

National Assembly for Wales Finance Committee's call for evidence on the effectiveness of European Structural Funding in Wales

Response from Wales Council for Voluntary Action (WCVA) December 2011

Background

The third sector is a key stakeholder in the design, monitoring and delivery of the Structural Funds programmes 2007-2013 in Wales:

- WCVA and other third sector organisations are represented on the All Wales Structural Funds Programme Monitoring Committee and associated working groups, as well as on the EU Programmes Post-2013 Partnership Forum and expert work streams;
- Over £96.4 million of EU funds have been committed to 35 projects led by the third sector under the Structural Funds programmes 2007-2013. Through volunteer time and other forms of match funding, this will generate a total investment of £176.1m. This will help 76,600 individuals, including 18,800 to gain qualifications, 7,100 into work and create almost 700 jobs;
- The third sector is also involved in the delivery of activities of EU projects led by public and private sectors, having won over £107m worth of contracts under the 2007-2013 programmes' procurement arrangements.

The sector is involved in delivering a wide range of European Social Fund (ESF) and European Regional Development Fund (ERDF) projects, including providing specialist, innovative approaches to helping the most disadvantaged to overcome barriers to employment, engaging with and raising the aspirations of young people who are not in employment, education and training (NEET), supporting the advancement of women in employment, taking forward the digital inclusion agenda, building walking and cycling route networks, restoring community buildings, and developing the social economy in Wales.

As such WCVA, as the umbrella body for the third sector in Wales, welcomes the opportunity to respond to the Finance Committee's call for evidence on the effectiveness of European Structural Funding in Wales. This document has been compiled in consultation with the third sector European Forum (3-SEF), which is a network of over 660 third sector EU project sponsors and contract delivery organisations.

Responses to questions posed by the Finance Committee

1. To what extent do you consider the Convergence and Regional Competitiveness and Employment Programmes in Wales for the 2007-13 period, to have achieved or to be achieving their intended objectives?
 - 1.1 The core objective of the Structural Funds programmes is to raise the economic wealth, measured in terms of gross domestic product (GDP) of the regions. Based on the data currently available for GDP statistics for West Wales & the Valleys (WW&V) for 2007 and 2008, it is too early to say whether this objective has been achieved.
 - 1.2 The Welsh European Funding Office (WEFO) monitors closely project performance in terms of spend and outputs achieved, as these are the key performance measures used by the European Commission. Data from the All Wales Structural Funds Programme Monitoring Committee (PMC) in December 2011 suggests that the Convergence and Competitiveness ESF and ERDF programmes are generally on track to deliver their objectives in terms of the number of project approvals, commitment levels, spend and indicators. However WCVA believes that currently too much emphasis is placed on monitoring project expenditure and *recommends that for future programmes a much greater focus should be given to the results and impacts that projects are achieving, in order to assess whether interventions are making a real difference to the Welsh economy.*
 - 1.3 WCVA wishes to make observations about challenges to the achievement of objectives in relation to two specific aspects of programme delivery:
 - 1.4 Long lead-in time to project implementation
The 2007-2013 programmes suffered a long lead in time of 18 months - two years, which has posed considerable challenges to the achievement of the programme objectives within the specified time period. WCVA believes that this long lead in time was due to:
 - **Procurement** - caused significant delays at the start of the programmes, as project sponsors designed and undertook lengthy and time consuming procurement processes. WCVA's own experience has shown that large scale procurement is appropriate for road and transport schemes, whereas grants are more appropriate for small scale, local ESF interventions that are designed to provide tailored solutions for participants with complex needs. Subsequent amendments were made to the programmes to permit a much simpler *competitive grants process*, which had it been in place from the start, could have considerably reduced the time lag in getting money to projects delivering on the ground. See Engagement Gateway case study below.
 - **Complex delivery models** - a significant amount of time and money were spent on setting up complex delivery models and joint sponsorship arrangements, as well as the necessary up-skilling of project workers to manage and deliver projects in an increasingly tight audit and control environment.
 - **Project ideas and partnership working** - a great deal of time and effort was invested by stakeholders in developing project ideas and 'partnerships' that did not ultimately fit with strategic direction of the programmes. For future programmes WEFO is asked to provide much clearer guidance on the types of projects that will be considered and how collaboration between sponsors will be facilitated.
 - **Welsh Government strategic projects** - the slow start in bringing forward Welsh Government projects that were aligned to strategic priorities caused delays for

external project sponsors in developing their projects that were required to fit around Government schemes.

1.5 The consequences of the delays caused by these factors have been:

- project delivery effectively kicked in from around the mid-point of the programme, meaning it is difficult to tell at this juncture whether the programmes are achieving their intended objectives;
- there was a gap in provision for vulnerable people who had benefitted from ESF interventions under Objective One projects; and
- the timing and availability of match funding slipped, meaning projects have not been able to use the full value of match funding available for the total programming period.

1.6 In order to avoid these delays to implementing the next round of programmes, *WCVA recommends that the National Assembly for Wales instructs WEFO to undertake an urgent review of projects funded through the 2007-2013 programmes, to identify projects and delivery models that could be adapted to deliver some of the strategic priorities for the future programmes* that are emerging from the European Commission through the EU2020 goals and the Structural Funds 2014-2020 draft legislative proposals. In order to facilitate a seamless transition into the new programmes, it is imperative that WEFO seeks to retain and work with project sponsors that have built sophisticated project infrastructures, processes and expertise during the current programmes to ensure that this intellectual capital is not lost in the short term, only to be re-built again at the beginning of the next programmes. This will necessitate granting a degree of 'gap funding' for strategic projects, and consideration should be given by WEFO to the transparent criteria that should be applied to projects to determine whether or not they should be extended.

Case study: WCVA's Engagement Gateway Scheme

An amendment to the current ESF programme in October 2010 permitted projects to competitively award grants, rather than contracts for activity. WCVA took this opportunity for our Engagement Gateway scheme, changing in March 2011 from a procurement to a competitive grants approach.

We retained the same systems and processes, terms and conditions, and simply changed the language we used and were permitted to take a more supportive approach to addressing queries, which meant the assessment and negotiation processes could commence at an earlier stage. From our own experience this saw a huge increase in the responsiveness of third sector organisations to bidding opportunities:

- 44 tender rounds were run under the procurement approach, which resulted in 354 contract awards (an average of 8 contracts awarded per round);
- Whereas only 6 rounds run under the competitive grants approach, have resulted in 138 awards (an average of 23 grants awarded per round).

Typically contracts took *five times longer* to reach the point of 'sign off' for the contract award, owing to charities taking a more cautious approach to signing contracts rather than grant offer letters. This initially caused significant delays in getting money out to the sector and spending on activities on the ground. If we had used the competitive grants process from the outset, funds would have been released more quickly, enabling match funding opportunities to be maximised, activity on the ground could have started sooner and the processes would have been more efficient.

1.7 Transnational Co-operation

The opportunity to undertake transnational activity within the context of ESF and ERDF projects has been significantly under-utilised in the current programming period and feedback from third sector project sponsors indicates that more could be done by WEFO to simplify and facilitate access to transnational opportunities. For future programmes, *it is recommended that the status of transnational co-operation is enhanced by creating either specific ERDF and ESF Priorities for transnational co-operation or alternatively, a strand within each Programme Priority.* Technical Assistance should also be available to external stakeholders to assist project sponsors with developing and implementing their transnational activities.

2. Do you consider the various projects funded by European Structural Funds in Wales to be delivering value for money?

2.1 A high level of investment of both Structural Funds and match funding have been made into creating sophisticated project delivery mechanisms that meet WEFO's objective to take a more strategic approach to the delivery of the 2007-2013 programmes. These 'strategic' projects have also been tasked with ensuring that where possible, they engage with partners and contractors to deliver projects in the most appropriate ways, whilst also providing audit and compliance assurance for themselves as well as delivery partners. Effectively WEFO have passed down significant bureaucracy and audit assurance to project sponsors to deal with.

2.2 These projects have been expensive to set up and therefore, *in order to ensure value for money is obtained over the longer term, it is vital that where projects are meeting their individual performance criteria, consideration is given to sustaining these delivery models for the future programming period.*

3 a.) Do you have any concerns about the use of the Targeted Match Fund (TMF)?

3.1 The TMF has provided vital match funding for projects that simply do not have access to the high levels of match funding necessary for large scale projects. For example, WCVA's Engagement Gateway project has utilised TMF to pre-match fund at source contracts of up to £25,000 for suppliers to deliver localised small scale interventions to people most distant from the labour market. Without TMF, local organisations would be unlikely to be able to source match funding for this vital outreach and engagement, or in fact, access Structural Funds at all.

3.2 However WCVA as a project sponsor, has experienced unnecessary delays in receiving TMF payments from the Welsh Government to ensure sufficient cash flow for the Engagement Gateway and Intermediate Labour Market (ILM) schemes (worth £53m in total), which have to date together funded 584 contracts and grants (Gateway - 518 and ILM - 66). This has posed an unacceptable risk to WCVA's own financial position.

3.3 The revenue stream of the TMF has been substantially over-subscribed, and the capital element under-subscribed. Therefore if the Welsh Government intends to make available TMF for the 2014-2020 Programmes, *it is recommended that a needs assessment is undertaken at an early stage to analyse where the pressures on match funding are likely to be and to align TMF to meet these requirements.*

3 b.) Do you have any concerns around the use of Welsh Government Departmental expenditure, as match funding?

3.4 A number of third sector project sponsors have utilised their core funding from the Welsh Government to leverage European funding. Going forwards into the new programmes, it is essential that third sector organisations that receive core funding from the Welsh Government negotiate and agree in 2013 their future funding arrangements and how they might be maximised by using European Structural Funds.

3.5 From a wider perspective of third sector contract delivery organisations, Welsh Government departmental budgets have not been used widely as match funding as it has not been clear which sources might be available for match funding, resulting in a reliance on TMF and other grant making bodies and trusts.

3.6 Models that have worked well have been where funds have been pre-match funded at source using Welsh Government departmental/public body budgets, and made available to third sector organisations through procurement and competitive grants processes. For example, WCVA's Engagement Gateway and Intermediate Labour Market (ILM) projects; the Wales Co-operative Centre's Social Enterprise Support Project; the Arts Council Reach the Heights project; and the Big Lottery Fund Life Skills project. These projects have provided simpler access to the funds for smaller organisations and have reduced audit requirements for delivery organisations.

3.7 It is recommended for the next round of programmes that the Operational Programmes set out the key projects that each Welsh Government Department wishes to take forward, with commitments to match funding up front, making clear where there will/will not be opportunities for external stakeholders to tender for delivery.

3 c.) What impact do you believe public sector cuts have had on the availability of public sector match funding?

3.8 Longer term (3-5 year) funding agreements between the public and third sectors have meant that the impact of public sector spending cuts has not yet been felt substantially by Structural Funds projects. However this is expected to escalate as an issue in 2012/13 when third sector project sponsors inevitably seek to secure public funds to match fund possible project extensions to sustain appropriate delivery models into the next round of programmes.

3.9 Volunteer time as an eligible source of in-kind match funding therefore remains vital in this round of programmes, and will no doubt increase in importance as public sector budgets are squeezed during the 2014-2020 round. Contract delivery organisations have themselves committed £12.2m to match fund Engagement Gateway and ILM contracts/grants, including a significant contribution in the form of in-kind volunteer time. Wales is unique in the UK nations, and across Europe, in making such effective use of volunteer time.

4 How effectively do you believe the Welsh European Funding Office (WEFO) have monitored and evaluated the impact of projects?

4.1 WCVA acknowledges the good work undertaken by WEFO's Research, Monitoring & Evaluation team to provide useful reference materials and advice to project sponsors to develop effective monitoring systems and evaluation processes, and endorses the extension of this approach into the next round of programmes.

4.2 Improvements have been made to evaluation at both programme and project levels, however there is still scope for developments to effectively demonstrate the full extent of the impact of the funds in Wales.

4.3 For example, an improvement would be for WEFO to centrally manage a database of all participants, in order to reduce the risk of double counting. Double counting was acknowledged as a real issue in the 2000-2006 programmes, but efforts to ensure that these mistakes are not repeated have led to a lack of clarity amongst project sponsors and contract delivery organisations about what scope exists for working collaboratively to provide the most appropriate package of support for clients, notably in terms of which projects may claim outputs for e.g. participants into sustainable employment; jobs created; investment induced. *A participants database, managed centrally by WEFO, with uniform reporting requirements/formats for all project sponsors would substantially reduce the risk of double-counting and would address concerns at delivery level regarding partnership working and claiming of outputs by eliminating the possibility for double-counting in reports to the Commission.*

5 Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current round of Structural Funds?

5.1 The current Structural Funds rules and regulations penalise projects for generating an income by effectively reducing the grant intervention rate. This means that projects are inherently unsustainable. However the encouragement for partnership working in delivery will hopefully mean that increased opportunities will exist at operational level for future joint working, aiming for better outcomes for participants and increased efficiency.

5.2 Some use has been made in this programme of financial instruments, including loan funding, such as JEREMIE, JESSICA and WCVA's own Communities Investment Fund (CIF), which is designed specifically to meet the needs of the third sector by offering a mix of grant and loans with flexible repayment plans. Such schemes encourage organisations to think more sustainably and enable funds to be recycled back into the economy over the longer term. Whilst loan funding is not the right solution for every project or organisations, the approach helps to reduce grant dependency.

5.3 To genuinely promote and encourage financial sustainability *the National Assembly for Wales is asked to encourage the Welsh Government to scope opportunities to improve flexibility in EU funding rules to incentivise, rather than hinder, sustainable financial models such as loan and legacy funding.*

5.4 WCVA therefore supports the European Commission's intention to increase the use of loans, used in effective combination with grants, a means of reducing grant dependency and to create a legacy for the programmes. WCVA believes that the use of such innovative financial instruments that meet the particular needs of the sector should be expanded in the post-2013 programmes.

5.5 *WCVA asks the Committee to recommend that the Welsh Government ensures not only access to financial instruments but a full suite of investment, grant, start up, business and intellectual support is made available to enterprising third sector organisations and social enterprises.* The effect would be twofold: to increase jobs and prosperity but also enable third sector organisations to become more self-sufficient and less reliant on grant funding and donations.

6 What is your own experience of accessing European Structural Funding?

6.1 Please see supplementary evidence from Valleys Kids in [Appendix 1](#).

6.2 WCVA has significant experience of involvement in the Structural Funds Programmes in Wales:

- Membership of the All Wales Programme Monitoring Committee and RDP PMC (2000-2006 and 2007-2013);
- Active involvement in expert working groups for the Structural Funds programmes (2000-2006, 2007-2012);
- Providing third sector representation on the EU Programmes Post-2013 Partnership Forum and expert work streams;
- Management of the Voluntary Sector Support Unit (2000-2006) and current third sector European team (3-SET), which is part-funded through Technical Assistance as part of the Specialist European Team (SET) network;
- Sponsorship of six strategic projects in the 2000-2006 programmes, as well as managing a portfolio of five ESF and ERDF projects to the value of £66m in the 2007-2012 programmes; and
- Playing a key role in delivering strategic projects which aim to make Structural Funds more accessible to third sector organisations.

6.3 WCVA's experience of accessing European Structural Funds has been under-pinned by a constructive working relationship with WEFO, utilising WCVA's role as umbrella body for the third sector to open up access to European Funding for smaller third sector organisations. This has been achieved in the current round of programmes through WCVA's sponsorship of the following projects, with a combined total project cost of £60.7m (£35.4m EU grant):

- Engagement Gateway (Convergence ESF Priority 2; Competitiveness ESF Priority 1)
- Intermediate Labour Market (Convergence ESF Priority 2; Competitiveness ESF Priority 1)
- Communities Investment Fund (Convergence ERDF Priority 2)
- Enterprising Communities (Convergence ERDF Priority 5, Theme 2)
- The third sector European team (3-SET - Technical Assistance)

6.4 However, WCVA's key challenges/frustrations in the 2007-2013 Programmes have been in terms of:

- **Procurement** - caused a delay of 18 months-two years at the start of the programme, and was latterly replaced by a simpler, more user friendly competitive grants approach which is a more appropriate mechanism to fund small scale, local interventions.
- **Due diligence and compliance** - with the intention to fund fewer, more strategic projects under this round of programmes, WEFO have effectively passed down the due diligence, audit and compliance requirements to project sponsors. This has meant that a significant amount of project budgets have been allocated to staff costs to undertake these duties and this will be increasingly difficult to resource when public sector budgets are squeezed tighter over the coming years. This further

supports the case for higher intervention rates to ensure sufficient funding is available to ensure effective project management.

7 Is the private sector sufficiently engaged in accessing Structural Funding?

7.1 Whilst WCVA's mission is to support the third sector, both public sector and private sector organisations have received funding through the Engagement Gateway and Intermediate Labour Market projects. In total 46 contracts have been awarded through both projects to private sector organisations.

8. In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and ESF Convergence programmes. In its July 2010 report, the Enterprise & Learning Committee noted that the South West Regional Development Agency had negotiated higher intervention rates with the European Commission. Is Wales making the most effective use of increased programme intervention rates?

8.1 The increased intervention rates were only applied to new projects that had not yet been approved, and were not applied retrospectively to approved projects. *Much greater and more effective use of the higher intervention rates could be made by allowing any project that receives an extension or additional funding, to be able to apply these higher intervention rates, regardless of the rate that was originally approved for the project.*

8.2 WCVA fully anticipates that higher intervention rates will be critical to the success of the 2014-2020 programmes, in an environment where the availability of match funding from the public sector, as well as grant making bodies and trusts, will be extremely limited. *WCVA asks the Committee to encourage WEFO to negotiate hard with the European Commission to secure the highest intervention rates possible for the new programmes, in order to ensure that worthy projects are not prevented from proceeding due to a lack of match funding.*

9. Summary of recommendations

- 1) WCVA believes that currently too much emphasis is placed on monitoring project expenditure and recommends that for future programmes a much greater focus should be given to the results and impacts that projects are achieving, in order to assess whether interventions are making a real difference to the Welsh economy.
- 2) For any future Structural Funds programmes in Wales, WCVA asks the National Assembly for Wales to ensure that WEFO provides timely and much clearer guidance on the types of projects that will be considered for funding and how collaboration between sponsors will be facilitated.
- 3) WCVA asks the National Assembly for Wales to encourage Welsh Government departments to put forward strategic projects at an early stage in the future programmes, to enable external stakeholders to plan their interventions around these projects and ensure the programmes get off to a flying start.
- 4) WCVA recommends that the National Assembly for Wales instructs WEFO to undertake an urgent review of projects funded through the 2007-2013 programmes, to identify projects and delivery models that could be adapted to deliver some of the strategic priorities for the future programmes. This should be done on the basis of

transparent prioritisation criteria that should be applied to all projects that have formally requested an extension.

- 5) It is recommended that for future programmes the status of transnational co-operation is enhanced by creating either specific ERDF and ESF priorities for transnational co-operation or alternatively, a strand within each programme priority.
- 6) Given the high level of investment in setting up projects with complex structures and delivery mechanisms, in order to ensure value for money is obtained by projects over the longer term, it is recommended that where projects are meeting their individual performance criteria consideration should be given to sustaining these delivery models for the future programming period.
- 7) It is recommended for the next round of programmes that the Operational Programmes set out the key projects that each Welsh Government Department wishes to take forward, with commitments to match funding up front, making clear where there will/will not be opportunities for external stakeholders to tender for delivery.
- 8) Whilst good work has been undertaken by WEFO's Research, Monitoring & Evaluation team to provide useful reference materials and advice to project sponsors to develop effective monitoring systems and evaluation processes, there is still scope for developments to effectively demonstrate the full extent of the impact of the funds in Wales. For example, the introduction of a participants database, managed centrally by WEFO, would help to eliminate double counting.
- 9) To genuinely promote and encourage financial sustainability the National Assembly for Wales is asked to encourage the Welsh Government to scope opportunities to improve flexibility in EU funding rules to incentivise, rather than hinder, sustainable financial models such as loan and legacy funding.
- 10) WCVA asks the Committee to recommend that the Welsh Government ensures not only access to financial instruments but a full suite of investment, grant, start up, business and intellectual support is made available to enterprising third sector organisations and social enterprises.
- 11) WCVA recommends that much greater and more effective use of the higher intervention rates secured in 2009 could be made by allowing any project that receives an extension or additional funding under the current programme, to be able to apply these higher intervention rates, regardless of the rate that was originally approved for the project.
- 12) WCVA asks the Committee to encourage WEFO to negotiate hard with the European Commission to secure the highest intervention rates possible for the new programmes, in order to ensure that worthy projects are not prevented from proceeding due to a lack of match funding.

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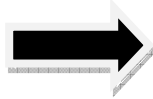
Appendix 1: Supplementary evidence from Valleys Kids

A Victory of Process over Practice

Valleys Kids has worked in the most disadvantaged communities in the Valleys for 34 years. Over that time we have been instrumental in transforming communities from areas of despair and despondency into vibrant communities where people want to live. European funding provided a vital ingredient for that transformation between 2003 and 2006 in the form of Objective One. Accessing Convergence funding directly proved impossible due to an impenetrable process that we are only able to access through a top down procurement process.

Objective One Bottom up responding to local needs	Convergence Funding Top down process promoting the priorities of the Welsh Government.
Process: Valleys Kids able to apply directly to WEFO Application process took 3 to 6 months Reached the communities most in need and gave them a stake in the services Local Partnership working Three thirds principle established for local partnerships Joined up planning to tackle deprivation Focus on results for disadvantaged people and communities Communities had a stake in the process and projects Smaller community organisation able to apply directly for funding	Process: Valleys Kids excluded from application process Application processes for some voluntary sector proposals have taken 3.5 years. Year long consultation process on new delivery arrangements. Local Partnership arrangements with voluntary sector discontinued BIG is beautiful - only very large schemes funded Focus on procurement prohibits cooperative working and joint planning with voluntary sector Top down Communities excluded from process Large organisations and Local Authorities dominate Used to extend existing statutory services
Input: Valleys Kids accessed £3 million of European funds directly and matched that with 3 million pounds from other sources including UK trusts, companies and individuals as in-kind volunteer time and attracting a further £4 million in investment into community	Input: Tender for contracts only available through WCVA and Arts Council. No opportunity to tender for the majority of contracts. Contracts won for £390,000 attracting £190,000 of match funding.
Outputs: New Community Hub in Treherbert New Community Hub in Rhydyfelin Improved Community Hub in Penygraig	Outputs: Only able to access specific programmes focusing on hard to reach individuals in disadvantaged areas.
Impact: Over 4,000 active participants Reduced number of children being taken into care. Large investment in housing stock Large improvement in immunisation rates Active participation by hard to reach	Impact: Significant changes for individuals involved with improvements in confidence and progression to further training or into work

individuals in community activity Transformed Communities Transformed lives	
Sustainability: All Projects developed with Objective One funding are still on going.	Sustainability: Projects are self-contained and will end once European funding finished.



Objective One: Penyreglyn Project transformed from a semi-derelict no go area into a community with a waiting list for the houses and a range of services for children and families. We were unable to develop such projects in the Convergence Programme.

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ERDF

 Llywodraeth Cymru
 Welsh Government
 Ewrop & Chymru: Buddsoddi yn eich dyfodol
 Cronfa Datblygu Rhanbarthol Ewrop
 Europe & Wales: Investing in your future
 European Regional Development Fund


ESF

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