



## Finance Committee

### FIN(4) 05–12 – Paper 2

Inquiry into Effectiveness of structural funds in Wales

Response from Welsh Social Enterprise Coalition

#### **Background**

This paper is the response of the membership of the Welsh Social Enterprise Coalition to the call for evidence by the National Assembly for Wales Finance Committee in relation to its inquiry into the effectiveness of European Structural Funding in Wales.

The Welsh Social Enterprise Coalition (WSEC) welcomes the opportunity to respond to the call for evidence. WSEC was established in 2010 as the collective voice for social enterprise in Wales. We represent a wide range of social enterprises and regional networks and this response was informed by consultation with members of WSEC.

Social enterprises are businesses with primarily social or environmental objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

The Welsh social enterprise sector is not a small one, with social enterprises operating in almost every industry in Wales, from health and social care, finance and retail to recycling, employment and sports clubs. There are approximately 3,000 organisations carrying out social enterprise activity in Wales with a combined turnover of some £2.2 billion. They account for around 50,000 full and part time jobs and over 105,000 volunteering opportunities across Wales.

Social enterprises in Wales have benefited from a range of European Structural Fund programmes and are involved in the delivery of a number of projects. European funding has been used for a wide range of activities, including:

- Supporting enterprise development
- Promoting entrepreneurship
- Creating employment opportunities and tackling barriers to employment
- Regenerate communities
- Developing the social economy

## **Consultation Questions**

### **1) To what extent do you consider the Convergence and Regional Competitiveness & Employment Programmes in Wales for the 2007-2013 period, to have achieved or be achieving intended objectives?**

- 1.1 The primary purpose of European Structural Funds Programmes is to reduce regional disparities in terms of income, wealth and opportunities using levels of Gross Domestic Product (GDP) per capita as its key indicator to determine which regions need the most support. Wales qualified for the highest level of support; Convergence funding, which provides assistance to those regions whose GDP per capita is below 75% of the EU average, as well as the Regional Competitiveness & Employment Objective, which covers all regions not already covered by Convergence. We note that the latest official regional GDP statistics available from the European Union's Statistical Office are based on 2007/08 figures and therefore it is not possible to accurately assess whether or not the Convergence and Regional Competitiveness & Employment Programmes for the 2007-2013 period have achieved their objectives.
- 1.2 In terms of project expenditure, it appears that good progress has been made on implementing Convergence and Competitiveness programmes with WEFO anticipating that over 90% of funds will be committed by the end of the current financial year. The latest statistics from WEFO indicate that the vast majority of Convergence and Competitiveness ESF & ERDF projects will meet their programme-level indicator objectives. However, it is worth noting that a number of Programme-level indicators are currently behind schedule and may not be achieved. For example, 19, 546 enterprises are expected to be assisted by ERDF Convergence projects in West Wales and the Valleys during the lifetime of the current Structural Fund Programmes. However, a report prepared by WEFO for the Programme Monitoring Committee (PMC) in December 2011 <sup>1</sup> shows that 5,606 enterprises have been assisted so far – 1,653 less than were forecast to have been supported at this stage in the programme. ERDF projects in Convergence areas were expected to create 8,748 new enterprises but by October 2011 1,140 new enterprises have been established – 2,299 less than was forecast at this point. WEFO forecast that the Enterprises Assisted and Enterprises Created Programme-level indicators will be achieved but it is hard to see how at this stage.

A number of Programme-level indicators for ESF Convergence projects in West Wales and the Valleys are also behind schedule. For example, the number of participants gaining qualifications was targeted at 75,385 in October 2011 but the latest statistics from WEFO show that the figure is actually 64,430<sup>2</sup>.

- 1.3 The Welsh Social Enterprise Coalition believes that the monitoring and evaluation of the implementation of EU Structural Fund Programmes are key to their effective delivery. WEFO closely monitors project expenditure and charts progress made in attaining agreed objectives, which are important and necessary, but we believe that greater attention needs to be given to evaluating the impact of projects on the ground. We recommend that WEFO assesses the effectiveness of the ESF Leavers Survey and ERDF Business Survey as ways to measure the

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<sup>1</sup> Programme Monitoring Committee Report on ERDF Convergence 2007-2013, West Wales & the Valleys, November 2011

<sup>2</sup> Programme Monitoring Committee Report on ESF Convergence 2007-2013, West Wales & the Valleys, November 2011

impact of the Programmes, and establish a Social Impact survey to evaluate the wider benefit projects have had on local communities. We also recommend that WEFO include new Programme-level indicators to measure the combined social and economic impact of Convergence and Competitiveness ERDF and ESF projects to better measure the achievement of these programmes.

- 1.4 The implementation of Convergence and Competitiveness ERDF and ESF projects has come in for some criticism, given the number of delays in projects being approved and the subsequent slow pace of expenditure in the early years of the Programmes. The statistics indicate that that pace has picked up with 84% of funds being committed to date<sup>3</sup>, but there is no doubt that there were significant delays in approval for a number of private and third sector projects. These delays meant that there was a lack of continuity between the 2000-2006 and 2007-2013 programmes. The bureaucracy and complexity of the application process have been cited as major reasons for these delays and clearly lessons need to be learned to ensure this does not happen again in the next round of European funding post 2013. We believe that speeding up assessment processes - whilst ensuring that the necessary detailed scrutiny of business plans and project proposals is carried out – and helping project sponsors simplify tendering processes would help avoid a repeat of the problems encountered in the first few years of the 2007-2013 programmes.

## **2) Do you consider the various projects funded by European Structural Funds to be delivering value for money?**

- 2.1 WEFO and the Welsh Government have made efforts to ensure that European programmes in Wales were robust enough to respond to changing economic fortunes and were flexible enough to focus on new priorities. The Welsh Government's policy change in response to the economic downturn - the Economic Renewal Programme - led to a re-scoping of European Structural Fund Programmes and a number of projects were re-assessed and either reduced in scale or brought to an earlier than planned conclusion. We believe it is right to reflect and respond to changing economic circumstances and to readjust Programmes to ensure they have the maximum impact and value for money.
- 2.2 The approach to the current round of European Structural Funds in Wales has differed to that in the previous round in that there has been a conscious effort to be more strategic in implementation and this has been characterised by the approval of fewer, bigger projects. Indeed, we are in the later stages of implementation of the current programming round and just over 250 projects have been approved to date. In contrast, over 3,000 small to medium sized projects were approved under the 2000-2006 European Structural Funds Programmes, involving public, private and third sector organisations in the design and delivery of these projects. The Welsh Social Enterprise Coalition understands the rationale behind adopting a more strategic approach; the reduction in administration costs allows more funds to be direct towards front-line projects and it was argued that the implementation of fewer, bigger projects would result in higher impacts. However, Welsh social enterprises have told us that in adopting a more strategic approach, they have seen their opportunities to secure European funding for

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<sup>3</sup> Welsh European Funding Office website

projects diminish as public sector sponsoring bodies have dominated the number of project approvals. Indeed, as at December 2011 the number of project of approvals led by sponsors from each sector were as follows:

<u>Sector</u>	<u>Number of project approvals</u>	<u>EU Funds</u>
Public sector	197	£1.441 billion
Private sector	10	£20.279 million
Third sector	35	£96.386 million

By comparison, third sector organisations accessed over £250 million of European funding under the previous Structural Funds Programmes for Wales involving 319 different organisations as project sponsors in the Objective One programme.

- 2.3 The move to a more strategic approach clearly reduced the number of opportunities for social enterprises to be project sponsors, and instead they have been able to enter into the tendering process to deliver EU funded projects. Third sector organisations have won £107 million of contracts under procurement arrangements, compared to private sector companies who together have secured contracts worth nearly £370 million to deliver EU funded projects to date. One member told us that effectively, they have gone from active designers and delivers of European projects to disengaged recipients of (largely) public sector contracts. We note the evidence *Valley Kids* provided to the Enterprise & Learning Committee’s 2009 inquiry into the implementation of the 2007-2013 European Structural Funds Programmes, where they contrasted their experience of engaging with Objective One programmes and with Convergence programmes. We have heard anecdotal evidence from social enterprises that mirror the experience of Valley Kids.
- 2.4 The Welsh Social Enterprise Coalition believes that it is crucial for projects funded by European Structural Funds to deliver value for money, but equally important is a focus on delivering social value. The move to a strategic approach in the current round of programmes has led to a reduced role for community organisations and social enterprises. These organisations are often found working on the frontline tackling some of the most challenging issues facing communities across Convergence and Competitiveness areas, and their experiences and learning are crucial to the development of effective projects. A number of members have told us that they have felt excluded from the process altogether. We believe that future European programmes should attempt to take the best from the 2000-2006 and 2007-2013 Programmes. We favour a strategic approach that engages effectively with social enterprises, small business and voluntary organisations to ensure that social value and impact is considered as important as value for money. Social enterprise should be seen as a key partner in the design and delivery of European programmes and we are encouraged that the European Commission’s proposals for the next round of European programmes include a new local development approach, centring on more strategic support for community-led local development.
- 2.5 It is essential to ensure maximum spend of European Structural Funds, particularly as public finances come under increasing pressure. It would be a tragedy if significant funding that could make a real difference to businesses and communities across Wales went unspent and instead returned to the European Commission. For this reason, the Welsh Social Enterprise Coalition

supports WEFOs recommendation to over-commit on project implementation by up to 5% on ERDF programmes and up to 10% on ESF programmes, provided WEFO regularly monitors and reviews spending and the impact of exchange rate fluctuation. Over-programming seems to be the best way of maximising the opportunities to benefit from European funding but we do have some concerns that it may result in uncertainty as some projects will be de-committed at a late stage.

**3 a) Do you have any concerns about the use of the Targeted Match Fund (TMF)?**

- 3.1 The economic downturn and subsequent reduction in public expenditure has had a significant impact on the availability of match funding, reducing the finance available to social enterprises to match to ESF and ERDF money. Social enterprises therefore welcomed the availability of the TMF. Without it, most social enterprises and community organisations who were looking to secure European funding would have found it almost impossible to do so.
- 3.2 We are aware of the difficulties some project sponsors have had in receiving TMF payments from the Welsh Government, which has jeopardised the long term viability of projects.
- 3.3 Reductions in public expenditure, including a significant cut in capital investment, led to the TMF being downsized with no new applications for capital support being accepted. This was a serious blow to project sponsors, many of whom saw their projects being scaled down or removed from the priority funding pipeline. Given that public finances will continue to be constrained in future years, the Welsh Social Enterprise Coalition support the call from the WCVA for a needs assessment before the 2014-20 Programmes begin, to ensure that TMF is used in areas where pressures on match funding are greatest.
- 3.4 The Welsh Social Enterprise Coalition commends WEFO for permitting the use of volunteer time as match funding in-kind which has greatly improved opportunities for social enterprises to access match funding. We hope that volunteer time remains an eligible source of in-kind match funding in the 2014-20 Structural Funds Programmes.

**3 (b) Do you have any concerns around the use of Welsh Government Departmental expenditure, as match funding?**

**3 (c) What impact do you believe public sector cuts has had on the availability of public sector match funding?**

- 3.5 Public sector cuts have clearly had an impact on the availability of public sector match funding as outlined above and will continue to have an impact when project sponsors seek public sector match funding in the next round of European programmes.

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

- 4.1 Please see our response in 1.3

4.2 The Welsh Social Enterprise Coalition supports the call for an independent evaluation of the implementation of the 2007-2013 Structural Funds Programmes in Wales. We are in favour of any measure that could potentially improve the delivery of European funding. WEFO does a good job in monitoring and evaluating the impact of projects but we think that a review from another accounting body could only be helpful. After all, we all want European funding to be spent in the most effective way. More intelligence and evaluation, particularly in capturing the social as well as economic impacts of European programmes which also identifies gaps in these areas, can help direct future funds to the areas of most need.

**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?**

5.1 The European Commission's Lisbon Agenda and the steer coming from the Welsh Government placed an emphasis on moving away from a grant culture to an investment culture in the 2007-2013 Structural Funds Programmes, hence the widespread use of tendering. However, project deliverers are deterred from generating an income because intervention rates are reduced. We believe that Structural Funds Programmes should encourage income generation as a way of ensuring the sustainability of European projects.

5.3 It is important that we learn the lessons from the last programming round to ensure that there is continuity between Structural Fund phases. The imaginative use of loan and legacy funding would help ensure we avoid the lag that occurred when a number of Objective 1 projects ended in 2007/08 without adequate replacements. Whilst recognising that there will always be a need for grant funding, flexible loans help third sector organisations and social enterprises reduce their dependency on grant funding and assist them in their move towards sustainable growth.

5.4 We support the WCVA's recommendation that the Welsh Government continues to increase access to loan funding for social enterprises and enterprising third sector organisations, as well as providing them with a full suite of investment, grant, start-up, business and intellectual support.