



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

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Ychwanegol](#)

[The External Affairs and Additional Legislation
Committee](#)

20/03/2017

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o’r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i’w dystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Dawn Bowden Bywgraffiad Biography	Llafur Labour
Gareth Bennett Bywgraffiad Biography	UKIP Cymru (yn dirprwyo ar ran Michelle Brown) UKIP Wales (substitute for Michelle Brown)
Suzy Davies Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Mark Isherwood Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Steffan Lewis Bywgraffiad Biography	Plaid Cymru The Party of Wales
Jeremy Miles Bywgraffiad Biography	Llafur Labour
Eluned Morgan Bywgraffiad Biography	Llafur Labour
David Rees Bywgraffiad Biography	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)

Eraill yn bresennol
Others in attendance

Mark Drakeford Bywgraffiad Biography	Aelod Cynulliad, Llafur (Ysgrifennydd y Cabinet dros Gyllid a Llywodraeth Leol) Assembly Member, Labour (The Cabinet Secretary for Finance and Local Government)
Rob Halford	Pennaeth Cynllunio a Strategaeth, Swyddfa Cyllid Ewropeaidd Cymru Head of Planning and Strategy, Welsh European Funding Office

Damien O'Brien Prif Weithredwr, Swyddfa Cyllid Ewropeaidd Cymru
Chief Executive, Welsh European Funding Office

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

Jack Miller Y Gwasaneth Ymchwil
Research Service

Rhys Morgan Clerc
Clerk

Nia Moss Y Gwasaneth Ymchwil
Research Service

Sara Rees Dirprwy Glerc
Deputy Clerk

Ben Stokes Y Gwasaneth Ymchwil
Research Service

Dechreuodd y cyfarfod am 14:33.
The meeting began at 14:33.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **David Rees:** Good afternoon. Can I welcome Members to this afternoon's meeting of the External Affairs and Additional Legislation Committee, where we will be continuing our inquiry into regional policy across the UK, following the decision to leave the European Union? Can I remind Members that the meeting is bilingual, and that simultaneous translation is available on the headphones on channel 1? Or, if you require amplification, that's available on channel 0. There are no scheduled fire alarms this afternoon, so, if one does go off, please follow the directions of the ushers. Can I remind Members that, if you have mobile phones or other electronic equipment, can you please put them on 'silent', or switch them off, during the session? And we've received apologies from Michelle Brown, and we've been informed that Gareth Bennett will be substituting for her. We've received no other apologies.

14:34

**Cynnig o dan Reol Sefydlog 17.42(vi) i Benderfynu Gwahardd y
Cyhoedd
Motion under Standing Order 17.42(vi) to Resolve to Exclude the Public**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd ar gyfer eitemau exclude the public for items 3, 6 and
3, 6 a 7 o'r cyfarfod yn unol â Rheol 7 of the meeting in accordance with
Sefydlog 17.42(vi). Standing Order 17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[2] **David Rees:** We move on to the next item on the agenda, which is actually a motion under Standing Order 17.42 to resolve to exclude members of the public for items 3, 6 and 7 of this meeting. Are Members content to do so? I see they are. Therefore, we move into private session until item 4, which is scheduled for 3 o'clock.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 14:34.

The public part of the meeting ended at 14:34.

Ailymgynullodd y pwyllgor yn gyhoeddus am 15:00.

The committee reconvened in public at 15:00.

**Ymchwiliad i Bolisi Rhanbarthol—Beth Nesaf i Gymru?—Sesiwn
Dystiolaeth 9
Inquiry into Regional Policy—What Next for Wales?—Evidence Session 9**

[3] **David Rees:** Can I welcome Members back to this afternoon's session of the External Affairs and Additional Legislation Committee? We'll move on to the next item on the agenda, which is our continuing inquiry into the impact of the decision to leave the EU, particularly in relation to the regional policy agenda. Can I welcome the Cabinet Secretary for Finance and Local

Government, Mark Drakeford? Cabinet Secretary, would you like to introduce your officials?

[4] **The Cabinet Secretary for Finance and Local Government (Mark Drakeford):** Thank you very much, Chair. So, with me this afternoon is Damien O'Brien, who is head of the Welsh European Funding Office and Rob Halford, one of the senior members of staff at the office too.

[5] **David Rees:** Thank you for that. As we're all aware, this issue is evolving rather quickly and rapidly, and things change, and I very much appreciate your time, coming to us.

[6] In relation to the article 50 negotiations, which we have now been notified by No.10 today are likely to be invoked next Wednesday, 29 March, you, in your paper, expanded on the view that the uncertainty of the outcome of negotiations, following that triggering, could create some unprecedented challenges to delivery. Are you still of that view, in the sense that we now know when it's going to be triggered? Are you still of the view that there is still great uncertainty because we don't know what negotiation policies will be? So, in your view, what will that triggering start off in relation to the regional policy agenda?

[7] **Mark Drakeford:** Well, Chair, just to start by saying that I do think that any uncertainty creates challenges in a system. The people who started off on this round of European funding—the 2014 to 2020 round—started off with a rulebook that they knew they could rely on, they knew how the system would work, they knew when the end point would come, and they knew how funding would flow. And particularly when you're working with a wide range of partners—local authorities, universities, third sector and private sector partners and so on—investor confidence and the willingness to come forward with proposals and to be able to plan ahead are very important. So, no matter how well managed the next couple of years will be, the fact of uncertainty is bound to be having an impact on the way in which those partners approach their use of European funding.

[8] With article 50 triggered, there will be a series of things that the UK Government will need to include within their negotiations with the European Union as to how the current round of structural funding is brought to an orderly end. We certainly have views, as a Welsh Government, as to how that would best be done, but those things are not concluded as yet and they will need to form a strand in the discussions that the UK Government will carry

out.

[9] **David Rees:** In that relation, clearly we've been aware that this is the direction we're moving in. We still have two years that we know of to be a member of the EU, and we've been given guarantees by the UK Government that certain levels of funding will be there post Brexit for as long as the programmes are going. Have you had the discussions with the UK Government as to that termination point? Everyone knows when it happens it's going to happen. Have you had discussions as to what will happen beyond that?

[10] **Mark Drakeford:** Yes, Chair, we take all the opportunities that we can to rehearse these issues with the UK Government. So, these matters have been raised and discussed at the Joint Ministerial Committee on European Union Negotiations, and I represent the Welsh Government at that. They've been taken up bilaterally in discussions that we have with the Secretary of State and, indeed, with the Prime Minister.

[11] Our position is set out in some detail in the White Paper that the Welsh Government published jointly with Plaid Cymru, 'Securing Wales' Future'. And we take all the opportunities that we can to promote the position that we set out there, both directly with the UK Government, but also in a range of other ways, which creates influence as well. So, I've given evidence in the last two weeks to the House of Commons Brexit committee and the House of Lords Brexit committee. We've been to Brussels, meeting people at the political and official level there. The position we set out in relation to the future of regional policy, which is evolving—and which I'm very pleased to have a chance to take part in, because the committee's work is going to be influential in this area too. We take every opportunity we have, directly and indirectly, to promote the Welsh perspective on this matter.

[12] **David Rees:** Okay, thank you. Suzy, you wanted to ask questions on current funding.

[13] **Suzy Davies:** Yes, thank you. Still on this sort of end-of-days era, if you like, despite the uncertainty, in your paper you did mention that you're confident that this last batch of funding can be allocated before 2019 in order to make sure that 100 per cent of structural funds are used up. I wonder if you can give us some sort of indication. You mentioned in answers in the Chamber last week that the monitoring committee, chaired by Julie Morgan, was looking at this last chunk of funding. What sort of criteria are

they looking at now, bearing in mind that it's going to be almost inevitable that some flexibility's going to be needed at the end of those projects to merge beyond 2020? Is that definitely part of what's being looked at?

[14] **Mark Drakeford:** Thank you. There are a number of strands in that question. I should have probably said in answer to my previous question that we have been keen as a Government to recognise the assistance that the Chancellor of the Exchequer has given in providing guarantees so far. We think that was a helpful thing to do and we recognise the fact that that has been helpful in giving confidence to people about the funding streams that will flow during the rest of this round. That has helped us in the job that we have wanted to do so far, which is to make sure that we commit European funding to the fullest possible extent to maximise the draw-down we can take from the current round.

[15] Chair, you've heard me say that we committed 68 per cent of all funding by the end of the last calendar year. The European figure is 27 per cent. So, you can see we are right at the very top of the European league in being able to commit funds in this round so far. There is a vulnerability for us in relation to the parity of the pound sterling to the euro. So, we're probably £150 million [correction: £130 million] or so better off in sterling terms than we were when the referendum was called on 23 June. Obviously, if the pound were to sink further, we end up with more pounds to spend here and that becomes a challenge towards the end of the period.

[16] We've recently had to re-base the parity rate that we use for the programmes and the 68 per cent that we'd achieved at the end of the calendar year became 64 per cent, simply as a result of rebasing in that way. Nevertheless, we remain on track, we believe, to commit 80 per cent by the end of this calendar year, and then to reach the 100 per cent that we want to.

[17] How are we doing that in the way that Suzy's question about, you know, from here on is concerned? Well, a number of different ways. We are trying to accelerate the rate at which we approve projects that are already in the pipeline, while remaining clear that one thing we will not do to accelerate progress is to lower the quality threshold. I will not be willing to approve any project that does not demonstrate that it can make the impact that we need it to make. But we are confident that there are projects in the pipeline that will make that difference and we want to push them ahead.

[18] There are some programmes that we have already approved that we

think we could do more with, because they are able to demonstrate success already. So, we may want to try and expand some existing projects. Where we think that there are going to be funds that we can still deploy, we will put out further calls for proposals over the coming months, while we still can, to draw in more interest.

[19] It is possible, and it would have been possible even without Brexit, to be able to look for some programme modifications where we think that we've learnt from the experience so far and there is a well-trodden, recognised way of doing that. It involves the programme monitoring committee. The PMC has got to approve any applications for programme modification that will be put to the EU, and it was flagged up at the last PMC that we are likely to come forward with some proposals for programme modification. And that's to do with exactly what Suzy Davies's question asked about—to make sure that we remain fleet in these periods, to do the things we need to do to continue to get the maximum advantage of the funding.

[20] **Suzy Davies:** That's a really helpful answer, actually. I'm getting a sense that you're not necessarily prioritising projects that would naturally come to an end by—let's say 2020. You're still accommodating ideas that could live well beyond that, even though potentially there's a greater obligation for Welsh Government funding after a certain date. It depends if they're good or not.

[21] **Mark Drakeford:** Absolutely, Chair. It does depend if they're good or not. Of course, we have to operate within the rulebook. There is a European rulebook: we have programmes that have been agreed; we have priorities that have been agreed. We can't simply jettison all of that. We have to work within those parameters. But within those parameters we remain confident that we will use funds that are available to us to the maximum extent, and to the maximum impact as well.

[22] **Suzy Davies:** Okay, thanks.

[23] **David Rees:** Mark, on the impact of structural funds.

[24] **Mark Isherwood:** Yes, thank you very much indeed. As you know, eligibility for EU structural funding and the success of the programmes funded by that have been measured by GVA, meaning the value of goods and services produced per head of population. And we know that through successive structural fund programmes the prosperity gap measured by GVA

has actually widened for Wales, and for west Wales and the Valleys specifically—the key Objective 1, or convergence area. But even in Cardiff and the Vale of Glamorgan, the gap has widened by 10 per cent, and in Wrexham and Flintshire by 15 per cent. In your paper you talk about the funding having arrested the decline in Wales’s economic performance and laid foundations for more sustainable prosperity. Could you therefore tell us why those funds have been important for Wales in that context?

[25] **Mark Drakeford:** Well, Chair, I believe the funds have been very important to Wales. I’ve been following some of the evidence that you have had. I tend myself to agree with some of the things that have been said to you that claims for transformational impact may have been overstated in the past. But we should not run the opposite risk of understating the importance that regional economic policy and funding has had. And I certainly think that, at the level of the individual, there have been transformative impacts in European funding. There are many, many individuals in Wales who have had opportunities as a result of structural funding in skills development and creating their own ability to be able to take forward their own careers that have made a fundamental difference in their lives. But at the level of a programme as a whole, I still think you will see a register of indicators where you will see unemployment rates—the gap—narrowing between west Wales and the Valleys and the rest of Wales, and between Wales and the rest of the United Kingdom; economic activity rates narrowing between west Wales and the Valleys and other parts of Wales, and then again between Wales as a whole and the UK. The problem with GVA, Chair, as we know, is that it is a relative measure. So it is not just a matter of measuring how well you are doing; it is measuring you against other places as well—some of the ways in which impacted on the reunification of Germany earlier in the process, and the accession countries and so on. You can still end up in a relative position that you hoped to have got out of, while, in an absolute sense, having done well. If other people have done better than you, then you still end up relatively in the position you started with. So we think that there are some specific measures that we can show the important impact that these things have had, despite the GVA figures that Mr Isherwood had quoted to begin with.

15:15

[26] **Mark Isherwood:** Thank you. It’s not just the measure, but the eligibility is based on relative measures too. And it’s not just the wealthy parts of the EU; it’s the less wealthy parts as well coming into that average.

Bearing that in mind, and as you consider what will inform future Welsh Government regional policy, how clear is the Welsh Government about which structural funds projects—not just in Wales but elsewhere across the UK, Europe or even wider international models—have been effective interventions that you could be considering; and given what you just said about GVA, to what extent might other measures be incorporated?

[27] **Mark Drakeford:** Well, Chair, I think if you look back over the history of structural funds in Wales, if I were to pick out two strands that I think we would look back on and identify now as particularly significant, one would be the investment we made in skills. So, human capital; the way in which we have been able to use European funding—and it is quite hard to see where that funding would have come from otherwise—to work with people who are furthest away from the labour market, and to provide interventions with them that allow them to create a pathway from where they are today, which sometimes is quite a long way from being able to seek paid work, to a position where they are able to enter the labour market. I think we've done important things in skills as well with people who are in the labour market but are in low-paid employment and therefore remain in poverty although they are in work, to try to give them a skills boost so that they can find a pathway beyond the level of pay that they have today to better pay tomorrow. So, I think skills investment, when I look back over it, I think is one of those places where we take important lessons.

[28] And then I suppose connectivity would be the other thing that I would point to. Those larger, more significant investments in the Heads of the Valleys, for example—£800 million—worth of money gone into connectivity across the Heads of the Valleys. But connectivity as well in terms of digital infrastructure so that Wales has the sorts of patterns of connectivity that will allow for economic success in the future. The metro, I suppose, is the single most obvious example of that in the current round.

[29] So, investment in infrastructure that is of a connectivity sort that will live well beyond the period of the structural funds themselves, and skills investment, I think, will be the two things that—. If I was being asked to sort of look back and think of what had been the most important types of investments, those two stand out, I think, for me.

[30] **Mark Isherwood:** But the question was primarily—although I did mention Wales—about the UK, the EU and even beyond, where regional policy has been successful. We know there are parts of the UK that had previously

qualified but no longer do because they've closed that relative prosperity gap. We know there are other parts of Europe who qualified, or qualified when Wales first qualified, but no longer do because they closed the relative prosperity gap. So, in order to focus the Welsh Government's future regional policy on what works, how clear will the Welsh Government be about what's happened in those regions of Poland and in those parts of England or elsewhere—about what interventions have actually worked?

[31] **Mark Drakeford:** Well, I think those are really important questions. It will be helpful to see what the committee thinks those key lessons are as well. I think the two things I've just mentioned are features beyond Wales of other people's experience as well. I think if you look elsewhere, there is a series of lessons that you would learn from other places. I think the places that have done best—and I'll ask others to contribute here as well—are places that have not fragmented the money that has come to them, but have chosen particular forms of intervention that they think are the most important for their particular place, and then have focused fairly relentlessly on those things. I think that's a lesson maybe that we have learnt during our period of structural funding: that a stronger sense of the key interventions, and then a willingness to focus your money fairly ruthlessly on those things, has been one of the things that has come out of the experience from elsewhere that we've been able to draw on.

[32] **Mark Isherwood:** Finally, you state in your paper that the successive structural fund programmes have

[33] 'provided greater clarity around the scale of direct impact that we might realistically associate with regional policy interventions'.

[34] I won't repeat the figures—we know what's gone in, we know what's come out in relative terms so far. But, also, the committee has already considered and will be considering further different regional models from across the globe. So, again, could you clarify the comment you made, but will you as a Government actually be looking globally at what has been an effective intervention, which may use other measures, both for eligibility and success, alongside absolute economic production figures? Will you be looking at these, will you be using these to advise you, or are you simply looking to this committee to produce in our reports what we think are the models you should be looking at?

[35] **Mark Drakeford:** Well, Chair, I think we provided in the evidence paper

that I put before the committee examples of regional policy elsewhere that we have drawn on. But, of course, Wales is very, very significantly involved in a whole series of regional networks and arrangements across the European Union already, where we want to learn the lessons from other places and from other people, and make our own contribution as well. To just expand a little on the points I made in answering the last question, I think, amongst the things that we learn from those European experiences are the importance of place-based policies, where you look at the way you can integrate all the different strands of Government intervention at different levels of Government intervention to get the maximum you can out of them in the way that that particular place needs intervention. I think there are some lessons about national strategies locally delivered—that you can't simply leave it to the local level altogether; you need a national strategic approach, but then recognise the importance of local delivery agents in making those things happen. I think you need some issue-based as well as spatial-based interventions. That's something else I think you'll learn from successful regional policies elsewhere. Some things are definitely place based; some things go beyond individual places and are issues that run through the way that you do things.

[36] So, I am keen to learn from the things that the committee will have looked at and the conclusions you draw from it. In some ways, Chair, I was coming here this afternoon and thinking that the most ordinary way in which I come in front of committees are when the Welsh Government has a policy and a concluded position, and then I'm asked questions about it. In regional policy, we're not at that position yet. We are in dialogues with our European advisory group, with the programme monitoring committee, with our partners. We're still thinking through some important things in relation to the future of regional policy, so it's a different sort of committee appearance in a way for me, because I'm as interested in hearing from you as I hope you will want to know the things that I can see, and look forward to the report in that way.

[37] But I'll just finish by saying, Chair, that I was struck when I was in Brussels just a couple of weeks ago for the St David's Day celebrations there—I met the head of DG Regio, as it's called, the part of the Brussels bureaucracy that is responsible for structural funds, and the head of it said to me, 'I do hope, whatever the final arrangements for this are, when we come to look back and learn the lessons on this round of structural funds, that Wales will still be able to participate in that. Because, although you will no longer be part of the European Union, we think of Wales as somewhere

that has got a lot to offer other parts of Europe in learning from the experience, and also there will be things that other European regions will be concluding from this round of structural funds that we think you would want to hear as well.' So, that ability to go on being part of Europe, even when we're not part of the European Union, will be an ongoing significant part of the way we think of regional policy development.

[38] **David Rees:** Thank you.

[39] **Mark Isherwood:** If I may, Chair, just one very short one on the follow up.

[40] **David Rees:** I've got Eluned who wants to talk about future policies and Jeremy on funding, so, if you want to come back in after that—

[41] **Mark Isherwood:** Okay.

[42] **David Rees:** Okay. Eluned.

[43] **Eluned Morgan:** In the White Paper, you suggest that what you'd like to see is an uplift in the block grant to make up for the money that we'll be losing, effectively. Is that the best way to go in terms of regional policy, or should we be looking for a more UK approach to regional policy, so that it's a genuinely British approach, rather than just, 'Give us the money and we'll sort ourselves out'?

[44] **Mark Drakeford:** Well, we think that this is a pragmatic way of solving what is a potentially complex set of discussions from the UK level at a time when the UK Government is going to have its hands more than full enough in dealing with the complexities of Brexit. So, the funds that we get through the European Union and are obtained in other parts of the United Kingdom as well, come as a result of a common rule book and a needs-based assessment. So, given that this is a rule book that covers the whole of the United Kingdom and it's needs based and it produces the results that it does in terms of the different sums of money that flow to different parts of the United Kingdom, our solution is simply to put those things into baselines, recognise the position that has been agreed between everybody so far, and avoid what we believe would be a potentially difficult, and, from a Welsh perspective, risky set of discussions at a UK level in which areas that have not benefitted from European funding in the way that Wales has will want to try to argue for a whole series of new criteria in the way that funds are

dispersed.

[45] Say, for example, you were somewhere where employment levels are significantly below what they are in Wales. You would surely want to argue that employment rates ought to be a significant factor in the way that UK-wide funds will be dispersed in the future. Well, that would certainly not be to our advantage, so our proposal is based on recognising a well-tested and evidence-informed set of arrangements that we all currently belong to, avoiding a set of potentially difficult and disputatious discussions at a time when the UK has got its hands more than full enough dealing with other issues that it can't resolve in this relatively pragmatic way, and just putting the money where it is now and where it would have been, had we continued to be members of the European Union.

[46] **David Rees:** Jeremy, did you want to ask a question on funding?

[47] **Jeremy Miles:** It seems churlish to ask this question on the day that the city deal is being signed, by the way, so I'll issue that caveat. But one of the witnesses who gave evidence in the last few sessions indicated that one of the advantages of EU funding was the transparent, rules-based, objective set of tests, and was contrasting that with what seemed to be the UK Government's preference around city deals and so on. I wondered what observations you might have about the relative merits of both of those in how we might configure policy, going forward.

[48] **Mark Drakeford:** Chair, let me say again that what our White Paper says—and we've not departed from this in any of the conversation—is that we need a system that is needs-based and rule-bound. So, it is clear that it is recognising the relative needs that Wales has, and where the money that flows from it has a rule book that you can appeal to and where the funder is not also the judge and jury when it comes to those sorts of questions. For all that anybody who has been involved in European funding will tell you the stories of how it is bureaucratic and, to put it pejoratively, sclerotic in the way that it goes about it, in the end, there is a book of rules that you can appeal to and the rules decide whether or not you're entitled. So, those are two very important principles, from a Welsh perspective, for future arrangements.

[49] I don't think that it's an either/or choice between that and some of the city deal arrangements, which are more bespoke. You know, the Swansea city deal is very different to the Cardiff city deal in the way that it has been put

together, but you could say that it's different because it does respond to the different needs of different parts of Wales. So, I don't think we would come at it as a Government by saying you either do it one way or the other. Wales can benefit from the city deals, as we've seen today, but regional policy as a whole—the key thing for us is that it powerfully recognises need, because that's very important from a Welsh perspective, and that it's done with a transparent rule book, so that everybody can see how those rules are being applied.

15:30

[50] **Jeremy Miles:** In terms of the sums of money involved and the request and demand that the same level of funding be available in future as is currently available, given what you just said, would commitments that the UK Government make to city deals or future city deals or increments to existing deals—would they be conceptually separate in your mind from the overall envelope that we are pressing to be met?

[51] **Mark Drakeford:** Quite definitely, Chair. They're conceptually separate now. The £115 million that the UK Government is providing to the Swansea city deal comes over and above everything that we get from the European Union, and I don't see the one coming out of the other.

[52] **Jeremy Miles:** Thank you.

[53] **David Rees:** Eluned.

[54] **Eluned Morgan:** In your paper, you suggest that you'd like to have a rethink in terms of regional policy and the future, which is, I think, quite comforting. One of the things that has been clear in terms of evidence is that, hitherto, the structures that have been set have been largely determined by the Commission. So, there are opportunities for us to do things differently. I was just wondering—in terms of some of the evidence that we've had, some of them have suggested that, actually, the way to go to really make an impact in regional policies is to focus on education. So, how radical are you prepared to be? Could you just say, 'You know what, we're not going to have this pepper-potting structure, we're not going to have WEFO at all, we're just going to just focus it on education'? Would that be a radical, new regional policy or would that—how far would you be prepared to go in terms of following what the evidence is saying?

[55] **Mark Drakeford:** Well, Chair, we are prepared to explore all ideas that come forward. An idea that calls itself radical does not necessarily mean that it is the right one, and I don't think I would be attracted to the idea that we will put all the money that we have had from regional policy today into a single strand. I've said already this afternoon that I think skills—and that, in that sense, is the education strand—has been one of the most important. So, I'd certainly expect that that would be a powerful strand in future regional economic policy, but I don't think I will want to say that it would be to the exclusion of some other very important things that regional policy would be there to secure.

[56] So, this is an opportunity to think again, this is an opportunity to make sure that we are confident about the things that we know have worked best so far and do more of those. It is an opportunity to be able to free ourselves from some of the constraints that having to work to the Commission's European-wide rule book has provided. My guess would be—and this is certainly the advice that has come through the programme monitoring committee so far, and I think would be consistent with some of the things that you've heard—that there are a series of principles that we could identify in what we've done so far that we would not want to lose in the future, while remaining open to the possibility that we are able to do things differently as well.

[57] **Eluned Morgan:** Does your current thinking include a role for WEFO?

[58] **Mark Drakeford:** Well, to make the most obvious point, there will be no 'E' in future—[*Laughter.*] So, WEFO, as it is now, will not be there. Do I see that there is a role for a central voice in the way that structural funds, regional funds, are used? I think there is a wealth of expertise that WEFO has built up. WEFO's reputation in Europe is very strong indeed. I was absolutely struck by the people I met from the Commission when I was with David Rees in our office on 2 March at just how strongly they regard WEFO as an effective way of deploying European funding. So, I think there is a role for a successor to WEFO in the future. It will not be the same. It won't be identical; it won't be just WEFO lite. There'll be things that we want to learn, but I think we would not want to discard all that experience and that reputational strength by just taking it off the board completely.

[59] **David Rees:** Steffan.

[60] **Steffan Lewis:** Yes, just a point of clarification—in terms of the future

regional policy, will the comprehensive regional policy of the Welsh Government be published at the same time as the economic plan expected this year?

[61] **Mark Drakeford:** Well, we clearly think of them as going together. Ken Skates has said a lot on that in an event that he's been at today—about the connections between an overall economic strategy and regional policy as well. I don't think I'm in a position to be as definitive as giving you the publication date for them, being sure they'd happen on the same day, but I can definitely say that, from a Government point of view, the synergies between the two and the way that they react with one another will be very important.

[62] **David Rees:** Can I just clarify? Who will launching the regional policy on behalf of the Welsh Government, then? It fits maybe slightly between the two. Will it be Ken Skates or will it be yourself?

[63] **Mark Drakeford:** Well, I think there are some overlaps in these things. Ken Skates is the Minister with the economic policy drivers, whereas I, at the moment, oversee European funding. Those responsibilities will need to be calibrated further when we're in a post-European funding position. Some of the things that Ken has said today about regional economic policy and his thinking about it will be very important in that.

[64] **David Rees:** Sorry, Steffan.

[65] **Steffan Lewis:** Thank you, Chair. So, in that sense, we can take from the fact that the Cabinet Secretary for the economy will be leading on regional policy an indication that it's going to be seen less, in the future perhaps, as a regeneration issue and more of an economic development issue. Because one of the things that we've taken in evidence, and also with the research that we've had carried out, is that one of the things with regional policy is that quite often it tries to plug gaps in social protection, and it also touches on regeneration at a micro or hyperlocal level at the same time as trying to address longer term trends in economic activity. So, do you see that as a direction of travel that the Welsh Government will be moving towards—more economic in its nature, rather than as a social construct and product?

[66] **Mark Drakeford:** I think both aspects will continue to be part of regional policy. I think the advice from the programme monitoring committee

and through the European advisory group is that economic impact in the end has to be the fundamental purpose of regional policy, but does that mean that it doesn't seek to respond to other goals as well? Everything we do as a Government is captured by the Well-being of Future Generations (Wales) Act 2015, which asks us to take an integrated approach to impacts, and some of the social characteristics of place will be as significant as economic aspects of place if we're going to take that integrated approach. So, I don't think there will be a simple answer in which we can say we will be pursuing the one to the exclusion of all those others. There has to be a primary lens that you look at these things through, and I think securing the economic future of those parts of Wales that need additional investment probably is the primary lens. At the moment, remember, this is still—. These are still ideas that we are forming. So, Ken and I both sit on the Cabinet sub-committee that deals with these matters, so we aim, as best we can, to work together on them rather than just trying to say, 'Well, that's his, that's his' and we don't try and take it forward in a way that's integrated.

[67] **Steffan Lewis:** It's interesting to hear you say that you think that, ultimately, the economic impact is the fundamental outcome, and then, in your paper to us, reject GVA as an appropriate yardstick to measure regional policy and instead see the well-being of future generations Act as being more appropriate. Do you think that that might be a bit of a contradiction?

[68] **Mark Drakeford:** I don't think it is a contradiction, Chair. I earlier set out some of the limitations of trying to use GVA as a sensible measure of impact. I could have said in an earlier answer, and maybe should have said in an earlier answer, that another thing that we have learnt from other parts of the European Union has been a way of trying to be more precise about the way in which the investments we make through regional funds can be tracked to particular outcomes. And so, there is a European-wide attempt to try to capture things that are called 'result indicators'. So, result indicators are more carefully calibrated indicators, where you can do more than just have an association between the investment you're making and the outcome that you are securing. There are people who are a lot more expert in the result indicator work than I am here who can tell you more about that, if you want to.

[69] So, I don't demur from what I said to you earlier, Chair, that economic opportunity, securing economic futures, making sure that there are economic prospects for people who live in these communities is what runs through the way we use regional policy, but it is more than that. If all your indicators do

is just capture that, then, certainly, we would not be doing what the Well-being of Future Generations (Wales) Act 2015 requires us to do.

[70] **Steffan Lewis:** One final question, just on this: I understand the point you're making about relative GVA because you have little influence over one big element of that, but in terms of GVA itself, I mean it's a pretty well-established standard tool that can measure, obviously, an economy's growth and output. Do you have, as a Government, a target for just Welsh GVA, not relative, or what the economic output of Wales should be? Is that a factor at all?

[71] **Mark Drakeford:** Chair, these are beyond my responsibilities, some of these questions, so I'm not going to pluck an answer out of the air for you this afternoon. I think you would need to pursue those sorts of questions with people whose job it is to do the thinking and to provide the answers on it. My responsibilities are the European aspects of it; that's where the relative impact of funding on GVA comes into it, and that's why I've tried to shape my answers in the way I have this afternoon.

[72] **David Rees:** Thank you for that, and we'll perhaps seek to have somebody who can give us the answers in a future meeting. Mark, do you want to come in on anything?

[73] **Mark Isherwood:** Thank you. There are questions I'd like to ask. In terms of the impact of structural fund programmes, you emphasised the relationship between the national strategy and local delivery, but also talked about the important place-based programmes, which is, actually, to an extent, a contradiction. So, to what extent in your mind currently do you see the importance of empowering local networks to inform national strategies, and to unlock human capital by identifying and unlocking the assets and strengths that people in our communities actually have?

[74] **Mark Drakeford:** Chair, I of course would be very strongly attracted to a strengths-based approach to doing these things. I do think one of the successes that we didn't mention earlier of the way that we've deployed European funding in Wales has been the extent to which third sector organisations have played a very real part in them. And I think third sector organisations are amongst the most vulnerable should European funding not be replaced by similar funding in the future. Third sector organisations are often those best placed to make sure that, when we carry out the interventions we do, we are not just doing things to people and to places,

but that we are looking to see what the assets of those people and those place are, and then trying to align our interventions in a way that builds from those strengths, rather than always seeing these places as deficits where we have to come along and fill holes that need to be filled. We need to always be working with local people to see what they regard as the priorities for their areas, the contribution that they themselves are able to bring to that table, and then to seek to match what we do as public authorities against the contribution that they are able, and best able to make. So, I very much agree with the sentiments that you heard in the question. I think the way we deployed European funding through third sector organisations has been a strength in helping to do that, and it's one of the things I think we ought to be anxious about, in trying to make sure that we are able to preserve a regional economic policy of the sort we would wish to see in Wales in the future.

15:45

[75] **Mark Isherwood:** And using that, bottom up, to inform national strategy, rather than determining the strategy and then telling them to deliver that on the ground, utilising methodologies that they may choose to adopt.

[76] **Mark Drakeford:** I do think, myself, Mark, that sometimes national strategies can enable local voices to be heard. I don't take the view of national strategies as always being something that is just imposed from the top down to people. So, I agree about national strategies being properly informed by the views and voices of people at that community level, but I also think that, sometimes, a national strategy can be liberating for people at those levels, too. It can give them something that they can point to, and that they can utilise to make sure that that they can break through into conversations because they have got the strength of a national strategy behind them, giving them the permissions and the authority to have those conversations. So, I don't myself see these things always as in competition with one another, but I agree that the one must be informed by the other.

[77] **Mark Isherwood:** So, the arrow is going both ways.

[78] **Mark Drakeford:** Yes.

[79] **David Rees:** Okay. I've got Suzy to come in.

[80] **Suzy Davies:** Quite timely, actually, because this does build on Mark's question: a number of witnesses were asked how Brexit is going to affect regional policy, and some of them stated that they thought the fact that the Commission would no longer be directing the purpose of structural funds was, in and of itself, liberating, and was an opportunity for other priorities to be set as well. And I just want to ask you what you meant when you said that our regional policy should be needs-based, which I certainly don't argue with, and rule-bound. When you're talking about rule-bound, because you were talking about transparency at the time, are you anticipating then that those rules would apply operationally in terms of making sure that people account for themselves properly and how they spend their money, or is it more prescriptive? Have you got something more prescriptive in mind, and will those be the rules that you're thinking of, i.e. will you be setting, or would Wales, or potentially, the UK, consider specific aims themselves to be rule-bound? Does that make any sense?

[81] **Mark Drakeford:** I think it does, Chair, and we go back to what I—. I think, just to be clear, the question I was answering was about the contrast between what is sometimes regarded as a rather cloudy city deal set of arrangements, which are individually designed each time, where you're not quite sure, necessarily, how the different components have come together, with the way that you would want to see regional policy in the future. And the point I was making was that, whatever its frustrations, the way that European funds are dispersed come against a rulebook, where you know whether you will qualify or not. So, it was at that level that I was talking. Maybe rule-bound was a bit over—. Rule-based—there is a rulebook, so that, if you think you qualify, you can make your case and you can see how you would qualify, and if there's an argument with another player, there is a rulebook you can go to, to get those arguments resolved.

[82] **Suzy Davies:** Okay, because I would be looking for reassurance that it's not just replicating what's perceived as the worst side of the Commission's direction. Okay, thanks.

[83] **Mark Drakeford:** No, no—that wasn't—.

[84] **David Rees:** Can I move on to Dawn and on to best practice?

[85] **Dawn Bowden:** Thank you, Chair. I think you kind of touched on this in a few of your answers, and you've certainly been talking about looking at some of the best practice within the EU in terms of how we've been doing

things thus far. But your paper is also talking about international best practice. You've done four case studies so far. The Organisation for Economic Co-operation and Development have done 23, I think, haven't they, so I don't expect you've got around to looking at all of those yet? But from those that you have looked at so far, is there any one that jumps out at you that says, 'Actually, this would work really well in Wales'? And I suppose the opposite side of the same coin is: are there any that you would say, 'We really wouldn't want to touch that with a bargepole'?

[86] **Mark Drakeford:** Well, from memory, Chair, I think the OECD said in their report that if there was one lesson that they drew, it was the impossibility of picking up a model from anywhere and dropping it into somewhere else. So, I don't think that is the conclusion—we haven't drawn the opposite conclusion, and I can't say to you, 'Oh, you know, the way they do it in Estonia is the way we do it here, and we'll pick it up and drop it.' And I don't think there is anywhere that you could say that there's nothing we can learn from either.

[87] As I said earlier, I think, amongst the things we might think we would avoid would be those approaches that have led to fragmentation of funding—they've tried to spread it too far and too thinly. And let's be frank, in our own first round of European funding, we had 3,000 different projects, and in the second round, we had 300. And I think that tells you something about what we had from our first attempt at it. So, I think there are things we learn from places, but we look and we think, 'Well, that would not work for us.' But, equally, some of the principles that I talked about earlier, about having some important national objectives and strategies, but blending that with regional and local ways of delivering them—I think we learn that from elsewhere. We learn about the importance of a place, but we learn also that, even when you're focused on places, you need to make sure that you're not doing it in a way that isolates those places from other opportunities that may lie nearby to them.

[88] This was a very important discussion at the last meeting of the programme monitoring committee that I attended, Chair. So, there were powerful advocates of place, and people were saying, you know, 'Being able to integrate the way we do things, and getting the best impact from all our different strands, focusing on particular needs, is really important.' But if that becomes inward looking entirely, so that you don't see that, actually, some investment in connectivity, for those people who live in that place to take advantage of opportunities that may lie nearby, that wouldn't be the

right way to do it either. So, I think the lessons from elsewhere, then, is that place-based activity is really important, but issue-based programmes are important too, because they allow you to join up those different places that you're investing in, to their advantage.

[89] **Dawn Bowden:** Sure, okay. That's fine. Thank you, Chair.

[90] **David Rees:** Mark, do you have a question?

[91] **Mark Isherwood:** Yes, if that's all right. In response to questions over funding for regional policy in the future, I think you said unemployment might be a bad measure for Wales. In fact, I think the latest figures show there are 516,000 people in Wales, aged 16 to 64, who are unemployed, in the fullest measure, which is actually well above the UK level. To what extent do you think measures like that, and levels of underemployment, which the Carnegie Trust says Wales has the highest level of in the UK, and levels of people on non-permanent contracts, for example, which, again, Wales, according to the Carnegie Trust, is the highest level in the UK, might be useful measures for the future, for UK funding for regional policy?

[92] **Mark Drakeford:** Well, Chair, what I would do, I would distinguish two things. I think the things that you have mentioned would be very important for a Welsh-based regional policy. Because the things that you've highlighted are things that we would know about, and we would be close to, and we would understand, and we would want to take into account in shaping the best way of using the funds available for us to meet the needs that we know are here.

[93] What I was trying to say in Eluned's question was that, if we end up with a UK policy, there will be a bun fight about the criteria that you should use to identify need, and then for funding to flow from that identification. And we would be one voice—we would be saying the sort of things that Mark Isherwood has just said. But there would be other places that have not benefitted from European funding in the way that we have, which would want to be—and absolutely understandably—making their case, and they would be wanting to try and gain priority for a different set of criteria that work for them, and would not necessarily work for us.

[94] Now, I was just pointing to what I think are real risks and dangers, from a Welsh perspective, in that sort of conversation. We have, as I said, a very well-established, very evidence-based, set of needs analyses that lead

to the current set of deployment of funds from the European Union to different parts of the United Kingdom. In a pragmatic way, our White Paper says that those should simply be put into baselines for the future. Then, all the points that Mr Isherwood has just made about our granular understanding of the way that Welsh patterns of advantage and disadvantage, and opportunity and lack of opportunity, work out, we would then be in the right place to deploy that understanding to shape the way in which future programmes would be used to make the most that we could of the funding that we would have secured.

[95] **David Rees:** Steffan.

[96] **Steffan Lewis:** Thank you, Chair. I just want to pick up on the point regarding place-based approaches. Paragraph 21 of the paper that you submitted to us says that the removal of current geographic inflexibility, such as the artificial separation of west and east Wales, gives an opportunity to redesign a more coherent approach. Can you assure us that there's no decision been made in terms of replacing the current regions of east Wales and west Wales and the Valleys with the map that we've seen for city regions and capital regions, where you have an artificial separation of Valleys from another, for example, and you have it lumbered in with cities where perhaps regional policy wouldn't make sense in those terms? There's no final decision in terms of what constitutes the future regions of Wales as far as regional policy's concerned.

[97] **Mark Drakeford:** No. No decisions of that sort have been finalised. Chair, I think one of the principles that the programme monitoring committee has been keen to advocate, and one of the advantages that they see, is that all parts of Wales ought to be able to benefit from regional policy and regional funding because all parts of Wales have pockets of need of different sorts, including rural Wales as well.

[98] Another possibility for the future is that we are better able to blend strands of funding that come to us for structural funds in one pocket and rural funds in another. But no decisions have been made of a hard-and-fast sort as to how that will best be done. But the ability to be more flexible and the ability to be able to make greater synergies between funding streams, and the ability to be able to align money that, at the moment, comes from the European Union with other funding streams that the Welsh Government deploys, all those are things that the programme monitoring committee and the advisory group have pointed to as things that we ought to look to try to

draw more to the surface in a future policy.

[99] **Steffan Lewis:** Thank you.

[100] **David Rees:** Can I ask whether the current devolution governance and constitutional structures have an impact or a constraining impact upon the decisions for going forward with regional policy? In other words, is there anything there that you see that will not allow Wales to do what it thinks is best for Wales?

[101] **Mark Drakeford:** Chair, what we have said, and we say it in the White Paper and we say it very loudly every time, is that competencies that exist at the devolved level today remain at the devolved level when we leave the European Union. We don't use the term 'repatriation' because we think it is misleading. Those competencies are here now. We choose to exercise them at the European level. When the European level isn't there, we will still be here and the competencies will be here as well. So, the danger we are pointing to is that, what sometimes appears to be a rather different view of the world at the Westminster end—that post Brexit, these competencies are free-floating and they could grab them first, is not our view of the world. So, it's not a present danger, but it is a risk in the way that these things might be thought of in the future, although we are very clear indeed as to where we see these things lying.

[102] **David Rees:** Okay. Does any other Member have any questions?

[103] **Mark Isherwood:** A very short one on that. That matches the legal advice we've received, but does it match the legal advice that the Welsh Government has received?

[104] **Mark Drakeford:** We believe that that is the legal position, Chair. We believe that were the UK Government to try to recapture some of these competencies, they would have to legislate to take them away from us. It isn't just a matter of them saying post Brexit, 'They'll be at the UK level and then we will hand them on to you'. They're here now, and, if they want them, they will not simply just be able to assert them, but the legislative framework that we operate under would have to be reversed.

16:00

[105] **Mark Isherwood:** Is it that you think that, or that you've been legally

advised that that's the position?

[106] **Mark Drakeford:** No, they are not simply my thoughts; that is based on the advice that we have received.

[107] **Mark Isherwood:** Thank you.

[108] **David Rees:** Eluned, do you just have a quick one?

[109] **Eluned Morgan:** Yes. Of course, we can have all the legal advice we want; if they don't give us the money, that's not going to be much help anyway. So, that's the way it all potentially could fall down.

[110] I just wanted to ask you about delivery. You've suggested that Welsh Government may provide an overall framework but would not be responsible for direct delivery. I just wondered what would happen if there is no effective local delivery mechanism. So, a place where you identify actually there's a huge need for something to happen, but, actually, the mechanics, be it a weak local authority or whatever else it may be, at what point should the Welsh Government step in?

[111] **Mark Drakeford:** Chair, I don't think—sorry if I've misled you inadvertently by suggesting something—I have suggested that there is no role in future for national delivery of certain key programmes. Now, I think the bulk of programmes will be delivered locally, but I think there are some things that you might decide where, actually, this is a national need. So, apprenticeships, for example. You know, the need for apprenticeships seems more than a local significance to me. Business support—would you want to have very different levels and types of business support in different parts of Wales, or would you—? You know, at the moment, we run it on a national basis, and we think that that suits business, because they get used to a single system and they know who they are working with and so on.

[112] So, if, inadvertently, I seemed to suggest that I didn't think there was any role for national delivery, I'm glad to correct that. And that does mean that there ought to be an ability for us, with our partners, to be able to identify where there may be gaps at a local level. Does that mean to say that the Welsh Government is then best suited to step in? Not necessarily. You know, there may be other players and other potential partners closer to the ground who you would be able to deploy to fill those gaps via national intelligence that allows you to be alert to those gaps, and then to be able to

help in a sort of catalytic way. Bringing people together and coming to the right answer, rather than just thinking that we are always the right answer ourselves, will be the way I think we would want to do it.

[113] **David Rees:** Thank you. Can I thank you, Cabinet Secretary, for your time this afternoon and for your evidence? As you know, you will receive a copy of the transcript for any factual inaccuracies. If there are any, please let us know as soon as possible. Thank you very much, and can I thank you for the written evidence as well?

[114] **Mark Drakeford:** Thank you.

[115] **David Rees:** Thank you very much.

16:03

Papurau i'w Nodi Papers to Note

[116] **David Rees:** Can I remind Members that the next item on the agenda is papers to note? We're going to note the Institute of Welsh Affairs report, which was published last Wednesday, 'The Single Market of the Mind', which was submitted to the committee for its consideration. Are you happy to note that? In that case, we now go back into private session, which we agreed under a previous item.

*Daeth rhan gyhoeddus y cyfarfod i ben am 16:03.
The public part of the meeting ended at 16:03.*