



Finance Committee FIN(4) 05-12 – Paper 1

ACCA Cymru Wales/ICAEW Response to the National Assembly for Wales Finance Committee Inquiry into the Effectiveness of European Structural Funding in Wales

The Institute of Chartered Accountants in England and Wales (ICAEW) and Association of Chartered Certified Accountants (ACCA Cymru/Wales) are pleased to have the opportunity to respond to the Finance Committee's Inquiry into the Effectiveness of European Structural Funding in Wales.

As a world class professional accountancy body, the ICAEW provides leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry to maintain the highest standards.

ACCA is the largest global body for professional accountants with more than 147,000 members and 424,000 students in 170 countries. In Wales, we support over 2500 members across all sectors of the Welsh economy.

ICAEW and ACCA members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. Both organisations ensure that these skills are constantly developed, recognised and valued.

ICAEW and ACCA are active members of Business Wales and the Council for Economic Renewal. A significant number of members across the two bodies in Wales either advise or run small or medium sized businesses. In a number of surveys, evidence suggests that SMEs turn to their accountant in the first instance for all aspects of business advice. This advice is crucial for the growth of our indigenous businesses.

By drawing on our collective experience ICAEW and ACCA Cymru/Wales are well-placed to act as a barometer for the views of the private sector.

ACCA Cymru/Wales and ICAEW are not directly involved in the management or implementation of Structural Funds projects and Programmes, but we have here provided our views on those of the Committee's questions where we feel we have something to contribute.

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?

It is first of all important to stress that while the Structural Fund Programmes in Wales are large by comparison with other similar programmes elsewhere in the UK and are significant in terms of economic development budgets, they are relatively small compared to public expenditure as a whole, representing on an annualised basis less than 2% of all Welsh Government expenditure.

It would therefore be unreasonable to expect them to be able alone to transform the Welsh economy or to counter-act the difficult current macro-economic conditions which are currently affecting Wales along with the whole of Europe.

At the same time, we are aware that the Convergence ERDF Programme is struggling in terms of two crucial outcomes - new enterprises created and new jobs created. While this may not be surprising given the difficult economic circumstances since the Programme was developed, it is important not to allow this fact to distract WEFO and the Welsh Government from reflecting on what refinements may be needed to improve projects' performance in this regard.

More fundamentally, however, we believe it is important to focus more attention on the extent to which interventions develop the long-term competitiveness of Welsh businesses, acknowledging that in the short term this may not necessarily create jobs.

More generally, both ICAEW and ACCA Cymru/Wales have argued for many years that Government should concentrate its interventions on enabling the success of the private sector by creating an environment in which business can flourish, most importantly in our view, ensuring a high quality infrastructure in terms of transport, energy and broadband and putting in place an education system which equips young people to help Wales punch its weight in the world.

We thus welcomed the emphasis in the previous Welsh Government's Economic Renewal Programme on moving the focus of economic development policy from direct 'support' to business (which all too often duplicates provision available from the private sector) to addressing the underlying conditions for business success.

We would argue that European Structural Funding should also be focused on supporting Government to fulfil this enabling role, though we recognise that the current Regulations restrict the extent to which resources can be focused in this way.

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

We do not have sufficient insight into individual projects to be able to make definitive judgments on this, though we would hope that the Committee would press WEFO on whether they use sufficiently rigorous financial appraisal to

assess projects both before they are approved and once they are being implemented.

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?

In general terms, we strongly support the use of Structural Funding to help deliver key Government programmes and thus the use of Welsh Government expenditure as match funding. Given the need for financial restraint it is essential that Structural Fund resources are used to address key priorities not for 'nice-to-haves'.

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

Again, while we do not have a significant detailed insight into the quality of monitoring and evaluation arrangements adopted at programme and project level, we have received mixed feedback from members.

Some members have reported that in the last year, the transactional relationship with WEFO has improved as has the effectiveness of communication. A number of individuals commented that once a claim was submitted, payment was often reasonably prompt.

However, during a number of conversations, the heavy burden of paperwork was raised as a significant concern. Many complained that applications needed to be handwritten and that this was laborious. We are unsure as to why the filing of appropriate paperwork cannot be handled electronically. Paperwork should not become a disincentive for seeking to draw on any of the funding streams.

One member commented that the timescales accorded to decision making on some occasions meant that "one can effectively write off the first year of a project". This obviously impacts heavily on the nature and quality of the outcomes. This is especially evident within the manufacturing sector.

We strongly welcome the emphasis on robust and independent evaluation of projects which involve significant expenditure of public resources, but believe it is essential to ensure this is policed, so that projects do not simply 'go through the motions'.

Through a number of conversations with members of the profession in Wales, it is clear that controversy surrounding the perceived effectiveness or otherwise of Objective 1 funding had somewhat coloured opinions on the administration of European funding. It was also suggested that this may have served to unnecessarily deter engagement on subsequent funding streams.

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?

We believe that in principle, projects should have been designed to ensure that they would either become sustainable over the lifetime of the project, or would address a time-limited problem.

In practice, however, we doubt whether this is the case. In particular, projects carried out by non-government organisations will struggle to achieve sustainability, especially given the rules around the prohibition of income generation from projects.

While the generation of income for commercial purposes may be inappropriate, there is an argument to be made that the generation of income to support a not-for-profit organisation or charity in sustaining its project activity should be assessed differently. Without some means of replacing project income, activity will simply stop.

Some members we have spoken to have expressed concern at the sustainability projects and jobs created under some of the funded programmes. There is suspicion among some that job-creation criteria attached to funding streams has meant that projects have indicated an unrealistic number of long-term roles. Similarly, some have doubted the long-term viability of the projects themselves.

The advent of Convergence Funding and the move towards consortia drawing funding for more strategic projects has caused a mix response from members. Some have indicated that in the long-term, this is a sensible approach which promotes engagement and partnerships.

However, in some instances, frustration has been expressed arising from 'cultural differences' where partnerships are controlled by public bodies such as local authorities for example.

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

As organisations, we have not been directly involved in accessing European Structural Funding.

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

As noted above, we believe that European Structural Funding should be focused on creating the conditions in which business can flourish – above all, ensuring high quality infrastructure and an education system which can provide the economy with the skills needed to succeed in a global market place (including supporting links between businesses and higher education).

We do not think the Structural Funds should fundamentally be about funding individual businesses (though support the role of Finance Wales in making good the market failure in terms of access to finance on commercial terms). From this perspective, we do not think that the private sector is insufficiently engaged in the Structural Funds Programmes.

Again, concerns about the effectiveness of local partnerships under Objective 1 and the engagement of the private sector in those partnerships has led, in some cases, to a low-level of engagement.

The above-mentioned concerns about the timeliness of decision making has also inevitably led to a measure of business disengagement with a number of members commenting that previously, clients had felt it easier to seek more time-responsive funding from alternative sources rather than European funding. Although it should be noted that these views may be rooted in historic perceptions of Objective 1 particularly, they remain as barriers to engagement.

We do believe, however, there is scope for the private sector (including in some instances our own members) to be engaged in the delivery of projects – and that this is in fact happening to some extent.

Procurement is key and we generally welcome efforts to ensure that Welsh Government employs transparent procurement processes. Pressure needs to continue to be applied to other project sponsors to make sure they also use such processes and do not place unrealistic requirements for example, in terms of match funding in kind, when contracts are procured.

Finally, it is important to emphasise the importance of avoiding tokenistic attempts to engage the private sector in the machinery of the Structural Funds. Where professional expertise is required – for example for financial appraisal of projects – this should be procured commercially and paid for.

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 are unfortunately unable to comment on this.

We hope this response is of use to the deliberations of the Committee

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