FIN(4) 02-12 - Paper 2

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 levering 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.

.

.