

Ieuan Wyn Jones AC/AM  
Dirprwy Brif Weinidog /Deputy First Minister



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government

Eich cyf/Your ref  
Ein cyf/Our ref SF/DFM/0206/10

Gareth Jones AM  
Chair  
Enterprise & Learning Committee  
National Assembly for Wales  
Ty Hywel  
Cardiff Bay  
CF99 1NA

13 October 2010

Dear Gareth,

**Response to the Enterprise and Learning Committee report – “Structural Funds: Implementation of the 2007-2013 Programmes”**

I write in response to the report of the Committee on the implementation of the 2007-2013 European Structural Fund programmes in Wales.

I would like to thank you and the Committee for the report and for your inquiry which proved to be both informative and comprehensive.

A handwritten signature in black ink, appearing to read 'Ieuan'.

**Ieuan Wyn Jones**

Gweinidog dros yr Economi a Thrafnidiaeth  
Minister for the Economy and Transport

# Written Response to the Enterprise and Learning Committee's Report on Structural Funds: Implementation of the 2007-2013 Programmes

13 October 2010

---

I welcome this report and its well informed recommendations and would like to express my thanks to the Committee.

The Welsh Assembly Government recognises that the 2007-2013 Structural Fund programmes provide valuable support in addressing some of the long standing structural issues present within the Welsh economy and in promoting strong and sustainable growth.

We have therefore sought to maximise the impact of the current programmes. Lessons learnt in delivering the 2000-2006 programmes have been reflected in the development of more effective implementation measures under the 2007-2013 programmes and in the furthering of our commitment to partnership working.

We introduced a number of innovations under the 2007-2013 programmes including Strategic Frameworks and an iterative and consultative approach to project development which have enhanced partnership working and collaboration between projects. Our web-based application process "WEFO On-line" has recently won the top IT award in the European Outsourcing Association (EOA) Awards 2010, beating entries from other parts of the UK, France, Germany and Italy.

I accept and agree with the majority of the Committee's recommendations, and have set out below my response to them individually.

The Committee recommends that:

**Recommendation 1.** We recommend that the Welsh Assembly Government should provide our Committee with its assessment of the 2008 European Union Gross Domestic Product (GDP) figures when they are published.

**Response: Accept**

I accept this recommendation. We will provide an assessment of the GDP figures once they are published.

**Financial Implications:** None.

**Recommendation 2.** We recommend that there should be closer liaison between WEFO officials and project staff at all stages of project development, but particularly during the early stages to ensure consistent advice and guidance is communicated and understood from the start.

**Response: Accept**

I accept this recommendation.

The Welsh European Funding Office (WEFO) has developed a much more iterative project development process in this round of programmes. This includes the assigning

of a dedicated officer to each project to act as a focal point and help guide the sponsor through all of the stages of project development from the initial expression of interest (EOI) stage and to the more intensive business plan development.

In some instances WEFO works closely with sponsors before a project is formally submitted. Beyond this each sponsor will receive expert advice from other areas of WEFO on financial appraisal, evaluation and monitoring, environmental issues and equality.

However, WEFO recognises that there is room for improvement and continues to act on lessons learnt. In recognition of the need to provide consistent advice and guidance WEFO has added to its portfolio of guidance over recent months.

**Financial Implications:** None. Any additional costs will be drawn from existing WEFO budgets.

**Recommendation 3.** We recommend that the Welsh Assembly Government should consider the feasibility of providing six-year funding for appropriate projects in any future EU funding rounds, as part of a holistic approach for encouraging projects to become sustainable in the long term.

**Response: Accept in principle**

I accept this recommendation in principle.

WEFO already provides funding for some projects for periods of up to six years, although with timely reviews taking place to ensure continued relevance and performance. The duration of funding is assessed on a case-by-case basis taking into account such factors as: the reliability of match funding; organisational capability; and the experience of the sponsor. It is not always appropriate to fund projects for longer periods as the retention of flexibility at programme level to respond to changes in the economic context or in policy is also an important consideration.

The Assembly Government is of course committed to ensuring a holistic approach in the delivery of the Structural Funds' programmes in Wales and sustainability in the long term.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 4.** We recommend that in carrying out its project monitoring responsibilities WEFO should take carefully into account the current economic climate and the effect this will have on original project targets and therefore the longer-term outcomes for the Welsh economy.

**Response: Accept**

I accept this recommendation. WEFO is currently undertaking a review of programme targets to take account of performance of individual projects against forecast achievement and discussions during project reviews in relation to the effect of the economic downturn on project performance. The results of the review have informed revisions to programme targets for the ERDF programmes which have been agreed by All Wales Programme Monitoring Committee (PMC) at its September meeting and are due for submission to the European Commission shortly.

In 2009, WEFO negotiated an increase to the programme level intervention rates for the Convergence programmes and the ERDF Competitiveness programme in order to reflect the changing economic situation. Further modifications, specifically to the ESF operational programmes, are expected following the Comprehensive Spending Review.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 5.** We recommend that WEFO should consider the feasibility of providing advice to projects on State aid compliance, rather than requiring projects to obtain their own legal advice.

**Response: Accept.**

I accept this recommendation.

WEFO have, in line with this recommendation, considered the feasibility of providing advice on State Aid compliance to projects.

As Managing Authority for the European Structural Fund programmes in Wales, WEFO is responsible for ensuring the compliance of spend with all EU regulatory requirements, including State Aid. As a Managing Authority WEFO therefore must seek its own advice concerning matters of legal compliance. In consultation with the Assembly Government's State Aid Unit, WEFO does ensure that projects have the correct State Aid cover in place prior to awarding grant and can provide certain elements of advice to sponsors.

However, in line with the contractual agreement between WEFO and the project sponsor, the latter is required to obtain ultimate assurance that the project complies with State Aid Rules, and obtain its own legal advice, if so required, in respect of its duties and responsibilities under the State Aid Rules.

WEFO will require the project sponsor to provide details of the State aid cover and any use of General Block Exemptions. WEFO will also ensure the project sponsor has the correct systems and procedures in place for monitoring and reporting against State Aid requirements. The WEFO website currently includes guidance for project sponsors on compliance with State Aid regulations.

Nevertheless, the responsibility of ensuring that projects comply with legal requirements and obligations, of which compliance with State Aid regulations are just one aspect, remains the responsibility of project sponsors.

**Financial Implications:** None.

**Recommendation 6.** We recommend that the Welsh Assembly Government should keep under review its use of Structural Funds in responding to the recession.

**Response: Accept**

I accept this recommendation. The primary aim of the Structural Fund programmes in Wales is to work towards structural change which will benefit the Welsh economy in the

medium and long term. However, the Structural Funds have also played a key role in the Assembly Government's response to the recession.

Wales was one of the first regions in Europe to take advantage of the European Commission's offer to review the Programmes as part of the EU Recovery Plan, by agreeing changes to the EU intervention rates. The Structural Fund programmes have also supported specific measures to respond to the recession such as the ReAct and ProAct projects.

The relevance of the Programmes to the prevailing economic climate is reviewed regularly: in partnership with the PMC, which has a six monthly update on the state of the economy; with Ministers at the quarterly Ministerial Group on Structural Funds; and with the European Commission who are present at the meetings of the PMC and with whom WEFO conducts an annual examination of all aspects of programme performance and delivery in relation to the socio-economic climate.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 7.** We recommend that the Welsh Assembly Government should keep our Committee informed of any future developments with regard to the potential reclassification of Finance Wales.

**Response: Accept**

I accept this recommendation.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 8.** We recommend that WEFO should conduct an analysis by sector of contract awards for EU funded projects, including where those organisations originate – whether in Wales or outside – and that this information should be published on its website.

**Response: Accept in principle**

WEFO presents a quarterly analysis to the PMC of contracts awarded by sector. This is also published on WEFO's website. Currently that analysis does not include data on the spatial distribution of the organisations that are awarded contracts. WEFO is currently assessing the feasibility of collecting geographic data from project sponsors and is extending its evaluation of programme implementation to include an investigation of procurement issues.

**Financial Implications:** None. Any additional costs will be drawn from the existing WEFO budget.

The Committee recommends that:

**Recommendation 9.** We recommend that the Welsh Assembly Government should ensure that the current Structural Funds programmes focus more on building research capacity and collaboration between the business and academic sectors in the interests of wealth creation and economic development in Wales.

## **Response: Accept in principle**

I accept this recommendation in principle.

The need for a more focussed approach to research and development and the commercialisation of knowledge in Wales has been recognised. In line with the new policy direction as defined in “Economic Renewal: a New Direction” R&D investment under the programmes has been re-focused on four key priority sectors: digital economy (ICT); low carbon economy (including climate change mitigation and adaptation); health and biosciences; and advanced engineering manufacturing. These priority areas are those where Welsh universities have the best opportunity to maximise their performance and impact. The proposed modification to the ERDF programmes includes recognition that key players in industry, academia and government must work together to develop strong networks between institutions engaged in research activity and commercialisation.

The report of the R&D Review Panel chaired by the Deputy Minister for Science Innovation and Skills was published recently. It advocated building on existing successful partnerships and exploring future possibilities of co-funding strategically-important initiatives, particularly those that are important to the UK as well as Wales. The Welsh Structural Fund programmes recognise the role of collaborative research in the Welsh economy and have the necessary flexibility to respond to that report.

WEFO ensures that Assembly Government departments work together with the HE sector and business to ensure that research capacity is built upon and collaboration maximised, pulling together all Welsh funding sources including EU Structural Funding. Despite this it is evident that research performance in Wales, both in the universities and even more so in the business sector, is well below UK average levels, and the EU Structural Funding can assist in addressing this.

The ERDF Convergence Programme has already funded over 120 Collaborations between research institutions and private enterprises and these will lead to new products, processes and technologies and the associated economic benefits such as jobs created and investment in these businesses.

Examples of such projects include:

The Low Carbon Research Institute (LCRI) Convergence Energy Programme which provides a strategic, coordinated research base for the energy sector industries in Wales.

The University partners, lead by Cardiff, and including Bangor, Glamorgan, Glyndwr and Swansea, each contribute their expertise across a number of complementary research areas including Hydrogen Technologies, Large Scale Power Generation, Marine Energy, Solar PV and Low Carbon Built Environment.

The project targets new and existing enterprises creating green jobs in Wales and looks to increase the skills capacity and knowledge capital at management levels in Welsh enterprises operating in the low carbon/energy sectors.

The Advanced Sustainable Manufacturing Technologies (ASTUTE) project is led by Swansea University and involves Aberystwyth, Bangor, Cardiff, Glyndwr, Swansea MET, UWIC, and Newport Universities. The aim is to provide a co-ordinated approach to delivering a range of technological support to meet the needs of high technology

manufacturing companies, particularly in the Aerospace and Automotive sectors, and carrying out R&D collaborations to develop new products and processes and services.

Collaborative projects between business and the academic sector will be closely monitored to ensure that businesses benefit fully from the investments. In addition to building the capacity of academic institutions to work with businesses, businesses need to have access to appropriate innovation support. This is identified within the Structural Funds' Innovation, R&D and Technology Strategic Framework and delivered through the Assembly Government's Business Innovation project.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 10.** We also recommend that the Welsh Assembly Government should consider how Structural Funds could be used to support projects by leveraging in international communities of interest and investment.

**Response: Accept in principle**

I accept this recommendation in principle.

The Assembly Government fully supports the use of Structural Funds to support the ability of businesses and researchers to lever in international investment and the promotion and utilisation of research, technology and innovation expertise both within Wales and overseas is actively encouraged.

The ability of businesses and the opportunity for researchers to tap into other regions' research and innovation expertise is critical in helping to develop capacity and expertise. The trans-national, inter-regional programmes and mainstream Structural Funds programmes all provide the opportunity for Welsh businesses and researchers to engage in collaborative projects.

The SEREN project, led by Cardiff University, and funded by the ERDF Convergence Programme, looks for synergies with other Convergence areas of Europe around low carbon geo-projects. The project aims to develop linkages with relevant organisations and initiatives in order to share experience and expertise; utilise and maximise results of research undertaken in other Convergence areas; build a trans-European network of Ground Engineering Technology R&D initiatives and engage with SMEs operating in these areas.

The exchange of best practice and expertise will benefit companies in the Convergence area, whilst also enabling them to seek commercial opportunities in other regions of the EU, including partnering up with potential organisations involved in these wider projects.

The University of Wales Innovation Placements project (also known as the Prince of Wales Innovation Scholarship scheme) is developing links with leading universities worldwide to attract high quality graduates to work in Welsh companies on R&D projects. Through building networks between universities and wider business interests Welsh expertise is promoted globally.

Structural Fund investment in projects that build the capacity of Welsh institutions to work collaboratively with other universities and the private sector and develop international networks focuses on enabling access to future funding from other international research and development programmes such as FP7. Through promoting

the success and expertise available in Welsh universities and businesses globally and the development of international networks, Structural Funds projects are looking to attract international communities of interest and investment.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 11.** We further recommend that the Welsh Assembly Government should be more imaginative in ensuring smaller players in both the private and third sectors have opportunities to engage in the delivery of Structural Funds projects.

**Response: Accept in principle**

I agree with this recommendation in principle.

There has been a high level of engagement and participation across various sectors, commencing with the formulation of the programmes and Strategic Frameworks and continuing through implementation and delivery.

The promotion of strategic projects as a key method of delivery for the current programmes means that smaller organisations can access funding without the burden of applying for Structural Funds directly. There are opportunities for the private and not-for-profit sectors to become lead project sponsors, but it remains the case that the private sector and smaller third sector organisations mainly benefit from or directly access support from public-sector led schemes.

The greater emphasis on procurement has created wider opportunities for sectors other than the public sector in the 2007-2013 programmes compared with previous programming periods. Figures for approved projects show that, even against the challenging economic background, over £430 million of private sector match funding has been committed to projects.

This reflects a significant investment from the private sector and demonstrates the value of the strategic approach being adopted in the programmes' management and delivery.

Nevertheless, the Assembly Government is committed to exploring methods of improving the engagement of smaller organisations.

The September 2010 PMC were also invited to contribute ideas on encouraging engagement with smaller players in response to this recommendation.

**Financial Implications:** None. Any additional costs will be drawn from the existing WEFO budgets.

The Committee recommends that:

**Recommendation 12.** We recommend that in revising its procurement guidance, WEFO should as a priority evaluate the procurement process and its impact particularly on non-government sectors. The evaluation should include identifying when and where procurement is most effective - and where it is not - not only in terms of good governance and value for money, but also in the quality of the service provided to the user. WEFO should publish best practice models along with the results of the evaluation, and should make representations to the UK



Government to ensure that European Commission procurement rules do not work against Welsh interests.

**Response: Accept**

I accept this recommendation.

WEFO reports to the PMC on procurement activity at its quarterly meetings. Following discussions with the PMC, WEFO is extending its evaluation of Programme implementation to include an investigation of procurement issues. This aspect of the evaluation will explore:

- the effects of procurement on non-government organisations;
- where procurement is working well and is adding value;
- where procurement is causing difficulties and why; and
- issues around governance, quality of service delivery and value for money.

The results of this work will be presented to the PMC and made available more widely. It will complement a Wales Audit Office study on the implementation of the programmes which is also investigating procurement issues.

In addition, WEFO is revising its guidance on procurement to make it clearer to project sponsors when they need to undertake procurement. The “Sponsorship and Delivery Model guidance” is currently being finalised and will replace the former “Sponsorship, Partnership, Procurement and Grant” guidance. WEFO has sought the views of stakeholders in the development of the new guidance in order to ensure that the messages about the need for procurement and when it should be applied are clearly understood.

We fully accept that such mechanisms should be kept under review in order to ensure there is no negative impact on Welsh organisations and interests. The Assembly Government will work to ensure that any rules emerging from the European Union in this area will be kept under surveillance and the necessary representations made should they prove burdensome for Welsh interests.

**Financial Implications:** None. Any additional costs will be drawn from the existing WEFO budgets.

The Committee recommends that:

**Recommendation 13.** We recommend that the Welsh Assembly Government should consider the potential implications of tighter future public sector budgets, particularly with regard to the availability of public sector match funding and the possibility of increased demands on the Targeted Match Fund.

**Response: Accept**

I accept this recommendation.

This is very much part of WEFO’s ongoing management of the programmes and is included on its register of risks. The uplift in intervention rates already agreed with the European Commission will enable WEFO to mitigate some of the effects of tighter public financing. The programmes also continue to be quite successful in leveraging in match funding from private sources.

In addition, the Assembly Government's Targeted Match Fund (TMF) will continue to be an important source of match-funding of 'last resort' and WEFO are working closely with the TMF team to manage the demands on both TMF and the Structural Funds.

**Financial Implications:** None. Any additional costs will be drawn from the existing WEFO budgets.

The Committee recommends that:

**Recommendation 14.** We recommend that WEFO should continue to secure the eligibility of volunteer time as in-kind match-funding for Structural Funds to allow the third sector to bring added value to the delivery of future programmes.

**Response: Accept**

I accept this recommendation. We acknowledge the value of using volunteer time as match funding within the Programmes which encourages the third sector to play a vital part in delivering programme objectives. It is our intention to continue to allow its use.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 15.** We recommend that through the Programme Monitoring Committee, the Welsh Assembly Government should monitor closely the impact of the recession on programme delivery and programme aims in order to steer and if necessary re-shape the focus for the second half of the programme period.

**Response: Accept**

I accept this recommendation. WEFO undertakes regular reviews with project sponsors, which involve monitoring progress against project targets, taking into account changes to the economic context.

The PMC assesses the progress of the Programmes at its quarterly meetings and receives a half yearly update on the economy to set the programme performance in context. WEFO has previously sought, and obtained, the approval of the PMC to programme modifications to ensure their continued relevance and effective delivery following the economic downturn.

Further proposals for changes to the ERDF programmes are now being prepared for submission to the European Commission following the announcement of Economic Renewal: a New Direction. The modifications were approved by the PMC in September.

Modifications to the ESF programmes are foreseen following the Comprehensive Spending Review. Proposals are expected to be discussed with the PMC in December.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 16.** We recommend that the Welsh Assembly Government should continue to work with partners to consider how the European Union Structural Funds can be best used to reinforce the Government's future economic renewal programme for Wales.

**Response: Accept**

I accept this recommendation. WEFO has discussed proposed revisions to the programmes with partners through the PMC. Further discussions are expected following the Comprehensive Spending Review.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 17.** We recommend that WEFO should consider adopting a universal data collection system for all project sponsors and deliverers to track outcomes and beneficiaries and avoid any duplication or double-counting, and should encourage better communication between projects at a local level where they are targeting the same groups of people.

**Response: Accept**

WEFO has already developed a participant level data collection system that ensures all ESF projects report this data to WEFO. The system was developed in consultation with partners and in response to evaluation evidence from the 2000-2006 Programmes.

As part of this participant level data collection system WEFO now collects detailed information on the characteristics of participants, in terms of age, ethnicity, disability status, employment status and gender. This allows WEFO to monitor the extent to which the ESF Programmes are reaching their target groups and ensure that hard to reach groups, such as migrant workers, are benefitting from ESF support.

WEFO also collects information on the outcomes achieved by participants and is able to identify where an individual has participated in more than one project. This gives WEFO a better understanding of the journey undertaken by participants as they progress from unemployment / inactivity to employment.

A similar system is in place for ERDF where WEFO collects information relating to businesses supported. Both systems allow WEFO to remove double counting from the data.

**Financial Implications:** None. Any additional costs will be drawn from the existing WEFO budgets.

The Committee recommends that:

**Recommendation 18.** We recommend that the Welsh Assembly Government should procure a mid-term review of the impact of the Structural Funds programmes, to identify lessons from the 2007-13 programmes to date in order to plan effectively for the remainder of the programme period and beyond 2013. The review should also include some creative thinking about how future programmes can be more effectively structured.

**Response: Reject**

WEFO is not planning to commission a single mid-term review of the Programmes but is adopting what it believes is a more thorough and appropriate approach in line with guidance from the European Commission.

Unlike the regulations for the 2000-2006 programming period, the Structural Funds regulations for 2007-2013 do not require a Mid-Term Evaluation. The European Commission advocates "ongoing evaluation" throughout the programming period, based on lessons learnt from 2000-2006. This approach recognises that programme evaluation needed to be more flexible to meet Managing Authority needs rather than simply responding to regulatory requirements.

A key weakness of the previous system identified by the Commission, and in line with WEFO's experience, was the fact that the Mid-Term Evaluations were launched too early in many cases in relation to implementation on the ground. Additionally the all-encompassing nature of the Mid Term Evaluation was too broad and did not allow for enough in-depth analysis. The current approach enables the programmes' evaluation requirements to be driven by the needs of the Assembly Government, stakeholders and partners.

WEFO's evaluation plan for the 4 Welsh OPs has been endorsed by the European Commission following agreement of the All-Wales PMC. This plan includes a number of evaluations covering: processes, beneficiary follow-up surveys, customer surveys, thematic studies and the impact of Structural Funds. The work is guided by an Evaluation Advisory Group which comprises of specialists from within the Welsh Assembly Government, partner organisations and the European Commission. The PMC receive an update on evaluation results and work in progress at every meeting.

**Financial Implications:** None.

The Committee recommends that:

**Recommendation 19.** We recommend that Welsh Ministers should ensure that their vision for the future Welsh economy is supported and enhanced by the Structural Funds programmes and that they should continue to give Wales a strong voice in the development of future regional development policies in Europe.

**Response: Accept**

I accept this recommendation. The current Structural Fund programmes were developed to add value to the policy priorities of the Assembly Government and complement those of the European Commission. The use of Structural Funds has added considerable weight to the Welsh Assembly Government's actions, for instance in promoting economic development, transport, regeneration, skills and employment, and public service improvements.

WEFO has agreed modifications with the PMC and started discussions with the European Commission to ensure that the programmes are fully aligned with and can support the aims of Economic Renewal: a New Direction.

I meet regularly with other Welsh Ministers to discuss the progress of the programmes and the future of Structural Funds. The First Minister has a responsibility for EU Policy and I work closely with him to promote across Europe the value to Wales of the Structural Funds. All Welsh Ministers are committed to securing the best possible deal for Wales and we are playing our full part in making Wales' voice heard in the right places and ensuring that voice is credible. Between us we have met a number of key players such as Commissioners Andor and Hahn and recently with President Barroso, who not only praised the Welsh Assembly Government for the way in which EU funds

were being spent but reiterated that the Commission was a keen supporter of the regional perspective. Welsh Ministers will continue to ensure a strong voice for Wales throughout the development of future regional development policies in Europe.

**Financial Implications:** None. Any additional costs will be drawn from the existing WEFO budgets.