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Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a
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Deputy Minister for Agriculture, Food, Fisheries and
European Programmes



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref

Jocelyn Davies AM
Chair
Finance Committee

 May 2012

Dear Jocelyn,

Finance Committee inquiry into the effectiveness of the European Structural Funds in Wales

During my attendance at the Finance Committee on 29 February 2012 on the inquiry into the effectiveness of the European Structural Funds programmes in Wales 2007–2013, I agreed to provide you with further details as follows:

- Comparing the effectiveness of Structural Funds in Wales against those achieved by EU15 regions, particularly in terms of Growth and Jobs.
- Comparing the effectiveness of Structural Funds in Wales against those achieved by other UK regions, particularly in terms of Growth and Jobs.
- Setting out the consideration that WEFO gives to the future sustainability of projects during the application process.
- Setting out whether less funding is now available to further education colleges.
- Setting out the number of projects which will be funded via JESSICA which Local Authorities are either leading, or are partners in.

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Details in response to these issues raised are attached as an Annex to this letter.

I look forward to attending the Committee again on 30 May to discuss these and further issues as part of the Committee's Inquiry.

A handwritten signature in black ink, appearing to read 'Alun', with a stylized flourish above it.

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni
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Deputy Minister for Agriculture, Food, Fisheries and European
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RECENT WELSH ECONOMIC PERFORMANCE IN COMPARISON WITH ORIGINAL EU-15

Context

Performance of the original EU-15 provides a more appropriate benchmark for Wales than the expanded EU, as new members' performance has been heavily impacted by transitional effects. In this note, the focus is on Welsh relative performance over the period since 1999.

- **Impact of UK performance.** Since 2005, Welsh performance on measures of GDP and income relative to the EU-15 has been strongly influenced by a major deterioration in the relative performance of the UK as a whole. This has in turn been driven by an unprecedented increase in the indicator of the cost of goods and services in the UK compared to the average for the Eurozone. The reasons for the scale of this divergence are not fully understood and are being explored with the ONS and Eurostat.
- **Trends in the data.** The key measures used to monitor performance all display some volatility on an annual basis. It is therefore vital to consider trends and avoid placing too much weight on small differences between individual years.
- **GDP per capita and other measures.** Although relative GDP per capita is used as the key criterion for determining eligibility for EU funds, the EU itself recognises that the measure has major limitations and that it is important to examine a wider range of indicators in assessing economic performance. In particular, relative GDP per capita is influenced by demographic factors (such as the extent of the dependent population), by industrial structure (since it includes capital payments, including depreciation) and, at a sub-regional level, by commuting. The measure of primary income per capita avoids some of these limitations, as it includes the income from economic activity that is received by the residents of an area wherever that activity takes place. The employment rate is another very important indicator, as being in employment has been shown to be important not just for economic performance but also for a wide range of broader outcomes, including health and well being.

Key messages

- **Performance of Wales as a whole**

GDP per capita. Following a period of poor performance during the 1990s, from 1999 until around 2006 Wales broadly kept pace with the EU-15. Since 2006, Welsh relative performance has declined, driven by the decline in the performance of the UK as a whole (see above).

Primary income per capita. Over the whole period since 1999, primary income per capita in Wales has increased broadly in line with EU-15. A relative improvement over the period to 2006 has been approximately offset by a relative decline since (again driven by the performance of the UK as a whole).

Employment rates. Over the whole period, Wales has had an employment rate above the EU average, with the gap narrowing since 2007 (i.e. Wales falling closer to the EU15 average).

- **Performance of West Wales and the Valleys**

GDP per capita. Over the period since 1999, the performance of West Wales and the Valleys has deteriorated relative to the EU-15, the average of EU Objective 1 regions, and Cornwall and the Isles of Scilly¹. The extent of the decline has been exacerbated by the overall reduction in relative GDP per head affecting the UK as a whole since 2006. However, in interpreting this result, the limitations of GDP, particularly in respect of the role of commuting in West Wales and the Valleys, need to be borne in mind, and the results for GDP per capita considered alongside other measures, particularly primary income and employment rates.

Primary Income per capita. West Wales and the Valleys shows a higher level of primary income per capita than the average for EU Objective 1 regions throughout the period. This is in contrast to GDP per capita and reflects the important role of out-commuting in West Wales and the Valleys. Since 1999, West Wales and the Valleys has broadly kept pace with the EU-15 on this measure, with a relative improvement over the period to 2006 being offset by the UK-wide relative decline since then. In addition, West Wales and the Valleys has, if anything, improved its position relative to Cornwall and the Isles of Scilly slightly.

Employment rates. Over most of the period, West Wales and the Valleys has had an employment rate above the EU average, but has fallen below in the most recent years.

- **Performance of East Wales**

GDP per capita. From 1999 until around 2006 the performance of East Wales broadly kept pace with the EU-15. Since 2006, Welsh relative performance has declined, again driven by the decline in the performance of the UK as a whole.

Primary Income per capita. Over the whole period since 1999, primary income per capita in East Wales has increased broadly in line with EU-15.

¹ Cornwall and the Isles of Scilly, an Objective 1 region, has been included as a UK comparator for West Wales and the Valleys. A wider set of UK comparator areas is included in the Annex.

A relative improvement over the period to 2006 has been approximately offset by a relative decline since (again driven by the performance of the UK as a whole).

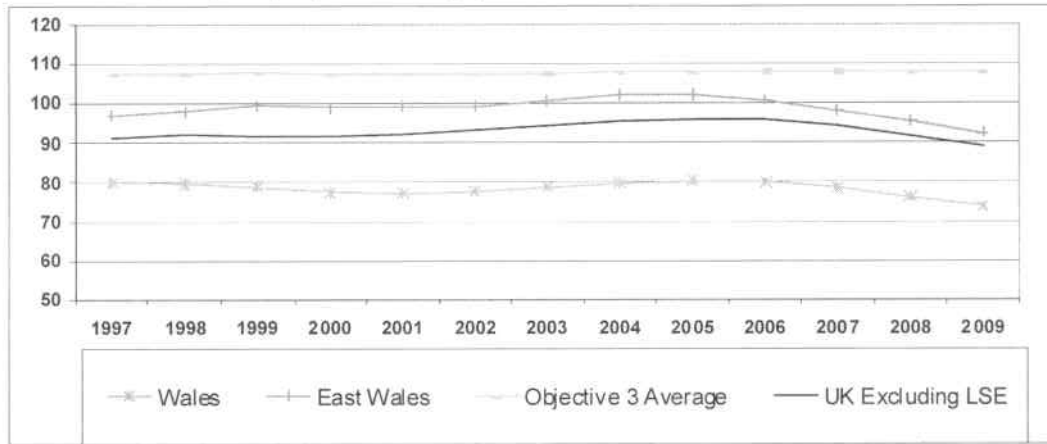
Employment rates. Over the period as whole, East Wales has had an employment rate well above the EU average, with the gap narrowing slightly in the most recent years.

Conclusion

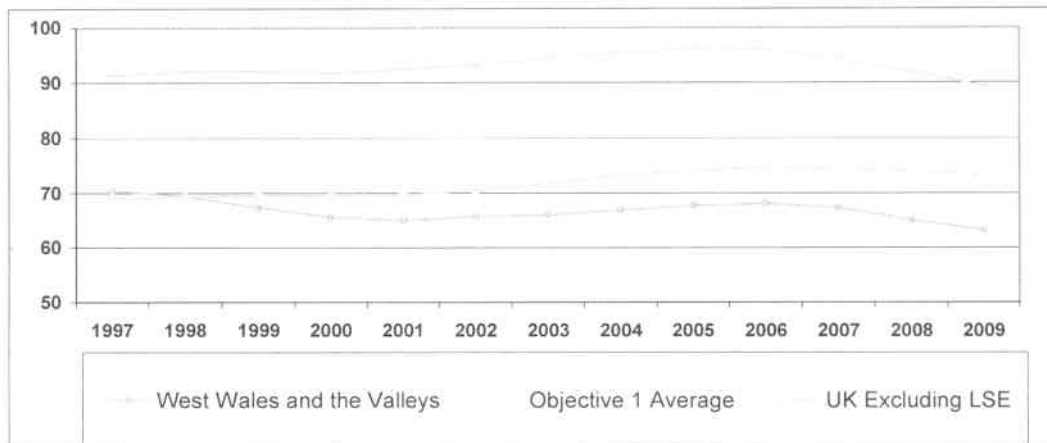
The indicators paint a mixed picture of the economic performance of Wales and its two major sub-regions. Performance in respect of relative GDP per capita is a cause for concern, but recent relative declines have been driven by the deterioration in the relative performance of the UK as a whole. Other indicators are more positive, and particularly in the case of West Wales and the Valleys, where out-commuting plays a major role, may better reflect the underlying economic circumstances of residents.

CHARTS: GDP per capita

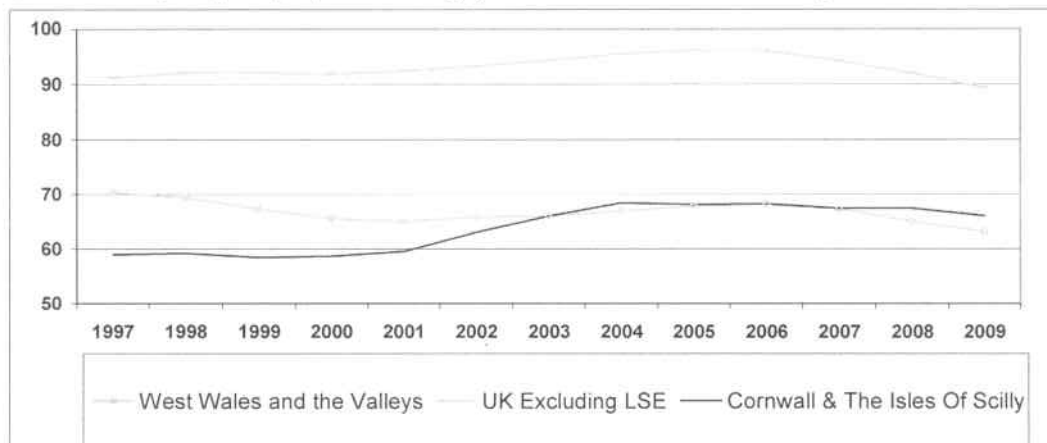
GDP Per Capita (PPS, 3 year average): East Wales & Wales



GDP Per Capita (PPS, 3 year average): West Wales and Valleys

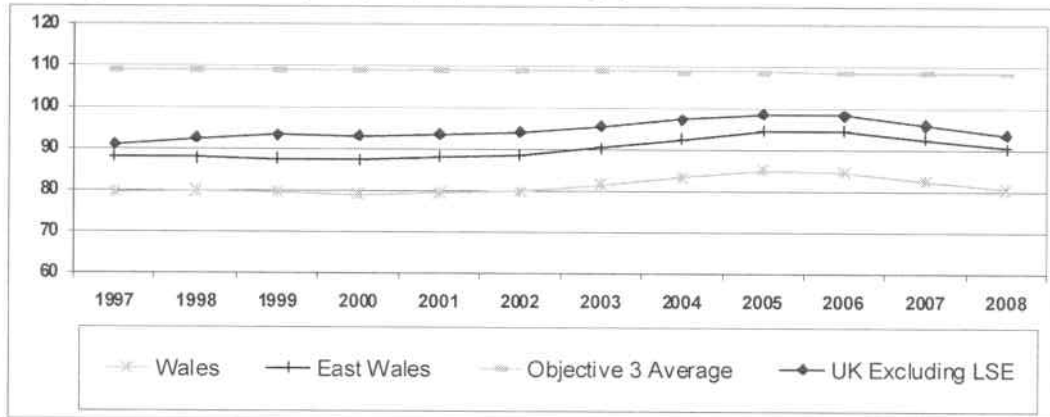


GDP Per Capita (PPS, 3 year average): West Wales and the Valleys

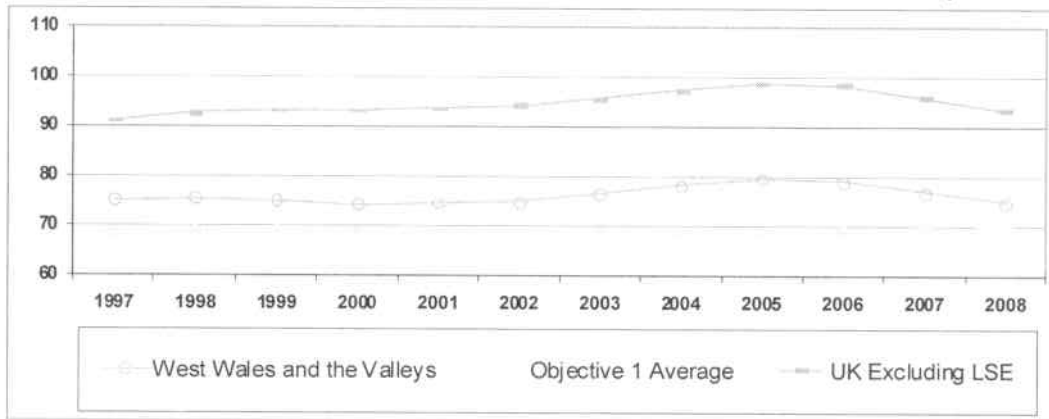


CHARTS: Primary Income per capita

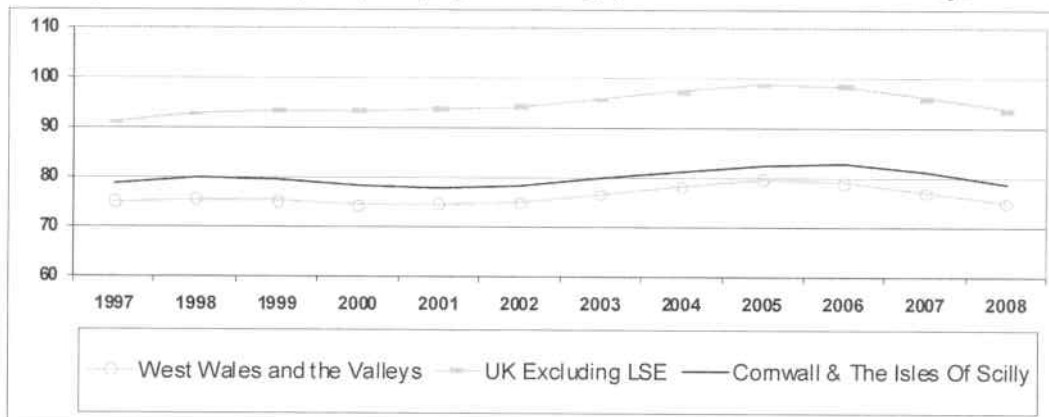
Primary Income Per Capita (PPS, 3 year average): East Wales & Wales



Primary Income Per Capita (PPS, 3 year average): West Wales & The Valleys

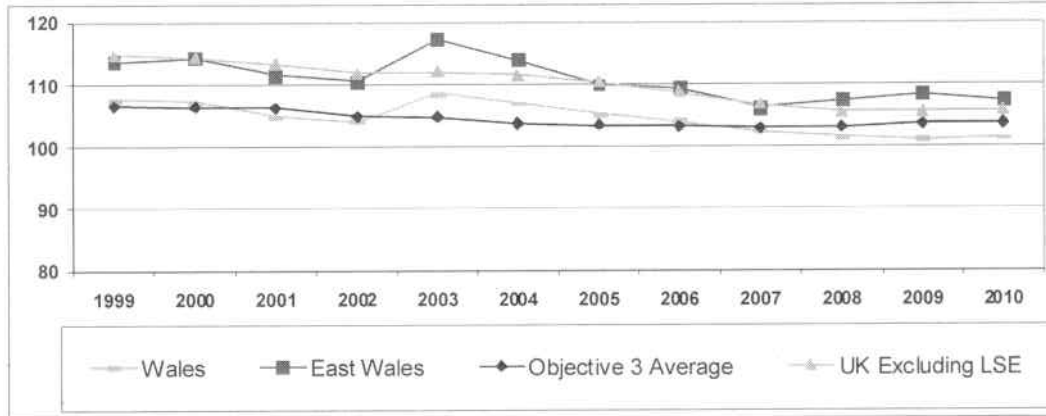


Primary Income Per Capita (PPS, 3 year average): West Wales & The Valleys

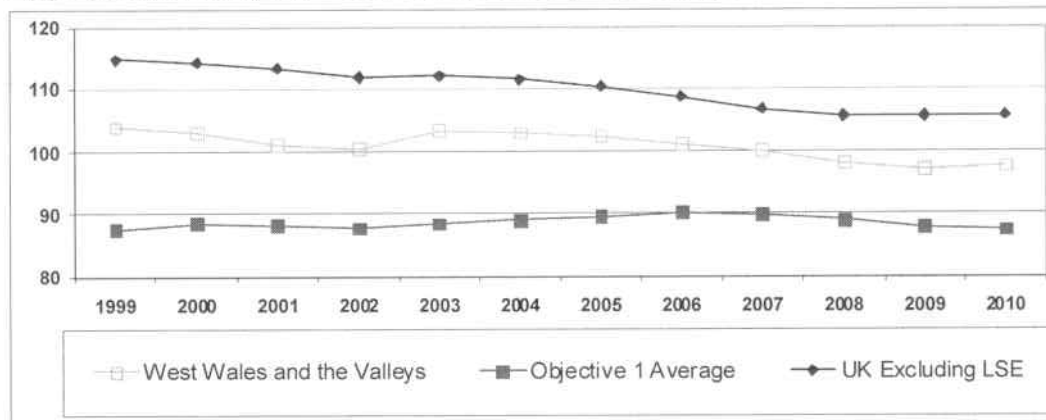


CHARTS: Employment rates

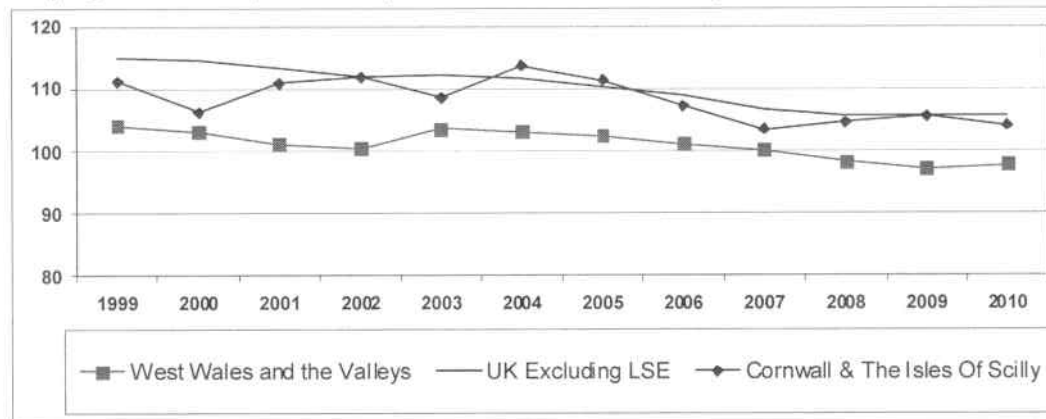
Employment rates (EU15=100): East Wales & Wales



Employment rates (EU15=100): West Wales & The Valleys



Employment rates (EU15=100): West Wales & The Valleys



Annex A: UK sub-regional comparisons

Comparing with other UK Objective 1 regions shows that while West Wales and the Valleys underperformed in respect of the change in GDP per capita, it performed better than all of the other areas in respect of the change in Primary Income, and better than all except Merseyside in respect of the change in employment rates. These latter measures better reflect the economic well-being of residents that does GDP per capita, especially where commuting plays a major role. The following tables show latest available data for GDP, Primary Income and Employment rates.

GDP (3 year average, PPS, EU15=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
West Wales and the Valleys	67.3	65.6	65.1	65.8	66.1	67.0	67.8	68.2	67.3	65.16	3.2
Merseyside	70.8	72.1	72.4	74.9	75.9	77.2	77.0	76.5	75.3	73.67	2.3
South Yorkshire	75.1	75.7	75.9	77.7	78.8	80.5	81.6	82.2	81.1	78.57	6.1
Cornwall and Isles of Scilly	58.4	58.7	59.7	63.1	66.1	68.5	68.2	68.3	67.5	67.56	6.1

Primary Income (3 year average, PPS, EU15=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
West Wales and the Valleys	75.1	74.3	74.6	74.9	76.6	78.1	79.5	79.0	76.9	74.9
Merseyside	80.2	80.2	80.4	80.8	82.1	83.7	84.5	83.6	81.0	78.7
South Yorkshire	84.0	84.5	84.9	85.3	86.7	88.4	89.7	88.8	85.3	82.0
Cornwall and Isles of Scilly	79.3	78.3	77.9	78.1	79.7	81.1	82.6	82.8	81.0	78.7

Employment rates (EU15=100)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
West Wales and the Valleys	104.0	103.1	101.1	100.5	103.5	103.0	102.5	101.1	100.1	98.29	7.1	97.7
Merseyside	97.4	99.8	100.2	100.8	103.0	102.5	101.8	100.0	96.1	93.69	7.9	97.7
South Yorkshire	108.9	107.3	108.2	106.5	106.9	106.4	105.2	101.2	100.0	98.29	6.2	100.3
Cornwall and Isles of Scilly	111.2	106.2	110.9	111.8	108.5	113.7	111.4	107.3	103.4	104.5	105.6	104.0

WEFO CONSIDERATION OF SUSTAINABILITY IN PROJECTS AND GUIDANCE ON ARTICLE 55: REVENUE GENERATING PROJECTS

Sustainability/exit strategy in the development, assessment and monitoring of EU projects

Sustainability is a key consideration in the assessment and monitoring of EU projects so that social, economic and environmental activities and outcomes are achieved through the Structural Funds programmes.

Some projects, by their very nature are more sustainable than others. For example, infrastructure developments, such as road schemes and research and innovation centres, create an asset that has an ongoing value. In addition, Financial Engineering Instruments (i.e. JEREMIE/JESSICA) due to the revolving nature of their investment activity, create legacy funds. On a smaller scale, the Communities Investment Fund (CIF), a third sector loan scheme, is also sustainable as a result of repayments being used to create an evergreen fund which will continue to benefit the third sector in Wales in future years.

Certain projects, however, will only be expected to deliver their activities during the EU funding period, addressing immediate gaps in provision; e.g. targeted grant schemes such as the Local Investment Fund which provide small level grants to help local SMEs to start up and grow.

Appraisal process

WEFO's assessment of a project's future potential sustainability/exit strategy is made at the beginning of the appraisal process for EU funds.

At 'Expression of Interest' stage (the first stage of the application process), project sponsors must provide evidence against five key selection criteria, as agreed by the All-Wales PMC. This includes 'fit with and contribution to agreed strategy' and 'market need'. These two criteria provide a useful guide to the future sustainability or legacy of the project proposal as they can help establish how the project integrates with other activity and whether the market can sustain its activities beyond the EU funding period.

At Business Planning stage (involving a more detailed assessment of the proposal), WEFO assesses the project against the full selection criteria including: funding certainty, organisational capability to deliver, legacy contribution, achieving an exit strategy etc. At this stage, the sponsor must address the following:

- the reliability of their match funding contribution;
- reliance on other funding e.g. from the private sector or other competitive public sources; and
- income generated (this can be limited by Article 55 unless State Aid cover is in place).

WEFO assesses the exit strategy to ensure that, where possible, projects will be able to support its end beneficiaries beyond the EU funding period. A good strategic fit and market need can be strengths which can help secure other sources of funding in the future. However, projects are not without risks. To help mitigate these, WEFO can apply special conditions relating to exit strategies or sustainability.

As well as assessing project sustainability, WEFO future-proof all projects in terms of wider sustainable development. All projects must also consider their particular impacts and opportunities on environmental sustainability and equal opportunities through formal specialist assessments. These sustainable development considerations are included in the formal project and selection criteria for project approval.

Monitoring and Evaluation

During project delivery, future sustainability can be identified by project management and progress in delivering activities, which is monitored closely by WEFO as part of project review meetings and other arrangements. WEFO is aware, however, that funding options and exit strategies may change as circumstances change.

All sponsors are required to undertake an evaluation of their projects, while those awarded £2m or over of EU funds require independent / external evaluations. The evaluation plan must address: economic impact, market need, and progress towards the exit strategy.

WEFO can also request mid-term evaluations to ensure project activities and exit strategies remain fit for purpose and / or reflect changing circumstances.

In addition, WEFO can require evaluations of small innovative 'pilot projects' to address issues of impact and self sustainability, and suitability for future development.

Article 55 guidance: Revenue generating projects

WEFO guidance on 'Article 55: Revenue generating projects' was published on WEFO's website in September 2011. The guidance can be found via the following web link: <http://wefo.wales.gov.uk/publications/guidance/general/article55>

EU FUNDING FOR FURTHER EDUCATION ORGANISATIONS: COMPARISONS BETWEEN 2007–2013 AND 2000–2006 STRUCTURAL FUNDS PROGRAMMES

EU funding awarded to the FE sector through the Objective 1, 2 and 3 Programmes 2000–2006 was £79m.

Given the strategic delivery approach of the 2007–2013 programmes, the FE sector can access funding in a variety of ways: directly as a lead or joint sponsor, or indirectly, by winning procurement contracts to deliver the activities of EU projects.

The total funding for the sector will not be known until the programmes end, but it can already be evidenced that the FE sector will benefit more from the 2007–2013 programmes.

To date, £24m of EU funds have been awarded to projects with the FE sector as the lead sponsor. As procured deliverers, FE institutions have already been awarded contracts worth £55m (these contracts may either be wholly funded by EU funds or may contain an element of match funding). In addition, £14m has been awarded to the Welsh Government's £45m (ESF £14m) Pathways to Apprenticeships project, which is delivered through the FE sector. The sector has also been awarded funding as joint sponsors of EU projects, where the amount of funding will depend on how these projects progress.

In relation to Coleg Morgannwg specifically, the College has been awarded ERDF Convergence funds of nearly £7m as lead sponsor for the £40m Nantgarw 3 (Taff Ely Learning Campus) project, which involves the purchase of land and construction of a college building for the delivery of post-16 education and vocational training in the Rhondda Cynon Taf area.

The College has also been awarded procurement contracts worth around £5m to help deliver the activities of EU projects. The College is also a match funder of the ESF funded Building the Future Together and Bridges into Work projects.

JESSICA: LOCAL AUTHORITY INVOLVEMENT

There are currently 42 pipeline proposals, of which 18 have Local Authority involvement either directly or as a potential project partner/supporter. The remaining 24 are private sector proposals.

Of the 42 proposals, JESSICA investment managers have prioritised 11 Expressions of Interest (EOIs) for review, requesting some £78m and worth around £108m. Expressions of interest include schemes in Neath Port Talbot; Tenby; Caernarfon; Mumbles; Swansea; Wrexham; Port Talbot, Porthcawl, Cynmael, Newport and Pontypridd.

Of these 11 EOIs, two are local authority led while a further two have direct Local Authority involvement; either as co-investors/partners in the proposal or in supporting the proposed

development. Six sets of indicative investment terms have been issued, of which 2 are Local Authority led.

It is important to clarify that a project's eligibility for JESSICA investment is the proposed development's inclusion within an Integrated Plan for Sustainable Urban Development.

Therefore, in all cases the relevant Local Authority has considerable influence on the principles of any proposed scheme; for example, via integration with the local development plan or Master plan, and approval of planning permission.