

**EUROPEAN STRUCTURAL AND INVESTMENT FUNDS 2014-2020
WALES PROGRAMME MONITORING COMMITTEE**

Draft minutes of extraordinary meeting held on 8 July 2016

Welcome & apologies

1. The meeting was chaired by Cabinet Secretary for Finance & Local Government, Mark Drakeford AM, who welcomed members to the extraordinary meeting of the Wales Programme Monitoring Committee (PMC).
2. Attendees and apologies are listed at **Annex A**.
3. Members were advised that following the outcome of the EU referendum, held on 23 June 2016, this extraordinary meeting of the PMC had been arranged to advise Members (and through them the wider stakeholder community) of the Welsh Government's post-referendum position on EU Funding and to provide Members with the opportunity to discuss their views. As a result of the Referendum outcome, the Chair confirmed that the Welsh Government would be embarking on a period of intense negotiations with the UK Government and European Commission (EC), with it being important that the expertise and views of beneficiaries of European funding are recognised and taken into account in those negotiations.

Statement from Cabinet Secretary for Finance & Local Government, Mark Drakeford AM

4. The Chair reminded Members that the Welsh Government had been unequivocal in being in favour of Wales remaining in the EU. While this position has not changed, work now has to be done to mitigate the impacts of the referendum outcome. He then briefed the PMC on the current post-referendum position, highlighting the following:
 - The decision for the UK to leave the EU has the potential to hit Wales hard as Wales currently benefits from circa £600m every year from EU funds. It had been promised by the Leave campaign that EU funds would continue to come to Wales in the event of a 'Brexit'. The First Minister has written to the Prime Minister asking for a guarantee of this and for every penny of EU funds to be replaced so that Wales does not lose out. A formal reply is yet to be received to that letter. The same question has been raised in Parliament, with the Prime Minister observing that this will be a matter for his successor and that whether it is possible will be dependent upon on the future health of the UK economy.

- The Prime Minister has, however, made a commitment that the Devolved Administrations will be fully engaged in future exit negotiations, so the interests of all parts of the UK are protected and advanced. The Welsh Government expects this commitment to be honoured and believes any terms of exit should be ratified by all four UK legislatures.
 - Although there is no agreement in the UK over when to trigger Article 50, as yet, it is clear that negotiating withdrawal arrangements will be a complex process. It will be critical for the UK Government to clarify the nature and timing of those negotiations as soon as possible in order to return stability to the markets, to business and to investors.
 - The Welsh Government is determined to stay internationally engaged, outward looking and pro-business.
 - In relation to EU funds, the First Minister has called upon the UK Government to ensure the continuation of funding for the period up to 2020 to be honoured – via the EU or replacement Treasury funding – Members having received a copy of the First Minister’s statement that was published on the Welsh Government website. Our current understanding is that the UK will continue to pay into the EU budget until it formally ends its relationship with the EU. We are therefore working on the basis that Wales will continue to draw down EU funds until that point – certainly until 2018, but potentially beyond this point dependant on negotiations.
5. The Chair also acknowledged that Wales has a good reputation with the EC and noted the progress to date in investing the 2014-2020 funds:
- 46% (£830m) of the total Structural Funds allocation has been committed to date. This includes £4m for the CEMET Operation which was being announced that day (8 July).
 - Through the RDP, £277m of investment has been made available. The majority has benefitted farmers and foresters, including £140m of grants.
 - Welsh organisations have also benefitted from £33m from the directly managed Horizon 2020 fund.
6. The Chair confirmed that the Welsh Government is committed to continuing to approve EU funded operations, draw down funds and maximise access to the funding available, whilst being prudent about long-term commitment levels until greater clarity on future funding scenarios emerge.

Structural Funds

7. Damien O'Brien informed the PMC of the current position of the Structural Fund Programmes in Wales. The Programmes are ahead of schedule in terms of commitment levels, with a healthy pipeline of further investments in detailed development:
 - a total of £831m of EU funding is committed (46% of the total allocation) to 104 different operations
 - a further 74 operations seeking £377m are in detailed development, which together represent £1.2bn of EU funding (68% of the total allocation)
 - these figures do not include some major planned capital investments that are not yet mature enough to be in detailed development, such as the Metro and A55 improvements (potentially representing over £130m EU funding).
 - the initial focus on approving backbone operations means that key schemes such as business support via Business Wales, financial support via Finance Wales, and support for individuals through a range of ESF programmes like Apprenticeships and ReACT are already in place.
8. Damien O'Brien confirmed that WEFO remains committed to delivering the Structural Fund programmes, in line with objectives agreed with the Commission, in order to fully maximise funding for Wales. However, Wales' ability to complete the implementation of these programmes is now entirely dependent on the timescale eventually agreed for the UK leaving the EU.
9. The current SF programmes are scheduled to conclude in 2020, with payments continuing under the N+3 rule until 2023. Should the UK's exit negotiations prove to be extremely lengthy, there is the possibility that agreed ERDF and ESF Programmes might actually continue to 2023 without a break in EC funding. It is, however, equally possible that EU funding may draw to a close earlier, acknowledging 2018 as possibly being the earliest date at which the UK may exit the EU.
10. However, in line with the First Minister's call that the UK Government should ensure the continuation of funding up to 2020, WEFO is adopting that date (2020) as its planning horizon. In this context and until clarity emerges around the continuity / availability of funding (including whether the UK Government is prepared to make good any shortfall resulting from an early exit), WEFO is – using a risk-based approach – continuing to approve projects, assessing carefully whether proposed operations are capable of delivering within the 2020 planning horizon.

11. Should negotiations result in an exit timetable that renders it impossible to deliver against agreed Programme outcomes and timescales it may prove necessary to approach the Commission to seek to renegotiate the programmes.
12. Members were advised of the importance of noting that existing rules governing the use of EU Structural Funds will remain in force until the UK does eventually exit. Members were further advised that it is reasonable to assume that Wales' EU programmes could be subject to even greater audit scrutiny in the run up to exit.
13. Damien O'Brien emphasised the importance of implementation continuing at pace and of Welsh partners focusing on delivering approved operations and achieving expected outputs in line with agreed delivery and expenditure profiles.
14. Damien O'Brien confirmed that WEFO will continue to communicate with the PMC and wider partners as further developments occur.

Rural Development Programme

15. Terri Thomas echoed comments made by Damien O'Brien and provided an update on the current position of the RDP:
 - Approved projects/ agreements total approx. £277m (21% of the programme)
 - Further Expression of Interest (EOI) windows ongoing
 - Together (i.e. approvals and EOI rounds) commitments are currently worth around £436m total RDP (46% of programme), of which £300m is EU funding.
16. The RDP programmes do have a number of notable differences to the Structural Funds in that they consist of a number of smaller projects and therefore focus will be on how these projects can spend by 2018. Further work is being undertaken to see what can be done in terms of commitments beyond this timescale. The RDP could accelerate draw-down from the EC by amending the co-financing rate which is an issue which would need to be discussed and agreed with the EC in the coming months via a programme modification.
17. Terri Thomas also informed members that the First Minister and Environment and Rural Affairs Secretary, Lesley Griffiths, met key figures from Wales' environment and agriculture sectors on 4 July, to discuss the implications of the referendum.

PMC discussion

18. Members thanked the Chair for his statement and welcomed the Welsh Government's position that Wales should not lose out from EU withdrawal.

Members also made the following comments:

- Beneficiaries across Wales hoped for the continuation of the programmes to 2020 and any short-fall in funding to be replaced by the UK Government.
- Maintaining 2020 as the WEFO planning horizon and managing individual investments on a risk-based basis was seen as a sensible, prudent approach given the uncertainties.
- Individual relationships with the EC and colleagues in Brussels remain positive, but it was unfortunate that EC Officials were not present for this meeting.
- It was acknowledged that the vote to leave the EU has resulted in an uncertain future for Wales, with no clear strategy or plan evident to guide the UK's future relationship with the EU. PMC members therefore understood how difficult it is to determine the impacts on Wales and to plan for the future.
- A number of operations are already facing delays due to complex delivery arrangements. The need for early clarity and the acceleration of exit negotiations is important in this context.
- Early clarity around how the exit decision will impact on major transformational projects, like the South East Wales Metro, would be helpful.
- There is considerable uncertainty in the business community, therefore assurance needs to be given that WEFO is still 'open for business'.
- It is important stakeholders are properly engaged in developing the 'Brexit' response – with the role of the Trade Unions and Local Government referenced specifically.
- Given the uncertainty over future funds, there should be an even greater focus on investment in sustainable jobs.
- Wales has a wealth of interesting project ideas which should continue to be pursued, even if not funded by the EU.
- Concerns over funding of 'LEADER' projects being not progressed as envisaged.
- An innovative approach to reviewing projects and identifying alternative funding sources may be required if Wales is to realise the benefits of those opportunities.
- In reviewing programmes, the potential to achieve greater benefit from harnessing financial instruments should be explored.

- Connectivity and broadband availability should remain a priority for the broader rural economy.
- In reviewing portfolios, important that approved operations continue to benefit all parts of Wales: both rural and urban.
- Important that the impact and positive benefits of EU funds in Wales continue to be communicated.
- Welsh organisations and their employees who receive EU funding are concerned over job security. It would be helpful if a note of the meeting could be circulated to reinforce the messages provided at today's PMC.

ACTION: PMC Secretariat to circulate the minutes of the meeting to PMC members.

19. In response to questions from Members on the issues raised at the meeting the Chair and Managing Authorities advised:

- It was disappointing that EC advisors could not be in attendance at the meeting, as they provide helpful contributions to discussions. However, Wales is keen to work with the EC and is hopeful our previous fruitful and productive discussions will continue.
- The Chair agreed to make the First Minister aware of stakeholder interest in an 'omnibus forum' through which to engage in the exit process.
- The need for the earliest possible clarity on the way forward was acknowledged. The First Minister has pressed for this in calling for a clear timetable to be established to guide the exit process.
- The vote to leave the EU will have implications on all public finances and budgets in Wales, not solely EU funds. Going forward there will be a need to ensure a fairer long-term funding system for Wales. The Welsh Government therefore has to be prudent when making commitments past 2018, with future funding agreements needing to reflect obvious uncertainties.
- WEFO will continue to do all it can to maximise the benefits of EU funding until such time as it is no longer available to Wales. WEFO will also explore the potential to harness alternative funding sources and instruments. Financial instruments are an important consideration in this context, with Wales already benefiting from extant schemes.
- The Metro is a transformational scheme for Wales and despite the referendum outcome, development of the project and funding discussions are continuing, including with JASPERS and the EIB. If there is an EU funding shortfall for this scheme, guarantees of replacement funds will have to be sought from the UK Government.
- LEADER and other rural projects such as Glastir are important for Wales, however, until legal clarity and assurance over availability of funds can be

sought, there will be uncertainty and the Welsh Government can not make any commitments past 2018.

- The referendum result impacts on the role of the PMC and its forward work plan. The PMC will be kept informed of progress and will have the opportunity to shape implementation strategies going forward. The appointment of a new PMC Chair is being considered by the First Minister given the appointment of Mick Antoniw to a new role following the recent National Assembly for Wales election.

20. The Chair thanked members for their attendance and contributions to the meeting and noted that officials would be available after the meeting for further discussions.

21. The next PMC meeting will be held, 9 September 2016.

PMC Secretariat
July 2016

Wales PMC European Structural and Investment Funds 2014 -2020
Meeting held 8 July 2016
Welsh Government Office, Merthyr Tydfil

Chair – Cabinet Secretary for Finance & Local Government, Mark Drakeford AM

Members nominated on a representative basis, from partners and statutory bodies:

Tom Whyatt	Business and Enterprise (Industry Wales)
Dr Greg Walker	Further Education (Colleges Wales)
Rudi Plaut	Business and Enterprise (Commerce Cymru)
Martin Mansfield	<i>Alternate for Julie Cook</i> Trade Unions (Wales TUC)
Rhian Jardine	Environmental sustainability (Natural Resources Wales)
Lowri Owain	LEADER
Cath Jenkins	Welsh Government (Education & Skills)
Matthew Quinn	Welsh Government (Natural Resources)
Alun Davies	<i>Alternate for Charlotte Priddy</i> Farming Union (FUW)
Rachel Lewis Davies	Farming Union (NFU)
Arfon Williams	Environmental NGOs (Wales Environment Link/ RSPB)
Tim Peppin	<i>Alternate for Lowri Gwilym</i> Local Government (WLGA)
Phil Fiander	Third Sector (WCVA)
Karen Anthony	Rural Economy (Country Land and Business Association)
David Blaney	Higher Education (HEFCW)
Peter Crews	Trade Unions (Wales TUC)
Derek Walker	Third Sector (Wales Co-operative)

Members selected via the Public appointments process:

Dr Grahame Guilford
Sian Price
Beth Winkley
Hayley Dunne (<i>alternate for Joy Kent</i>)
David (Dai) Davies
Professor Richard B. Davies

Programme Managing Authorities:
Welsh European Funding Office / Department for Natural Resources

Damien O'Brien	Chief Executive, WEFO (ERDF, ESF)
Terri Thomas	Head of Rural Development Division, Economy, Skills and Natural Resources (RDP)
Peter Ryland	Deputy Director, Programme Performance & Finance (ERDF, ESF)
Rob Halford	Head of Planning & Strategy (ERDF, ESF)
Sue Price	Head of ERDF Programmes

Jane McMillan	Head of ESF Programmes
Angela Griffin	Secretariat
Lois Wilson	Secretariat

Apologies

Joy Kent	Public Appointee
David (Dai) Davies	Public Appointee
Jocelyn Llewellyn	UK Government (Jobcentre Plus)
Paul Byard	Business and Enterprise (Commerce Cymru)
Rhian Jardine	Natural Resources Wales
Charlotte Priddy	FUW
Andrew Slade	Director, Agriculture, Food & Marine (RDP)
Cllr Ronnie Hughes	WLGA
Lowri Gwilym	WLGA
Duncan Hamer	Welsh Government (Economy)
Kristina Kusmanova	European Commission, UK Desk Officer responsible for the 2014-2020 Programmes, DG Regio
Joanna Grochowska	European Commission, Desk Officer for West Wales and the Valleys, DG Employ.
Marek Beran	European Commission, DG Agriculture and Rural Development
David Hughes	European Commission, DG COMM, Office in Wales