurol? structural funds? Also, what exactly is the Hefyd, beth yn union yw'r broses o hyn process from now on? There is some ymlaen? Mae cyfeiriad bod angen i reference that the UK Government now Lywodraeth y Deyrnas Unedig gael requires the support of the European cefnogaeth y Comisiwn Ewropeaidd ynglŷn Commission with regard to the sums â'r symiau a grybwyllwyd. mentioned.

[281] **Jane Hutt:** Diolch yn fawr, Alun Ffred. Well, I was pleased, of course, to see the

agreement for the EU budget. We were very concerned about it leading up to the final vote in the European Parliament. It was of course approved on 3 July. Now that we have the agreement, it means that we can move forward. I think that we will be on track to deliver our programmes in early 2014. So, the issue of our concerns prior to that agreement was that we could potentially lose £400 million, but, as a result of intensive pressure, negotiation and lobbying, we managed to pull back on that and we welcomed the change that the Prime Minister announced, which we felt was a fairer and more equitable settlement. Of course, that means that all regions are seeing that overall 5% cut in the UK in their structural fund allocations. With regard to the regional allocations, the written statement lays them out, and last week, we had an oral statement, so you are well aware of the regional allocations that the UK Government announced on 27 June.

[282] As for the point regarding whether they will be agreed—and we can go over those allocations if you think it is necessary—it is just a matter of process, really. It will be a formality, we believe, in terms of the approval of those regional allocations, but, of course, that agreement will come alongside the approval of the UK partnership agreement. They come together. We believe that it is a formality, but it is a question of ensuring that the European Commission goes through due process. There is no reason to suppose that it would not. That is the important point to be agreed. However, there is a final, formal approval alongside the partnership agreement.

[283] **Alun Ffred Jones:** A fedrwch **Alun Ffred Jones:** Can you confirm the gadarnhau beth yw ystyr y toriad o 5% mewn meaning of the 5% cut in real terms? termau go iawn?

[284] **Jane Hutt:** It resulted in us having an allocation of just over £2 billion at 2014 prices. Once again, we have the regional allocations that give west Wales and the Valleys £1.67 billion and gives £340 million for east Wales. The result of that 5% cut was that we did not lose the anticipated £400 million at that level. In fact, it is pretty good in terms of 2014, compared with £1.9 billion of our current programmes. It still means that we have a reduction in real terms of around £60 million in our structural funds budget over the next funding period. That is a challenge, but it is a much better position than we would have been in when we first anticipated these figures.

[285] **Alun Ffred Jones:** Hoffwn ofyn un **Alun Ffred Jones:** I would like to ask one cwestiwn er eglurder i mi, yn bennaf. Roedd question, for clarity in my own mind, most of cytundeb i dorri cyllideb yr Undeb all. There was an agreement to cut the budget Ewropeaidd, ac ymddengys y byddai hynny of the European Union, and it appeared that yn effeithio ar y cronfeydd strwythurol yn that would have a significant effect upon the weddol sylweddol. Beth sydd wedi digwydd structural funds. What has happened between rhwng y penderfyniad gwreiddiol hwnnw ym that original decision taken in Brussels and Mrwsel a'r dyraniad hwn, nad yw'n this allocation, which is not half as bad as ddyraniad hanner mor wael ag yr oedd rhai some had anticipated? wedi rhagdybio?

[286] **Jane Hutt:** Well, it is the way that the cookie crumbled, basically, in terms of the pressure that we put on the Prime Minister.

[287] **Alun Ffred Jones:** That is the technical term, is it?

[288] **Jane Hutt:** It is certainly not a piece of European jargon.

[289] It was as a result of us expressing huge concern because of the EU budget cut. Of course, the Prime Minister went to the negotiations wanting a cut. There was a cut, and the impact of that, on first sight, was going to be detrimental to Wales by £400 million. As a

result of that concern, we all—Members of the European Parliament across the board, as well as our key rapporteur, Derek Vaughan, who was at the forefront of this, and Alun Davies, my predecessor in this Government—managed to put pressure on the Prime Minister to allocate it more fairly across the UK. Without that reallocation, that 5% cut across the UK, we would have lost the £400 million. I do not know whether one of my officials wants to clarify that further.

[290] **Mr Halford:** I will just add to that. The draft regulations provide flexibility for a member state to reallocate funds between areas that fall within the same categorisation. So, under the new regulations, there are three categories of area—more developed, less developed and transition regions. There is a 3% flexibility for a member state to transfer funds between those regions. Essentially, the Prime Minister has elected to move funds accordingly, which gives us this enhanced allocation. Therefore, that is the mechanism that is being deployed to allow this transfer to take place.

[291] **Nick Ramsay:** That is really clear. Mick Antoniw has a question.

[292] **Mick Antoniw:** I would like some clarification on the process. Having achieved the settlement that there is, and the allocations in respect of the various funds, is it the case that we are now in a much closer position than we have ever been, in terms of almost direct negotiation over the approval of the implementation of the plans themselves, particularly as regards the Welsh chapter? It seems that, before, it has always been very much under the UK head, but is there now a change in relationship that enables us to be far more effective and direct in terms of the plans that we want to put into place?

[293] **Jane Hutt:** I obviously was not here in terms of the previous programme—I believe that perhaps Rob and Peter were—in terms of the differing circumstances. There is an important point about achieving the EU budget at the time that we did—at the end of June and the beginning of July. It meant that all our plans were in place to move forward in terms of the legislative package, and the partnership agreement. I would say that the clear, strong Welsh voice, during negotiations—not just in negotiations relating to the budget, but also the way that we would implement the new programmes and influence the UK partnership agreement—is different, and is a step change. Actually having a Welsh chapter is progress and is a new development, and my predecessors and WEFO officials have worked hard to achieve that. Therefore, we must look at the Welsh chapter as an important step forward, as well as the fact that we have been prepared and ready to move as soon as we had the budget agreements. Therefore, as you are aware, 90% of the package of legislative proposals is already agreed in principle. We have strong engagement with the EU, and with the European Commission, as well as with the UK Government, because it is important that we work closely—as I am doing—with the Minister for Business and Enterprise and the Minister for Europe in the UK Government.

[294] **Mick Antoniw:** Thank you.

[295] **Nick Ramsay:** Thanks, Minister. Byron Davies has the next questions.

[296] **Byron Davies:** I think that you have probably answered most of the issues that I was going to raise. However, perhaps I could just ask you whether the draft regulations currently reflect Welsh interests.

[297] **Jane Hutt:** I do believe that they reflect Welsh interests. It is very important, in a sense. This is the first time that I have come before this committee with these new responsibilities as the Minister for Finance. I think that, already—and I hope that you will see this—there is a strong alignment—

[298] **Nick Ramsay:** It was remiss of me not to point that out at the start. Congratulations on your new responsibilities, Minister.

[299] **Jane Hutt:** It is just that it is an opportunity for us to ensure that there is a good strategic fit with Welsh Government priorities, with our focus on growth and jobs, and on tackling poverty, and to ensure that our interests are clearly aligned in terms of the comprehensive spending reviews, for example, which is an important point. However, the fact that we have such a strong voice—and it is a respected voice, I believe—in Europe, and, of course, in partnership with the UK Government, means that I do believe that Welsh interests are very well recognised. I will give you an example, Byron: we have led the agenda on pressing for the simplification and the greater harmonisation of rules between different structural and investment funds.

[300] **Byron Davies:** Okay. You have talked about the cuts being detrimental, at first sight—the £400 million cut that the Labour team managed to recover. Are there any other aspects of the package that you may be concerned about?

[301] **Jane Hutt:** There are not any aspects of the package that we are concerned about. Obviously, the timing is critical now, as we move towards the new year. I think that there are a few concerns in terms of the partnership agreement, which relate to what is happening in England. We have our Welsh chapter ready; I know that that Welsh chapter has been well received by the Commission. However, that is part of a UK partnership agreement.

11.45 a.m.

[302] In England, they have to have the whole agreement and their chapters ready. I think that there are some concerns that there might be a slower timetable. So, we are working closely with the Minister for Business, Innovation and Skills on this. They have their individual programmes across England, but ours is all ready to go. In England, they are developing these local enterprise partnerships; so, it is not as straightforward, possibly, as getting the Welsh chapter together. That is the only concern, I think, that my officials feel could slow the timetable. Obviously, we make our views known about that. I recently attended my first meeting of a joint ministerial committee for Europe with other devolved administrations. This is the sort of thing that I had the chance to discuss with the Minister for Europe before the meeting, to get the reassurance that we are all moving at the pace that we need to move.

[303] **Byron Davies:** Okay. Thank you.

[304] **Eluned Parrott:** Following on from that last point, Minister, it is stated in your paper that the first draft of that partnership agreement is due to be shared by the Department for Business, Innovation and Skills with the Commission shortly. What was the original timetable for that? When was that due to take place?

[305] **Jane Hutt:** I think that we are where we thought we would be in terms of the timetable. Clearly, to get the operational programmes moving for January 2014 we have to get the whole UK partnership agreement approved with the Commission. I do not think that there is any slippage. Do you want to make a point, Rob?

[306] **Mr Halford:** I will just say that the dialogue that is going on with the European Commission at the moment is an informal dialogue. We do not have an exact date by which this partnership agreement needs to be in place with the Commission formally, when formal submission takes place. There has been a little bit of slippage in terms of when the Commission was expecting to see the first draft—and it is very much a first draft from the UK. We have shared our draft with them informally and, as the Minister said, it has had good

feedback. We now understand that the UK partnership agreement first draft has gone to the Commission informally, but that is not a formal submission. So, it will not be determined. This is an iterative process, through which the Commission is being very helpful in trying to ensure that, when the document does go in, it is fit for purpose and there is the proper differentiation of the contents of this and that and what needs to go into the partnership agreement versus what needs to go into the draft operational programmes. This is something on which the Commission has been helpful to us in trying to achieve.

[307] **Nick Ramsay:** That is initially in the informal context.

[308] **Mr Halford:** All of the dialogue that is going on with the Commission at the moment is in the informal context. There has been no formal submission of either the partnership agreement or the operational programmes.

[309] **Eluned Parrott:** To follow up on that, what do you anticipate will go into the partnership agreement, as opposed to the operational programmes, in terms of content for this?

[310] **Jane Hutt:** The Welsh chapter of the partnership agreement very much reflects the conclusions of our recent consultation feedback from the European programmes, the partnership forum, the rural development plan, and informal feedback from the European Commission—all of which are critical to get the chapter right. Understanding the difference between the chapter and the operational programmes is important, because the partnership agreement is that important legislative requirement, but we need to get the agreement between the member state and the Commission—that is the partnership agreement—and, of course, the operational programmes that give the steering guide in terms of what we want to get out of the investment of the European structural funds. It very much reflects the consultation and the thematic and strategic approaches that we are taking.

[311] **Eluned Parrott:** I see this, obviously, as the difference between it being a strategic and high-level document, and a more tactical document in terms of the operational programmes. I wonder whether you could just clarify what exactly is in the partnership agreement from Wales's point of view.

[312] **Jane Hutt:** I think that, hopefully, I have described what the partnership is, as much as I can. Maybe I could highlight the four requirements—there is a template, and this is what we have to deliver: an analysis of disparities, development needs and growth potentials and how they would be addressed through the investment priorities; implementation arrangements, which include arrangements to ensure co-ordination of our structural funds and other EU funding; an integrated approach to territorial development, which is looking at some of those delivery mechanisms, and I am sure that you will want to consider those integrated territorial investments further; and, EU cohesion data exchange arrangements. So, those are the four blocks of the partnership agreement—of course, that is the UK partnership agreement—and we have to reflect those in our Welsh chapter.

[313] **Eluned Parrott:** Following on in this area, the Welsh chapter is something that you have developed and you contributed to the process. Does the rest of the partnership agreement consist of chapters representing other regions and nations within the UK or are there elements that are representative of the UK as a whole and, if so, have you had liaison or sign-off on those to make sure that they are sympathetic to Welsh needs?

[314] **Jane Hutt:** We are part and our officials are part of the UK negotiating team for the partnership agreement. As I have already mentioned, there are some possible issues about the timeliness of getting the other chapters or the other parts of the UK partnership agreement from the local enterprise partnerships in England, but they will all have to comply with the

same template, will they not, Rob? The common elements will have to be addressed as a whole across the UK, but, in fact, the Welsh chapter provides a pretty good template for the other regions, and I think that that has been recognised.

[315] **Nick Ramsay:** The next question is from Julie James, I believe.

[316] **Julie James:** Good morning, Minister. We have eight more minutes of morning to go, so I am just in time to say ‘good morning’ to you. Turning to the operational programmes, we had a session with the deputy director general of the Directorate-General for Regional and Urban Policy earlier, and he was also talking to us about the informal discussions that you have been having. When will you be in a position to indicate what the thematic areas will be in the operational programme, and when will we have some indication of what priority projects we will have?

[317] **Jane Hutt:** Thank you very much, Julie, I am very pleased to be at this committee. In fact, Alun Davies did announce our thematic priorities in May 2012, and they were informed by early partnership working. There were, as you know, a reflections exercise, partnership discussions and cross-departmental discussions in the Welsh Government. They assisted us in developing the document for consultation that went out in January until April. So, the thematic priorities were developed and then put out for consultation and, of course, I have responded—in fact, I did so last week—in terms of the analysis of that consultation. I do not know whether you would like me to go on and remind you of the changes as a result of the consultation and the announcement of the agreement on the budget, but I made those points in an oral statement, about a focus on tackling poverty, for example, through sustainable employment and targeting infrastructure investments in the east Wales programmes. Those were two key developments that came out of the thematic priorities discussions.

[318] **Julie James:** Thank you, Minister, I remember that well. I was really asking whether we had a complete set, so, were we looking back at the original announcements plus what you said in your oral statement, or are you still working on a total set?

[319] **Jane Hutt:** It will be a total set, clearly, in terms of the operational programmes and where we get to in terms of allocations to priorities is the next step. The important position that we are in now is asking how we concentrate resources on the thematic priorities. We are not at that stage yet, although I have given clear indications about how we want to split the resources between the ERDF and the ESF. I should be able to make a statement about this in the autumn, Chair, and the way forward.

[320] **Nick Ramsay:** That issue of thematic concentration is key now, is it not, given the new funding regime and the way that things are developing in the European Union?

[321] **Jane Hutt:** Absolutely, and we have to recognise that we have to get the regulations through. I was recently talking to officials about it being a high-level approval in terms of the regulations. There may be issues lower down that are of more detail that could have an impact, but all the negotiations are progressing well. So, we should have a good deal of certainty by September, and then, clearly, I will come to the Senedd with the outcome of that.

[322] **Nick Ramsay:** That will be in the autumn, will it?

[323] **Jane Hutt:** I am aiming for October.

[324] **Julie James:** Minister, will that have a set of actual project priorities with it, or is that to follow after the announcement?

[325] **Jane Hutt:** This is a difficulty with not being able to be too specific at this stage. We

are going to have a new programme monitoring committee in place; we are just setting up the new PMC. So, we cannot be seen to be preparing, or even giving indications about, actual project at this stage; it is too early. There are some very successful project interventions that we have had in this round, which we see could form the backbone: for example, the projects that Graham Guilford has been projecting as being most appropriate. Modern apprenticeships, Jobs Growth Wales and JEREMIE are examples.

[326] It is early days, but we have to be very clear that the door is open. Already, I am certain that you have all been approached as Assembly Members about this project or that, and whether this will continue. That is what WEFO officials are dealing with at the moment, but it is too early to be specific. We do not have a list.

[327] **Nick Ramsay:** Rob Halford, did you want to come in on that?

[328] **Mr Halford:** Just to say that, of course, the Guilford review is informing the process. One of the key recommendations, if not the key recommendation in the review, was the creation of an economic prioritisation framework, which we are currently developing. That will serve to make sure that we target our resources at key economic opportunities, and it will serve the concentration agenda and give us the basis on which we begin to select projects that fit with the future direction of travel.

[329] **Julie James:** Just on that last point, you are absolutely right, Minister: I certainly have been heavily lobbied by some people. There is an issue about early indications for people who have key staff, and so on. Are we confident that we will have a timescale that allows the projects that there are to continue, or to have funding, even if a little different, to be able to do that? You will know that it is about three months before the end of the project that key staff tend to disappear into the ether if they do not have that.

[330] **Jane Hutt:** Well, yes. Peter is nodding his head already. However, I would say that we have to recognise that there is a rigorous assessment that WEFO has to undertake using project and selection criteria. That, of course, has to be agreed by a new programme monitoring committee for the future programmes. So, with that caveat, we are confident of that timetable. In terms of the new single programme monitoring committee, we have already gone out to recruit for public appointments, and we will be working throughout the summer to ensure that we have set this up in time.

[331] Of course, we have made so much progress in terms of the messages. I think that your scrutiny as a committee has been incredibly helpful, because it has helped to focus—alongside Graham Guilford's review, which we have, of course, accepted its entirety, and the economic prioritisation framework. The message could not be clearer that this has to be about transformational change, concentrating, integrating and simplifying, and, certainly, having been to the PMC and the European programmes forum, there is a recognition that that is what has to be very clear in terms of the next round.

12.00 p.m.

[332] **Nick Ramsay:** I know that it is only from—. Sorry, Julie, I thought that you had finished.

[333] **Julie James:** I was just going to say that I am very pleased to hear that, which I think is probably what the Chair was about to say. Minister, I know that you have said this publicly already, and I absolutely agree with the simplification agenda, but we will also be looking to use some of the new financial instruments and other innovative financial arrangements in our programmes. I wonder whether you would like to reconfirm that. I know that you have already said that, but it would be interesting to hear you reconfirm it, if it is still the case.

[334] **Jane Hutt:** Certainly. I have already mentioned the opportunities that are certainly being encouraged in terms of the instruments that are available to us. Also, looking at—Graham Guilford recognises this—the tools that are being considered, without it becoming too bureaucratic, of course, which is very important in terms of the impacts, I think that we need to see where we can have payment by results in the current programmes. An increased emphasis on results is, of course, key. We do not want too many inflexible administrative arrangements, but we need to use those instruments that are available through the new arrangements.

[335] **Keith Davies:** Gwnaf ofyn fy Welsh. I can say ‘good afternoon’ now, Julie; ‘prynhawn da’ yn awr, Julie; mae’n un funud it is one minute after 12.
wedi 12.

[336] **Julie James:** Prynhawn da. **Julie James:** Good afternoon. [*Laughter.*]
[*Chwerthin.*]

[337] **Keith Davies:** A ydych chi, **Keith Davies:** Minister, are you confident
Weinidog, yn hyderus bod gan WEFO’r staff that WEFO has the staff with the technical
â’r arbenigedd technegol a’r diwylliant expertise and the operational culture to
gweithredol i gefnogi’r gwaith a chyflawni’r support the work and the delivery of the
agenda trawsnewid? transformation agenda?

[338] **Jane Hutt:** WEFO does have a very good record of management and financial control arrangements, as I know you are aware, and of appraisal as well, because these are very complex multi-million-pound investment programmes. I have to say that WEFO has a very good record in terms of its recognition in EC regulatory compliance—it is averaging a 99% success rate across the programme, so, I congratulate the officials in WEFO on that. Clearly, lessons have been learned and systems have been improved since the previous programme, but WEFO is highly regarded by the European Commission.

[339] **Keith Davies:** Rydych chi wedi **Keith Davies:** You have also said that,
dweud hefyd, yn dilyn adolygiad Guilford, following the Guilford review, you have
fod cynlluniau gennyh i reolu’r prosiectau a plans for managing the projects that are to
fydd yn dod. come.

[340] **Jane Hutt:** Yes, I think that there is no question that the impact of the review has been very valuable indeed, and welcomed, obviously, by Ministers and by WEFO officials. Since Guilford, and even before the review, I would say that cultural changes resulting in administrative and policy changes have been taken on board.

[341] I also have to say that there is a responsibility here for the programme monitoring committee. It has to monitor the way that the funds are being managed. It has to take that responsibility and make sure that all the information is as open and transparent as possible in terms of delivery.

[342] **Nick Ramsay:** Joyce Watson is next.

[343] **Joyce Watson:** Good afternoon. I want to ask, Minister, whether you have had any contact with the European Investment Bank. If you have, do you have any plans to develop those links further in the coming months as part of the preparation for the future programmes?

[344] **Jane Hutt:** I am very interested in the European Investment Bank, particularly as Minister for Finance, as you can imagine, recognising that the EIB has already played a very

important part in Wales—the £75 million to Finance Wales, delivering the existing JEREMIE fund—as well as having already contributed to the Swansea bay science and innovation campus, which has received ERDF funding as well. Actually, I think that Rhodri Glyn Thomas has done some very valuable work through the Committee of the Regions on access to EIB for infrastructure purposes. I have had discussions with him, and I am now going to visit the EIB in the autumn, and it will be about discussing future investment proposals in Wales, particularly relating to the Wales infrastructure investment plan, because we are looking for all sources of finance to assist us, as well as delivering on the operational programme structural funds.

[345] **Nick Ramsay:** Minister, would you say that Wales has come on somewhat in the accessing of EIB finance? I am just thinking that, at certain times in the past, I am not sure that the best use has been made of it. I am thinking of places such as Spain, which has been accessing EIB finance for some time for road projects and perhaps also rail. With that in mind, do you think that there is even greater potential going forward?

[346] **Jane Hutt:** I think that this is something where, over the past few years, EIB has been regarded as an opportunity, but you have to recognise that there are strings attached by any bank to any loan and any arrangement. The fact is that there have been some pioneers here. I would say that the higher education institutions, particularly Swansea, taking the step in the way that it did, gives the precedent that we perhaps needed, but I do not know whether either Rob or Peter feel that we should or could have taken advantage of it or whether there have been constraints that perhaps have meant that we have not moved forward with EIB.

[347] **Mr Ryland:** The EIB is a very large organisation. On the back of the Swansea event a few weeks ago in the European Parliament, I had a chance to talk to Jonathan Taylor, who is the vice president of the EIB, and I discussed with him what our relationship with the EIB is. In a funny sort of way, it is not a relationship, it is lots of relationships, because it is such a large organisation, with its fingers in so many different pies, that it takes a bit of work to take stock of where all of those connections are. So, the central finance department in the Welsh Government has been doing quite a lot of work on that lately and we are hoping to follow that up in the autumn with a visit, which will help us. Jonathan Taylor was very appreciative of what the issue is there, and is more than happy to act as the centre point or the point of contact will help us to co-ordinate some of that. Yes, the Swansea example is a good one and it makes you wonder what else we could achieve, does it not?

[348] **Nick Ramsay:** There is a lot of potential.

[349] **Jane Hutt:** At a very early stage, we used the EIB for the loan to Finance Wales, which was a very important step, started by the previous Government, using JEREMIE. In a recent visit to Brussels, I made the point that we are very keen on a successor to JEREMIE, but that loan to Finance Wales from the EIB was very important.

[350] **Nick Ramsay:** Joyce, have you finished?

[351] **Joyce Watson:** I have asked all the questions that I want to ask on the European Investment Bank, but I am happy to ask a question on the preparation of the innovation Wales strategy and the state of play of that strategy.

[352] **Jane Hutt:** Thank you very much, Joyce. This is one area where there has been news this week, since my written evidence. We have now got the innovation Wales strategy—‘Innovation Wales’, as it is now called, was published on Monday this week, and I am sure that the members of this committee will be very much welcoming of what is in ‘Innovation Wales’ and reflecting the review that was undertaken and reported on in March. I think that this is where—again, this is reflected in my written evidence—it is important to see this to

enable us to achieve that transformational change that I was talking about, with the links to the smart specialisation platform and the fact that the Department for Economy, Science and Transport officials, Edwina Hart's officials, have been engaged with this with the Commission and with other European regions as well. So, I think that the platform, as I have already said, did recognise that the Welsh Government had undertaken very good practice in terms of engaging and consulting and that we were well advanced in the process of policy development. That is crucial to the impact, and the appropriateness, of our funding arrangements for the next phase.

[353] **Nick Ramsay:** We touched on that earlier in the work of the committee—I know that Julie mentioned it. We have had evidence that the way that the practice is being pursued here, with your role, and the way that the committee is scrutinising, does not seem to be across the board in Europe. I believe that we were surprised about that, because, clearly, you have to do the groundwork in that sense to have the best access to the funding that is available. That is what I would have thought.

[354] **Jane Hutt:** Wales can lead the way. We must also remember that we are looking outwards as well, are we not? There was a useful task and finish group, which was chaired by Professor Kevin Morgan, and the links to 'Science for Wales' are also important. Therefore, I believe that the review version, in March, was helpful, in terms of setting out the stall, if you like, for the actual strategy to be announced on Monday.

[355] **Nick Ramsay:** Eluned Parrott is leading the way on the next question.

[356] **Eluned Parrott:** One exciting opportunity with the new round of structural funds is the opportunity to lever in more money from things such as Horizon 2020. Your paper does not actually mention Horizon 2020. Can you tell me how you see the structural funds being used to help Wales develop in this area?

[357] **Jane Hutt:** Again, I very much welcomed the debate that we had on your report on Horizon 2020. It is not only about having that debate, but also, the response to last week's oral statement, where this was touched on again—particularly by you, Eluned—was very helpful in terms of scrutiny, and in terms of where we are taking this. The focus on Horizon 2020 and its delivery will be a real test. Furthermore, the focus that we already have, with the new unit at WEFO, is a real opportunity, as you say, for how we deliver on the next phase of the European structural and investment funds.

[358] I have also taken the opportunity to visit some of the projects that have benefitted from framework programme 7, including three brilliant projects at Cardiff University, which you are probably well aware of, as well as at Swansea University and at the University of South Wales. I believe that this is where we see inter-governmental work and sectoral engagement, particularly higher education with business. I have been very impressed by what I have seen out there, and by the appetite to engage with Horizon 2020. Therefore, we have the unit, and it is actively promoting the opportunities that are available. It is encouraging a much more strategic approach, it is trying to address barriers or concerns that may appear, it is building capacity, and it is driving complementary activity. Therefore, it will certainly be identified in the partnership agreement very clearly by the Welsh Government.

[359] **Eluned Parrott:** Thank you. One thing that structural funds could be used for, potentially, as you say, is facilitating the kind of networking that will make a Horizon 2020 bid viable. That is networking between universities and other sectors, as well as across universities, and between different institutions in the higher education sector. With that in mind, we have university representation in the Wales European office, but we do not have anyone based there whose specific role it is to engage with businesses. Do you believe that that should change?

[360] **Jane Hutt:** If there are any barriers at all in the way, we would want to address them. There is no indication at present that that is a gap in terms of our partnership and communications, in terms of ensuring that we are encouraging that engagement. The links between business and HE, as I have said, are a priority for the Welsh Government anyway, and, clearly, Edwina Hart's sector teams are very involved. They are identifying businesses that could engage in collaborative research. I believe that the 'Science for Wales' grand challenge areas are critical as far as this is concerned, and Horizon 2020 is also engaging with the knowledge and innovation communities. Targeted events are happening. I believe that we are in a good place, but we can also access good practice outside Wales. We will be bidding and competing for this sum of money, which is £60 million or £70 million. It will be highly competitive. I visited the directorate-general responsible for Horizon 2020 during my recent visit to Brussels. I invited the commissioner to come to launch our Horizon 2020 unit and scheme programme in the autumn, and I hope that we will get a positive response. However, I believe that we are making those links and engaging with business effectively.

12.15 p.m.

[361] **Eluned Parrott:** Are you benchmarking the activities of the Welsh Government against people like the Scottish Executive, for example, which has Scotland Europa, which is used in the example and which has representation across the third sector, business and various other organisations, particularly at the early stage of trying to influence policy areas?

[362] **Jane Hutt:** Yes. Welsh European Funding Office officials from the Horizon 2020 unit have met Scottish colleagues—their Scottish Government and Scottish Europa counterparts. In fact, they met only last month. They are looking at how they are approaching their preparations for Horizon 2020. They have a steering group for research and innovation. So, there is some very useful best practice emerging as a result of those engagements. However, there is also a meeting planned, I understand, with Irish and Northern Irish colleagues, and there will be a further meeting at the end of this month with the national director of Ireland's national support network. So, we are engaging fully with all of our partners and with all opportunities.

[363] I would like to mention, Chair, that I believe that the SCoRE Cymru fund—supporting collaborative research and innovation in Europe—that I announced in May is also helpful, because that will help Welsh organisations to develop collaborative and competitive bids for EU innovation funding. We launched it partly to increase awareness of Horizon 2020, but it is funding. This is where, I believe, we have to get the message out very strongly. I know that you and your committee will be supportive of the Government in that. So, SCoRE Cymru is another example and evidence of what we are trying to do to really make our impact on Horizon 2020.

[364] **Eluned Parrott:** Finally on this subject, we have the innovation Wales strategy and the 'Science for Wales' strategy; what is the Welsh Government doing to help academics and businesses that are not involved in the sciences to engage with Horizon 2020?

[365] **Jane Hutt:** The opportunities through the knowledge and innovation communities will be important to widen the field. The higher education institution policy community in Wales is so well integrated and networked with us and through the programme monitoring committee and the European partnership forum that there will be a great deal of engagement. We will certainly be promoting that when we formally launch Horizon 2020 in the autumn.

[366] **Nick Ramsay:** Thank you, Eluned Parrott. I thank the Minister, Jane Hutt, and your officials, Rob Halford and Peter Ryland, for being with us today for our scrutiny session. It has been very helpful in helping us to form further views on the situation with accessing

European funds at the moment.

12.19 p.m.

Cynnig o dan Reol Sefydlog Rhif 17.42 i Benderfynu Gwahardd y Cyhoedd
Motion under Standing Order No. 17.42 to Resolve to Exclude the Public

[367] **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(ix).

[368] I see that the committee is in agreement.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 12.19 p.m.
The public part of the meeting ended at 12.19 p.m.