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FINANCE COMMITTEE INQUIRY INTO THE EUROPEAN STRUCTURAL FUNDS PROGRAMMES 2007–2013 IN WALES

Evidence from the Deputy Minister for Agriculture, Fisheries, Food and European Programmes

INTRODUCTION

1. This paper provides evidence to inform the Finance Committee's inquiry into the effectiveness of the European Structural Funds in Wales 2007–2013.
2. The Welsh European Funding Office (WEFO) is responsible for managing the delivery of European Structural Fund programmes worth just under £2 billion of EU funds over the seven-year funding period 2007–2013, driving a total investment of some £3.25bn (including match funding). This includes the Convergence West Wales and the Valleys programmes and the smaller Competitiveness programmes in East Wales. Wales also participates in a number of territorial co-operation programmes¹, including a cross-border Ireland/Wales programme managed by the Irish Authorities.

2007–2013 PROGRAMME PERFORMANCE

Programme commitment

3. The programmes are at an advanced stage of implementation. Over four years into the programming period, WEFO has committed £1.6 billion (86% of the total EU funds available) to 260 projects, representing a total investment of over £3.2 billion in Wales (as of 15 February 2012).
4. Commitment figures across the four Operational Programmes are shown in the following table:

¹ Wales also participates in the Territorial Co-operation programmes, where organisations in Wales are engaging in 78 territorial co-operation projects worth circa £102m ERDF (Welsh partners benefiting from £31m ERDF).

Programme	EU funds allocation (£m)²	Total project cost (£m)³ committed	EU funds (£m)⁴ committed	Share of EU funds allocation (%)⁵
ERDF Convergence	1,055.7	1,741.4	865.4	82.0
ERDF Competitiveness	61.8	151.4	51.6	83.0
ESF Convergence	705.3	1,172.9	646.1	92.0
ESF Competitiveness	53.7	141.1	49.8	93.0
Total	1,876.5	3,206.7	1,612.9	86.0

5. The overall level of EU funds committed (86%), to date, across the four programmes compares very well with the equivalent point in the implementation of the 2000–2006 programmes (73% in January 2005). Although ERDF commitment levels, to date, are lower than those for ESF, the pipeline of projects seeking ERDF funding will take all programmes to full commitment. These include two major projects which will be subject to European Commission approval (i.e. ICT Next Generation Broadband and a further phase of dualling of the A465). Furthermore, WEFO is on target to commit 90% of EU funds by the end of March 2012.

Programme expenditure

6. Total expenditure for EU projects is just over £1.2bn. This includes EU funds payments of some £558m, representing 30% of the total EU funds allocation, based on claims submitted by projects and paid by WEFO. There is a full portfolio of projects in place to maximise the available funding by the end of 2015 (the final date for payments). WEFO is also planning to overcommit funding for parts of the programmes to take account of anticipated project underspends and to maximise expenditure for the programmes overall. This approach was successfully deployed under the 2000–2006 programmes.

² Wales is allocated funds in Euros. £ allocation figures are based on WEFO current planning rate of £1: €1.20.

³ Total funds committed to date (including match funding).

⁴ The EU funds committed as part of the programme.

⁵ EU funds committed as a percentage of total available.

7. All Commission annual targets (2008, 2009, 2010 and 2011) for programme expenditure (N+2) for the four programmes have been met, despite the challenging economic climate and fluctuating exchange rate with the Euro. For the end-of-calendar-year N+2 targets for 2012, current expenditure forecasts show that WEFO will meet these targets three months ahead of schedule (i.e. by September).

Programme achievements

8. Of total project investment (including match funding), over £740 million is supporting businesses (including R&D and Innovation, ICT and Business Finance) and £1.3bn is helping people into work and improve their skills. In addition, £620m is helping to regenerate communities and £520m is helping to improve the environment and sustainable transport. See **Annex A** for key investments to date.
9. EU projects have already assisted almost 288,000 participants, of which nearly 82,000 have been supported to gain qualifications and some 34,400 helped into work. Projects including REACT and Want2Work have already supported 16,500 people into work.
10. In addition, 10,500 (gross) jobs and 2,150 enterprises have been created, through projects such as the Welsh Government's Business Start Up projects.

Key indicators	Programme target	Project forecast to end programme	Project achievement to 15/02/2012
Participants assisted (ESF)	294,100	599,193	287,746
Participants entering employment (ESF)	31,000	81,169	34,423
Participants gaining qualifications (ESF)	89,180	221,345	81,823
Enterprises assisted (ERDF)	15,900	22,970	7,590
Enterprises created (ERDF)	5,604	9,295	2,141
Gross jobs created (ERDF)	38,540	39,220	10,517

11. It is clear from the above table that despite the difficult economic climate, WEFO is making significant progress in meeting its programme targets agreed with the Commission, especially in numbers of participants into employment, participants gaining qualifications, and support for young people. Some ESF targets are therefore being increased, in negotiation with the Commission, to reflect both the high performance to date and the high levels of future activity forecast by approved projects and those in the pipeline. For example, for ESF Convergence, WEFO is negotiating with the Commission an increase of the number of participants entering work from 27,500 to 30,500.
12. For the ERDF targets, and through the delivery of projects such as the Welsh Government's Academia for Business (A4B), there are encouraging signs in terms of collaborative R&D. For ERDF Convergence Priority 1 (Building the Knowledge Based Economy), 340 collaborations have been reported against the end-of-programme target of 500. This demonstrates that businesses are still investing in this area even during difficult economic times, but businesses are still more likely to stay in this phase of development until they become more confident in their launch of new products/processes/services being a success. As a result, challenges remain in meeting some output targets.

Monitoring of project and programme performance

13. WEFO monitors the performance of all EU projects and programme targets closely. Regular meeting reviews and visits are held with EU projects to help ensure they are progressing in line with their agreed delivery profile and are complying with EC regulations and WEFO guidance.
14. The All-Wales Programme Monitoring Committee 2007–2013, chaired by Mark Drakeford AM, comprising Welsh partners and strong representation from the private sector, is provided with quarterly reports on performance at programme and priority level. Updates are also provided on key programming issues, such as evaluation studies, match funding, the integration of the cross-cutting themes of Environmental Sustainability and Equal Opportunities, information and publicity etc. All PMC papers are published on the WEFO website (www.wefo.wales.gov.uk). The PMC will also play a key role in addressing lessons to be learnt to help shape the delivery of future programmes 2014–2020 for Wales.
15. To help transparency and accountability in the management of the European programmes, fortnightly updates on progress of the programmes, including output information at Unitary Authority level, are also published on the WEFO website. In addition, information and data on the output indicators of EU projects is published via a WEFO website searchable database (see Written Statement issued on 6 Feb 2012 at

Strategic delivery and procurement opportunities

Sector breakdown

16. WEFO has adopted a more strategic approach to delivery for the current programme period, with a stronger focus on objectives, outputs and outcomes to secure a more effective use of the funding and avoid waste and minimise duplication.
17. There is also a stronger emphasis on open and competitive procurement, at project level, in order to maximise value for money and to ensure fair and open access to the benefits of EU funds.
18. Given this strategic approach, Welsh Government-led projects represent a significant proportion of projects approved to date (98 of 260 or some 40% of resources committed to date). As with all EU funded projects, these have been developed in partnership and are largely delivered through procurement arrangements. The remaining projects are being led by other organisations including 67 Local Authority projects, 38 third sector, 10 private sector and 31 from the HE/FE sector.
19. The private sector benefits substantially from the European programmes and is also a major provider of match funding (25%). The private sector is also a key partner in shaping the direction of the programmes and is extensively involved in delivery under procurement arrangements (see para 21). That said, it is true that the private sector rarely take the role as lead sponsor. There are a number of disincentives, including State Aid rules, limitations on retention of revenue/profits, the audit and administrative tasks involved, and the risk of having to repay expenditure deemed ineligible by the Commission. That said, consideration clearly needs to be given to how best to engage the private sector more extensively going forward. As part of the development of the future 2014–2020 programmes, we will be exploring how the EC’s proposed simplification measures can be maximised to encourage participation.

Procurement

20. Open and competitive procurement is an important tool in ensuring value for public money in the delivery of EU projects and for providing fair access to EU funds by all potentially interested parties.
21. To date, the estimated amount of procurement activity in the delivery of approved projects is worth over £1 billion, while approved projects with completed procurement exercises have awarded contracts worth £700m to organisations. Over 900 contracts (worth £381m) have been awarded to the private sector, over 200 contracts to the public sector, including HE/FE

(worth £212m), and 390 contracts (worth £107m) to the third sector.

22. WEFO published revised guidance on project delivery models and the use of procurement in October 2010. The revised guidance introduced the opportunity for projects to use competitive grants, already adopted within the WCVA Gateway project, as an alternative way of securing value for money in project delivery.

Match funding and intervention rates

23. One of the key benefits of European Structural Fund programmes is that they can act as a catalyst for investment, driving forward projects that would otherwise not progress. The more funds that can be levered into projects from various sources, the more effective the EU funds will be in stimulating investment from public and private sources.
24. In 2009, however, due to the global recession and to allow greater flexibility to mitigate potential match funding pressures, WEFO agreed with the Commission an uplift in EU programme intervention rates, with the overall average intervention rate for the programmes increasing from around 50% to 60%.
25. WEFO continues to monitor the match funding position at programme and project level, particularly in light of the budget reductions following the UK Government's 2010 Comprehensive Spending Review (CSR) and the ensuing 2011 Welsh Government budget. WEFO works closely with project sponsors on a case-by-case basis and can provide grant intervention rates of up to 100% for individual projects if necessary, provided the average intervention rates are respected at programme level.
26. Overall, the Welsh Government has committed £565m (35% of total match funding committed to date) to EU projects. This includes a commitment of £98m to 35 projects, (including many town centre regeneration schemes) from the Targeted Match Fund (TMF), a pot of 'last resort' for projects struggling to secure appropriate match funding from other sources. Despite the reduction, as part of the recent CSR, we have honoured our TMF commitment for EU projects that perform to their agreed objectives. Limited uncommitted TMF resources remain and can be called upon to match fund projects during the remainder of the programming period.

Evaluation

27. The relative success of investments supported through Structural Funds is the subject of detailed and robust evaluation. All projects receiving EU funds in excess of £2m are required to commission independent evaluations. WEFO also implements a programme of evaluation agreed with the European Commission which aims to assess the effectiveness of programme implementation and the overall impact of interventions.

Evaluation reports are published on the WEFO website at:
<http://wefo.wales.gov.uk/publications/monitoringevaluation/?lang=en>

28. Several evaluations are currently on-going; for example, a 2010 ESF Leavers Survey; thematic evaluations of all the priorities across the programmes; and a survey of ERDF supported businesses. The 2009 ESF survey of individuals supported through the ESF provides encouraging evidence on the effectiveness of ESF projects, including:
- an increase of 27 percentage points in the employment rate for individuals supported through the ESF Convergence Employment Priority. Of those respondents who were not employed at the time of the survey, approximately 25% maintained that their participation in an ESF project resulted in them having significantly more chance of finding a job in the future.
 - For individuals receiving support under the ESF Convergence Skills Priority, 20% experienced upward occupational mobility between the period before receiving ESF support and the survey. Of those remaining within the same job at the time of the survey, 21% reported that they had been promoted, 50% reported better job security and 42% improved pay, salary or income, following their participation in an ESF project.
29. The 2010 survey, which is currently being finalised, reinforces the results from the 2009 survey. Improvements to the evaluation methodology used for both the 2009 and 2010 surveys demonstrate that an unemployed individual who participates in an ESF project has around a 20% greater chance of being in employment one year after the intervention compared with unemployed individuals who haven't participated in an ESF project.
30. Early results from the ERDF business survey indicate that ERDF support had a positive effect on turnover, profitability and productivity in approximately 35-40% of businesses assisted. Furthermore 30% of businesses report that the performance of their workplace would have been worse without ERDF support.
31. WEFO is due to publish its summary evaluation of the 2000–2006 programmes soon. This will demonstrate that the programmes delivered clear and tangible outputs, with a number of key programme targets (associated with job creation, tackling economic inactivity and support for businesses) exceeded. The programmes also created wider community benefits, such as through the development of partnerships and associated capacity building.
32. It is clear from the report that, in terms of GVA, the Welsh economy, remained little changed from the start of the new Millennium. However, using alternative economic performance indicators (e.g. Primary Income Per Capita), which appear more relevant, both to Wales in general and West Wales and the Valleys in particular, the position is rather better.

Furthermore it is also clear that employment increased, unemployment fell and skill levels improved over the programme period. In addition, the programmes have produced very clear and tangible outputs, with a number of programme targets being exceeded. Overall, it is clear that the programmes helped Wales to 'weather' a period of global economic change and adjustment, where the situation would have been worse without European funding.

Future Programmes 2014–2020

33. We are working closely with the UK Government, other devolved governments and Welsh partners to help shape the UK's negotiating position and the policy direction for the next round of EU programmes. A summary of responses to our Reflection Exercise will be published in March and regular meetings of the Post 2013 European Partnership Forum and technical workstreams are ongoing. A formal public consultation will be held later this year. These arrangements will help inform the Welsh Government's decisions on future investment priorities and in turn, the type of future project activities to be supported.
34. A website link providing details of the future programmes, as part of the evidence provided to inform the Enterprise and Business Committee's inquiry into the draft legislative proposals for EU Structural Funds 2014-2020 is as follows:
<http://www.senedd.assemblywales.org/ieListDocuments.aspx?CId=228&MId=644&Ver=4>

ANNEX A

KEY ACHIEVEMENTS

Supporting Business

- **Business** – Businesses are benefiting significantly from 2007–2013 programmes, with £730m of total project investment (including match funding) invested to date.
- EU projects, to date, have **assisted 7,600 businesses** and supported the **creation of 2,150 businesses**.
- **JEREMIE** has already invested £82m in 384 SMEs, while the fund has leveraged £122m of private sector investments.
- **71% of the 900 procurement contracts** awarded to the private sector are Welsh businesses or those with a Welsh presence.

R&D and ICT

- **With the doubling of R&D investment from Objective 1, £430m total investment** (EU funds £220m) is already supporting a knowledge-based economy and ICT (e.g. Low Carbon Research Institute, Advanced Sustainable Manufacturing Technologies, Business Innovation Support).
- **Over £85m total investment** (EU funds £45m) already **supporting ICT** (e.g. High Performance Computing Wales; e-Crime); a further £35 million to be invested in ICT, including Next Generation Broadband.

Infrastructure

- **Investment of £560m of EU funds**, to date, including the £56m into the Harbour Way Peripheral Distributor Road in Port Talbot and £20m A40 Penblewin to Slebech Park projects, and some 40 regeneration schemes in 28 towns, including Colwyn Bay, Llanidloes, Merthyr Tydfil, Llanelli, Pembrokeshire, Newport and Butetown.
- A further £160m investment of EU funds is planned for infrastructure type activities including transport (A465) and Next Generation Broadband.
- **JESSICA** investment managers currently reviewing nine Expressions of Interest (EOIs), requesting some £75m in total. Expressions of interest include schemes in Neath Port Talbot; Tenby; Caernarfon; Mumbles; Swansea; Wrexham; Port Talbot; Pontypridd.

Environment

- To date, **£225m total investment** (EU funds £120m), including £50m for **flood defences** has been invested to protect over 7,700 households, £33.5m for **ARBED** to improve housing energy efficiency for nearly 5,000 low-income households, and £7m for Wales' first tidal energy scheme '**Deltastream**' to be developed off the Pembrokeshire coast.

Employment

- Total investment of **£570m** (ESF £290m), to date, **to help people into work**. Of which **£200m** (ESF £105m) **invested** to tackle underachievement, raise qualification, skills levels, and future employability of **over 75,000 young people** (e.g. Technocamps, ENGAGE, and STEM Cymru projects).
- **Want2Work** has already **supported 37,000 participants**, of which **10,000** have been **helped into work**.

Skills

- Total investment of **£700m** (ESF £380m), to date, **to help increase skills levels** (e.g. Skillbuild, Skills Growth Wales, Modern Apprenticeships, Basic Skills in the Workplace).
- Proact/**Skills Growth Wales** already **supported 345 companies and 18,500 workers** to upskill, many of whom were at risk of redundancy.
- **Skill Build** has supported **21,600 participants**, to date, of which 12,900 have gained qualifications and 4,500 entered work.

- **Higher Level Skills** – Working with Universities we have already invested over £90m into developing higher level skills, including through the Knowledge Economy Skills Scholarships (KESS), Access to Masters and the Steel Training Research and Innovation Partnership (STRIP) projects.