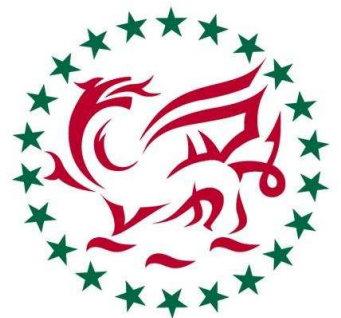


WLGA Response to the National
Assembly for Wales' Finance
Committee Inquiry into the
Effectiveness of European
Structural Funding in Wales

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 leveraging 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:

Lowri Gwilym - Team Manager Europe and Regeneration
lowri.gwilym@wlga.gov.uk

Welsh Local Government Association
Local Government House
Drake walk
Cardiff
CF10 4LG

Tel: 029 2046 8676