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Llywodraeth Cymru  
Welsh Government

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Jocelyn Davies AM  
Chair  
Finance Committee

12 July 2012

**Finance Committee inquiry into the effectiveness of the European Structural Funds in Wales**

During my attendance at the Finance Committee on 30 May 2012 on the inquiry into the effectiveness of the European Structural Funds programmes 2007–2013 in Wales, I agreed to provide you with further details as follows:

- Details on the training undertaken by WEFO staff to provide advice to project sponsors on procurement processes.
- To write to the Committee to set out the timeline of when the first investments will be made by JESSICA fund managers.
- More detail on forthcoming discussions with the Programme Monitoring Committee exploring the impact that rate of exchange could have on projects and how to manage potential risks.

Details in response to these issues raised are attached as an Annex to this letter.

I look forward to the Committee's report which will be an important reference document for the independent review of arrangements for implementation for the prospective 2014–2020 programmes which I announced in Plenary on 3 July.

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## PROCUREMENT TRAINING

A WEFO Project Development Officer is assigned to each project to provide co-ordinated advice and support to sponsors when developing and delivering their projects. To assist in this process, WEFO staff have undertaken a variety of financial, procurement, State Aid, equality, environmental sustainability, and project management training over the course of the delivery of the programmes.

In March 2010, for example, WEFO staff attended one of three one-day 'Effective and Compliant Procurement' bespoke procurement training sessions. The training was delivered by PMMS Consulting and covered areas such as:

- Good governance and procurement
- Rules and regulations
- Competition and value for money
- Skills required
- Core requirements of European procurement legislation

Similar one-day training sessions, part-funded by WEFO and developed in conjunction with PMMS Consulting, Value Wales and the WCVA, were also delivered to third-party sector organisations, local authorities, Welsh Government, Further Education and WEFO staff in early 2010.

In 2011/12, WEFO staff also attended a one-day Procurement Awareness course led by Value Wales. Refresher training in procurement has been booked for 25 WEFO staff in October and, subject to appraisal of that course, I would expect it to be extended.

### Other procurement training

The WCVA offer training in their role as 3-SET, which is part-funded by WEFO, to provide advice and support to third sector organisations on EU funding delivery arrangements. Its next course is in September as part of Managing EU funded projects

[http://www.wcva.org.uk/training/index.cfm?display\\_sitedeptid=3&display\\_sitetextid=110](http://www.wcva.org.uk/training/index.cfm?display_sitedeptid=3&display_sitetextid=110)

WEFO has also funded the £11m (ESF £5.7m) 'Transforming Procurement through Home-Grown Talent' project, led by the Welsh Government, which is helping to develop procurement skills and capability across public services in Wales. The project includes:

- Raising awareness among public service leaders across Wales
- Developing the skills and capability of existing public service staff
- Accelerating and expanding the implementation of e-procurement

- Identifying innovative approaches to improve procurement.

Each trainee will complete an extensive training programme, including procurement and project management, during their time with the project. The training includes undertaking a number of placements in public sector organisations throughout Wales, during which time they will be supported by senior staff and an individual mentor. Trainees will also work towards achieving the Chartered Institute of Purchasing and Supply (CIPS) professional qualification 'MCIPS' accreditation.

## **JESSICA**

To date, no investments have been made for the £55m Regeneration Investment Fund for Wales (RIFW), of which £40m is a European funded project, known as JESSICA, (£25m ERDF Convergence) covering West Wales and the Valleys.

RIFW managers have prioritised 11 Expressions of Interest (EOIs) for review, requesting some £78m and worth around £108m. EOIs include schemes in Neath Port Talbot; Tenby; Caernarfon; Mumbles; Swansea; Wrexham; Port Talbot, Porthcawl, Cynmael, Newport and Pontypridd. This includes a financial offer to a scheme/developer for the Riverside Centre in Pontypridd, with the developer currently considering his financial options.

Several other schemes are also well advanced and with the pipeline strong and growing, the Fund Managers and the RIFW Board are confident that the ERDF funded scheme will deliver the full investment of £40m by June 2015.

WEFO is closely monitoring the progress of the fund and is in regular contact with Fund and Investment Managers to drive developments forward. The Minister for Housing, Regeneration and Heritage also met with Fund and Investment Managers in July to discuss progress. I will write to the Committee on any further developments and as soon as an investment is to be announced.

## **EXCHANGE RATES AND EUROPEAN STRUCTURAL FUNDS**

I attended a meeting of the All-Wales Programme Monitoring Committee 2007–2013 on 15 June, during which Members were advised of the implications of the volatility of Euro/Sterling exchange rates on the management of the current programmes.

Wales was close to spending 100% of the funding available for the 2000–2006 programmes to secure the greatest benefit for Wales, and which is set to place us among the best performing regions; this is my aim for the current programmes.

However, there is a risk associated with this achievement due to the ongoing pressure and instability in the Eurozone. The value of our programmes is set

by the Commission in Euros, which makes programme plans and commitments in Sterling difficult to manage, and this will become more acute as we near the end of the current funding round.

One of the main issues is the possibility that the value of the Euro will continue to decline against Sterling. At the end of May 2012, our programmes were already overcommitted between a range of 101% and 109%, based on an exchange rate of €1.25. This is roughly the average rate over the last few months, although the Euro has weakened again over couple of weeks. This includes projects and extensions which are still technically in the pipeline, but are well developed.

Some over-commitment at this stage is intentional, as we know that not all projects will spend their full allocation, and there is still some three years to go in the project spending profile. However, if those current commitments were to be recalculated at a rate of €1.30, for example, the over-commitment would increase by some £46m, to a degree which would be difficult to manage and which would pose a risk to Welsh Government budgets.

PMC Members were advised of and supportive of the risk management measures being undertaken by WEFO, with prioritising the demand for extensions and projects in the pipeline together with the close monitoring of planning rates continuing to be the main issues for the programme.

Should we face a really serious weakening of the Euro, PMC Members supported WEFO's proposals for funds to be decommitted from projects where there is limited evidence of successful delivery (in terms of forecast spend and achievements) and effective support to the delivery of Programme for Government objectives. Such decommitment would meet the expectations of some well-developed pipeline projects that could meet key criteria, support Welsh Government priorities and fill gaps in the programme targets agreed with the European Commission.

PMC Members also recognised the importance of continuing to support projects successfully delivering against their current targets and to sustain activity which will be needed to support the 2014–20 programmes. While, less-developed or weaker pipeline projects and requests for extensions to current projects where proposals are weaker or less well developed, should not be supported.

WEFO will continue to carefully monitor exchange rates and the performance of projects. It is also important to note that we have until end of 2015 to manage the current programmes, and given the economic climate and markets, much may change in that time.