



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Llun, 11 Ionawr 2012
Monday, 11 January 2012

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Ann Jones	Llafur Labour

Ieuan Wyn Jones	Plaid Cymru The Party of Wales
Julie Morgan	Llafur Labour

Eraill yn bresennol
Others in attendance

Matthew Brown	Rheolwr y Gronfa Fuddsoddi Gymunedol, Cyngor Gweithredu Gwirfoddol Cymru Communities Investment Fund Manager, Welsh Council for Voluntary Action
Phil Fiander	Cyfarwyddwr Rhaglenni, Cyngor Gweithredu Gwirfoddol Cymru Director of Programmes, Welsh Council for Voluntary Action
Richard Morgan	Cyfarwyddwr Cyllid, Valleys Kids Director of Funding, Valleys Kids

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Naomi Stocks	Clerc Clerk
Ben Stokes	Y Gwasanaeth Ymchwil The Research Service

Dechreuodd y cyfarfod am 9.13 a.m.
The meeting began at 9.13 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Jocelyn Davies:** Welcome to the first meeting in 2012 of the Finance Committee. Headsets are available for translation and for amplification. I remind everyone to check that their electronic devices and mobiles are switched off, because they interfere with the translation equipment. This is a formal meeting, so Members do not need to operate the microphones. We are not expecting a fire alarm test, so, if you hear the fire alarm, there is a genuine emergency and you should follow the direction of the ushers.

9.14 a.m.

Effeithiolrwydd y Cronfeydd Strwythurol Ewropeaidd yng Nghymru
The Effectiveness of European Structural Funding in Wales

[2] **Jocelyn Davies:** The first item that we will be dealing with today is our inquiry into the effectiveness of European structural funding, and I am very pleased that we have witnesses present. I ask the witnesses to introduce themselves for the record.

[3] **Mr Brown:** I am Matthew Brown. I am the programme manager for the communities investment fund for the Wales Council for Voluntary Action.

[4] **Mr Fiander:** I am Phil Fiander, director of programmes for the WCVA.

[5] **Mr Morgan:** I am Richard Morgan, funding director for Valleys Kids.

[6] **Jocelyn Davies:** We are very pleased to see you. Thank you for providing the paper that you sent to us in advance. Would you like to give a short opening statement, before we go to questions?

9.15 a.m.

[7] **Ieuan Wyn Jones:** Hoffwn wneud un peth yn glir ar y dechrau, sef fy mod wedi bod yn gyfrifol fel Gweinidog am y cronfeydd strwythurol tan fis Mai'r llynedd. Rwyf am i bawb ddeall hynny cyn inni ofyn cwestiynau.

Ieuan Wyn Jones: I would just make one thing clear at the start, which is that I had ministerial responsibility for the structural funds until May last year. I just want everyone to understand that before we ask any questions.

[8] **Jocelyn Davies:** Thank you. That reminds me; I was a Deputy Minister for part of the period that we are looking at and had responsibility for JESSICA. Right; we will have a short opening statement, and then we will go to questions.

[9] **Mr Brown:** I will just say a few words about the paper before you and emphasise some of the points that we have tried to make in it.

[10] The main point that we have tried to make is that current programmes have suffered from a long lead-in time. We feel that 18 months to two years, especially on the ESF side, is a lead-in time that some of the projects have struggled with. We believe that it was down to a range of reasons, one of the greatest being the use of procurement for projects that were not right for it—other models of delivery would perhaps have made it quicker and easier to get activity going on the ground. So, procurement is one of the issues that we want to talk about.

[11] Another reason is complex delivery models. That is not inherently a bad thing, but they do take quite a long time to set up. Now that we have done that, that is okay, but, in the beginning, that also caused a delay. Also, stakeholders invested a great deal of time and effort into developing project ideas and partnerships that did not ultimately fit with how the programme moved forward.

[12] We also felt—the sector has said this to us—that the time it took the Welsh Government to come forward with its strategic objectives caused problems for external partners. External projects have to make sure that they fit with the Government's strategic objectives, and the length of time that it takes for those to come forward is really important with regard to us being able to develop our projects. The consequences of that were a delay in the delivery, a delay in achieving the intended objectives, and a gap in provision for vulnerable people, especially under the ESF. A lot of good work was done under Objective 1 for vulnerable people who needed help, and that gap of 18 months to two years meant a complete lack of provision for those people, which we had to start again under convergence. Also, it caused match-funding problems: a lot of third sector organisations use money from their local authority or the Welsh Government as match funding. Slippage of 18 months to two years meant that that money was not available to them for that period to use as match funding to fund what they were doing. Having said that, the WCVA and the third sector remain, on the whole, supportive of the Welsh Government's approach to structural funds. However, we need to learn lessons from last time going forward.

[13] To that end, we have made a number of recommendations, a key one being to review the projects that we have in place at the moment. With regard to those projects that have good delivery models and good infrastructure in place, which took a long time to put in place, we should look to keep them in place for next time, so that we do not have to recreate them at the

start of the new programme. So, reviewing what we have in place at the moment is pretty important.

[14] We need to start engaging with people now if we want to ensure that we can start quickly in 2014, and we need to ensure that the Welsh Government, in the next 12 to 18 months, gives everyone else an idea of its strategic objectives for projects, so that we can start designing things that fit around those. We also need to ensure that we are pushing for genuine financial sustainability, with loans and legacy funding, and that income generated by projects does not lead to organisations being penalised through a reduction in grant, as is the case at the moment.

[15] Those are our main points, and we hope that our written and oral responses will add to them.

[16] **Jocelyn Davies:** Thank you. Members will want to explore in some detail some of what you have mentioned.

[17] You are the project sponsor for five projects, and quite substantial funds are going into them. Can you outline and quantify the targets that you have for your projects, your progress to date, and how you intend to meet those targets? Perhaps you could tell us a little bit about how those targets were arrived at.

[18] **Mr Fiander:** Okay. We have four big projects, one of which is the gateway project, which is engaging with around 450 different community organisations throughout Wales. We designed the project with the aim of making sure that groups on the ground could access European funding through a procurement process. The aim of that was to create projects that were aligned with what the organisation knew that the clients wanted, which at the same time tried to engage those groups with mainstream provision. So, it was not just a case of funding a number of social inclusion projects; it was about saying, ‘Okay, you know what the client group needs, but what we need from you is to know how it ties in with, and what happens next to, the individual’. It was about engaging with those furthest from the labour market and working with the groups working with those people, while at the same time getting them to demonstrate how they engaged with them and where the individuals went next—something I think there was not much emphasis on under the previous Objective 1 programme—so we were not being prescriptive.

[19] We also felt that, at the time when this was being developed, many of the procurement rounds were very prescriptive because procurement was done in line with whatever the project sponsor really wanted to do and what they set out to do. Therefore, the innovation from the sector was stifled. That is what the gateway was about. Our target is to engage with 22,000 individuals across Wales. We are currently on target, and we estimate that we are probably going to engage with somewhere in the region of 25,000 by the end of the project next September.

[20] **Jocelyn Davies:** How did you arrive at the figure of 22,000? Is that a target you set when you submitted the bid?

[21] **Mr Fiander:** Yes, this was based on previous involvement with Objective 1, looking at the assessment of other third sector projects that had been taking place under the old social inclusion measure under Objective 1 and the volume there. It was based on that sort of thing. That is where we got our figures from.

[22] **Jocelyn Davies:** It is very good news that you are likely to exceed your target.

[23] **Mr Fiander:** Yes, we should do that, and although job targets as such were not

included, we are already finding that some of that has been creating employment. We are reasonably pleased that we are ahead of our target at the moment. It has been a long hard slog because trying to set up a system whereby you procure from 450 separate organisations all doing different things under the current procurement regulations has been quite difficult. We set out to be a partner with them rather than just a procurer, so we did a lot of things that many other procurers probably did not do such as going out to talk to groups and walking people through the procurement process. Although, at the time, we were told that we could not do it, we could.

[24] **Jocelyn Davies:** I think that Paul Davies has some procurement questions.

[25] **Paul Davies:** Actually, my questions are on match funding.

[26] **Jocelyn Davies:** Oh yes, sorry; Peter has the procurement questions.

[27] **Peter Black:** In your written evidence, you identify procurement as one of your key challenges or frustrations with the current round of structural funds. What were your main concerns regarding procurement at the start of the current round, and what impact this has had on the effective delivery of your projects?

[28] **Mr Fiander:** Procurement was difficult because, unless you have 100% funding, you end up procuring with match funding. Therefore, you were procuring from groups that were providing their own match funding. As a result, you ended up treating them as you did under the previous programme. In a way, the procurement system did not allow for just having a contract and minimal monitoring—you actually ended up running small European projects. The problem with procurement is that, if you want to buy 100 pencils, you can go out and get the best price for 100 pencils, but when you start to ask organisations to give you money as a contribution towards the project, you are asking them to deal with individuals who have different problems and procurement does not always fit that process.

[29] It is not as straightforward as going out to buy 100 pencils, with one person offering them to me for 5p each while another offers them to me for 2p each. We cannot do that; it is not about that. We had to look at how we considered value for money, and, because we had lots of individual projects, we had to come up with an exercise for determining value for money across projects. We have considered it as against the size of the project, what the client group was and what it was trying to achieve. We have tried to look at all of those things, so it becomes quite a complex issue to set that up and get it right. Again, it was also about education because we had to spend a great deal of time educating many of these organisations about procurement.

[30] **Mr Brown:** Yes, that is the point: with the third sector, it took a long time—and still does—to make people comfortable with this. When we send an offer of grant letter to a charity, because it is used to it and it knows what it is, it signs it off pretty quickly. However, when we send it a contract it is a whole different ball game. As I think that we said in our report, we have seen an increase of between four and five times the amount of time to sign off a contract because charities and their boards are afraid to do it because of what it ties them into, whereas now we have moved to the competitive grants process, we are getting the offer of grant letters back really quickly. Not only that, in a procurement process, you cannot talk to that organisation freely or ask for more information if you do not quite understand what is being said because it has to be judged on that submission. The competitive grants process gives you a little more freedom, so that you can say, ‘That looks good, but I need a bit more information’. So, you can go back and ask that question without making the process incorrect, as you would under procurement.

[31] **Mr Morgan:** My observations are from the bottom. I do not know how it works

nationally; I can only talk about our experience of accessing European funds at a community level. For me, the most significant difference with procurement is that it is a top-down process. It is the Government or whoever deciding what the targets are and asking whether those targets can be met. It is extremely difficult to be a partnership, and there is a fundamental cultural difference when you do things in partnership, which I felt happened with Objective 1 and subsequently could not happen because procurement was involved.

[32] **Jocelyn Davies:** Is that because it is a different relationship?

[33] **Mr Fiander:** Yes it is.

[34] **Mr Morgan:** Yes, and that has a significant effect on community organisations on the ground, because you are not even sure whether, if you do things co-operatively, it is legal and whether you should be showing them your tender documents and so on. So, it totally destroyed the significant amount of partnership working that had been built up at a local level under Objective 1, because of the thirds principle in relation to being involved—that went. You were then left with what was, to be honest, an unknown territory, certainly for us. The positives of Objective 1 went, and procurement played a major part in that.

[35] **Peter Black:** Matthew just referred to the competitive grant process. What benefits has that approach brought, both to your projects and to the wider third sector?

[36] **Mr Brown:** We lay out some statistics in the report, which show that people want to engage more because they see it as a quicker, more friendly and more co-operative process. The turning around of competitive grants and getting going is much quicker. The bureaucracy involved is less because we can get rid of some of the prescriptive timescales, such as how many days it has to be advertised for and the 10 days of waiting once you decide who you are going to award it to. We can get on with the process under competitive grants. Some organisations will take that length of time, but other organisations are there and ready to go, so when we can, we get up and running with organisations as quickly as possible. There is that familiarity with grants and there is no fear around legal repercussions or the clawing back of money as there is when you sign a contract to deliver something through procurement.

[37] **Mr Fiander:** I can honestly say that when we changed from procurement to competitive grants, the criteria that we used for competitive grants was the same as we used for procurement. We did not change the criteria; it was the same qualification and they still had to do a lot of the same things that they did under procurement. Maybe it is a language thing, but as soon as we changed it from ‘procurement’ to ‘competitive grants’, things changed dramatically. We have had organisations that took a year to negotiate a £50,000 contract; we turned around some £50,000 competitive grants in two weeks.

[38] **Peter Black:** Whichever method you use, there still have to be certain outcomes and monitoring of outcomes.

[39] **Mr Fiander:** I fully agree.

[40] **Peter Black:** The point I am getting to is that even with competitive grants, you are effectively competing on how much you can deliver a programme for. I spoke to an organisation last year in the Cardiff area, which had gone through this process, and it was saying that because it was trying to compete on the amount of money it could deliver it for, it found that the administrative process of monitoring the outcomes required from that grant meant that it was effectively tying up members of staff who would otherwise be delivering the project. It did not feel able to bid for the administrative side of it because of the competitive nature. Is that a common experience?

[41] **Mr Fiander:** This is where procurement fell down. Procurement works if you have 100% funding, so I could come to you and say, 'I will give you a £25,000 contract to deliver x.' If I go to you and say, 'I want to deliver x and y and the project is worth £50,000, and I want you to give me £25,000 and we will give you £25,000', that effectively goes back into exactly what it was before, namely a European project and the obligation is then on me as a project sponsor working with you, and you have to provide all the same information as if it had been a normal European project. Whereas, if you have a £25,000 contract, and you deliver it for £25,000, I am not going to argue—you have hit your goals, and everything else. The Commission is insistent that once you have put organisational money in, you actually go down the same audit route as for normal European projects. That increases the administrative burden.

9.30 a.m.

[42] **Mr Morgan:** I have to say that our experience of procurement is that you ask people to provide something, and tell them how much you will give them for it, but when you get into having to have match funding, then, as Phil says, it becomes exactly the same as before. The £25,000 grants that we have had that just involve procurement—they give you the money, and the outcomes are specified—were okay. It was a culture shock to go through the process, but once you were in it, it was okay. It is when you get into procurement plus match funding that you get the worst of both worlds.

[43] **Mr Fiander:** We have had a lot of problems with that, and have ended up supporting a lot of organisations through that process, because suddenly they think that they are not under the obligations of audit, and we have to go and audit them, and everything else.

[44] **Peter Black:** The original guidance from the Welsh European Funding Office did not rule out prospective project sponsors from awarding grants, provided that certain criteria were met. When you were developing your project, what discussions did you have with WEFO regarding the potential to use grants rather than the procurement approach? Could you confirm that competitive grants were not presented as an option at that stage?

[45] **Mr Fiander:** They were not at that stage. Everyone was encouraged to go for procurement. When we set about the scheme, we were referred to Value Wales, and we had to go through an exercise to demonstrate our procurement processes before we could get approval. Ironically, at the time, Value Wales said that we were setting up a procured competitive grant programme.

[46] **Jocelyn Davies:** So, the very clear message was that you needed to use procurement.

[47] **Mr Fiander:** Yes.

[48] **Jocelyn Davies:** That was in vogue at the time. Peter, do you want to move on to your next question?

[49] **Peter Black:** Yes—it is on double counting. In your paper, you suggest that there is a risk in relation to the double counting of the outputs associated with people and businesses that may have been supported by more than one structural fund project. Information provided by the Welsh Government to a previous committee regarding this issue stated that WEFO had systems in place to remove double counting from the data. Does that reflect your understanding of the situation?

[50] **Mr Brown:** Double counting is a complicated subject on the ground, because we have so many projects that have been asked to work together that there is only a small amount of output that each project has to achieve. So, we come to a complicated process on the

ground where organisations are trying to almost barter with an individual or a business as to who takes what output. The difficulty is that everyone has their own systems for doing it, and everyone sends that separately to WEFO, and, on the ground, we are not sure what happens to that within WEFO. We feel that a participant monitoring system such as WEFO online, which already handles the finances, and takes away the need for a system for organisations that are delivering, would be a good thing. If WEFO had such a system, then instead of creating our own systems to log individuals and businesses that we work with, we could use that central system, as we do for finance. If we could upload that information, that would probably make it easier for organisations and WEFO to see where the links are for individuals, using their national insurance number. It could also see whether businesses were working with more than one organisation. If a business comes to me and does not tell me that it is working with someone outside, I might never pick up that fact. It may be that WEFO is doing those checks, but I have never heard of WEFO coming back to an organisation, or to myself, to say that an organisation has already claimed for an output elsewhere. How does it know, if an organisation claims that a job has been created, that it is different from a job that has been claimed on another project? A central administrative database for that would make a difference to organisations, and would make a difference to the integrity of the data for WEFO.

[51] **Mr Fiander:** We recognised, as did WEFO, that there was a need for multiple interventions. Once you go into that area—which is what you need to do—you get a problem. In the very early stages, there was some confusion about who could claim the employment opportunities, and there was confusion both external and internal to WEFO about that. It probably took two or three years to sort out who was claiming an employment opportunity.

[52] **Peter Black:** It makes it sound as though a huge costly, bureaucratic apparatus has been created, and one which it costs a lot of money to maintain in its own right.

[53] **Mr Fiander:** I do not know.

[54] **Mr Brown:** The problem is that they are only trying to meet the Commission's guidelines. It is not imposed out of will; they are trying to meet the regulations to get the sign off from the Commission. We understand that. There are, perhaps, other ways to make it easier for other organisations to achieve the necessary audit trail.

[55] **Jocelyn Davies:** You are not double counting; that happens at the centre—that is what you are saying. It should be monitored there, rather than for you to do it in those individual—

[56] **Mr Fiander:** In some respects, the reduced number of strategic projects makes that easier. That is where it makes sense. There are issues around how to recognise what interventions contribute to what.

[57] **Jocelyn Davies:** Yes, I understand that.

[58] **Christine Chapman:** My question is on the evaluation of the programmes, whether they are meeting targets and the impact that they are having. In your paper, you suggest that too much emphasis is placed on monitoring project expenditure and that, in future, greater focus should perhaps be placed on the results and the impact that projects are achieving in order to assess whether interventions are making a real difference to the Welsh economy. You suggest that not enough evaluation is being undertaken for the current round of programmes in order to fully understand the impact that they are having. Have you raised this issue with WEFO or the all-Wales programme monitoring committee? What discussions have you had with them about this?

[59] **Mr Fiander:** We have discussed evaluation. There are gaps. Our projects are evaluated on an ongoing basis, and we engage with evaluators from day one of the projects. We get yearly—

[60] **Christine Chapman:** Is that your own evaluation?

[61] **Mr Fiander:** Yes. All of our projects must have that. What we are not necessarily getting is feedback from all projects—how to get a sense of them. We know that WEFO is doing certain thematic evaluations, and we recognise that they need to be done. However, what is not necessarily marrying up is what is happening with the evaluations of the projects. That is the point that I have been making with WEFO. We work with our evaluators and get reports on an annual basis so that we can tailor the projects. It allows us to develop and evolve projects. I am not sure what else is happening. As a project sponsor and someone representing the sector, it is difficult to understand what other projects are doing. We pick up intelligence from other organisations, but we do not have a formal way of recording ongoing activity. The monitoring is where WEFO comes in. We all have to submit claims, returns and so on, but we are not getting qualitative stuff about what is working.

[62] **Christine Chapman:** Is that not discussed in the monitoring committee?

[63] **Mr Fiander:** I do not think that it is, Christine. We do not have those kinds of discussions. WEFO has priorities to ensure that it spends the money; therefore, it is keen to ensure that we spend the money and monitor the outputs. The meeting does a reasonably good job in picking out themes and so on. However, there is no intelligence on the ground about the projects' experiences.

[64] **Jocelyn Davies:** Just to clarify, with inbuilt, ongoing evaluation, you can slightly change the project or the way that it is delivered in order to have better outcomes, rather than wait until the project ends, and then saying that you wished that you had done it a different way.

[65] **Mr Finader:** Yes, that is the approach that we have taken.

[66] **Jocelyn Davies:** You have evidence that you do that with your own projects, but you are not sure that it is happening elsewhere. That is different to the counting at the centre. You do not need to say any more on that. [*Laughter.*]

[67] **Ieuan Wyn Jones:** On monitoring and evaluation, you say that WEFO might be interested in whether you have spent the money. At the beginning of your paper, you say that you have helped 76,600 people. How does WEFO evaluate that?

[68] **Mr Fiander:** It relies on what we provide.

[69] **Jocelyn Davies:** Evaluation and counting are not the same thing. That is what you are saying.

[70] **Mr Fiander:** I agree; that is what I mean.

[71] **Jocelyn Davies:** Chris, did you have a question?

[72] **Christine Chapman:** I am struggling with something. These programmes are very long-term ones, so do you get a sense that the job is done—that you have spent the money and that you now have a better sense of the job that has been done, which has made a difference in the communities? Further down the line, when we look at the programmes retrospectively, those are the type of judgments made and we know what criticisms there have been in some

cases. So, as you evaluate your own programmes, do you get a sense of connection and of things happening, being done and making an impact?

[73] **Mr Brown:** Yes, but the problem comes back to the slow start at the beginning. That put the pressure on spend, which meant that a lot of the emphasis in terms of our relationship with WEFO was down to whether or not we had spent the money because it had to meet its N+2 targets. Given that we are now catching up with that spend, things are shifting towards looking at outputs and indicators, but if we had been quicker at the beginning, that focus on outputs and indicators would have happened earlier. From our point of view, it is all about the individuals and showing, through the evaluation, what we have done. That is more important. So what we found to be frustrating was the amount of time that it took to shift the emphasis and what is being looked at and reviewed.

[74] **Julie Morgan:** On that point, I was looking at the work of Valleys Kids and what you have achieved. You say that you have ‘transformed’ communities and lives. Are you saying that there is no opportunity on the committee or in the feedback to spell out exactly what that means?

[75] **Mr Morgan:** I think that that is exactly right—that is my experience with Objective 1. This is a joined-up process. If you are going to change communities, you have to talk to the police and to schools and families and they all have to be involved. The whole process of convergence—because it is a procurement process—is, from my point of view, in a box and it primarily looks at economics and work. Given that procurement militates against doing things together, it does not lead to that joined-up approach. It also means that you are in danger of counting numbers; it is the worst of both worlds. For example, if you are talking about straight procurement, you have to have outputs—you are given an amount of money and as long as you have that output, you get your money. In my experience, that is great for an organisation. Community organisations such as us and the voluntary sector work with communities and families and, hopefully, everything joins up. In our experience, that is how to change things. However, convergence does not make that work easy, because it does not encourage it or allow any mechanism for working across sectors. That is the significant difference between Objective 1 and convergence—the latter is in a box and is not joined up. If you were going to evaluate a programme, within a year of a project, you would ask yourself whether it was working, whether families were benefiting from it and whether people were finding jobs, but you are talking about the whole community and there is no mechanism for tackling that.

[76] **Jocelyn Davies:** Julie, do you want to go on to the value-for-money issue?

[77] **Julie Morgan:** Yes. The WEFO guidance states that the overriding principles are the fair and equitable distribution of funds, which produces value for money. Could you set out your approach and how you establish whether value for money is being achieved?

[78] **Mr Brown:** In the procurement process and the competitive grants process, part of what organisations have to do is tell us how much they will spend, how much match funding they will provide and what outputs they will achieve. So, as part of that assessment, and based on a formula, we give each tender or grant submission that we receive a score that decides its value for money in a mathematical equation. For example, the more outputs that they will deliver for the smallest amount of money, the better the score. Our difficulty as a voluntary organisation is that if you are working with the furthest and hardest to reach, your costs will be greater. So, we perhaps do not place as much emphasis on that equation as would other organisations, because we are also concerned about whether they are reaching the hardest to reach. However, as for testing the value for money of the tenders or competitive grant submissions that we receive, yes, that is part of the assessment process undertaken.

[79] **Julie Morgan:** That is reported back to WEFO.

[80] **Mr Fiander:** It is part of our system that we agree at first stage.

9.45 a.m.

[81] **Julie Morgan:** With regard to the issue about reaching the most deprived communities, is that also part of the understanding from the beginning?

[82] **Mr Brown:** Yes, it is.

[83] **Mr Fiander:** The gateway project, which was about engaging with the furthest from the labour market, was agreed within WEFO, which fully understood that this was not an employment-focused project—it was about engaging with those furthest from the labour market and connecting them to other projects. It was the start of multiple interventions.

[84] **Mike Hedges:** Going back to what you said earlier about double counting, surely this gives you an incentive for double counting, in that everyone tries to claim anyone that they can. For example, if you had been involved with someone who sought employment, the Wales Co-operative Centre and the local authority could also have been involved. If that person now has employment somewhere, it is in everyone's best interest to claim them, because they are showing a better output. It is the same person who has employment but it is in the best interest of everyone who has had any involvement to make that claim and to show how well they are doing and that that person has benefited from them.

[85] **Mr Fiander:** That is potentially where some of the confusion at the beginning rested. Many organisations thought that they would be able to claim an employment outcome, for example, even though they were doing some of the work downstream before they actually got to a job. In fairness, WEFO has now developed systems that avoid that, but there was some confusion. Certainly, in some of the work that we did in trying to support the sector, there was confusion about whether organisations could claim an employment outcome even though they were doing something that was not actually resulting in a job, although people were going on to the next stage.

[86] **Mike Hedges:** The problem is that if they cannot claim it, how are they to show that they have been of any benefit? They might have done a lot of work early on but if you all worked with someone and they came to me for a fortnight and I found them employment, I could claim it but you could not. So, I have had added value and you have not, even though you may have done most of the work.

[87] **Mr Brown:** A classic example of this is within the ERDF 5.2, the social enterprise support projects. As WCVA and the third sector European team, we have pulled together all of those projects in a room to talk about this exact issue. In the room, you have support organisations, such as the county voluntary councils and Wales Co-operative Centre, helping organisations develop and produce business plans, but you also have loan organisations, such as community investment fund and grant-making organisations, which are all part of the process of helping the organisation to develop. If they employ one person at the end, they have all had an equal stake in developing the organisation. So, we have had to try to come together to work that out. You are absolutely right: in the end, it is in everyone's interest to claim it, but we do our best, working together, to try to ensure that that does not happen.

[88] **Mr Fiander:** In some respects, some of that should be teased out in the business plan application to WEFO. If an organisation says that it will do x, y, z, which will not realistically lead to employment opportunities, yet it has a high employment outcome, WEFO should—and did—question that. There was some work on the business plans but there was also an

element of confusion in the marketplace as to whether they could claim employment opportunities.

[89] **Jocelyn Davies:** Mike, would you like to go on to your questions on sustainability—assuming, Julie, that you have finished your question?

[90] **Julie Morgan:** I want to ask one thing. Do you have an overall view from your role on the monitoring committee as to whether value for money is delivered throughout all the projects?

[91] **Mr Fiander:** I think so. The issue will be what happens in the next few months. You have many strategic projects that are beginning to come to an end and urgent work needs to be done to ask whether these are value-for-money projects and whether we need to keep them going for the end of this programme to ensure that we still have the right mechanisms in place for the next programme. That is my big fear at the moment. From a value-for-money point of view, there is a big danger that we may well have gone through the expensive part of setting up these systems but that we destroy them before they are in place. That will create even bigger repercussions.

[92] **Jocelyn Davies:** We understand that caveat. Mike, did you want to ask your question about sustainability?

[93] **Mike Hedges:** The part that confused me was when you said that, if you generate an income, you get penalised. Sustainability means that you either need an exit strategy when you come to the end of the system or a means by which to generate income, so that you continue to be sustainable. If you get penalised for that, it seems to be a perverse incentive not to generate income. When the funding ends, you end—which is not what anyone wants to happen. Am I reading it right? Have you talked to WEFO about this? Is there anything that can be done to stop this from happening? If that happens, I am not saying that they would not be doing a great job, but they will do their best not to raise any money, and when the time runs out, they will not be able to keep on going.

[94] **Mr Fiander:** In some respects, that is why procurement was brought in, because it can allow organisations to make a profit and therefore to be sustainable. So, for example, if I gave Richard at Valleys Kids a contract for £25,000, and he did not have to put in any match funding and delivered the project for £20,000, then he could gain £5,000 out of that process. However, it all falls down once you start to add in match funding, because you then become a European project and income generation becomes an ineligible item. That is because it is like a grant—if I give you £1, I will then have to give you another £1 for the European funding. So, as soon as I give you £2, and have generated some income, I am then reducing the amount of money that I am getting.

[95] **Mr Brown:** So, you must state in the business plan how much income you reckon that you are going to generate, and that then gets taken off your grant. It was originally set up so that private businesses did not make too much money on the grant that they were offered through European money.

[96] **Ieuan Wyn Jones:** Surely the whole point of income generation is that it obviates the need for the grant. So, in a sense, there is logic to the idea.

[97] **Mr Fiander:** There is logic to it, but it does act as a disincentive for organisations. That is the problem.

[98] **Ieuan Wyn Jones:** The point about these projects is that they are not never-ending; they must have exit strategies, which means that you either bring projects to an end or they

become sustainable. The only way that a project can become sustainable is if it creates income and therefore is less reliant on European funding. That is the first point.

[99] **Mr Fiander:** That is right.

[100] **Ieuan Wyn Jones:** The second point is this: if you are giving an organisation a grant and it creates income, then that gives it a competitive advantage over an organisation that does not have a grant and therefore must rely on creating its own income. So, there are two sides to the argument, are there not?

[101] **Mr Brown:** Yes, and it is part of the process of trying to get the sector to be more entrepreneurial. There is perhaps a middle ground that we can look at for the next programme that makes it easier.

[102] **Mike Hedges:** The European social fund was running well before Objective 1. Indeed, it was sometimes easier to deal with ESF prior to Objective 1 than it has been since, in some respects. That is one point that I wanted to make. Another point is that third sector organisations receive substantial grants from local authorities—they get 100% grant in the first year, 75% in the second year, 50% in the third year and 25% in the fourth year. The idea was that they would get a kick-start and that they would then generate money to keep themselves going. Some people would say that one of our problems is that everything is about applying for grants, funding things from different grants, and, when those grants run out, applying for other grants. So, there is a lack of sustainability.

[103] **Jocelyn Davies:** I was hoping that Mike's new year's resolution would be that his questions would be questions, but obviously not. [*Laughter.*] So, the witnesses can just agree with him if they like. [*Interruption.*] He is making a very good point, but there was no question.

[104] **Mike Hedges:** Do you agree with what I said?

[105] **Mr Fiander:** I do not necessarily agree, as someone who was involved in Objective 3 before Objective 1—

[106] **Ieuan Wyn Jones:** And Objective 5b.

[107] **Mr Fiander:** Yes. One of the problems is that the regulations from Brussels have not moved on; Brussels is still running the schemes as they were run 10 or 15 years ago. So, part of the problem is that Brussels does not accept the economic realities of the world. There is a perversity in the fact that, in trying to encourage sustainability, the only way that you appear to be able to do that is through procurement, because, in that way, you can offer contracts. If we want to encourage sustainability, we ought to think about how we can have some sort of tapered grant or something that allows that sort of process, whereby organisations can keep some of the money that they generate to develop their own projects.

[108] **Jocelyn Davies:** Did you want to come in on this, Richard?

[109] **Mr Morgan:** Definitely, because I have been doing this for 34 years, and I think that it is a myth when people start talking about sustainability and community organisations that are helping the most disadvantaged becoming self-sustaining. They will be no more self-sustaining than primary schools or secondary schools or the health service. There are some things that can be self-sustaining, but they are social enterprises. If you are talking about social enterprises, then, yes, you can talk about sustainability, but, even without experience, I admit, I have grave reservations about that. However, if you are helping the dispossessed and the disadvantaged to go back to work—we work with people who have not left the house for

three years—that will never be self-sustaining. My fear is that we wrap up grant funding and these things in a notion of sustainability. This will have to be paid for by taxes. You will have to pay for the majority of what happens. There can be add-ons to that, but, if you really want us to work with the disadvantaged, you will have to pay for it; it will not be self-sustaining. I worry when people talk in a way that suggests that this will all be self-sustaining in the future.

[110] **Ieuan Wyn Jones:** When you apply for European funding, are you asked for an exit strategy?

[111] **Mr Morgan:** Yes.

[112] **Ieuan Wyn Jones:** What happens to that exit strategy? You are saying that, in a sense, it is meaningless.

[113] **Mr Morgan:** Once again, there is a difference between Objective 1 and convergence funding, because of what they try to do, I suppose. With Objective 1, we were involved with developing communities and community projects that offered services, which were all free. That is the reality. It honestly had that remit. You have been to Penynglyn and, if you went back, you would see that that funding has had a transformational effect. The emphasis in convergence funding is on getting people back to work. It has a procurement model. Therefore, you are buying a service from us, and that is not really sustainable. Offering support to those who are the furthest from the labour market is not a sustainable business model. The work programme would argue that it is, that it is going out to private companies and they are using that money. However, it will not be sustainable. Unless there is a grant provided, it will not work.

[114] **Ieuan Wyn Jones:** I would like to pursue that point. The criteria for convergence funding were not proposed by the Welsh Assembly Government; they were proposed by the European Commission. So, the Government is complying with those regulations. In a sense, therefore, the work that you are doing does not fit with the convergence programme.

[115] **Mr Morgan:** Some of it does. We obtain grants to do specific work under convergence, but it is specific; it is about getting people who are furthest from the labour market back into education or into work. It is a very specific role.

[116] **Jocelyn Davies:** Mike, you wanted to raise something. I remind Members that we are coming up to 10 a.m. and I know that other Members wish to ask about other things. Is this going to be a question, Mike? [*Laughter.*]

[117] **Mike Hedges:** It is going to be a question. Is there a case for—that is the question at the beginning—splitting up the system between those projects for which the exit strategy is closure, that is, if the grant ends, they will close, and those for which the exit strategy is that income will come in to keep them going?

[118] **Mr Fiander:** Yes, potentially, I suppose that there is. However, it is probably a very difficult one to solve, because it is not as straightforward as that. We do a lot of work with organisations to try to look at the diversification of funding and all sorts of other things. So, there will always be organisations looking for such things. However, as Richard said, some of the basic services that some of the organisations offer will never be sustainable.

[119] **Jocelyn Davies:** Also, some organisations, such as yours, are involved in both sides of that coin. Ann, you wanted to discuss community investment.

[120] **Ann Jones:** Yes. Would you outline your experience in setting up your communities investment fund? How long did it take you to do it and what were the main challenges that

you faced?

[121] **Mr Brown:** We are at a very early stage with the communities investment fund, and we are just talking to the first people who want to take out loans now. Putting it in place has been a drawn-out procedure, as is the case with many of the European programmes, because we had to procure the fund manager. The WCVA put together the project, got the business case approved by the Welsh European Funding Office, and then WEFO awarded us the project, but said that the project manager—that is, the person doing all of the work—had to be procured, instead of just letting the WCVA get on with delivering something that the business case proved was needed in the convergence areas of Wales. So, that caused us a huge number of problems and meant that the timescale was long.

[122] **Mr Fiander:** It took two and half years to get it done.

[123] **Jocelyn Davies:** Could you send us a note outlining the timeline? That would be very useful.

[124] **Ann Jones:** Are you not duplicating the work of credit unions in offering a flexible loan? Is this being set up because the money is there for it, or could you have talked to the credit unions that have already been set up about taking up that work?

[125] **Mr Brown:** The credit unions are coming to us to talk about financing opportunities that we may be able to find for them. The trouble with credit unions is that they are based in their locality. It is only from this week that they have been able to start to talk about providing loans to organisations. Most of the work that the credit unions do relates to small loans of around £1,000 or £2,000, whereas the communities investment fund can lend up to £250,000. So, there is a gap in the market there. If an organisation can access money from HSBC, or whoever, we tell them to go there—we are not about working with those organisations that can get loans from other places.

10.00 a.m.

[126] **Ann Jones:** In the two and a half years that you took to set it up, you must have sat and gone around the table many times. What is the predicted rate of return on the investments made by the fund? Do you have an anticipated rate of default? I know you have only just set up, but what are you going to do if someone defaults?

[127] **Mr Fiander:** We ran a small pilot scheme before, so I can give you a feel from that. We ran a £3 million pilot scheme up to 2008. We estimate that that will probably attract around a total of £11 million of investment, so with the £3 million we are unlocking another £8 million or £9 million on top of that. Our default rate on that—bearing in mind that it was very much a learning exercise—is between 10% and 15%.

[128] **Jocelyn Davies:** How does that compare with default rates of credit unions, for example?

[129] **Mr Fiander:** We would like to get the default rate down to single figures, and that is our aim with CIF2. The default rate resulted from the very early days of making the loans.

[130] **Ann Jones:** When you were setting up the procedures, and so forth.

[131] **Mr Fiander:** Yes. Richard will expand.

[132] **Mr Morgan:** I do not think that you should be afraid of a default rate, because to be entrepreneurial you have to encourage people to take risks, and that is one of the great things

about the WCVA—it will support projects that the banks do not understand; you do not stand much of a chance with banks at the moment.

[133] **Jocelyn Davies:** If you have a high default rate, it means that that money is not available for other projects that would have gone ahead, and for other good things that would have been done.

[134] **Mr Fiander:** It does, and we have worked hard with organisations and we continue to do so. With CIF, we have tried to act as a partner rather than just as a lender, so we have looked at business cases of organisations and built aspects into them such as interest payment holidays, and those types of things, to try to help them through the process. It is often the case that the organisation will experience difficulty during the first six months after borrowing that money, and we have an ongoing relationship with all of those organisations. It is not a case of, ‘We’ve lent you the money, you’ve got to pay it back’; we try to find ways to help them. Pulling the plug on projects because they are not paying the money back is the last resort.

[135] **Mr Brown:** We are trying to tread a very fine line. If we had a default rate of 0.5%, we would probably be viewed internally by the WCVA and the third sector as a failure for not taking enough risks. However, if we had a default rate of 20%, we would be taking too many risks. We are trying to tread that fine line and get the default rate into single figures to try to get enough money back in, but also to give organisations a good chance of doing things that they would not normally get the opportunity to do.

[136] **Jocelyn Davies:** Yes, I see.

[137] **Ieuan Wyn Jones:** Wrth sôn am eich cronfa buddsoddiad cymunedol, rydych hefyd yn cyfeirio yn eich papur at y ffaith eich bod wedi cael cymorth drwy JESSICA a JEREMIE. Byddai’n ddefnyddiol pe byddem yn cael gwybod yn union beth mae hynny wedi ei ychwanegu at eich cronfa eich hun. Pa mor hawdd yw hi wedi bod i ddelio â’r ddwy gronfa newydd hynny, sydd yn dod ag arian eithaf sylweddol i mewn?

Ieuan Wyn Jones: In talking about your community investment fund, you also refer in your paper to the fact that you have received support through JESSICA and JEREMIE. It would be useful for us to know precisely what that has added to your own fund. How easy has it been to deal with those two new funds, which bring in quite substantial funding?

[138] **Mr Brown:** Our point may not be written correctly. We were pointing to examples of funds that help the long-term legacy of European funding. I do not have any knowledge of third sector organisations getting involved with JEREMIE and JESSICA. That is not to say that it has not happened, but to the best of my knowledge I do not know that that has happened.

[139] **Ieuan Wyn Jones:** I have the Welsh version of your paper. It says:

[140] ‘Gwnaethpwyd peth defnydd yn y ‘Some use has been made in this programme rhaglen hon o offerynnau ariannol, gan of financial instruments, including loan gynnwys arian benthyciadau fel JEREMIE a funding, such as JEREMIE, JESSICA’. JESSICA’.

[141] So, it does say that some use has been made of those funds. That is point 5.2 of your paper.

[142] **Mr Brown:** Our point there was about the range of different measures that could be provided by providing that type of loan infrastructure under the next fund, rather than the third sector accessing them.

[143] **Ieuan Wyn Jones:** So, you do not think that they have?

[144] **Mr Brown:** To the best of my knowledge, I do not know of organisations that have.

[145] **Mr Fiander:** We talked to Finance Wales in the process of setting up CIF to make sure that there was no crossover. It did not give us any indication that third sector organisations were accessing those funds. I am sorry for the confusion.

[146] **Mr Morgan:** I thought that JEREMIE and JESSICA were two children—I had never heard of them before. [*Laughter.*]

[147] **Ieuan Wyn Jones:** I think that we need to amend your evidence in that sense.

[148] **Paul Davies:** I have a couple of questions on match funding. You mention in your paper that, as a project sponsor, you experience delays in receiving targeted match-funding payments from the Welsh Government. Can you clarify whether the delay was in the application and approval process for the targeted match funding, or whether it was a delay in receiving the funds once the project had been approved?

[149] **Mr Fiander:** The delay was in receiving the funds once the project had been approved. The project was approved with the targeted match fund at the time—the TMF is approved when the business plans and the project have been approved. The problem—in fairness, WEFO had a similar problem—was that it went into the system, and the TMF had its own checks, so it did not automatically get paid. We submitted a claim online, an element of which was TMF. It had to go off to another element, and we had to wait for that to clear. It was not integrated, though we were led to believe that it would be. So, instead of the claim being approved fully and the payment made, we would get an element of the ESF or other European funding but would then have to wait another month to six weeks for the TMF money.

[150] **Paul Davies:** What effect did this delay have on your financial position?

[151] **Mr Fiander:** It affected our cash flow. When you are being driven to ramp up spend, as an organisation and as a charity, there is a limit to what we can spend from our reserves and what have you. Our reserves and everything are pushed to the limit in keeping up, to ensure that local groups get their money, and we end up with a major cash flow problem. Once or twice, we came very close to the limit as a charity of what we were able to spend. It got quite difficult, although we are now working with WEFO to resolve that.

[152] **Jocelyn Davies:** Was this entirely down to bureaucracy in the approval to part with the money?

[153] **Mr Fiander:** Yes. The TMF was agreed with the project when the project was approved. It is to do with the claiming process.

[154] **Paul Davies:** With regard to the availability of public sector match funding, you suggest in your paper that the impact of public sector spending cuts has not yet been felt substantially by structural funds projects. Do you anticipate it becoming a problem in the current round of funding?

[155] **Mr Fiander:** It could do. We do not have an analysis of where all the funding is coming from, but there are a number of groups that will be using local government grants or whatever to provide match funding for projects. Now, if those grants are cut—and they are beginning to come under pressure; groups are already talking about an 8% reduction at the

local level and so on—that will put the availability of match funding at risk.

[156] **Mr Brown:** There is a point to make about the importance of voluntary groups being able to keep in-kind match funding. Under the engagement gateway, organisations use volunteers—they are allowed to prescribe an hourly rate, according to what they do, as a form of match funding. We have already seen with the gateway and ILM that about £0.5 million of volunteers' time contributes towards match funding. We are seeing a reduction in cash grants to organisations, so the importance of using volunteers and in-kind match funding increases as we go forward, and that is another vital point that we would like to make.

[157] **Mr Fiander:** Wales is the only country in Europe that uses volunteer time in this way.

[158] **Mr Brown:** Our European partners are asking us about this, so we have been talking to them about how we do it in Wales. We are therefore seen very much as a model of best practice, and we are very proud of that fact. Many European countries are looking at what we are doing for the next programme.

[159] **Jocelyn Davies:** It certainly makes volunteers feel valuable, because their contribution is something that you can put a price on. Ieuan, did you want to come in on this point?

[160] **Ieuan Wyn Jones:** Rydych yn dweud y bydd yn anos cael arian cyfatebol oherwydd toriadau i arian cyhoeddus. Yn 2008, gwnaeth WEFO gais i'r Comisiwn Ewropeaidd i godi'r lefel ymyrraeth, i gael mynediad i arian Ewropeaidd. Wrth gwrs, nid yw hynny bob amser yn beth hawdd i'w wneud—rhaid mynd yn ôl at y Comisiwn wedi cytuno'r lefel ymyrraeth ar y dechrau oherwydd amgylchiadau ariannol. Felly, gan edrych i'r dyfodol, i'r adeg y daw'r rownd nesaf o grantiau, a ydych chi'n dadlau y dylai WEFO a'r Llywodraeth ofyn am grantiau ymyrraeth uwch o'r cychwyn fel bod mwy o arian yn dod o'r gronfa, fel nad ydych yn gorfod edrych am gymaint o arian cyfatebol? Ai dyna yw eich dadl?

Ieuan Wyn Jones: You say that it will become harder to get match funding because of cuts to public funding. In 2008, WEFO applied to the European commission to raise the intervention level, to get access to European funding. Of course, that is not always an easy thing to do—you have to go back to the Commission having agreed the intervention level at the outset, because of economic circumstances. So, looking to the future, would you say that, when the next round of grants comes forward, WEFO and the Government should be asking for higher intervention rates from the outset so that more funding would come from the fund rather than having to look at so much match funding? Is that the argument you are putting forward?

[161] **Mr Fiander:** Yes, to give you a simple answer. It makes a huge difference. If Wales pushes for the maximum intervention rate it can get, we can always make a decision in Wales because, ultimately, it is about what match funding is available. That determines the intervention rate. So, if you have a project that is well financed with match funding, it should get the lower intervention rate. However, where you have projects with minimum match funding, you at least need to build the flexibility.

[162] **Jocelyn Davies:** Ieuan, do you have any further questions?

[163] **Ieuan Wyn Jones:** There is obviously a downside to this in the sense that, the higher the intervention rate, the less money there is to go around.

[164] **Mr Brown:** Yes, and it reduces the overall impact because you are not attracting as much match funding to the overall programme.

[165] **Jocelyn Davies:** I see that there are no further questions. Thank you very much for your evidence. Is there anything else that you would like to highlight?

[166] **Mr Brown:** No, we have had the chance to cover everything, thanks.

[167] **Jocelyn Davies:** As normal, we will send you a transcript to check for factual accuracy. Thank you very much.

[168] Before I ask Members to agree to go into private session, we have a couple of papers to note that are in your files. Are Members happy to note those papers? I see that you are. We have a note from Peter's visit to the Parkview Café. Peter, do you have anything to add?

[169] **Peter Black:** No, that is fine.

[170] **Jocelyn Davies:** Are Members happy to note that? I see that you are.

[171] **Ann Jones:** Are we in private session?

[172] **Jocelyn Davies:** No, we are about to go into a private session. Can we agree the minutes of the previous meeting? I see that we are agreed.

10.12 a.m.

Cynnig Gweithdrefnol Procedural Motion

[173] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[174] I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.12 a.m.
The public part of the meeting ended at 10.12 a.m.*