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The Clerk of the Finance Committee  
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Dear Sir

## **CALL FOR EVIDENCE: THE EFFECTIVENESS OF EUROPEAN STRUCTURAL FUNDING IN WALES**

Pembrokeshire County Council is pleased to respond to this important Inquiry by the Finance Committee of the National Assembly for Wales.

Pembrokeshire County Council has significant expertise and experience in the use of the European Structural Funds. It has made use of the Funds since the Council's establishment in 1996, through programmes including Objective 5b Rural Wales 1994-99, Objective 1 2000-2006 and most recently the Convergence ERDF and ESF programmes 2007-13. The Council has also delivered projects through cross-border and transnational programmes funded by the European Structural Funds. Pembrokeshire County Council's expertise is centred on its European Unit, a multi-disciplinary team forming part of its Regeneration Division. Members of this team have contributed to the work of groups established by the Welsh European Funding Office (WEFO) and the Welsh Government to oversee aspects of the Structural Fund programmes in Wales, including the Delivery and Compliance Group, the All-Wales Evaluation Advisory Group and Steering Committees for major Convergence funded projects such as Reach the Heights. The team also provide the Specialist (formerly Spatial) European Team (SET) service in Pembrokeshire, which aims to ensure that the Convergence programme is delivered effectively in the county. As a result, the Council is able to offer informed comment on the subject of the Finance Committee's Inquiry.

A response to each question the Committee has posed is given below, concluding with some further remarks and observations on aspects of the programmes that are worthy of particular attention. Please note that unless otherwise stated, the comments offered here are based on our experience of the Convergence ERDF and ESF programmes rather than knowledge of the East Wales RCE programmes, which of course do not operate in Pembrokeshire. It should also be noted that due to the timings of our Cabinet meetings, it has not yet been possible for us to obtain formal Cabinet endorsement of the views expressed here.



To what extent do you consider the Convergence and Regional Competitiveness and Employment (RCE) programmes in Wales for the 2007-13 period, to have achieved - or be achieving – their intended objectives?

As their name implies, European Structural Funds are intended to address structural, i.e. long term, weaknesses in the economies of Europe's regions. It would be too much to expect therefore that by early 2012 the programmes might have already achieved their intended objectives. After all, delivery of projects will not complete until at least mid 2015 and the full impact of the programmes may not be felt until after that. However, our view is that in general there is reason for optimism that both the Convergence ERDF and ESF programmes will achieve the targets set<sup>1</sup>. This optimism is based on the performance of the programme to date as reported to the Programme Monitoring Committee in December 2011, our view that where results indicators appear to be low at present (e.g. gross jobs created) this is due to slow reporting rather than non-achievement<sup>2</sup>, and the findings of completed evaluations commissioned by WEFO or other parties.

Here a cautionary note must be sounded: achieving targets is not the same as achieving objectives. The objectives of the Convergence ERDF programme are set out in paragraph 3.13 of the Operational Programme and those of the Convergence ESF programme are at paragraph 3.14 of that document. Whilst there is good reason to believe that all aspects of these objectives will be addressed to at least some extent, our view is that the task will not be complete by the end of the present programmes and that all will continue to require further resources.

For example, the ERDF programme has as an objective to "equip the region with the physical infrastructure necessary for the development of a modern and competitive economy". Some important steps have been made in this regard, but Pembrokeshire will still lack infrastructure critical to any "modern and competitive economy" including broadband and effective transport links.

Much has been done to invest in the skills of our young people and whilst we see that the need for further investment will continue, our investment in the present generation should assist in ensuring that our future workforce has higher level skills than their predecessors.

We are less convinced that the (admittedly modest) ESF investment in improving public services will bear fruit in the long term. It seems to us that when there exists uncertainty in public service delivery in Wales, whereby established, effective (sometimes ESF supported) collaborative alignments are threatened with abandonment simply to allow compliance with some unexpected central directive, we do not have an environment conducive to the effective use of ESF to improve public services.

Do you consider the various projects funded by the European Structural Funds in Wales to be delivering value for money?

It is impossible for us to say. To answer this question objectively requires knowledge of the cost of generating each output (e.g. number of businesses assisted) and result (e.g. number of gross jobs created). This information is not in the public domain.

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<sup>1</sup> We are aware that the targets for the Convergence ESF programme are presently being renegotiated with the European Commission to reflect changes required to address the introduction of the UK Government's Work Programme, *inter alia*. It is the proposed revised targets that we have in mind in commenting here.

<sup>2</sup> See response to question on monitoring and evaluation.

WEFO only publishes the budgeted costs of projects but their actual costs and the outputs and results obtained is not to be published until after projects have completed.

Costs and output/result information is available for each Priority within the two Convergence programmes, but these are not necessarily directly comparable as most projects are yet to complete and so outputs/results are likely to be understated at present in comparison to costs. Thus one must be cautious when trying to use published data to draw conclusions about value for money.

Nevertheless, there is reason to be confident that Convergence projects do provide value for money in their delivery. The fact is that WEFO takes great care during the appraisal process to ensure that the projects awarded ERDF or ESF offer satisfactory value for money. In turn, when project sponsors procure delivery of their projects then value for money will be one of the considerations (alongside quality of provision) taken into account in deciding which contractor to procure. Thus the need to obtain value for money is an important consideration for all involved in delivery of European Structural Fund projects. We consider that all the EU projects that we deliver do offer value for money for taxpayers but we remain vigilant and where potential efficiencies are identified these are implemented.

The Committee should bear in mind that measuring value for money is not straightforward: it is frequently the case that it is more expensive to provide some types of projects in rural areas than it is in urban centres. The clientele also needs to be considered. For example, providing training activities for young offenders or disabled people will involve higher staff/participant ratios (and so higher unit costs) than will similar activity for less vulnerable groups. As a result simple comparisons of the unit costs of different projects will most likely not be valid as these legitimate reasons for variation in unit costs will be overlooked.

One area where significant unnecessary costs are incurred is in claim compilation and audit. Let us be clear – this is nothing to do with the efficiency with which projects are delivered – it is entirely in connection with the process involved in claiming the funding from WEFO. The collaborative nature of many Convergence projects means that one organisation claims EU funds from WEFO on behalf of several others. This involves each delivery organisation submitting claims to the lead and then these claims being aggregated into a single claim for WEFO. For expenditure to be claimed, it must be fully evidenced showing for each transaction the full paper trail from invoice to defrayment from the organisation's bank account. Frequently this involves the photocopying of vast quantities of paper all of which must be collated and then couriered to another location where it is checked and aggregated with other claims. Some lead organisations (based on a strict interpretation of Wales Audit Office guidance) ask for each copy to be certified as an accurate copy of the original, which means a senior officer signing each photocopy. This is a scandalous waste of public resources. It is ironic that it is the assumption that collaboration inevitably leads to efficiencies that has caused it.

Do you have any concerns around the use of the Targeted Match Fund? Do you have any concerns around the use of Welsh Government departmental expenditure, as match funding? What impact do you believe public sector cuts have had (and may have) on the availability of public sector match funding?

We have had little involvement with the Targeted Match Fund (TMF) and have not been in receipt of it. Our impression is that it has not been at all well co-ordinated with the European Structural Funds it was supposed to support, involving a separate application and appraisal process by officials in a different WG department based on appraisal criteria that were different to those applying to the Structural Funds. It is

especially unsuitable for projects with only relatively small funding gaps. Even WEFO seems to have struggled with TMF: our experience is that WEFO found it preferable to offer an increase in the ERDF intervention rate rather than initiate a TMF application.

We are only aware of a very few examples of the use of Welsh Government departmental expenditure as match funding, except of course in the case of Structural Fund projects sponsored by the Welsh Government. Two such cases were for flood prevention projects at Fishguard and Newport (Pembrokeshire). In these limited cases we have no concerns worthy of mention.

Public sector cuts have had an impact on the availability of public sector match funding and our expectation is that this difficulty is only likely to become more profound. Local government will inevitably be concerned to prioritise statutory services, and since Structural Funds can only support activities that are not statutory obligations it seems inevitable that the squeeze on public match funding will be even tighter than the squeeze on public sector finances generally. This makes the need for an effective, accessible and adequately resourced alternative to TMF critical.

How effectively do you believe WEFO have monitored and evaluated the impact of projects?

Evaluation is one of the strongest aspects of the implementation of the Convergence and RCE programmes. The introduction of a requirement in the Structural Fund Regulations for 2007-2013 for on-going evaluation has allowed WEFO to conduct a comprehensive programme of evaluations of different aspects of the programmes. In addition WEFO has chosen to explore more robust methods of impact evaluation, for example it has utilised control groups in the recently completed ESF 2010 Leavers Survey and ERDF Business Survey that have provided a good counter-factual and so allowed a more robust appraisal of the added value provided by Structural Funds interventions than has previously been possible.

Similarly, we believe that the requirement that all projects undertake an evaluation (usually through the involvement of an independent specialist contractor) provides a real opportunity to improve regeneration practice in Wales. This opportunity arises from opening the performance of Structural Fund projects to critical appraisal and in so doing identifying not only what has worked (or not), but why it worked, for whom it worked, and in what circumstances it worked. There is reason to think that if these lessons are absorbed future regeneration projects will be even better designed and implemented. The only drawback is of course the cost of evaluation, which is not insignificant.

Sadly, we cannot be so positive about the way the programmes have been monitored. There have been some good aspects, in particular that monitoring indicators have been more clearly defined from the outset although the sub-division of indicators is immensely complicated and needs rationalisation. We are of the view that some indicators are being under-reported, often because of the difficulty in obtaining the specified evidence needed to support this detailed breakdown. Furthermore it seems to us that not all sponsors (and surprisingly not all evaluators) have understood how to use the indicators and how they inter-relate (for example, the logical link between output indicators and result indicators). We believe that training of applicants and sponsors along with on-going support by the SET teams is essential if good quality monitoring information is to be generated by all projects.

We must also be critical of the lack of use made of monitoring information by WEFO. Projects must submit very detailed information to WEFO yet this only appears to be used to prepare relatively high-level reports for the Programme Monitoring Committee

or to provide evaluators with contact details of individual beneficiaries. Promised monitoring information for public consumption has consistently failed to materialise – most recently the much-vaunted database on the WEFO website that will now only report outputs once projects have concluded (for many not until 2015). This is a vast disappointment, especially compared to the excellent job done by WEFO during delivery of the 2000-2006 programmes.

In particular, the lack of detailed monitoring information at any spatial level lower than West Wales and the Valleys or East Wales as a whole is, in our view, unacceptable. Presently all that is available is high level information for indicators at a unitary authority level, but with no breakdown whatever. Local authorities, as democratically elected bodies with a statutory duty to promote the economic well-being of their areas, have a legitimate interest in receiving detailed information at this level. It is needed, for example, to understand whether there is unmet need for specific types of interventions at a local level, a point we return to below. This lack of information is especially frustrating given that the breakdown of outputs reported to WEFO by all projects includes a breakdown by unitary authority area.

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?

Project sponsors are contractually required to ensure that assets created using Structural Funds are used for the approved purposes for five years from the end date of the projects and this helps to address this issue at least so far as capital investments are concerned.

It is a fact of life that the effects of ESF projects cannot be limited to the programme area, simply because people who have gained skills and qualifications through ESF projects will if possible move to where they can gain the most economic advantage from their new skills. Thus Convergence ESF investment may ultimately benefit Cardiff and East Wales, if people move from Pembrokeshire and take up employment there. They may move further, to London or elsewhere in the UK, to other EU Member States or even outside the EU, and where is the benefit to West Wales and the Valleys then?

It is for this reason that ESF investment, if it is to lead to sustainable economic development in West Wales and the Valleys must be complemented by significant ERDF investment to create good quality jobs in the programme area. Our view is that all parties must maintain the investment in skills, but need to redouble efforts to create quality jobs if the greatest benefit is to be achieved from EU programmes in Wales.

There is a second point we wish to make regarding sustainability, and this is that some projects that are now beginning to close carry out activity which is still required and thus similar projects might be expected to be supported under the 2014-20 programmes. WEFO should make an effort to identify such projects (and not only Welsh Government projects) and find resources to maintain them for the remainder of the 2007-13 programme period, if only at a lesser level of activity. This will help to minimise the risk of the loss of trained staff before the end of a project that is so devastating to delivery, and so avoid a hiatus from one programme to another. This is always a problem in the period between programming periods and all parties should be doing all that is possible to address the issue. If successful, this would also allow a nucleus of proven projects to be ready for early approval and delivery under the 2014-20 programmes.

#### What is your own experience of accessing European Structural Funding?

Pembrokeshire County Council accessed European Structural Funds from the Convergence programmes through various different routes. These routes were:

- By acting as a Lead Sponsor and making an application direct to WEFO (e.g. Gypsy Traveller Learning & Future Employment Project, Pembroke and Pembroke Dock Physical Regeneration Project);
- By acting as a Joint Sponsor with another organisation taking the Lead Sponsor role (e.g. South West Workways – Neath Port Talbot County Borough Council, COASTAL – City & County of Swansea)
- By leading consortia to win competitively procured contracts (e.g. Pembrokeshire Coastal Tourism Centre of Excellence)
- By forming part of a consortium to win a contract (e.g. Young People in the Criminal Justice System, with Neath Port Talbot CBC and NACRO)
- By winning contracts on our own behalf (e.g. Experience Counts – Big Lottery ESF Life Skills Older People)
- By obtaining grants (e.g. Pembrokeshire Youth Offending Team from the WCVA Engagement Gateway project)

Naturally our experience differs from one to another and it would be possible to discuss each at considerable length. The most important aspect is the experience of the organisation (and frequently the individual) responsible for handling the application or tender process. As an organisation that has exceptionally experienced officers in all matters to do with the European Structural Funds, we have found it frustrating to deal with organisations new to the Funds, or with officers who are unfamiliar with the requirements. Frequently we have found ourselves in situations where we have been given advice or instructions that we have known to be wrong or out of date and have had to correct these. We would also like to make the point strongly that Welsh Government projects are not immune from this. Thus some projects, and we include some large Welsh Government schemes in this, have not always been well managed.

However, to some degree this state of affairs is inevitable. It is unreasonable to expect that someone can immediately be an expert on something as complex as the European Structural Funds. Doubtless the people involved will do a better job in the future because they will learn from their mistakes. Put simply, people need time to learn from experience. It is for this reason that it is essential that there must be some mechanism that allows the most experienced to share their knowledge with those who are less familiar with the Funds. In the 2007-13 programmes this mechanism has been the Specialist European Teams provided by local government, the WCVA and by a few experienced officials within Welsh Government departments. SETs have, on the whole, worked well and can point to many real examples where they have helped projects solve problems that would otherwise have held back delivery. It is essential that SETs, or something very similar, exist in any future EU Structural Fund programmes.

#### Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?

Yes. The role of the private sector is to create wealth and the European Structural Funds should make it easier for the private sector to create wealth, but it does not necessarily follow that this means the private sector should be applying to WEFO to run projects. There are cases when the private sector should run projects: we were pleased to be involved in assisting Tidal Energy Ltd to secure European Structural Funds to develop their DeltaStream project, but such cases are the exception and should not be the norm. It is better that intermediary organisations, especially those with European Structural Funds expertise, should access the Funds and then apply

them to the benefit of the private sector. Local authorities have an important role here since they are both well experienced in the effective use of these Funds and also have a statutory interest in assisting the development of the private sector.

The 2007-13 EU Structural Fund programmes have increased the amount of private sector involvement by ensuring the competitive procurement of the funded activity. This is right and proper, and an approach we support.

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 higher programme intervention rates?

The question seems to advocate increasing intervention rates further. There is a major disadvantage of high intervention rates and this is that as the intervention rate increases the size of the overall programme shrinks, as the monetary value of the EU investment remains constant. Therefore, although less match funding is needed as intervention rates increase, a programme will not achieve as much as it would with low intervention rates, assuming sufficient match funding is available to fully draw down all the EU resources.

The use of still higher intervention rates would now be detrimental to the programmes since some projects presently in development would become unaffordable.

#### **Further remarks**

Procured delivery: some unintended consequences affecting programme effectiveness  
Annex 1 to the Committee's letter inviting evidence for this Inquiry states "*According to WEFO there is a greater strategic approach to the delivery of the funds for this programming round...*". However there is in fact a tension between the procurement of project delivery and this strategic approach. We would argue that procurement undermines the strategic approach and that there needs to be a re-balancing of these two dimensions. The strategic approach that WEFO refers to is based on two main features, firstly "Strategic Framework" documents and secondly the preponderance of very large projects. These large projects are actually delivered by procured suppliers, and this is where the strategic approach is lost. The problem is that delivery is procured without reference to the area or populations that will ultimately be subject to the delivery of the Convergence project. Often tenders are assessed by people with no knowledge of the area or of what other activity is taking place there. Criteria used to assess tenders do not often take into account up-to-date evidence of local need or gaps in delivery, and in any case since it is so hard to find out what Convergence is funding at a local level, often tenderers do not know that their proposal might be duplicatory. In Pembrokeshire this has resulted in very similar projects being delivered within close vicinity of each other at the same time. This is not a sign of a strategic approach and is surely incompatible with the effective use of Structural Funds.

This happens because the only strategic guides (the Operational Programmes and Strategic Frameworks) are at such a high level they are effectively useless for determining whether relatively small scale, locally targeted and often short term interventions are needed. Worse, they are very rarely referenced in Invitations to Tender for the delivery of Structural Fund projects.

In future project managers need to be better at selecting the tenders that best address the real needs in those areas where they intend to operate and this requires a

strengthening of the strategic approach. In particular what is needed is a way to make strategic decisions about the local level. We do not need the plethora of strategies we had under Objective 1 but we do need four things.

Firstly we need good quality local strategies that clearly articulate the needs and opportunities in the area they cover. Secondly we need all tenders to reference these local strategies to justify the interventions they propose. Thirdly we need tenders to be assessed with reference to the extent to which evidenced local strategic needs are addressed, alongside other aspects such as the quality of the tender and the cost. Finally, we need good local level monitoring information so that as the new programmes progress all have a clear view of which projects are operating where, and the extent to which problems are being addressed in local areas so as to avoid issues of over or under provision.

#### The effectiveness of new models of delivery: JESSICA

The 2007-13 programmes introduced new methods for the use of the Funds, in particular financial engineering instruments including JEREMIE and JESSICA. It is understood that these will be an even stronger feature of the new programmes to be implemented from 2014. From our perspective there is no information that allows a judgement on whether these important innovations have been in any way effective. No JESSICA projects have yet been approved, let alone completed, and there is absolutely no information available to us regarding the use that has been made of JEREMIE. For these reasons we shall look forward to reading the Committee's conclusions about the effectiveness of JESSICA and JEREMIE.

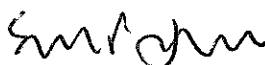
#### Centralised spatial targeting

The Convergence Operational Programme targeted its resources for physical regeneration on 44 deprived areas. This was done based on a methodology that used the Welsh Index of Multiple Deprivation to identify the most deprived areas in West Wales and the Valleys, followed by a somewhat rough and ready magnification of these areas up to the level of the relevant settlement, which in one case was a whole city and in another a small rural town. The resulting list of deprived settlements was endorsed by the PMC, but the local authorities who would have to deliver the physical regeneration required were not involved in the targeting at all. Thus this centralised targeting of resources on local areas failed to take advantage of any local knowledge of the areas concerned. The result was predictable: areas that had already received EU Structural Fund assistance (as well as other initiatives such as Communities First) and which might be expected to be improving, were targeted once again, whilst other areas that were suffering increasing deprivation received no investment.

It is proper that the PMC and WEFO should set out a framework to ensure that funds intended for deprived areas reach those areas, but the actual targeting must be done at a local level where there exists the knowledge to ensure the funds are used to their greatest effect.

We hope that the Committee takes these observations into account. We would be pleased to clarify or expand upon any of the points made if required.

Yours sincerely



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