

Enterprise and Learning Committee

EL(3) 07-10 (p1) : 11 March 2010

Inquiry - Structural Funds: implementation of the 2007-2013 programmes

Introduction

1. This paper provides evidence to inform the Committee's inquiry into the implementation of the 2007-2013 European Structural Fund (SF) programmes in Wales. It reflects on the experience of the Welsh Assembly Government – specifically the Welsh European Funding Office (WEFO) - in its role as the Managing and Certifying Authority for the Programmes.
2. For the period 2007-2013 Wales qualifies for Convergence funding (for West Wales and the Valleys) and Regional Competitiveness and Employment funding (for East Wales). European funding can also be accessed under the Territorial Co-operation Programmes. Further detail on the structure and funding for the mainstream programmes in Wales is attached at **Annex A**.
3. The Welsh Programmes were amongst the first in Europe to be agreed with the European Commission. They respond to the socio-economic context and labour market conditions in Wales and are closely aligned with Welsh Assembly Government policies and the EU's Lisbon and Gothenburg strategies for sustainable jobs and growth. The programmes were developed in close consultation with a wide range of stakeholders throughout Wales.

Progress in implementation to date including projects in the pipeline

4. Just over two and a half years into the implementation of the programmes, WEFO has agreed a total investment of over £2.3 billion, with an EU funds contribution of over £1.1 billion (56% of EU funds available).
5. Commitment figures at programme level are as follows.

Programme	Total project cost (£m)	Share (%)	EU grant (£m)	Share (%)
ERDF Convergence	1,121.9	57%	522.7	46%
ERDF Competitiveness	121.2	83%	34.9	53%
ESF Convergence	956.0	81%	530.9	70%
ESF Competitiveness	126.1	88%	47.2	82%
Total	2,325.2	68%	1,135.8	56%

6. Data in the above table and elsewhere in the paper are correct as at 28 February 2010 unless otherwise stated.
7. The overall level of EU funds committed to date across the Welsh Programmes compares well with commitment levels for the UK as a whole and with the equivalent point in the implementation of the 2000-2006 programmes.
8. Over £303 million (27%) of the grant committed to date supports businesses and over £572 million (50% of grant committed) provides employment and training opportunities for individuals. In addition, £152 million ERDF is being invested in regenerating communities and over £95 million is supporting improvements in the environment and sustainable transport. Further details of commitment at programme and priority level are available in **Annex A**.
9. There continues to be a good level of interest across all parts of the programmes from potential project sponsors. The project pipeline is particularly strong under the Infrastructure and Physical Regeneration ERDF priorities and the ESF priorities that focus on assisting young people and increasing employment and tackling economic inactivity. Engagement has been a little slower under the ERDF ICT theme and the ESF priority supporting the modernising of the Public services in West Wales and the Valleys. Activity is now picking up in these priorities with further project approvals expected in the near future.
10. WEFO have paid out over £183 million of EU funds to date. All Commission targets for programme spend (N+2) have been met despite the current challenging economic environment. The programmes are well on track to achieving their objectives and targets.
11. The Programme Monitoring Committee (PMC) and Ministers are kept regularly informed of progress across the various priorities of the programmes.

Helping individuals

12. The ESF Programmes in Wales are currently supporting over 97,000 people, of whom 45 per cent are female, 14 per cent are disabled and 5 per cent are from Black and Minority Ethnic groups. Of those assisted, over 56,000 unemployed and economically inactive people are being helped to find employment and almost 35,000 employed people are being supported to increase their skills. For example ProAct has already helped 187 businesses and 8,374 workers with retraining programmes and 13,200 people who have lost their jobs are receiving support through ReAct.
13. Despite the relatively early stage of implementation, the 2007-2013 ESF Programmes in Wales have already helped over 8,500 economically

inactive and unemployed people into employment and over 31,600 people have gained qualifications. Furthermore, just over 28,700 people have been helped to enter further learning, of which, over 16,500 are young people.

Helping business

14. Of the £303 million grant committed to supporting businesses, £165 million is being invested in Business Finance and Enterprise, £115 million in Innovation and Research & Development and £23 million to support ICT. Wales was the first UK region and amongst the first in Europe to establish a JEREMIE fund, in partnership with the European Investment Bank, to provide financial support to SMEs. The £150 million fund (including Match Funding) has already invested £19m to 128 SMEs. In addition, the Structural Funds are supporting local authority led business grant schemes which, together with the JEREMIE scheme will help up to 5,000 businesses.

15. Projects approved to date under the ERDF Programmes will assist businesses in Wales with over 30,000 interventions (such as technical, practical and financial support), approximately 9,000 of which will be to new enterprises. An estimated 48,000 gross jobs will be created as a result. Projects supported to date have created 867 enterprises; assisted 1,388 enterprises; created 2,375 gross FTE jobs, and induced around £57 million of further investments.

Environment / Transport / Communities

16. 48 projects with a grant value of £247 million have been supported to date which will help to address environmental challenges, deliver improved transport and regenerate communities.

17. Approved projects will create or refurbish nearly 40,000 square metres of business premises, and 29 projects will assist with the physical regeneration of some of our most deprived communities.

18. The Welsh Assembly Government intends to establish a recyclable Urban Development Fund in Wales under the Commission and European Investment Bank's JESSICA initiative. WEFO expect to be in a position to approve the application for ERDF for JESSICA by the end of March 2010.

19. Further detail of the Programme outputs to date is included on the WEFO website www.wefo.wales.gov.uk

Level of engagement across sectors

20. There has been a high level of engagement and participation across various sectors in the formulation of the Programmes and Strategic Frameworks and in the implementation arrangements.

21. Given the strategic nature of the delivery of the Programmes, Welsh Assembly Government-led projects represent a significant proportion of projects approved to date (72 of 156). These projects have been developed in partnership and are largely delivered through procurement arrangements. The remaining 84 projects are being led by other organisations including 26 Local Authority projects, 21 third sector, 9 private sector and 15 from the HE/FE sector.
22. There are opportunities for the private and not-for-profit sectors to become lead project sponsors, but it remains the case that the private sector and smaller third sector organisations mainly benefit from/directly access support from public-sector led schemes. These have been developed in close partnership with their client sector in order to ensure they meet business needs. The greater emphasis on procurement has created wider opportunities for sectors other than the public sector in the 2007-2013 programmes than in previous programming periods. Figures for approved projects show that even against the challenging economic background, in total nearly £400 million of private sector match funding has been committed to projects. This reflects a significant investment from the private sector and demonstrates the value of the strategic approach being adopted in the programmes' management and delivery.

Spatial distribution

23. Whilst we recognise that there is strong interest in analysing the value of commitments and outputs spatially, the strategic nature of the delivery of the programmes, with large projects covering large areas, makes it difficult to present this in a meaningful way. The majority of projects report that their activity will cover at least four of the six Spatial Plan areas in Wales. Spatial European Teams¹ have a role in encouraging the take up of opportunities across all areas of Wales and WEFO are discussing appropriate methods of spatial reporting with them.

Application Process, Implementation Strategy and the use of procurement

24. Evaluations of the 2000-2006 programmes and feedback from partners indicated that the overall impact could be improved by ensuring: more 'joined up' approaches to project activity; a stronger alignment with headline programme objectives; stronger sub-regional collaboration, and a simplification of programme structures and implementation arrangements.
25. A number of innovations were therefore introduced for the 2007-2013 programmes. Firstly, Strategic Frameworks were introduced as operational strategies to optimise the use of SFs through enhanced

¹ Four regional SETs and a third sector SET have been set up to help maximise the delivery of the Structural Funds in Wales.

partnership, collaboration and co-ordination between projects². Sub-regional collaboration and partnership is further encouraged through the participation of the Wales Spatial Plan Area Groups in co-ordinating the development of Spatial Frameworks, and the work of Spatial European Teams.

26. Secondly, the new implementation arrangements involve an iterative and consultative approach to project development, beginning with an expression of interest to WEFO before progressing to a more detailed business planning stage. The new application process is web-based - "WEFO On-line" allows sponsors to interact, share information and conduct business with WEFO via the Internet and is designed to simplify and streamline grant applications and process payments more quickly. It encourages co-operative working resulting in fewer, more strategic projects, with less risk of duplication.
27. Proposals are assessed against project selection and prioritisation criteria which have been agreed by the Programme Monitoring Committee. These criteria include the project's fit and contribution to the programme strategy, economic benefits and market need, extent of partnership engagement, contribution to the cross cutting themes, value for money and legacy contribution in terms of structural change and sustained impact. WEFO seeks assistance and expert advice in assessing against these criteria as required.
28. To comply with EU regulations, project sponsors are required to advertise delivery opportunities on a fair and transparent basis. This extends opportunities for small businesses and the third sector to compete for contracts and to access Structural Funds through the procurement route. The approach also ensures best value for use of public funds and eliminates the risk of potential irregularities which could lead to challenge and recovery. Latest data shows that at least 70% of approved projects have an element of procurement activity in the delivery of their project; nearly £180 million worth of contracts have been awarded to organisations that have successfully tendered for project delivery activities.
29. Synergy and collaboration across the programmes has been improved through the establishment of the All Wales Programme Monitoring Committee (PMC) to oversee the implementation of the four Welsh programmes, a simplification of previous arrangements under the 2000-2006 Programmes where each programme had its own PMC.

² For the Convergence Programme there are 14 thematically driven frameworks and 5 spatially driven frameworks covering the six areas identified in the Wales Spatial Plan. Seven of the thematic and three of the spatial Strategic Frameworks cover the East Wales Regional Competitiveness and Employment Programme.

Monitoring and Evaluation

30. The Welsh Assembly Government considers high quality monitoring and evaluation to be essential for effective programme management. Regular reports are presented to the PMC and Ministers.
31. The Assembly Government's approach to assessing the success of the Structural Funds Programme is based around:
- tracking progress of a range of economic indicators, notably employment, earnings and GVA, in absolute terms and relative to other parts of the UK and EU;
 - monitoring against the indicators set for individual priorities, grossed up to programme level;
 - programme-level evaluation; and
 - project level evaluation.
32. Changes to European Commission regulations mean that fixed point evaluations such as the Mid Term Evaluations and the Mid Term Evaluation Updates are no longer mandatory. Reflecting best practice, WEFO has decided to undertake evaluations at the most effective point in the delivery of the Programmes. An evaluation of the impacts stemming from the way WEFO is managing the funds (e.g. Strategic Frameworks, Communications) is already underway and will be complemented by other thematic and impact studies set out in the 2007 – 2013 Monitoring and Evaluation Strategy and associated two year plans including:
- a feasibility study exploring different methods of evaluating the impact of the programmes (due in 2012);
 - ongoing evaluations at theme level to assess the likelihood of the programmes achieving their objectives;
 - annual surveys of ESF participants to assess hard outcomes (obtaining jobs / qualifications) and harder to measure outcomes (improvements in skills levels / confidence); and
 - 'Customer Insight Surveys' to obtain the views of WEFO's customers.
33. As well as this work at programme level, there is also a requirement for project sponsors to evaluate their projects to ensure that evidence of good practice and lessons learned are effectively captured³. Evaluation question contained in the Strategic Frameworks will enable WEFO to undertake a synthesis of project level evaluation outcomes.

Response to the recession and Availability of Match Funding

34. The Structural Funds play an important role in the Welsh Assembly Government's response to the global economic downturn. The alignment between national policy and EU programme priorities has meant the funds have been able to respond to priorities emerging from the

³ Projects receiving over £2 million in grant or that are considered particularly innovative, must be evaluated by independent contractors.

Economic Summits. Built-in flexibilities in the programmes mean they have been able to react and adapt to meet new demands. However, the original strategy for the programmes remains relevant, and the programmes continue to focus on addressing long-term structural weaknesses and challenges and promoting sustainable growth and jobs.

35. Other consequences of the economic environment include a fall in the Sterling value relative to the Euro and pressures on public and private sector match funding. In response, WEFO successfully negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programme in 2009 - on average an increase of 10 percentage points for Convergence and 5 percentage points for ERDF Competitiveness. The effect of this was to reduce match funding requirements by £267 million across the four mainstream programmes.
36. WEFO also agreed several other programme changes to support economic recovery: support for unemployed people and those who are most disadvantaged in the labour market was increased through the ESF Convergence programme. Additional flexibilities to the programmes which assist implementation and opening up of new sources of match funding were approved by the EC, including support for ICT infrastructure and investments in housing-related energy efficiency measures.
37. The Assembly Government Targeted Match Fund (TMF) scheme continues to provide a central match-funding pot of last resort to the Structural Funds programmes. It was launched in mid 2008 and has to date awarded £43.9m to support 19 projects.

Sustainability of projects post 2013

38. The 2007-2013 Programmes already place an emphasis on moving from a grant culture to an investment culture and it is anticipated that the Economic Renewal Programme will strengthen this, including a focus on the sustainability of investments. To support this WEFO is ensuring that projects:
 - Incorporate viable exit strategies at a project level from the outset so that investments being made are explicitly seen to be time limited and not to assume ongoing revenue funding;
 - Are sustainable and will continue beyond the current programmes through specific investment in Financial Engineering Instruments (loan funds) such as JEREMIE and JESSICA; and
 - Have a strong focus on sustainable growth and jobs. WEFO prioritises projects with clear economic benefits and looking towards growth and enabling sectors and future skills.