Public Document Pack

Finance Committee

Meeting Venue:
Committee Room 2 - Senedd

Meeting date:
30 May 2012

Meeting time:
09:20

Cynulliad Cenedlaethol Cymru
National Assembly for Wales

For further information please contact:

Tom Jackson
Committee Clerk
029 2089 8409
FinanceCommittee@wales.gov.uk

Agenda

Private briefing (9:20 - 9:30)

1. Introductions, apologies and substitutions (9:30 - 9:35)

2. Effectiveness of European Structural Funding in Wales (9:35 - 10:30) (Pages 1 - 4)

Alun Davies, Deputy Minister for Agriculture, Fisheries, Food and European Programmes
Jonathan Price, Chief Economist
Damien O'Brien, Chief Executive WEFO

3. Papers to note (Pages 5 - 8)

FIN(4) 09-12 - Paper 1 - Additional evidence provided by Scottish Futures Trust - Devolved Funding

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

Items 5 and 6.

5. Discussion of evidence - Effectiveness of European Structural Funding in Wales (10:30 - 10:45)

Break (10:45 - 10:55)

6. Devolved Funding: Borrowing Powers and Innovative Approaches to Capital Funding - Key evidence and emerging themes (10:55 - 12:10) (Pages 9 - 43)

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd
Deputy Minister for Agriculture, Food, Fisheries and European Programmes

Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref MB/AD/3138/12

Jocelyn Davies AM
Chair
Finance Committee

18 July 2012

Dear Jocelyn

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

During my attendance at the Finance Committee on 30 May 2012 on the inquiry into the effectiveness of the European Structural Funds programmes 2007–2013 in Wales, I agreed to provide you with further details as follows:

- Details on the training undertaken by WEFO staff to provide advice to project sponsors on procurement processes.
- To write to the Committee to set out the timeline of when the first investments will be made by JESSICA fund managers.
- More detail on forthcoming discussions with the Programme Monitoring Committee exploring the impact that rate of exchange could have on projects and how to manage potential risks.

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

I look forward to the Committee's report which will be an important reference document for the independent review of arrangements for implementation for the prospective 2014–2020 programmes which I announced in Plenary on 3 July.

Best wishes

Alun

Alun Davies AC / AM
Y Dirprwy Weinidog Amaethyddiaeth, Bwyd, Pysgodfeydd a Rhaglenni Ewropeaidd
Deputy Minister for Agriculture, Food, Fisheries and European Programmes

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

English Enquiry Line 0845 010 3300
Llinell Ymholiadau Cymraeg 0845 010 4400
Correspondence.Alun.Davies@wales.gsi.gov.uk

ANNEX A

PROCUREMENT TRAINING

A WEFO Project Development Officer is assigned to each project to provide co-ordinated advice and support to sponsors when developing and delivering their projects. To assist in this process, WEFO staff have undertaken a variety of financial, procurement, State Aid, equality, environmental sustainability, and project management training over the course of the delivery of the programmes.

In March 2010, for example, WEFO staff attended one of three one-day 'Effective and Compliant Procurement' bespoke procurement training sessions. The training was delivered by PMMS Consulting and covered areas such as:

- Good governance and procurement
- Rules and regulations
- Competition and value for money
- Skills required
- Core requirements of European procurement legislation

Similar one-day training sessions, part-funded by WEFO and developed in conjunction with PMMS Consulting, Value Wales and the WCVA, were also delivered to third-party sector organisations, local authorities, Welsh Government, Further Education and WEFO staff in early 2010.

In 2011/12, WEFO staff also attended a one-day Procurement Awareness course led by Value Wales. Refresher training in procurement has been booked for 25 WEFO staff in October and, subject to appraisal of that course, I would expect it to be extended.

Other procurement training

The WCVA offer training in their role as 3-SET, which is part-funded by WEFO, to provide advice and support to third sector organisations on EU funding delivery arrangements. Its next course is in September as part of Managing EU funded projects
http://www.wcva.org.uk/training/index.cfm?display_sitedeptid=3&display_sitetextid=110

WEFO has also funded the £11m (ESF £5.7m) 'Transforming Procurement through Home-Grown Talent' project, led by the Welsh Government, which is helping to develop procurement skills and capability across public services in Wales. The project includes:

- Raising awareness among public service leaders across Wales
- Developing the skills and capability of existing public service staff
- Accelerating and expanding the implementation of e-procurement

- Identifying innovative approaches to improve procurement.

Each trainee will complete an extensive training programme, including procurement and project management, during their time with the project. The training includes undertaking a number of placements in public sector organisations throughout Wales, during which time they will be supported by senior staff and an individual mentor. Trainees will also work towards achieving the Chartered Institute of Purchasing and Supply (CIPS) professional qualification 'MCIPS' accreditation.

JESSICA

To date, no investments have been made for the £55m Regeneration Investment Fund for Wales (RIFW), of which £40m is a European funded project, known as JESSICA, (£25m ERDF Convergence) covering West Wales and the Valleys.

RIFW managers have prioritised 11 Expressions of Interest (EOIs) for review, requesting some £78m and worth around £108m. EOIs include schemes in Neath Port Talbot; Tenby; Caernarfon; Mumbles; Swansea; Wrexham; Port Talbot, Porthcawl, Cynmael, Newport and Pontypridd. This includes a financial offer to a scheme/developer for the Riverside Centre in Pontypridd, with the developer currently considering his financial options.

Several other schemes are also well advanced and with the pipeline strong and growing, the Fund Managers and the RIFW Board are confident that the ERDF funded scheme will deliver the full investment of £40m by June 2015.

WEFO is closely monitoring the progress of the fund and is in regular contact with Fund and Investment Managers to drive developments forward. The Minister for Housing, Regeneration and Heritage also met with Fund and Investment Managers in July to discuss progress. I will write to the Committee on any further developments and as soon as an investment is to be announced.

EXCHANGE RATES AND EUROPEAN STRUCTURAL FUNDS

I attended a meeting of the All-Wales Programme Monitoring Committee 2007–2013 on 15 June, during which Members were advised of the implications of the volatility of Euro/Sterling exchange rates on the management of the current programmes.

Wales was close to spending 100% of the funding available for the 2000–2006 programmes to secure the greatest benefit for Wales, and which is set to place us among the best performing regions; this is my aim for the current programmes.

However, there is a risk associated with this achievement due to the ongoing pressure and instability in the Eurozone. The value of our programmes is set by the Commission in Euros, which makes programme plans and commitments in Sterling difficult to manage, and this will become more acute as we near the end of the current funding round.

One of the main issues is the possibility that the value of the Euro will continue to decline against Sterling. At the end of May 2012, our programmes were already overcommitted between a range of 101% and 109%, based on an exchange rate of €1.25. This is roughly the average rate over the last few months, although the Euro has weakened again over couple of weeks. This includes projects and extensions which are still technically in the pipeline, but are well developed.

Some over-commitment at this stage is intentional, as we know that not all projects will spend their full allocation, and there is still some three years to go in the project spending profile. However, if those current commitments were to be recalculated at a rate of €1.30, for example, the over-commitment would increase by some £46m, to a degree which would be difficult to manage and which would pose a risk to Welsh Government budgets.

PMC Members were advised of and supportive of the risk management measures being undertaken by WEFO, with prioritising the demand for extensions and projects in the pipeline together with the close monitoring of planning rates continuing to be the main issues for the programme.

Should we face a really serious weakening of the Euro, PMC Members supported WEFO's proposals for funds to be decommited from projects where there is limited evidence of successful delivery (in terms of forecast spend and achievements) and effective support to the delivery of Programme for Government objectives. Such decommitment would meet the expectations of some well-developed pipeline projects that could meet key criteria, support Welsh Government priorities and fill gaps in the programme targets agreed with the European Commission.

PMC Members also recognised the importance of continuing to support projects successfully delivering against their current targets and to sustain activity which will be needed to support the 2014–20 programmes. While, less-developed or weaker pipeline projects and requests for extensions to current projects where proposals are weaker or less well developed, should not be supported.

WEFO will continue to carefully monitor exchange rates and the performance of projects. It is also important to note that we have until end of 2015 to manage the current programmes, and given the economic climate and markets, much may change in that time.

1st Floor, 11-15 Thistle Street
Edinburgh EH2 1DF

+44 (0) 131 510 0800

21 May 2012

SCOTTISH FUTURES TRUST

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

Dear Jocelyn

It was a pleasure to give evidence to your committee and I am glad you found some of the remarks useful. I have attempted to answer your follow up questions below:

1. What does this 5 per cent cap equate to in cash terms on an annual basis?

The 5% cap was introduced in the Scottish Government Infrastructure Investment Plan 2011

Calculated using CSR2010 figures as 5% of total DEL the cap is interpreted to represent (in cash terms)

12-13	13-14	14-15
£1.415bn	1.414bn	1.425bn

2. Could you provide details of what is covered by this cap in relation to the £3bn additional capital – is this only applicable to NPD, or are other models included?

3. Are historical commitments, such as earlier PFI schemes, also included within this cap?

Historical commitments of existing PFI and NPD projects as well as existing Regulated Asset Base (RAB) commitments are included. Looking forward, the £2.5bn NPD programme and future RAB commitments are included. As the NHT and TIF schemes will not call on Scottish Government budgets they are not included in the figures.

4. At this point, what level are future revenue commitments at in relation to the cap, and what implications does this have for future investment?

The total future revenue commitment across all investment areas is coordinated by Scottish Government and not SFT. This question would be best directed to them.

Borrowing and guarantees

5. Can you provide further explanation of how the Scottish Government guarantees backing local authority borrowing operate in practice? For example, who actually provides the guarantee; who pays in the event of any default? Also, how is this guarantee reflected in the budget and/or financial statements of the Scottish Government?

Scottish Futures Trust
1st Floor, 11-15 Thistle Street
Edinburgh EH2 1DF
Tel: 0131 510 0800 / Fax: 0131 510 0801

The guarantee is provided by Scottish Ministers with its value reflected in budget and accounts on a probability call multiplied by value if called basis. If the guarantee was called the cash would come from Scottish Government.

6. Can you explain how this differs from supported borrowing, and therefore is not counted against the Scottish block in the eyes of HM Treasury?

Scottish Government has not committed revenue to support the repayments of local authority debt, which will be paid from rental incomes and revenues from the sale of units.

Pension funds
7. What discussions has the SFT had with local authorities about the use of their pension funds to support NPD?

SFT has had high level discussion with local authority pension funds who must invest in the interests of their personnel. Currently funds tend to invest in infrastructure through specific 3rd party infrastructure funds as part of an alternative asset class. Further discussions are possible as SFT work on evolved financing structures for NPD and hub DBFM projects.

Tax Increment Financing
8. In the TIF pilots being undertaken in Scotland, who has financed the initial investment and how is the increased NDR revenue being shared between the Scottish Government and the local authorities?

Three TIF pilots have been approved in principle though none has got to see investment made. The structure says the local authority borrowing (most likely from the PWLB to finance infrastructure future increment in NDR within the TIF area "red-line" boundary would be retained by the local authority for a 25 year period to repay the debt owed not of a pre-agreed percentage allowance for displacement which would go to the Scottish Government central NDR 'pot'. If the debt is repaid before 25 years is up, the sharing regime is amended to allocate more NDR back to the central pot whilst allowing the local authority to retain a smaller share for further investment.

9. In your opinion, will TIF represent a viable alternative to existing models? If so, to what extent?

In my opinion TIF will represent a viable alternative for a limited range of infrastructure investment proposals where the investment in "underlying infrastructure" unlocks private sector development of a commercial setup that would not have gone ahead but for the public sector investment in infrastructure. Robust business cases will be required for all proposals and it is anticipated that use of the model will remain limited.

Securitisation
10. Are you considering use of securitisation as a method for funding infrastructure investment?

11. If securitisation is being considered, how would it be ensured that affordability and value for money were considered in this model, as technically it lies outwith the Prudential Code?

Securitisation is essentially the pooling of a group of assets so that investors can invest in the group with diversified risk rather than single assets. The assets could be physical (e.g. group of buildings) or financial (e.g. a series of future revenue streams). Securitisation has been adopted in the infrastructure environment for some time, including borrowing aggregation of housing associations

Scottish Futures Trust Limited
is registered in Scotland no. 348382
at 11-15 Thistle Street
Edinburgh EH2 1DF

Scottish Futures Trust
1st Floor, 11-15 Thistle Street
Edinburgh EH2 1DF
Tel: 0131 510 0800 / Fax: 0131 510 0801

through the housing finance corporation and in banks re-packaging and bundling PPP project debt and selling as securities.

TIF and local Asset Backed Vehicles can both be seen as securitisations (of future NDR streams, and building assets respectively). Given this diversity of structures under a single heading SFT would consider each combination of financing tool and funding stream on a case by case basis for value for money and affordability rather than under the single umbrella term of securitisation. The treatment of any form of securitisation or other form of borrowing under the prudential code is a matter for individual local authorities, again on a case by case basis.

I hope these comments are again useful and would be happy to follow up in any detailed points should you require.

Yours sincerely

Peter Reekie
Director of Finance

Document is Restricted