

NATIONAL ASSEMBLY FOR WALES

CABINET

THE OPERATION OF MATCH FUNDING ARRANGEMENTS FOR EUROPEAN STRUCTURAL FUNDS PROGRAMMES

Paper by the Minister for Finance and Communities

1. Introduction

1.1 This paper seeks the Cabinet's endorsement of the proposed arrangements for managing the match funding 'pots' provided in the Assembly budget, and for the appraisal of projects submitted for Structural Fund and match funding support.

2. The issues

2.1 In the period leading up to the announcement of the outcome of the Spending Review (SR2000), contributors to the debate generally agreed that there was between £90 million and £100 million each year of potential match funding "in the system" i.e. already in the budgets of potential providers of match. (This includes resources in various Assembly programmes that could be used as match funding). This was said to imply an annual shortfall of between £50 million and £60 million. The budget, which has now been approved by the Assembly provides additional resources to meet this shortfall, distributed among several different Budget Expenditure Lines (BELs), which are themselves located in various Major Expenditure Groups (MEGs) as shown in the Annex.

3. Recommendations

3.1 That Cabinet endorse the proposed arrangements.

4. Managing the Pots

4.1 It must be quite clear that these pots are to match fund expenditure eligible for Structural Funds support, and are also to be regarded as pots of last resort, resources from which are available only when no other resources are available to the project sponsor. In addition, the starting assumption is that whatever arrangements are put in place must be consistently applied in respect of the various pots. A situation in which a project sponsor feels it necessary to make a series of bids for match-funding in respect of a particular project to different pot managers, turning from one to another until agreement to match is finally secured, must be avoided; such a situation would both waste the project sponsor's time and result in major duplication of effort as pot managers reconsidered applications which other managers had already rejected.

4.2 The proposal therefore is that (subject to special arrangements for Agriculture, further discussed below) we should put in place procedures, which require particular types of applicant to bid into designated pots, **but no others**. So, for example, in respect of the Pathway to Prosperity pot, the proposal is that the following bodies/sectors should have first call on the resources for match-funding purposes:

- The private sector
- The Welsh Development Agency
- The Wales Tourist Board
- Business Connect
- Enterprise Agencies
- The Assembly

Finance Wales (BEL (b) in the Table in the Annex), local authorities (BEL (d)) and Voluntary Sector organisations (BEL (e)), would have exclusive entitlement to bid for match funding from their designated pots.

4.3 BELs (f) and (g) (Food Processing and Marketing, and Farm Adaptation) relate to match funding for activities funded from EAGGF rather than from ERDF; this applies to Measures 1,2 and 5 of Priority 5. It is important that match funding from these BELs should be available for projects put forward by all eligible sponsors, including the WDA (who will be charged with delivering a significant proportion of these Measures), WTB (for agri-tourism projects only), local authorities and the private sector. Match funding would, however be available only for activities which are demonstrably related to the three Measures – which deal with processing and marketing, Farming Connect and investment in agricultural holdings. It is therefore proposed that the arrangements described in this paper should not apply to BELs (f) and (g).

4.4 Two consequences flow from this proposed general approach. First, it means that the various match funding pots are not tied to particular Priorities and Measures in the different Programming Documents, rather they are tied to particular types of applicant for match-funding. To illustrate the point, consider the projects which might be advanced in respect of Priority 1, Measure 1 of the Objective 1 programme. This Measure provides Financial Support for SMEs. Projects have been submitted by Finance Wales, by the Wales Tourist Board, and by various local authorities. The match funding for these bids, if approved for Structural Funds support, would come not from a single pot but from BELs (b), (a) and (d) respectively, depending on the identity of the applicant.

4.5 This leads to the second point. The key figures in the Table in paragraph 2 are not the individual budget (BEL) totals but the overall totals. The individual BELs were established during the Budget Planning Round (BPR) and are broad-based estimates of the expected requirements in each of the sectors. They should be regarded as no more than working estimates at this stage; if, for example, it proved to be the case that local authorities were successfully bringing forward more projects requiring match funding than assumed and the WDA fewer than assumed, it might well be necessary to seek approval within the terms of Standing Order 19 for adjustments of resources between BELs (and, perhaps, MEGs). Such adjustments would be reported to Committees. (It should be noted that this is a different issue from another which has been canvassed in the debates, what happens if the speed of spend on the programmes overall is greater than that assumed in the profiles underlying the SR2000 outcome. As has been noted previously, if requests for payments exceeds forecasts, and thus provision for Structural Funds in that year, then the excess up to 20 per cent of the following year's provision may be anticipated. This is set out in paragraph 10.2 of the Statement of Funding Policy .

4.6 The first proposal, therefore, is that, with the exception of the Agriculture pots, the various match-funding pots should in principle be allocated to identified potential applicants or types of applicant rather than to Priorities and Measures in the programming documents, and that in consequence the BEL match funding lines may need to be adjusted in-year to take account of the identity of which types of body are being successful in securing Structural Fund and match-funding support.

5. Appraising Projects Submitted for Support

5.1 Projects will come forward, normally with the approval of the relevant partnerships, to WEFO for consideration for Structural Funds support. In submitting their applications, project sponsors are expected to indicate the sources of match funding, which they will utilise to secure resources to go alongside the Structural Funds

provision. Project sponsors can be expected frequently to specify an Assembly match-funding pot as one (and perhaps the only) source of match funding.

5.2 Accounting Officer responsibility for the Structural Funds lies with the Chief Executive of WEFO, whereas the equivalent responsibility for Assembly budget funds, including those from the match-funding pots, lies with the Permanent Secretary. Both need to be assured that the award of support for a particular project is founded on a thorough appraisal, offers best value for money, and satisfies tests of regularity and propriety. For the WEFO Accounting Officer, project approval must also conform to EC regulations and ensure that EC grant conditions are met. For the Permanent Secretary, he must also be assured that resources are allocated in accordance with the Budget as adopted by the Assembly, and managed in accordance with procedures set out in Standing Orders. As against that, there is a need to avoid a situation in which a particular project is appraised by WEFO to give its Chief Executive the necessary assurance and separately appraised by Assembly policy divisions to protect the interests of the Permanent Secretary. Such a procedure would be both administratively wasteful and potentially embarrassing if a project was approved for support from the Structural Funds but not considered appropriate for match-funding support.

5.3 To avoid this scenario, it is envisaged that WEFO, when undertaking its own appraisal of a project, will actively engage the relevant policy Division which is responsible for managing the pot to which match-funding application has been made. That policy Division will be asked to provide advice on the project, and will therefore need to make an assessment of it. It will be for WEFO to make a final decision on the project's suitability for Structural Funds support, having careful regard to that advice, which may include the policy Division's conclusion that the project offers poor value for money, fails to contribute sufficiently to the programme's objectives, or is otherwise of low priority for support. WEFO will pay particular regard to this advice, and will be expected not to depart from it without further discussions with the policy Division, but if the conclusion is that the project should be supported from Structural Funds, that conclusion will also determine in the project sponsor's favour the issue of provision of match-funding support (i.e. no separate decision on the provision of match funding support will be required). The fact that the relevant policy Division has been engaged by WEFO in the appraisal of the project should enable a common view on the merits of a project to be reached. In rare cases where views on the merits of a project differ (short of fundamental concerns over regularity and propriety) the policy division will clearly record the considerations underlying the final decision to proceed, thereby providing the necessary assurance to the Permanent Secretary. If there are fundamental concerns over regularity and propriety match funding would not be approved

5.4 There is a complication here, however, which needs to be addressed. Assume a project of total value of £1m is submitted to WEFO under a Measure which assumes an intervention rate for that Measure over the programme as a whole of 50%; and further assume both that the Structural Fund support sought is 50% (i.e. £500,000) and that support from a match-funding pot of the remaining 50% is also sought. WEFO may conclude, in appraising the project, that it is worthy of support but that the project sponsor should receive £400,000 rather than £500,000 because in WEFO's view only a lower level of support from Structural Funds is required to enable the project to be put in place. (In reaching such a conclusion, WEFO may have had regard to the level of match funding already "in the system", and expect this particular sponsor to be able to make a contribution to the total cost of the project from its own resources).

5.5 There are three options for addressing the additional shortfall created by a WEFO decision to reduce the amount of EC grant: -

- i. Should the match-funding pot compensate for the Structural Fund shortfall (i.e. provide an additional £100,000 over and above that bid for)?
- ii. Should it simply provide the £500,000 bid for, leaving the project sponsor to make up for the Structural Funds shortfall? or
- iii. Should the contribution from the match-funding pot be reduced in direct proportion to the lower level of Structural Funds support being offered?

5.6 Option (iii), that the contribution from the relevant match-funding pot should be reduced in direct proportion to the lower level of Structural Fund support being offered, is the preferred approach, and would be the normal procedure. However, in certain circumstances there may be a case for option (ii) if the policy division consider that the project merits sufficient priority. Under this scenario, there would need to be evidence for the decision not to reduce the proportion of funding relative to the EC grant. Under no circumstances would the Assembly want to agree to make up the shortfall come what may as option (i) implies; there would be no discipline at all on project sponsors to find their own resources and the match fund pots would become contingency funds simply to make up the difference between EC grant and project cost. Such a scenario would expose the Accounting Officer (Permanent Secretary) to audit criticism.

6. Compliance

6.1 The National Assembly has the power to draw up and submit Structural Funds documents under the Council Regulation 1260/1999. Under the Structural Funds (National Assembly for Wales) Regulations 2000 (SI 2000/906) and the Instrument of Designation made thereunder by DTI for ERDF the National Assembly has the following functions under Regulation 1260/906: -

- participation in the partnership set up under Article 8 ;
- the functions of managing and of paying authority ;
- the functions of an authority for the purposes of Articles 15,30 and 40 ;
- the functions of a member state under articles 38 and 39.

These are delegated to the Minister for Economic Development. The Assembly Compliance Office has seen this paper and is content with the compliance aspects.

7. Financial Implications

7.1 The arrangements described in this paper have been drawn up in consultation with Financial Planning and Financial Accountability Divisions.

**Edwina
Hart
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MATCH FUNDING 'POTS'

BEL £'000S	2001-02	2002-03	2003-04
(a) Pathway to Prosperity	23,000	18,000	19,000
(b) Finance Wales	8,350	4,250	4,500
(c) Euro Facilitators	500	500	500
(d) Local Authority Projects	23,725	35,588	33,588
(e) Voluntary Sector	3,275	4,665	5,665
(f) Food Processing and Marketing	3,594	3,524	3,456
(g) Farm Adaptation	3,465	3,398	3,332
(h) Leaderplus	1,000	1,000	1,000
Overall Totals	66,509	68,925	71,041

(BELs (a) (b) and (c) are in Economic Development MEG; (d) and (e) are in Housing MEG; and (f), (g) and (h) are in Agriculture and Rural Development MEG).