

Finance Committee

Meeting Venue:
Committee Room 2 – Senedd

Meeting date:
25 January 2012

Meeting time:
09:00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Agenda

Private briefing (9:00 – 9:15)

1. Introductions, apologies and substitutions

2. The Effectiveness of European Structural Funding in Wales – DG Regional Policy and DG Employment (9:20 – 10:00) (Pages 1 – 10)

Video Conference: European Commission

FIN(4) 02–12 – Paper 1, Paper 2

- Guy Flament, DG Regional Policy Officer, European Commission
- Marc Vermyle, DG Employment, European Commission
- Agnes Lindemans, Head of unit –UK and Ireland, DG Regional Policy

3. The Effectiveness of European Structural Funding in Wales – Welsh Local Government Association (10:00 – 10:40) (Pages 11 – 22)

FIN(4) 02–12 – Paper 3

- Lowri Gwilym, Team Manager Europe and Regeneration
- Neville Davies, WLGA European Adviser and Head of European Policy and External Funding, Carmarthenshire County Council
- Peter Mortimer, WLGA European Adviser and Regeneration Manager, Rhondda Cynon Taff County Borough Council

**4. The Effectiveness of European Structural Funding in Wales –
Pembrokeshire College and Coleg Morgannwg (10:40 – 11:20)** (Pages
23 – 31)

Pembrokeshire College

FIN(4) 02-12 – Paper 4

- Nicky Howells, External Funding Manager, Pembrokeshire College
- David Evans, Director of Finance

Coleg Morgannwg

FIN(4) 02-12 – Paper 5

- Judith Evans, Principal, Coleg Morgannwg
- Karen Phillips, Deputy Principal, Coleg Morgannwg

Break: 11:20 – 11:30

**5. The Effectiveness of European Structural Funding in Wales –
Programme Monitoring Committee (11:30 – 12:00)**

Dr Mark Drakeford AM, Chair, Programme Monitoring Committee

6. Papers to note (Pages 32 – 45)

FIN(4) 02-12 – Paper 6 – Response to the scrutiny of the Welsh Government's budget
2012-2013 from the Minister for Finance

FIN(4) 02-12 – Paper 7 – Correspondence from the Permanent Secretary on the Welsh
Government's budget 2012-2013

Minutes of previous meeting

**7. Motion under Standing Order 17.42 to resolve to exclude the
public from the meeting for the following business:**

Items 8 and 9.

**8. Inquiry into Prudential borrowing and innovative approaches to
capital funding – suggested terms of reference and related
background briefing (12:00 – 12:25)** (Pages 46 – 62)

9. Draft Budget Protocol with the Welsh Government (12:25 – 12:30)
(Pages 63 – 74)

FIN(4)-02-12 Paper 1

Inquiry into the effectiveness of current EU Structural Funds programmes 2007-2013 led by the Finance Committee of the Welsh National Assembly – Contribution from DG EMPL

To what extent does the European Commission 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?

To date some 84% of the four programmes (2 ESF, 2 ERDF) has been committed to 253 projects with a pipeline of projects to ensure that full commitment will be achieved. The total cost of these approved projects is £3.2 billion with an EU contribution of £1.6 billion.

Total certified expenditure stands at £536m (27% of the available resources) and all N+2 expenditure targets, to date, have been met.

Based on payment claims submitted to and authorised by WEFO, total expenditure is over £1 billion (EU funds £536m, 27% of EU available resources).

Very good progress is being made towards a range of programme level indicators and key achievements to date include for the ESF Programmes

- 279,000 participants supported through ESF programmes
- 33,600 participants entering employment
- 80,700 participants gaining a qualification
- 28,250 participants entering further learning

DG EMPL is monitoring closely the financial and physical achievements of the programmes and is kept regularly informed by WEFO (mainly via the PMC reports, the Annual report and the Annual examination meeting).

Overview as provided to Monitoring Committee of December 2011

ESF Convergence

j) Commitment and Approvals

The Programme is well on target in respect of commitment with over 90% of the EU allocation already committed and 76 projects approved. In addition, the pipeline is strong with a range of projects offering good enough strategic fit to Programme objectives to ensure full commitment and spend.

At 98% Priority 1 is virtually fully committed; with Priorities 2 and 3 also securing high commitment levels of 94% and 89% respectively. Priorities 4 and 5 lag slightly behind at 64% and 57% committed and proposals to vire funding out of these Priorities into

more active areas of the Programme to secure full commitment and spend are currently being negotiated with the Commission.

This represents a robust performance for the Programme, which since the start of implementation in 2007 has had to adapt to the impact of the recent recession and a major shift in the policy and landscape of employment support with the introduction of the UK Government's Work Programme.

ii) Results

Good progress is being made against a range of the Programme-level indicators with:

- approximately 85% of the total participant target already met,
- 95% of the target for participants entering employment secured; and
- 84% of the target for participants gaining qualifications already achieved.

Good progress is also being made against the targets for female participation and entering further learning. At 44% female participation is close to the Programme target of 55%, and over 45% of the target for participants entering further learning has been achieved

The 35,000 participant target for Priority 1 has already been exceeded and the Priority is making good progress at 74% towards a target of 10,500 participants securing qualifications and at 55%, of 21,000 participants entering further learning. Both targets are forecast to be achieved.

Priority 2 is making excellent progress with 84% of the overall participant target already met. High levels of performance are also being secured with 95% of the 27,500 target for participants entering employment and 93% of the 31,500 target for participants securing qualifications already achieved.

Priority 3 is making progress with 64% of the 90,000 participant target already met. Good progress at 79% is being made towards a target of 37,530 participants securing a qualification.

Priority 4 sets out to improve public sector services and as such represents a new area for ESF support. Its performance has been subject to a slow start and a more of a focus on the collaborative agenda than on raising the skills profile of the public sector workforce as originally envisaged. Currently, 26% of the participant target is being forecast to be achieved, along with over 100% of the targets for dissemination initiatives, employers assisted or financially supported, initiatives to support Local Service Board development, collaborative agreements between public service bodies and organisational learning and development strategies.

ESF Competitiveness

i) Commitment and Approvals

The Programme is well on target with commitment at 98% of the EU allocation and 22 projects approved. In addition, the pipeline is strong with a range of projects offering good enough strategic fit to Programme objectives to ensure full commitment and spend.

ii) Results

Good progress is being made against a range of Programme-level indicators with:-

- the targets for participants and participants entering employment already met; and
- nearly 90% of the target for participants gaining qualifications secured.

The 14,000 participant target and the 3,500 target for participants entering employment for Priority 1 have already been exceeded. Good progress at 78% is also being made towards the target of 4,200 participants gaining a qualification.

The 12,600 participant target for Priority 2 has been exceeded and nearly 100% of the 5,450 target for participants gaining a qualification has already been achieved.

In conclusion, targets for both ESF programmes are being re-negotiated with the European Commission. The majority of targets are being increased to reflect both the high performance to date and the high levels of future activity forecast by approved projects and those in the pipeline. A small number of targets are being reduced to reflect the refocus of Programme activity to address shifts in the labour market and address the increase in levels of youth unemployment.

Commitment levels

- WEFO has achieved all programme annual expenditure targets (n+2) to date, including this year's end of calendar year targets for the ESF programmes. This is despite the difficult economic climate and the challenges posed by the fluctuating exchange rate with the Euro.

Does the European Commission consider the various projects/actions funded by European Structural funds in Wales (for 2007-2013) to be delivering value for money?

- WEFO has adopted a strategic approach with a stronger focus on objectives, outputs and outcomes to secure a more effective use of the funding by avoiding waste and minimising duplication.
- Through a stronger emphasis on open and competitive procurement there is, at project level, an assurance that maximum value for money and benefit is achieved

- WEFO monitors project performance closely through regular project reviews meetings and de-commits funding from under-performing projects for re-cycling to new or approved projects.

The 2007-2013 programmes have made a significant contribution to addressing the impacts of the recession in Wales through schemes such as ProAct and ReAct,

Does the European Commission have any concerns about the availability of public sector match funding in Wales or in the use of the Welsh Governments Targeted Match Fund?

Public match funding is turning out to be a critical issue across Europe for structural funds programmes owing to the economic downturn and the effects of the financial crisis. The Comprehensive Spending Review which was implemented as a result of the public finance deficit in the UK led to a significant reduction of WAG budget. Members of the Committee are aware that the budget has been substantially reduced and will be under continued pressure in the coming years. However, WEFO is confident that existing commitments will be honoured.

- WEFO closely monitors the match funding position of each project at its review meetings with sponsors.
- WEFO will consider the possibility of front or back loading structural fund payments to projects, and reviewing the project intervention rates on individual case by case basis.
- WEFO agreed revised EU intervention rates with the European Commission in 2009 – this allows greater flexibility to mitigate potential match funding pressures.
- The All Wales Programme Monitoring Committee is kept informed of the impact of the Comprehensive Spending Review on match funding.
- The Welsh Government has committed a match funding pot of ‘last resort’ called Targeted Match Funding to match-fund projects which struggle to secure appropriate match funding from other sources.
- WEFO agreed revised EU intervention rates with the European Commission in 2009 – this allows greater flexibility to mitigate potential match funding pressures. However whilst higher intervention rates were agreed with the Commission as part of its support to the economic recession, the Welsh Programmes have been able to continue to secure match-funding.

How effectively does the European Commission believe the Welsh European Funding Office (WEFO) have monitored and evaluated the impact of projects?

The evaluation and monitoring systems implemented by WEFO are regarded by EMPL as cases of good practice. Regular meetings with projects sponsors enable WEFO to keep track of the projects' physical and financial performance. The Evaluations are supervised by an Evaluation Committee, where Commission representatives together with programme partners participate.

- WEFO has strengthened the evaluation arrangements for 2007 -13 programmes at programme and project level, building on lessons learned from the evaluation of the 2000–06 programmes.
- Progress of programmes is monitored through a comprehensive set of indicators at priority level covering activities and results. Impacts are measured through evaluation activity.
- WEFO also uses *tracking* indicators - provide the overall context for assessing progress in each region. These include economic data, labour market data, innovation, skills, enterprise as well as data on social cohesion.
- There is clear guidance for project sponsors on how outputs and results should be reported and this is reinforced at regular project review meetings.
- The participant database, for ESF, allows WEFO to track the journey undertaken by participants as they progress from unemployment / inactivity to employment.

Does the European Commission have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current round of Structural Funds?

- All Welsh projects are required to address the future sustainability of their activities as part of the business planning process. Not all projects will be sustainable as evaluations will indicate which interventions best meet Programme objectives.
- Investments in training and up-skilling people intend to deliver long-term benefits.
- In line with EC regulations, EU funds exist to add value to strategies for growth and jobs, and not to support the core activities of organisations.
- Benefits of the delivery of the programmes and projects will still accrue after the Funds have been spent – for example through the long-term investment in people through training and up-skilling.

Does the European Commission consider the private sector to be sufficiently engaged in accessing European Structural Funding in Wales? How does Wales compare to other parts of the EU in terms of engaging the private sector in the EU Structural Funds programmes?

- Delivery of programmes is focused on supporting businesses and helping people into work and training, but WEFO focuses more on who the beneficiaries are rather than who leads the project.

- Despite being encouraged to come forward with innovative proposals, there are few private sector led projects. 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 post 2013 programmes it will be important to explore how the EC's proposed simplification measures can be maximised to encourage participation.
- Public sector organisations frequently act as the conduit for the private sector to obtain flexible and easy access to EU funds.
- At 31 December 2011, the estimated value of procured delivery contracts for approved projects (ERDF + ESF) is £1 billion. Those projects with completed procurement exercises have awarded contracts worth some £700m to organisations, of which £380m is to private sector organisations and £107m to the third sector.

In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes. In its July 2010 report, the Enterprise and 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?

- WEFO agreed revised EU intervention rates with the European Commission in 2009 – allowing greater flexibility to mitigate potential match funding pressures.
- However, whilst higher intervention rates were agreed with the Commission as part of its positive support to the economic recession, the Welsh Programmes have been able to continue to secure match-funding, as such higher intervention rates have only been considered as an exception rather than the rule when appropriate match funding can not be leveraged into the project but the overall impact of the project has been assessed sufficient enough to warrant a higher intervention rate.
- As such WEFO has been able to secure the overall size and scale of the Programmes.

Inquiry into the effectiveness of current EU Structural Funds programmes 2007-2007 led by the Finance Committee of the Welsh National Assembly – Contribution from DG REGIO

To what extent does the European Commission 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?

November 2011 commitment data shows that good progress is being made towards the agreed Lisbon earmarking targets (70 % for Convergence and 75 % for Competitiveness), particularly with regard to the Competitiveness programme. In West Wales and the Valleys, current Lisbon earmarking accounts for around 65% of expenditure whereas the figure is approximately 68% in East Wales. The breakdown of commitments by categories clearly shows that the funds are mainly earmarked for R&D activities and support for business.

Key indicator targets are likely to be met with some exceptions. The review of indicators is on-going in light of project and thematic evaluations.

The economic recession together with unfavourable market conditions and lack of business confidence have had a negative impact upon some indicator achievements. For example, in the Convergence area, the investment induced indicators are forecast to achieve 80% of the programme target and will remain a challenge until closure of the programme

DG REGIO is monitoring closely the financial and physical achievements of the programmes and is kept regularly informed by WEFO (mainly, via the PMC reports, the Annual report and the Annual examination meeting).

Does the European Commission consider the various projects/actions funded by European Structural funds in Wales (for 2007-2013) to be delivering value for money?

Value for money is measured at the selection phase of the projects. On-going thematic evaluations are being conducted to determine whether the projects approved to date represent the optimum balance of interventions to achieve the objectives set out in the operational programmes. Among other objectives, these evaluations are geared towards assessing whether the investments made within the priorities are adding value to national policies.

The evaluations will be completed by late march 2012. DG REGIO will be examining the reports in order to gauge the effects of its policy in Wales.

ERDF programmes complement the policy actions undertaken by the Assembly. As such, they add value to the objectives pursued by the Assembly.

Does the European Commission have any concerns about the availability of public sector match funding in Wales or in the use of the Welsh Governments Targeted Match Fund?

Public match funding is turning out to be a critical issue across Europe for structural funds programmes owing to the economic downturn and the effects of the financial crisis. The Comprehensive Spending Review which was implemented as a result of the public finance deficit in the UK led to a significant reduction of WAG budget, in particular the Capital budget.

Members of this Committee are aware that the TMF capital budget has been substantially reduced and will be under continued pressure in the coming years. However, WEFO is confident that existing commitments will be honoured.

To counter these match funding pressures, WEFO is working closely with individual project sponsors to establish potential solutions at project level. A number of projects have been re-profiled so that the structural fund payments are back loaded to reflect the availability of public sector resources. Project intervention rates may be revised upwards on a case by case basis. However, this would restrict WEFO's ability to fund the pipeline of projects awaiting support.

How effectively does the European Commission believe the Welsh European Funding Office (WEFO) have monitored and evaluated the impact of projects?

DG REGIO services take the view that the evaluation and monitoring systems implemented by WEFO are cases of good practice. Regular meetings with projects sponsors enable WEFO to keep track of the projects' physical and financial performance. The Evaluations are supervised by an Evaluation Committee, where Commission representatives together with programme partners participate.

The thematic evaluation studies commenced in September 2011 are investigating whether the projects approved to date represent the optimum balance of interventions to achieve the objectives set out in the Operational Programmes. In addition, progress of the Programmes in achieving these objectives is being assessed. Lastly, the evaluation will report on the likelihood of WEFO achieving Programme targets. The studies will be finalised in March 2012.

Does the European Commission have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current round of Structural Funds?

The current round of programmes has seen the introduction of Strategic Frameworks. These are a key tool used to inform the assessment, selection and prioritisation of projects for European funding in compliance with the programme strategy.

In relation to the transformational aim of the OP, all projects are assessed for their legacy contribution, their value contribution and their capacity to achieve the exit strategy.

DG REGIO is of the opinion that maintaining the strategic line through the selection process and monitoring closely project performance provides assurance that the programmes will deliver their desired outcomes. However, there is always the possibility of unforeseen circumstances (i.e. an economic recession, a change in macro-economic conditions) that could negatively impact upon the long-term impacts of the programmes.

In addition; the current programmes have made substantial investments in financial engineering instruments (JEREMIE, JESSICA). The legacy fund generated by the instruments will be ploughed back into the Welsh economy to assist SMEs, as happened in the previous programming period.

Does the European Commission consider the private sector to be sufficiently engaged in accessing European Structural Funding in Wales? How does Wales compare to other parts of the EU in terms of engaging the private sector in the EU Structural Funds programmes?

In comparison with other countries, the UK has always been at the forefront in engaging the private sector in the ERDF programmes.

As to Wales, the private sector has always been closely associated with the development and delivery of the European programmes. The private sector is represented on both the Programme Monitoring Committee 2007–2013 and also on the European Programmes Partnership Forum which has been established to ensure a true partnership approach to post-2013 programme development.

Private sector engagement in the 2007–2013 programming period has been relatively strong. The Structural Funds programmes have invested £730 million, including match funding, in projects supporting businesses. These include public sector-led schemes, such as JEREMIE, which has already committed some £75m to over 360 SMEs.

The Private sector is also benefiting from the procurement opportunities of EU Structural Funds projects, having already won £370m (57%) of the total reported contracts to date.

However, there are very few private sector led projects (EU funds of some £20m approved for private sector led projects in Wales) as Wales is primarily a public-sector economy. Thus, consideration needs to be given to how best to engage the private sector more extensively in the future. WEFO is exploring ways of encouraging greater private sector involvement and overcoming obstacles to accessing EU funds. For instance, increased use of financial engineering instruments such as JEREMIE and JESSICA could be envisaged.

In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes. In its July 2010 report, the Enterprise and 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?

Members of the Committee shall be aware that the structural funds programmes are governed by the "additionality" principle which implies that the contribution from the structural funds cannot replace expenditure by the Member State. Furthermore, the intervention rates negotiated by regions depend upon the economic and budgetary context within the relevant region. Lastly, it can be argued that increasing the intervention rate reduces the value of the programme and its likely outputs.

The intervention rates agreed during the 2007 negotiation of the Welsh Operational Programmes were predicated on a steady growth in public sector expenditure coupled with an anticipated continuation of very strong performance in leveraging in private co-financing. The changed economic climate and the fiscal tightening in the public sector have had a negative impact upon the capacity of the programmes to meet these conditions.

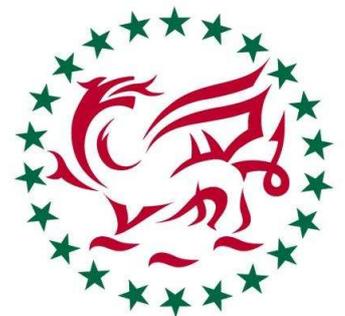
The 2009 revisions to the Welsh operational programmes respected the "additionality" principle whilst ensuring continued effective delivery of programme outputs.

The increases in intervention rates were targeted on those parts of the programme facing particular difficulties. The European Commission approved the proposed changes on the basis that the original commitments in sterling (based on exchange rates when the programmes were approved) would not be reduced, i.e. the higher intervention made up for the exchange loss but did not reduce public sector match funding below the level to which the Welsh Assembly Government committed itself in the original Operational Programmes.

FIN(4)-02-12 Paper 3

WLGA Response to the National
Assembly for Wales' Finance
Committee Inquiry into the
Effectiveness of European
Structural Funding in Wales

January 2012



WLGA • CLILC

INTRODUCTION

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. WLGA welcomes the opportunity to contribute to the National Assembly for Wales' Finance Committee Inquiry into the Effectiveness of European Structural Funding in Wales and sincerely hopes that the recommendations and outcomes of this inquiry will contribute to the planning and preparations for the new round of European Structural Funding Post 2013.
4. This response has been put together in consultation with all local authorities across Wales. WLGA will respond to the questions as set out under the terms of reference for the inquiry.

Answers to the Consultation Questions

Question 1: To what extent do you consider the Convergence and Regional Competitiveness and Employment Programmes in Wales for the 2007-2013 period, to have achieved – or to be achieving – their intended objectives?

5. The latest data from the reports to the All Wales European Structural Funds Programme Monitoring Committee meeting in December 2011 suggest that both programmes are on course to deliver their objectives in terms of commitment levels, spend and indicators thus it looks very likely at this stage that both programmes will achieve their targets. Further, it seems that individual projects are achieving, or are on course to achieving, their specific targets.

6. However it remains unclear at this stage what the impact of the programmes will be in terms of contributing towards economic renewal across Wales. In terms of the ERDF Programmes in particular it is too early to ascertain what the real impacts will be as most of the physical regeneration and strategic infrastructure projects have only been approved within the last 18 months or so and will take time to achieve real impacts such as job creation.
7. There is too much emphasis in the current programmes on monitoring project expenditure at the expense of capturing the quality and impact of interventions. There needs to be much more emphasis in the next programming period on capturing the results and impacts that projects are achieving so that much more emphasis is placed on achieving sustainable outcomes. We welcome the emphasis placed on achieving results and outputs in the draft legislative proposals for the future programmes published by the European Commission in October 2011 and hope that this will lead towards much more emphasis in the new programming period in Wales on achieving sustainable outcomes. This will make it easier to assess if interventions are making a real difference to the Welsh Economy.
8. It does not seem that the programmes will achieve one of the key objectives of the Welsh Government for the current round of European Funding, namely securing a more strategic approach to the implementation of the programmes that would lead to more strategic delivery on the ground. This is mainly due to the requirement to undertake procurement as part of project delivery which has meant that there is a lack of sufficient knowledge of what is being delivered. Due to the scale of the requirement to undertake procurement of project delivery it is impossible for WEFO to control what is delivered and where. This means that it is not in a position to identify and avoid potential duplication of activity.
9. Further, the fact that so many large scale national and programme wide projects were approved without any idea of how they would be delivered on a regional and local level has made it impossible to ensure strategic delivery. This also caused delays in terms of taking forward many local government led, any other projects, during the first two years of the programmes as in many instances they had to wait for the larger scale national and programme wide projects to be approved before they could proceed their already developed projects. This led to frustration on the ground and needs to be avoided in the future programming period. There needs to be clarity as early as possible at the start of the future programming period regarding

any national and programme wide projects and, crucially, how they will be delivered on a regional and local level.

10. The fact that there is an on-going open call for proposals in the current programming period and a totally bid-led process also works against strategic delivery thus we would welcome a better planned approach to bringing projects forward in the future programming period.
11. All these factors make it challenging to ascertain what impact some of the funds are having within some parts of the programmes and in some geographical areas.

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

12. It is extremely difficult to assess whether individual projects are delivering value for money due to the lack of data available. The need to obtain value for money is a key consideration for everyone involved in the Structural Funds, from the European Commission to WEFO and lead project sponsors, thus there is always a requirement to ensure that this is achieved.
13. In delivering value for money in relation to the European Structural Fund Programmes in Wales there is a need to recognise and take into account that market failure in most parts of West Wales and the Valleys, in particular in the more rural and peripheral areas, and in more deprived communities such as in the Heads of the Valleys area, where the private sector is unlikely to invest, means that any public sector interventions needs to play a more important role in levering in investment and projects.
14. In order to better assess if projects are delivering value for money information on projects' outputs needs to be available on a local authority area basis. As this information is collected as part of the WEFO claims process we believe that it should be made available in order to assess the impact of the programmes on a local and regional level, and, crucially, to identify any potential gaps in delivery.

Question 3: Do you have any concerns around the use of the Targeted Match Fund? Do you have any concerns around the use of Welsh Government departmental expenditure, as match funding? What impact do you believe public sector cuts have had (and may have) on the availability of public sector match funding?

15. We welcomed and supported the establishment of the Welsh Government's Targeted Match Fund Pot (TMF) at the beginning of the programming period and the fact that it has enabled many local government led regeneration projects to proceed. However, from the start, and indeed during our involvement in the discussions in setting up the fund, we voiced our concerns regarding a number of aspects regarding this Fund.
16. Our main concerns regarding this Fund is that it was set up as a completely separate application process by officials in a different Welsh Government department based on appraisal criteria that were different to those applying for the Structural Funds. This led to unnecessary duplication and bureaucracy. Other concerns include the lack of openness and transparency in the process, with lead project sponsors not kept fully informed of the progress of their applications and not given an opportunity to make their case directly to the TMF panel. There has also been lack of communication and clarity regarding the process and decisions made. Further, major changes to the guidance for the business plans for applying for TMF half way during the current programming period proved to be extremely challenging for many applicants.
17. The nature of the fund, with annual approval, with the need to spend allocations within the specified financial year, has proved extremely challenging when managing extremely complex funding packages for delivering capital projects within the ERDF programmes in particular. The delays in decisions regarding TMF applications has also caused a number of difficulties for many project sponsors in terms of adhering to delivery profiles. This is one of the reasons why many project sponsors have had to re-profile their planned expenditure on a number of occasions.
18. There is no doubt that public sector cuts have impacted on the availability of match funding during the current programming period. As a result we supported the work of WEFO in negotiating higher intervention rates for some parts of the ERDF programmes, which enabled a number of local government led capital projects to proceed.

19. The scale of the cuts across the public sector will make it more challenging to find match funding in the new programmes. As a result every opportunity to assist in this will need to be explored. A specific match funding pot will be essential for the next programming period but this has to align with the Structural Fund processes and be much more flexible and open than the current TMF pot. Further, clarity around other potential Welsh Government departmental match funding sources will be critical early on in the new programming period.
20. In the future programmes we will need to work together in order to lever maximum value from financial packages which utilise Welsh Government departmental budgets such as the Centrally Retained Capital Fund, funding for Regeneration Areas, the new Communities First Programme, education and skills, and other organisations' budgets such as the Big Lottery and Job Centre Plus etc to add value to the European Funding. This needs to include how to make more use of match funding the European Funds at source to make it easier for businesses and communities to access this much needed funding in the future.
21. This will also need to include negotiating for higher intervention rates for future investments in capital infrastructure in particular. It will also need to include more creative thinking about how we fund capital infrastructure projects in the future, including accessing funding from other EU sources such as the Connecting Europe Facility for Infrastructure investments and maximising the borrowing potential of local government, to act as a catalyst for further investments from the private sector.
22. It will also need to include exploring the potential to develop new delivery models, including more use of global grants, ring fenced allocations and delegated budgets that would be more sustainable and more likely to achieve long term regeneration outcomes. We welcome the opportunities presented in the draft legislative proposals for the future programmes which allow and advocate the development of such models and will be exploring some of these options in depth over the coming weeks and months as we start to develop our thinking around the shape of the future programmes for Wales.
23. We would welcome an early discussion with WEFO and other Welsh Government departments regarding the nature of match funding options to deliver the new programmes.

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

24. The evaluation work done by WEFO during the current programming period, along with the requirement for all projects to undertake evaluation, has proved to be effective on the whole. However, there continues to be room for improvement, such as in relation to capturing some of the more indirect outcomes of investments.
25. There is more room for improvement on the monitoring side. Our main area of concern regarding this is the lack of detailed monitoring information at any sub-regional and local level. As information on outputs achievements is not available on a local authority area basis it is extremely difficult to evaluate the impact of interventions on the ground.
26. The only information currently available at a local authority area level is high level information for indicators without any breakdown. This is disappointing and frustrating as WEFO collates this data as part of the claims process. The availability of this data would be extremely useful for local authorities and others to monitor and evaluate the impact of interventions on the ground, and, crucially, to identify any potential gaps in activity. Without this data it is impossible to ascertain the impact of national and programme wide projects at a sub-regional and local level.

Question 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?

27. It is extremely important to evaluate which interventions have been most effective in the current programming period in order to identify what could potentially be sustained into the new programmes for 2014-2020.
28. We are keen to build on and strengthen some of the best examples of local government led, and other, regional collaborative approaches and models developed in the current programming period in order to establish effective models for delivering projects in the new period.

29. We would also welcome some clarity regarding which large scale interventions Welsh Government Departments wish to deliver in the new programmes as early on as possible so that key partners and stakeholders are aware of these and any opportunities to deliver some of them.
30. Early identification of potential projects to be funded in the new programming period would avoid the two year delay experienced at the start of the current programming period as a result of a completely new way of delivering the funds, the obsession with procuring delivery and the lack of clear and consistent guidance. Although some procured delivery will continue to be required in the new programming period this must be balanced by the ability to offer competitive global grants.
31. Although we welcome the use of financial engineering instruments in the current programming period, such as JESSICA and JEREMIE, we are yet to be convinced that we have the right model in place, in particular regarding the Regeneration Investment Fund for Wales. We are extremely keen to ensure that any future model developed is better designed to reflect the reality of the market conditions in most parts of Wales so that it is a much more attractive offer for businesses and communities.

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

32. Local Government is a key partner in the delivery and implementation of the Structural Fund Programmes for Wales. It is involved in direct project delivery across all the programmes in a number of different ways as follows:
- **as a Lead Project Sponsor:** one Local Authority leading on a project on behalf of a number of other local authorities;
 - **as a Joint Sponsor:** Local Authorities either working in a joint sponsorship arrangement with each other or with other organisations as well;
 - **as a Contracted Project Deliverer:** Local Authorities contracted to deliver Welsh Government led projects;

- **as a Procured Project Deliverer:** Local Authorities have the opportunity to tender to deliver activities via Welsh Government and other organisations' umbrella 'strategic' projects;
- **as a Project Sponsor:** one Local Authority developing a project for delivering in its own area.

33. Local Government is a key partner in the Specialist European Teams (SETs) which provide support, advice and guidance to potential project sponsors and applicants across Wales. SET Outreach officers are based in Local Authorities and work within a regional structure where they form part of the three regional SETs along with officers from the Welsh Government Departments for Business, Enterprise, Technology and Science (BETS), Education and Skills and the Wales Council for Voluntary Action.
34. Local Authority European Officers have developed expertise in supporting, assisting, guiding and facilitating potential project sponsors and applicants to access European Structural Funds over a number of programming periods. This needs to be fully recognised and taken on board when developing supporting structures for the new programming period.
35. The WLGA represents local authorities on the Programme Monitoring Committees for all the programmes and is a key advocate of their interests across all programmes. It also aims to ensure that local government is fully involved in all the programmes and that local authorities maximise the opportunities available across all programmes. It supports and advises local authorities regarding their involvement across the programmes and represents their interests on various WEFO, SETs and project specific groups.
36. Local Authorities have found the process for accessing European Structural Funds in the current programming period to be bureaucratic, cumbersome, complex, ever changing and frustrating.

37. The lack of clear and consistent guidance has been a major issue in the current programming period and has led to a lack of consistency of approach and advice from WEFO. It has also affected the ability of the Specialist European Teams to provide clear advice to project sponsors. We welcome the efforts by WEFO to address this over the last two years in terms of updating and clarifying a number of key guidance documents, including its procurement guidance. Comprehensive and clear guidance as early as possible has to be one of the main priorities for the future programming period.
38. Some project delivery arrangements have been overly complex, especially “umbrella” projects such as those approved within the Environment for Growth theme of the ERDF Convergence Programme. By procuring delivery these projects, mostly led by Welsh Government Departments and Sponsored Bodies, have created over complicated processes, obstacles and difficulties in terms of the scale of the controls put in place and the sheer levels of information requested from procured delivery partners. Many local authorities have experienced extreme requirements for information when procuring activities from these projects. Such extreme requirements have led to unacceptable delays in approving and delivering projects, for example, in some instances it led to three years delay in getting money out to end beneficiaries. This is unacceptable and must be avoided in the future programming period.
39. Further, business planning processes need to be more receptive to the scale of the projects and schemes and levels of risks involved. There are many examples of where this has not been the case in the current programming period and this has impacted on the timely and effective delivery of projects.
40. Many local authorities have also experienced variable levels of expertise in the project management teams of such “umbrella” projects, and other Welsh Government led projects, which has led to over-interpretation of eligibility rules, audit and compliance requirements, and misleading, or even incorrect advice. In many instances experienced local authority SET outreach and European Officers have had to rectify

inaccurate advice and guidance. Lessons need to be learned from these experiences as we start to develop project ideas for the future programmes with more emphasis placed on ensuring more effective project management skills and capacity across lead project sponsors.

Question 7: Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?

41. Most private sector organisations and companies have no interest in being a lead project sponsor due to the bureaucracy that involves. However, they wish to access and benefit from the funding.
42. There are many opportunities in the current programming period for the private sector to directly benefit from a number of projects. SET outreach and other officers in local authorities play a key role in enabling, assisting and supporting local companies to access funding from local government led and other projects. These include projects such as the Local Investment Fund, Property Development Fund and Town Centre Regeneration schemes where the local authorities take all the bureaucratic requirements and risks on their behalf and simplify the processes for private sector companies to access funding. There are many other projects, led by the Welsh Government and other organisations, aimed at directly supporting businesses.
43. European State Aid restrictions do impact on the ability of local authorities and others to provide direct support to businesses, in particular in the East Wales Competitiveness area. However, apart from the number of projects offering direct support to businesses, in particular in the West Wales and the Valleys Convergence area, there are projects across both programme areas which aim to create a better environment for businesses to thrive, in line with the aims of the Welsh Government's Economic Renewal Programme.
44. More effort will need to be made in the new programming period to attract more match funding from the private sector, in particular as part of the financial packages that will need to be developed to fund major capital infrastructure projects. It will also be important to ensure that the private sector in Wales is fully aware of, and takes full advantage of some of the new initiatives developed at the European level for the next programming period aimed at attracting investments from the private sector, such as the proposed Connecting Europe Facility for funding large scale infrastructure

investments in transport, energy and broadband and the plethora of financial engineering instruments, aimed at attracting the involvement of the private sector in major projects.

Question 8: In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes. In its July 2010 report, the Enterprise and 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?

45. We supported WEFO's case for increasing the intervention rates in 2009 in light of the economic recession and welcomed the successful negotiations of the changes, in particular in those parts of the ERDF programmes of most direct interest to local authorities, namely the physical regeneration and strategic infrastructure themes. This has enabled more local government led projects to proceed to approval within these parts of the programmes.
46. In light of the scale of the cuts across public sector budgets the need to negotiate high intervention rates will be paramount in the next programming period. However, care has to be taken as higher intervention rates means that the size of the overall programmes shrinks. As a result a delicate balance will need to be achieved when negotiating the new programmes for Wales with the European Commission and every effort explored in terms of maximising all potential avenues and sources of potential match funding.

For further information please contact:

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FIN(4)02-12 Paper 4



**National Assembly for Wales – Finance Committee
inquiry into the effectiveness of European Structural
Funding in Wales**

Nicky Howells

January 2012

NOTE: The responses to the questions below are specific to the context of the FE sector in the South West Wales region, and relate directly to the projects that are known to the respondent.

1. To what extent do you consider the Convergence Programme in Wales for the 2007 - 2013 period, to have achieved - or to be achieving - the intended objectives?

To prepare young people for future employment by raising aspirations and increasing participation in learning.

Priority 1 interventions in the 16 - 19 age group have impacted positively upon the student body. The provision of additional support has both prevented disengagement and improved attainment. This is evident through the completion of learning programmes and the achievement of qualifications, both of which underpin employability.

Early interventions improve the probability of achieving higher levels of educational attainment and longer term employment outcomes.

The ENGAGE project is jointly sponsored by FEIs and LAs throughout the south west region, and has been instrumental in the development of closer working relationships across the region, and the sharing of good practice.

To raise levels of employment and economic activity, and secure higher participation in the labour market.

Priority 2 regional projects provide targeted support for those with work limiting health conditions, the disadvantaged and those under formal notice of redundancy. Whilst the FEIs have not directly sponsored projects within this priority, they have successfully tendered for sub-contracted provision through the procurement process.

To support productivity and progression in employment by raising skills levels at the levels of basic skills, intermediate and higher level skills, to tackle skills gaps and shortages, and to promote gender equality in employment.

The FEIs have utilised Priority 3 funding to radically change their methods of engagement with employers in order to support change and improve productivity levels. Access to the curriculum is more flexible, with a greater emphasis on the delivery of learning in the workplace, in line with employer demand. There is now provision in place to support the improvement of basic numeracy, literacy and IT skills and to deliver relevant vocational qualifications and level 2 and above.

Pembrokeshire College is sponsoring a Priority 3 project for the energy sector, and this has significantly raised participation and skill levels within the sector.

In addition, there is a regional Priority 3 project under the joint sponsorship of the FEIs. The process of planning the project, preparing the application and establishing the management structure for the successful delivery of the project has fostered close links between the FEIs and is evidence that a strategic approach to learning across the region is beneficial to all concerned. There is a greater degree of responsiveness to employer needs, and opportunities for the FEIs to develop their provision and support employers and their workforces to increase investment and participation in training, thus improving their adaptability and ability to react constructively to the knowledge economy.

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

The projects that the College is involved with are delivering value for money. This is evident through the participation levels, the completion and attainment of learning outcomes and the increased levels of skills and employability.

On a regional basis, the FEIs share best practice, share resources and expertise in order to avoid duplication and to ensure value for money through the delivery of projects.

This is underpinned by the procurement process, which ensures that through competitive bidding for contracts, value for money is achieved. This has also established procedures that lead to a strategic and co-ordinated approach to the delivery of activities.

3. Do you have any concerns around the use of Targeted Match Funding? Do you have any concerns around the use of Welsh Government departmental expenditure as match funding? What impact do you believe public sector cuts have had (and may have) on the availability of public sector match funding?

There is a general concern regarding the planned re-drafting of the Supplementary Guidance on FE Sector Engagement in the 2007 –2013 ESF Convergence and Regional Competitiveness and Employment Programmes. “FE colleges are funded through the National Planning and Funding System (NPFS) directly by the Welsh Assembly Government under the Learning and Skills Act 2000 to deliver a range of local education and training provision in line with Government policy and strategic direction. Thus, where FE colleges are using Structural Funds to extend or enhance the core activity funded through the NPFS as a public funded educational institution they **will, (subject to WEFO being satisfied that identified costs represent value for money and are justifiable)** be able to directly deliver either as an individual project sponsor or as a joint sponsor within a collaborative project without having to offer the delivery to market operators. The underlying rationale for this is that there is no market.”

In the event that this guidance is revised, resulting in FEIs no longer being able to directly deliver, and therefore use NPFS funded provision as public sector match funding for projects, this would severely restrict the capability of the sector to provide the required match funding in order to sponsor projects. This in turn would prevent FEIs from using Structural Funding to deliver additional learning to employers.

For those FEIs who are sponsoring projects that have already been approved, any change in the guidance which relates to the use of NPFS as match funding would in a match funding gap, which would be detrimental to the successful delivery of the planned activity.

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

We have limited experience of the monitoring and evaluation of projects. The systems that have been introduced for the Convergence programme demonstrate a greater focus on the cross cutting themes and facilitate the recording of project outputs and financial transactions. There is however limited scope for the monitoring of strategic delivery and the scope of each project in the context of the overall programme.

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?

The 2007 – 2013 Structural Funding has enabled the FEIs to deliver additional learning and support to participants.

Whilst there are elements of the Priority 1 provision that can be embedded by the FEIs, the current levels of support are not sustainable without additional funding being made available.

On the assumption that employers will significantly increase their contribution towards the delivery costs of such additional training, this may be sustainable for the FEIs to continue to develop their capacity to support company training requirements. This will be conditional upon the continuation of core funding through the Welsh Government.

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

South west Wales FEIs have undertaken to act as lead sponsors for projects, and have committed to joint sponsorship arrangements for regional applications. The application process is robust and vigorous, with regard to gaining approval, but does not indicate the expected level of detail required in order to access the Structural Funds.

The appraisal aspect of the business plan has developed considerably, to include the financial aspects of the projects. Whilst this is useful in terms of proving the viability of projects, it has not reduced the need for the continued justification of eligibility.

The claims process is complex and onerous. The level of detail that is required does not recognise the integrity of the finance systems that are already in place for each FEI.

Each transaction must be recorded individually via the electronic reporting mechanism, which can result in entering the details of 1,200 or more transactions for just three months of activity. Each cost heading transaction must be shown separately for each month, with the associated defrayment details. The system has not been designed to accept this volume of detail, which results in claims being rejected based on their failing to balance. This slows the payments system down considerably, and subsequently requires

the data to be re-configured, once the necessary adjustments to the system have been completed.

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

Private sector companies are holders of contracts with FEIs (as project sponsors), which enable them to access Structural Funding via a sub-contracting arrangement.

Direct applications for projects may not be viable in view the resources required and the time constraints that are necessary in order to successfully access Structural Funds.

It is also difficult for the private sector to provide and evidence match funding.

Whilst the private sector companies can access grant funding, the application process is still onerous and may deter many companies from applying. This is exacerbated by the administrative burden of maintaining the required audit trail and the bureaucracy that accompanies structural funds.

Finance Committee FIN(4) 02-12 - Paper5

The Effectiveness of European Structural Funding in Wales

We would ask the inquiry to note that the Coleg Morgannwg response is largely concerned with the Taf Ely Learning Campus (TELC), which has benefited from £6.7M of Convergence funding.

Consultation Questions

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?

This is very difficult to answer as it assumes a very wide knowledge of all 2007 – 13 Structural Fund provision. Even focussing on the College provision would be difficult as all 2007 - 13 projects still have an operational period to complete and are in various stages of evaluation.

This will only be fully answered when the programme review is undertaken. However in terms of the TELC Project as an example - it is on target to achieve its intended objective in 2012.

In addition, we recognise that the Priority 1 and Priority 2 programmes allow us to offer interventions and much needed support for learners, especially basic skills, that would not have been available otherwise. Without this support, evidence suggests that the learners would not have participated or continued with their learning.

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

In relation to the TELC we would say yes. Value for money has been evidenced by WEFO and internal audits and is on course to achieve business case objectives.

However we would add that the work involved in the application, claiming and monitoring processes seems excessive compared to other funding streams for the Project. We are fully aware of the grant conditions and will ensure we meet them but the financial costs of this are significant.

In terms of the Priority 1 and Priority 2 projects and other EU structural fund provision that the college is a partner in delivering, VfM is ensured by adherence to WEFO and college financial and procurement regulations. Monitoring is undertaken to ensure that all project expenditure is relevant, of best value and directly related to the project outputs and the beneficiary experience. In P1 and P2 where the college is a partner, overall project measurement of VfM is also monitored by the lead partner.

3. Do you have any concerns around the use of the Targeted Match Fund? Do you have any concerns around the use of Welsh Government departmental expenditure, as match funding? What impact do you believe public sector cuts have had (and may have) on the availability of public sector match funding?

No – it allows greater flexibility to utilise structural funds strategically to achieve organisational objectives and WG relevant objectives, especially when no other forms of match are available to support strategically important projects.

Cuts may have an impact but the assessment of the EU structural fund programme, as well as the evaluation results of specific projects will allow an informed approach as to how future, possibly reduced public sector match, can be targeted at the most strategically important projects.

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

This is difficult to answer given where we are in the cycle of funding. In relation to the TELC our monitoring meetings always check that progress is being made in relation to specific targets so that the Project when completed will have the intended impact.

In terms of P1 and P2 the project lead partner(s) report to WEFO the results of any monitoring and evaluation. The evaluation of these two projects is ongoing through 2012.

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?

In terms of TELC not really of concern but greater focus and scrutiny does need to be placed on the strength of project exit strategies particularly where there still remains a strong evidenced need for the services projects provide post their initial funding period. Also, will the strategic objectives of any new EU funding post 2013 link with those of convergence. This would allow current projects that can show a significant future need from beneficiaries to access that funding without a break where key staff, capacity and important services are lost.

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

The college has previously delivered ESF and ERDF projects under the Objective One 2000 – 06 period. Under the 2007 – 13 Convergence funding the college currently delivers one ERDF project (TELC), is a partner in a P1 ESF project and also a partner in a P2 ESF project.

In addition, the college is the lead partner in an ESF funded Employer Pledge and Essential Skills Teacher Training consortia. The college also delivers two foundation degrees under the University of Glamorgan ESF FD programme in Construction and Aerospace.

As mentioned in question 2, the process involved in accessing the ERDF grant for the TELC is significant. Particular issues experienced in this project have been:

- ***Mixed levels of guidance & support, although we of course, appreciate any assistance to safeguard the interests of the College.***
- ***Slow Approval Processes - The project has been subject to a re-evaluation mid-way through the construction phase. The requested information has been submitted to various sources for approval, but due to the rapidly changing nature of such a scheme is soon out-of-date requiring frequent updating. This has caused delays in the review process and results in numerous versions of similar documents being kept for different uses.***
- ***Grant & Project Monitoring – Due to demands placed on the project review it becomes more difficult to focus on the day-to-day financial monitoring of the scheme, which is essential to keep track of the project.***
- ***The length of time a full re-evaluation takes has meant a gap in funding draw down. We understand how important it is to meet the stringent requirement of European Funding and are grateful for the advice and support given by WEFO through this process. However the funds being put on hold during the construction phase has necessitated a re-phasing of the other funding streams, creating additional work.***

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

NA

8. In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes. In its July 2010 report, the Enterprise and 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?

We believe this is really for WG to discuss with EC as it is assumed that they always would seek to make the most of opportunities to benefit Wales.

Jane Hutt AC / AM
Y Gweinidog Cyllid ac Arweinydd y Tŷ
Minister for Finance and Leader of the House



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref

Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

6 December 2011

Dear Jocelyn,

FINANCE COMMITTEE'S REPORT: SCRUTINY OF WELSH GOVERNMENT DRAFT BUDGET MOTION 2012-13 - NOVEMBER 2011

Thank you for your letter of 7 November enclosing a copy of the Finance Committee's Report on the Welsh Government Draft Budget Motion 2012-13.

Since we published our Draft Budget proposals in October, I have been following closely the dialogue around the scrutiny of our spending plans. I have welcomed the broad support around our focus on Growth and Jobs. In these difficult times it is clear that there is a shared commitment to taking action to stimulate economic growth.

I have welcomed the evidence and feedback that Assembly Scrutiny Committees and our partners in local government, business and the Third Sector have provided. As always, this stage of the Budget process has been extremely helpful in focussing our minds on how we achieve our ambitions for Wales within the constrained financial envelope available to us. The scrutiny process has challenged us to look again at what we are proposing and consider how we can do better.

As I said in the Plenary debate on the Draft Budget, I would like to express my thanks to the Finance Committee for your constructive report on the Draft Budget. The Committee raised a number of important issues in its report, many of which were consistent themes raised during the course of the scrutiny. In doing so, however, the Committee acknowledged that the Draft Budget had been produced against the backdrop of a tough financial climate and, importantly, did not suggest any amendments to the resources already proposed.

In preparing the Final Budget, I considered all of the evidence and feedback received during the scrutiny period, including the key themes raised in the Committee's report. Despite the challenging debate that has taken place over recent weeks, there is no overriding evidence to suggest that we need to make fundamental changes to the spending plans proposed in the Draft Budget. We recognise, however, that we need consensus on the measures and actions we are proposing. That is why we have worked closely with Opposition Parties to

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Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)

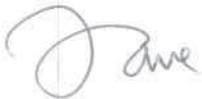
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finesse our proposals. As a result, there are a small number of changes proposed between Draft and Final Budget. These are reflected in the plans I published last week.

In publishing the Final Budget, I said that I would publish a formal response to the Finance Committee Report in due course. I attach at Annex A a note which addresses the specific recommendations made by the Committee.

As I said to the Committee, I keep the approach we take to publishing our Budget under review and I am committed to working with you to explore how we can improve the process, particularly around the transparency and presentation of our proposals. That is why I have already taken steps in the Final Budget Explanatory Note to present the Budget figures as requested in your report.

I look forward to exploring these issues further with the Committee in due course.



Jane Hutt AC / AM

Y Gweinidog Cyllid ac Arweinydd y Tŷ
Minister for Finance and Leader of the House

Annex A

Recommendation 1. We recommend that the Welsh Government continues to work towards ensuring that the intended outcomes of public expenditure- and mechanisms for monitoring such- are consistently identified and published in a timely way that enables effective scrutiny of the sufficiency and value for money of the Welsh Government's budgetary proposals. (Page 21)

The Budget was developed alongside the Programme for Government. The Programme for Government sets out our plans for delivering our ambitions for Wales, what outcomes and improvements in wellbeing for the people of Wales we want to see and how progress will be measured. The Budget sets out how we have started to align more effectively our delivery and spending plans to better demonstrate the changes in outcomes and delivery of the priorities of the Government.

We will be reporting on the progress we have made in delivering changes in outcomes through an annual report on the Programme for Government to be published next year. This information will show how we are continuing to improve on the transparency around planning and reporting on our activities and achievements to demonstrate the difference we are making to the lives of people in Wales. The annual report on the Programme for Government and any future updates to it will prove vital in considering the content of future Budgets.

Recommendation 2. We recommend that in presenting future draft budgets, the Welsh Government provides detail of year-on-year proposed budgetary changes (using the figures from the previous financial year's most recent budget as a baseline). (Page 28)

Recommendation 3. We recommend that in presenting future draft budgets, the Welsh Government seeks to make all relevant and requested information on proposed budgetary allocations (including detail of proposed budgetary allocations within departments, such as BELs) available to National Assembly for Wales Committees, providing a sufficient level of detail for scrutiny in a consistent and co-ordinated manner, at the time of the draft budget's publication, or as close to it as reasonably possible. (Page 28)

Recommendation 4. We recommend that the Minister for Finance responds to the concerns of the Committees of the National Assembly for Wales, and takes on board the views of stakeholders, in order to improve the timeliness and level of detail published in the draft budget proposals, to enable more effective scrutiny of the budget proposals in relation to specific areas. (Page 28)

As I said in my evidence to the Finance Committee, the way we presented our spending plans this year is consistent with the standard approach we have always taken when we have already published a set of indicative figures. However, I know there have been a number of concerns expressed this year around the ability to see year on year changes, the level of detail we provide when we publish the Budget and the consistency of approach in the way information is provided to Committees.

I keep the approach we take to publishing our Budget under review and I am happy to work with the Committee to explore how we can improve the process, in light of the Committee's recommendations around the transparency and presentation of our Budget. As a demonstration of my commitment towards improving the transparency around our Budget proposals, I am presenting the Budget figures in the Final Budget Explanatory Note as requested in the Finance Committee's Report. We are highlighting the year on year changes affecting each Main Expenditure Group (MEG).

Recommendation 5. We recommend that the Welsh Government works expeditiously towards developing a strategic approach towards the utilisation of its capital resources, providing quarterly reports to the Finance Committee on its progress. We recommend that this should provide clarity on which elements of the Welsh Government's planned capital expenditure, and how it will be administered and monitored, are included within the National Infrastructure Plan, to enable scrutiny of such. (Page 35)

Recommendation 6. We recommend that the Welsh Government continues to explore all avenues for increasing and maximising capital funding opportunities and maximising the benefits for Wales. We anticipate this would include a robust analysis of both the short and long-term consequences for Wales of such mechanisms for increasing capital funding. We anticipate the Welsh Government would also provide us with quarterly reports on the matters raised in these recommendations. (Page 36)

As I acknowledged in my evidence to the Finance Committee, the development of Wales Infrastructure Investment Plan and the work we are doing to develop innovative approaches to financing infrastructure investment, are important developments and ones I know the Finance Committee will want to scrutinise further.

I was pleased to be able to provide the Assembly with an update on progress on these important initiatives last month when we launched our strategic investment programme to support public services and the Welsh economy. As part of this, I confirmed that I intend to publish an outline version of the Wales Infrastructure Investment Plan in spring 2012. I would be happy to provide further updates to the Committee whenever appropriate, including a progress report around the time I will be launching the Plan.

Recommendation 7. We recommend that a full equality impact assessment is carried out for all proposed allocations within the Welsh Government's final budget. We anticipate this would be accompanied by an assessment of the budget's impact on the development of the Welsh Language. (Page 45)

We have placed the equality assessment at the centre of our budget processes when developing our spending plans. At Final Budget stage last year, we included an Equality Impact Assessment of our Budget proposals. We were the first UK Administration to undertake a comprehensive Equality Impact Assessment of our spending decisions – a move which was warmly welcomed by many across Wales.

This year, at Draft Budget Stage, we published an update to the three year Budget assessment reflecting any changes in those areas where we have made additional allocations or where we have realigned budgets.

Alongside the Final Budget, I published a consolidated account of the work undertaken to assess the equality impact of our spending decisions. In doing so, I confirmed that an equality impact assessment will also be carried out on the additional allocation of £20 million for the Pupil Deprivation Grant in 2012-13.

In terms of an assessment of the Budget's impact on the development of the Welsh Language, it is different to, and separate from, the equalities impact assessment process within the Welsh Government. Our responsibility for promoting the use of the Welsh language is reflected in our Welsh language scheme, as approved by the Welsh Language Board in March 2011. This commitment is supported by the integration of a Welsh language questionnaire into the Welsh Government's policy-making process. The policy-making process is used by all Welsh Government Departments and every Welsh Government Directorate has to prepare and maintain a Welsh Language Action Plan, in accordance with our Welsh Language Scheme. The Welsh Language scheme and the action plan, together with the

integration of the Welsh language questionnaire into the policy process, provides a specific methodology for screening the Welsh language.

Recommendation 8. We recommend that a full Sustainability Impact Assessment is carried out for all proposed allocations within the Welsh Government's final budget. (Page 45)

Sustainable Development is the central organising principle of the Welsh Government. In response to a request from the then Sustainability Committee, I wrote to the Committee on 1 March 2011, in my previous capacity as Minister for Business and Budget, to set out how we assessed the impact of last year's Budget proposals on sustainable development.

In summary, consideration of the impact on sustainable development has been mainstreamed into all aspects of the budget planning process, rather than being assessed as a discrete exercise. Consequently, there is no single document setting out this work. Rather, our commitment to sustainable development has underpinned the process for collecting the evidence to support our decisions, it has shaped the analysis of our options, and ultimately it is reflected in the Budget proposals that we have published.

Recommendation 9. We recommend that the Welsh Government engages in dialogue with Local Health Boards to ensure that their service plans are finalised and made publically available as soon as possible, and that the Minister then reports on whether the funding available to Local Health Boards will be sufficient to deliver such plans (Page 55)

Local Health Boards have the legal responsibility for planning health services for their local population. Following recent structural changes, the Boards have been reviewing all their services and the current financial situation contributes a new complexity to that work. Their planning should as a matter of course be formulated with a clear understanding of likely future funding available to them.

Guidance is quite clear that the Boards need to work closely with Community Health Councils on developing proposals for change, and that, where appropriate, these should be tested through consultation with the public. Boards should also have an ongoing, continuous process of engagement with local communities on health issues.

The Minister for Health and Social Services sets the policy framework and ensures the local planning process is rigorous and fair but it is not her role to approve these plans. The National Clinical Forum will ensure local plans are in the best interests of patients and based on sound clinical advice. It will also consider important interdependencies that require a regional approach to ensure the best solutions for Wales.

The plans will encourage people to take an interest in the NHS services they pay for and rely on. The NHS will need to explain health issues better and engage fully with local communities. The Health Minister has been clear that this is not about money but the changes we propose in Together for Health will force the NHS to use its resources well.

There is no reason to believe that the additional funding we are providing to the NHS in the Draft Budget will be insufficient for them to deliver their service plans.

Recommendation 10. We recommend that the Welsh Government clarifies the role of its delivery unit in ensuring the delivery of the outcomes intended to be enabled by the draft budget. We anticipate this would include clarity of the role of the delivery unit in both monitoring the delivery of outcomes, and enabling appropriate action to be taken where outcomes are in danger of not being realised. (Page 60)

The Welsh Government is entirely committed to delivering the actions in the Programme for Government. The First Minister was clear in his statement of 13 July that the Delivery Unit would help to ensure integrated and streamlined

delivery of strategic government priorities. It will add value and rigour - it will not do others' jobs or impose a bureaucratic burden. The First Minister's statement also confirmed that he would hold Ministers and Departments to account for progress on these priorities.

Dame Gill Morgan DBE
Ysgrifennydd Parhaol • Permanent Secretary



Llywodraeth Cymru
Welsh Government

Jocelyn Davies AM
Chair – Finance Committee
National Assembly for Wales
Cardiff Bay
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Dear Jocelyn

13 January 2012

Thank you for your letter of 8th December, in which you asked for information relating to the Welsh Government's draft budget for 2012-13. You asked for:

- information regarding the £1.2m increase to staff costs in 2012-13; and
- an explanation for the year on year reductions to the staff costs action.

The answers to your questions are:

- The increase to the staff costs action in 2012-13 is partly due to a transfer from non-pay central services budgets (£1.0m) and partly due to a transfer of functions from DEFRA (£0.2m).
- The year on year reductions to the staff costs action are due to the public sector spending cuts introduced by the UK Government.

Before I expand on these answers, I thought it may help if I provided some background and context to the Central Services and Administration (CS&A) MEG budget and particularly the staff costs element.

There have been a number of significant changes to the CS&A MEG over the past two years which have contributed towards an overall revenue budget reduction of £54m, from the 2010-11 budget of £361m (as included in the October 2009 draft budget) to the planned 2013-14 budget of £307m (as included in the October 2011 draft budget).

Whilst some of these changes relate to transfers into and out of the CS&A MEG, the most significant change has been the contribution the CS&A MEG has made towards the public sector spending cuts imposed by the coalition Government in Whitehall. In proportion to its budget, Ministers decided that the CS&A MEG would be asked to make the joint largest revenue budget cut (along with the Public Service and Performance MEG) of around 12.5% over the three years. As a consequence, between 2010-11 and 2013-14 the CS&A MEG budget is planned to reduce by some £43m.

As the CS&A MEG largely consists of running costs, we have inevitably had to look to reduce our staffing costs to keep within budget. This explains why the staff costs budget reduces by around £10m per annum between 2010-11 and 2013-14 (the remainder of the required cuts arise out of non-pay elements). The severance schemes we ran during 2010-11 and 2011-12 have made a significant contribution towards achieving these staff cost reductions and I am working with my management team to assess what more needs to be done.

Clearly, we have had to face some difficult decisions as reducing our staffing budgets by around £30m over 3 years would require a reduction to our workforce of around 1,000 posts. To mitigate this slightly, I have been able to identify some non-pay related budgets where we can either make savings or reduce costs and in so doing free up funding to enable us to reduce the number of staff posts we must lose. The non-pay budgets affected are largely for audit, accounting services, geographical information and research and are where we have either been able to: renegotiate better contracts; use our budgets more flexibly; or sought better value by bringing externally provided services in-house. As a result, we have been able to identify £1.0m per annum to transfer into the staff costs budget.

In addition, the Welsh Government has taken responsibility for the monitoring of the services provided by the Animal Health and Veterinary Laboratories Agency in Wales. We have received funding for this from DEFRA, and whilst most of this funding has transferred into the Rural Affairs MEG, £0.2m has come to the CS&A MEG to fund the related administration costs. This, along with the £1.0m above, is why the staff costs action is set to increase by £1.2m in the draft budget.

Yours sincerely



GILL MORGAN

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 11 January 2012**

Meeting time: **09:15 – 10:50**

This meeting can be viewed on Senedd TV at:
<http://www.senedd.tv/archiveplayer.jsf>

Cynulliad
Cenedlaethol
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National
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Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Ann Jones
Julie Morgan
Ieuan Wyn Jones

Witnesses:

**Matthew Brown, Communities Investment Fund
Manager, WCVA**
Phil Fiander, Director of Programmes, WCVA
Richard Morgan, Director of Funding, Valleys Kids

Committee Staff:

Naomi Stocks (Clerk)
Daniel Collier (Deputy Clerk)
Martin Jennings (Researcher)
Eleanor Roy (Researcher)
Susan Morgan (Legal Advisor)
Ben Stokes (Researcher)

1. Introductions, apologies and substitutions

- 1.1 The Chair welcomed Members and members of the public to the meeting.
- 1.2 The Chair declared an interest as a former Minister responsible for the implementation of JESSICA.
- 1.3 Ieuan Wyn Jones declared an interest as a former Minister responsible for the implementation of European Structural Funds.

2. The Effectiveness of European Structural Funding in Wales

2.1 The Committee welcomed Matthew Brown, Communities Investment Fund Manager, WCVA; Phil Fiander, Director of Programmes, WCVA; and Richard Morgan, Director of Funding, Valleys Kids.

2.2 The Committee questioned the witnesses.

Action points

The Welsh Council for Voluntary Action agreed to provide:

- Further details on the timeline for the establishment of the Communities Investment Fund.

3. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Items 4 and 5.

4. Call for evidence for inquiry on Devolved Funding

4.1 The Committee discussed its forthcoming inquiry into devolution funding.

5. Consideration of Forward Work Programme for spring 2012

5.1 The Committee discussed its work programme for the spring term 2012.

6. Papers to note

6.1 The Committee agreed the note of the rapporteur visit to Park View Café.

6.2 The Committee ratified the minutes of the meeting on 16 November 2011.

By virtue of paragraph(s) vi of Standing Order 17.42

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