

Enterprise and Business Committee

SF-06

Inquiry into the draft legislative proposals for EU Structural Funds for 2014 – 2020

Evidence from Wales Council for Voluntary Action (WCVA)



Background

The third sector is a key stakeholder in the design, monitoring and delivery of the Structural Funds programmes in Wales:

- WCVA and other third sector organisations are represented on the All Wales Structural Funds Programme Monitoring Committee and associated working groups, as well as on the EU Programmes Post-2013 Partnership Forum and expert work streams;
- Over £96.4 million of EU funds have been committed to 35 projects led by the third sector under the Structural Funds programmes 2007-2013. Through volunteer time and other forms of match funding, this will generate a total investment of £176.1m. This will help 76,600 individuals, including 18,800 to gain qualifications, 7,100 into work and create almost 700 jobs;
- The third sector is also involved in the delivery of activities of EU projects led by public and private sectors, having won over £77.9m worth of contracts under the 2007-2013 programmes' procurement arrangements.

The sector is involved in delivering a wide range of European Social Fund (ESF) and European Regional Development Fund (ERDF) projects, including providing specialist, innovative approaches to helping the most disadvantaged to overcome barriers to employment, engaging with and raising the aspirations of young people who are not in employment, education and training (NEETs), supporting the advancement of women in employment, taking forward the digital inclusion agenda, building walking and cycling route networks, restoring community buildings, and developing the social economy in Wales.

As such WCVA, as the umbrella body for the third sector in Wales, welcomes the opportunity to respond to the Enterprise & Business Committee's inquiry into the draft legislative proposals for EU Structural Funds 2014-2020.

The third sector European Forum (3-SEF), facilitated by WCVA's third sector European team (3-SET) is a network of over 660 third sector EU project sponsors and contract delivery organisations. This response presents key issues and opportunities for the third sector in moving forward into any successor Structural Funds programmes in Wales post-2013, and the principles contained in this response have been endorsed by the network.

Responses to questions posed by the Enterprise & Business Committee's Inquiry

1. What the European Commission's proposals could mean for Wales

1.1 A continued focus on the poorest regions

WCVA welcomes the Commission's continued focus on support for the EU's less developed regions (West Wales & the Valleys) as well as proposals for fair transitional arrangements for regions with a GDP of 75-90% of the EU average (East Wales).

1.2 Harmonisation of EU funding streams and opportunities for multi-fund projects

The harmonisation of the rules for ERDF, ESF, the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), presents a significant opportunity for Wales to take an integrated approach at the highest level to planning the new programmes to ensure their priorities are complementary and mutually re-inforcing, and that a balanced investment across urban and rural areas may be achieved.

In order to bring this to fruition in programme implementation, *the Welsh Government must bring together the departments concerned in an integrated structure to design the programmes, and to have a clear focus on streamlining and simplifying the application process* to ensure that project sponsors are able to develop and implement multi-fund projects, which meet economic development needs in the most comprehensive and rounded way possible.

For example an ERDF regenerating communities/local development priority targeted at the areas of greatest needs, with EAFRD capital investment in facilities, closely aligned to ESF social inclusion and employment priorities would be the best route to develop social capital and empower communities with new skills and employment prospects and as a vehicle to promote community regeneration. This could result in greater impact at project and programme levels.

The third sector welcomes the European Commission's legislative proposals for 5% of funds to be ring-fenced for LEADER projects, but believes that this should be a *minimum level*, with consideration given to ring-fencing a higher proportion of the budget for LEADER activities in order to facilitate community involvement in rural development. Without this higher level of investment, opportunities for multi-fund projects to bring about a genuine impact will be limited by budgetary constraints within the Rural Development Programme (RDP).

1.3 Procurement vs. grants

WCVA welcomes the Commission's proposals which provide scope for greater use of global grants, lump sum payments up to 50,000 Euro's (which are also permitted in theory, but not used in practice, under the current Welsh National Rules on Eligibility) and simplified costs (such as the 'flat rate' apportionment methodology), as well as an opportunity to ring-fence ESF for social innovation. These mechanisms could significantly reduce the administrative burden for both project sponsors and deliverers, and make the funds more quickly accessible to smaller third sector organisations working on the ground.

We believe that the Welsh Government should encourage and enable project sponsor's to use the most appropriate approach, either procurement or grants, depending on the scale, level and type of activity. For example, large scale procurement is appropriate for road and transport schemes, whereas grants are more appropriate for small scale, local ESF interventions that are designed to provide tailored solutions for participants with complex needs.

Case study: WCVA's Engagement Gateway Scheme

An amendment to the current ESF programme in October 2010 permitted projects to competitively award grants, rather than contracts for activity. WCVA took this opportunity for our Engagement Gateway scheme, changing in March 2011 from a procurement to a competitive grants approach.

We retained the same systems and processes, terms and conditions, and simply changed the language we used and were permitted to take a more supportive approach to addressing queries, which meant the assessment and negotiation processes could commence at an earlier stage. From our own experience this saw a huge increase in the responsiveness of third sector organisations to bidding opportunities:

- 44 tender rounds were run under the procurement approach, which resulted in 354 contract awards (an average of 8 contracts awarded per round);
- Whereas only 6 rounds have been run under the competitive grants approach, which has resulted in 138 awards (an average of 23 grants awarded per round).

Typically contracts took five times longer to reach the point of 'sign off' for the contract award, owing to charities taking a more cautious approach to getting involved. This initially caused significant delays in getting money out to the sector and spending on activities on the ground. If we had used the competitive grants process from the outset, funds would have been released more quickly, enabling match funding opportunities to be maximised, and the processes would have been more efficient.

1.4 Ring-fenced funding for promoting social inclusion and combating poverty

WCVA particularly welcomes the high priority and funding allocation (minimum 20% of ESF, as well as an ERDF optional investment priority) to 'promoting social inclusion and combating poverty'. This must be accompanied by an outcomes framework that recognise not only jobs but more importantly, progression towards employment focussing on social capital, positive outcomes, distance travelled and volunteering outcomes, rather than hard job outcomes.

Project sponsors and contract delivery organisations must be given incentives that reward outcomes appropriate to the most disadvantaged, in order to avoid the 'cherry picking' or 'creaming and parking' of those hardest-to-help in favour of interventions focussing on those closest to the labour market.

WCVA envisages that the third sector will play a pivotal role in delivering a future social inclusion and anti-poverty priority, and to facilitate this, asks the Committee to recommend that the Welsh Government considers:

- Introducing a competitive or global grants programme to fund social innovation that is written into the Operational Programme, with a high intervention rate;

- Reducing the administrative burden on projects by utilising the possibility to make lump sum payments up to 50,000 Euro's; and
- Bringing a close alignment between ESF, ERDF and EAFRD priorities to facilitate multi-fund projects that create local social capital.

1.5 Financial instruments

WCVA supports the European Commission's intention to increase the use of loans as well as grants as a means of reducing grant dependency and to create a legacy for the programmes. The current instruments are targeted predominantly at the private and public sector (JESSICA and JEREMIE) and are not appropriate to meet the growing needs of the third sector. An exception to this is WCVA's ERDF funded Communities Investment Fund (CIF), which is designed specifically to meet the needs of the third sector, by offering a mix of grant and loans with flexible repayment plans. The use of such innovative financial instruments that meet the particular needs of the sector should be expanded in the post-2013 programmes. However questions remain about the logistics and practicalities of increasing suitable number of loans to the sector, and it must be recognised that loans are not appropriate for all third sector organisations.

WCVA asks the Committee to recommend that the Welsh Government ensures not only access to financial instruments but a full suite of investment, grant, start up, business and intellectual support is made available to enterprising third sector organisations and social enterprises. The effect would be twofold: to increase jobs and prosperity but also enable third sector organisations to become more self-sufficient and less reliant on grant funding and donations.

1.6 Proposed urban focus

WCVA has concerns about the proposed focus on urban areas and what this might mean in a Welsh context, possibly in a city-region strategic approach. It is recommended that the maximum flexibility should be secured in terms of the definition of 'urban areas' to ensure that we are able in Wales, to direct Structural Funds to the areas of greatest need in relation to their ability to drive economic growth in the region. *If a city-region approach is adopted, WCVA seeks assurances from the National Assembly for Wales and the Welsh Government that the third sector will be engaged in planning and delivery to secure community involvement in the processes and benefits from the delivery of priorities.*

1.7 Community led local development approaches

The third sector welcomes the inclusion of community led local development as an overarching theme. A general feeling exists that the 2007-13 programmes have become too far removed from the local level and that Objective One had an improved local profile, ownership and perceived impact owing to the high level of local buy-in to both the processes of applying for funds as well as project implementation. This has been a key feature lacking from the current programmes and if the involvement of local communities is facilitated effectively in the new programmes, for example through community hubs, this could help to promote buy-in and ownership to enhance the implementation of projects at a local/regional level.

1.8 Transnational co-operation

The opportunity to undertake transnational activity within the context of ESF and ERDF projects has been significantly under-utilised and feedback from third sector project sponsors indicates that more could be done by the managing authority to simplify and facilitate access. *It is recommended that the status of transnational co-operation is enhanced by creating either specific ERDF and ESF Priorities for transnational co-operation or alternatively, a strand within each Programme Priority.* Technical Assistance

should also be available to external stakeholders to assist project sponsors with developing and implementing their transnational activities.

1.9 Capacity building and Technical Assistance for the third sector

The specific mention of the need to promote the involvement of the third sector by ensuring that an appropriate amount of ESF resources are allocated to capacity-building for the sector, as well as the possibility for the sector to secure ERDF Technical Assistance funding, are considered to be essential to advancing and supporting the sector's role in as a key stakeholder in the programmes.

WCVA's third sector European team (3-SET) has secured Technical Assistance funding through the ESF and ERDF programmes in the current round to provide information, advice and training to third sector organisations seeking to benefit from Structural Funds, as well as to promote partnership working between the public and third sectors. This type of support is critical to under-pinning the involvement of the sector in programme monitoring arrangements as well as both a project sponsor and contract deliverer.

1.10 Legacy of the 2014-2020 programmes

Planning should begin now for the landscape post-2020, when the level of European interventions is likely to be greatly reduced. This means that more must be done to encourage and incentivise financial sustainability within key areas. One barrier to projects developing income streams, especially under ESF, is that organisations are penalised for generating an income through a reduction in grant. To genuinely promote and encourage financial sustainability *the National Assembly for Wales is asked to encourage the Welsh Government to scope opportunities to improve flexibility in EU funding rules to incentivise, rather than hinder, sustainable financial models such as loan and legacy funding.*

2. What the Welsh Government's priorities should be in its negotiations to ensure a beneficial outcome for Wales

2.1 Recommended negotiating points

It is recommended that the Welsh Government includes the following points as priorities for negotiations for the new programmes:

- Ensure the full engagement of the third sector as a key stakeholder in the design, monitoring and delivery of the future programmes, including in Partnership Contract arrangements at UK level.
- Look at ways of standardising systems and processes for the Structural Funds and Rural Development Programmes (RDP) in order to promote simplification and enable project sponsors to design and implement multi-fund (ERDF/ESF/EAFRD) projects.
- Promote simplified access to the funds through competitive and global grants approaches, as well as utilising the facility for lump sum payments of up to 50,000 Euro's.
- Utilise opportunities within the draft legislative proposals to create specific funding priorities for:
 - Capacity building to promote the involvement of the third sector
 - Technical Assistance for the third sector

- Social innovation - through ring-fenced ESF, possibly in the form of a global grants programme
- Transnational co-operation
- Retain the maximum possible flexibility around the definition of 'urban areas' as part of a city-region approach and any proposals to ring-fence funding for urban areas.
- Promote the use of loans as a means of reducing grant dependency, ensuring loans are accessible to third sector organisations as part of a suite of grant and intellectual support.
- Explore ways of encouraging and incentivising financial sustainability, to avoid organisations being penalised for income generation.
- Look at ways of applying European State Aid rules to take a more proportionate approach to the degree of State Aid scrutiny in relation to the nature and scope of services. In the main, third sector activity does not affect trade between Member States and in most cases, warrants a lighter touch approach.
- Retain advance payments to provide cash flow to third sector project sponsors and expand this to third sector organisations that are delivering contracts on behalf of public bodies.
- Maintain volunteer time as an eligible source of in-kind match funding.

2.2 Retain delivery models that work

WCVA urges the Committee to advise WEFO to undertake an urgent review of projects funded through the 2007-2013 programmes, to identify projects and delivery models that could be adapted to help deliver on some of the priorities for the future programmes. Many projects were slow off the ground under the current programmes due to the complexity involved in creating new procedures and processes for procurement as well as up-skilling project workers to manage and deliver projects in a tight audit and control environment.

The thematic objectives and investment priorities contained within the Commission's draft legislative proposals are broadly in line with the priorities of the current programme. In order to facilitate a seamless transition into the new programmes, it is imperative that WEFO seeks to retain and work with project sponsors that have built sophisticated project infrastructures, processes and expertise during the current programmes to ensure that this intellectual capital is not lost in the short term, only to be re-built again with huge (unnecessary) delay at the beginning of the next programmes.

3. How Wales can ensure that its views inform the negotiation process.

3.1 UK Partnership Contract with the European Commission

The draft legislative proposals state that *"For the Partnership Contract and each programme respectively, a Member State should organise a partnership with the representatives of competent regional, local, urban and other public authorities, economic and social partners, and bodies representing civil society, including environmental partners, non-governmental organisations, and bodies responsible for promoting equality and non-discrimination"*.

WCVA would like to state its interest in being part of any resulting Partnership arrangements at UK level, as well as any devolved arrangements. This would help to promote third sector ownership of the programmes, and enable WCVA to contribute its significant experience in the design, monitoring and delivery of Structural Funds in Wales to the Partnership arrangements, and to act as a monitoring function regarding the third sector's involvement in programme delivery.

WCVA's interest in being involved in the UK Partnership Contract is under-pinned by significant experience with Structural Funds includes:



- Membership of the All Wales Programme Monitoring Committee and RDP PMC (2000-2006 and 2007-2013);
- Active involvement in expert working groups for the Structural Funds programmes (2000-2006, 2007-2012);
- Providing third sector representation on the EU Programmes Post-2013 Partnership Forum and expert work streams;
- Management of the third sector European team (3-SET), which is part-funded through Technical Assistance as part of the Specialist European Team (SET) network;
- Sponsorship of six strategic projects in the 2000-2006 programmes, as well as managing a portfolio of five ESF and ERDF projects to the value of £66m in the current programmes; and
- Playing a key role in delivering strategic projects which aim to make Structural Funds more accessible to third sector organisations.

3.2 Welsh input into the UK Government's negotiating position

Welsh stakeholders should be given the opportunity to interact with the UK Government officials who will be leading negotiations with the European Commission, in order to ensure that our distinctive Welsh perspective is included in the overall UK position. The Welsh and UK negotiating positions will be strengthened by engaging experts from a range of sectors.

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10.11.11

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 ERDF Llywodraeth Cymru Welsh Government	 ESF Llywodraeth Cymru Welsh Government
Ewrop & Chymru: Buddsoddi yn eich dyfodol Cronfa Datblygu Rhanbarthol Ewrop Europe & Wales: Investing in your future European Regional Development Fund	Ewrop & Chymru: Buddsoddi yn eich dyfodol Cronfa Gyndeithasol Ewrop Europe & Wales: Investing in your future European Social Fund