



Structural Funding in Wales: the next steps

Bevan Foundation Policy Paper 7



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by

Victoria Winckler

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1. INTRODUCTION

There can be few people in Wales who are not aware of the European Union's Structural Funds or the Objective 1 programme. The environment of many parts of Wales is peppered with the obligatory acknowledgement of the funds' contributions to projects, and controversy about aspects of the funds at times dominates political debate.

Many people are also aware that the current round of funding 'runs out' in 2006, although considerably fewer are following the typically contorted and protracted discussions between the European Commission and member states about what comes next. Perhaps inevitably, discussion at this stage is predominantly about positions and processes, with rather less consideration being given to make best use of any future funding in Wales.



Commissioner for regional policy, Michel Barnier, officially opens the EU Objective One funded Tredomen Business Park with the First Minister Rhodri Morgan AM

For this reason, the Bevan Foundation decided to undertake a review of possible ways in which EU regional policy might be taken forward in Wales from 2007. The review was **not** intended to be part of the debate about the relative merits of the UK government and European Commission proposals for changes to the funds. Rather it aimed to identify how best to continue and indeed enhance the social and economic development of Wales, whether funding is from EU structural funds or as part of the UK government's proposed regional funding 'guarantee'. We have used the term 'programme' as short hand for either sources of funding.

The project was very small scale and was based on a short review of literature, including studies and evaluations of structural fund programmes in Wales, and two round-table discussions held with a number of stakeholders in summer and early autumn 2004. A list of participants in the round-tables is given in Annex 1. A project of this kind can do no more than stimulate further debate and research, but we firmly believe that process needs to begin now if Wales is to make the most of the next round of funding.

2. OVERALL APPROACH

The key question we attempted to address was what should the next programme look like? Should existing approaches be rolled forward, or is there an appetite for a more radical change?

We found strong support for a more considered approach to the preparation of the next programme than previously – one which is based on evidence of what works rather than a shopping list for funding. Lessons from current and past programmes need to be taken on board, along with improved delivery on the ground.

2.1 Strategic Vision

Any future programme must have a clear strategic vision that is commensurate with the funds available. The programme should identify what the key issues are, be clear about which are the right 'levers' that the funds should pull, and should complement and support – and in turn be supported by - domestic policies and actions.

Whilst there is now a suite of Welsh Assembly Government policies in place on many key issues, unlike at the start of the 2000-2006 Objective 1 programme, these may not be sufficient alone to form the basis of a new programme as:

- they may not be detailed enough to inform the use of structural funds at sub-regional and local level

- there are gaps in policy coverage – e.g. addressing economic inactivity
- they do not enjoy widespread ownership outside the Welsh Assembly Government especially at sub-regional and local level.

Nor can a strategy be developed which builds up from local policies and plans – not least as these may be contradictory, not linked with all-Wales plans, and again, may have gaps in policy coverage.

A new programme cannot therefore be solely derived from existing Welsh Assembly Government policies – some development of new policies in the programme is inevitable and indeed desirable.

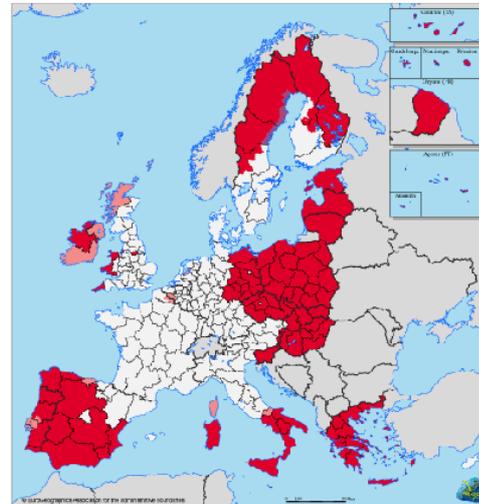
2.2 Targeted Action

We identified a very strong view that the next programme should be more targeted than the current programmes. The targeting should be in terms of **actions** – a much smaller range of actions should be included, which are those where funding through the programme demonstrably adds value; and **spatially** – by identifying priority sub-regions of Wales (rather than very small scale pepper-potting of communities as at present). Spatial targeting should occur across all priorities.

2.3 Other policies

We found that there is widespread support for a new programme to be clearly 'additional', i.e. it should fund activities that would not otherwise have been carried out, or clearly increase the volume or intensity of existing actions.

Round table participants also stressed that EU policies should complement the next structural fund programme, in particular, procurement policy and state aids policy. Again, the work on these issues needs to begin now.



Map of Objective 1 Areas

2.4 Exit strategy

We identified a minority view – supported to some extent in evaluations of previous programmes – that EU funding has contributed to a 'grant culture'. As it is unforeseeable that Wales will receive funding after the 2007-14 round, the next programme needs to include a clear 'exit strategy', both of the funds from Wales as a whole and of funding from recipient organizations.

3. THE PRIORITIES

Inevitably, there are considerable calls on any pot of funding and the structural funds are no different. The current programmes offer scope to fund a very wide range of different types of activity, with a few notable exclusions. There is a very broad consensus that the next programme should be firmly focused on the main drivers of change.

3.1 Place versus priority?

Two contrasting approaches to regional development emerged in the course of discussion, one essentially geographical and the other sectoral.

Geographical approaches were supported because they were regarded as more likely to take account of and reflect communities' needs, and ease integration between different policies for the same area. Areas – which could be local or sub-regional – would develop local action plans for their areas and receive support to deliver the projects within them. Sometimes these might be focused on making the most of 'flagship' major infrastructure projects, e.g. an airport.

Sectoral approaches – typified by the 'priorities and measures' of past and current programmes – were suggested by others because it was felt that some issues e.g. low skills levels were essentially all-Wales or sub-regional and needed to be addressed by a major drive for development.

Ironically, the 2000 – 2006 programmes' arrangements were intended to address precisely these issues, with local partnerships providing accountability and integration on the ground whilst the strategic partnerships were intended to provide a pan-regional approach for the 'big issues'. However the ensuing confusion and plethora of committees have left little enthusiasm to continue these arrangements into the next programme.

The sectoral approach seems the most likely to be implemented, given both the strong preference for a smaller number of 'big hitting' actions and past programme delivery. Nevertheless, a mechanism to avoid duplication and ensure actions are complementary is essential.

3.2 Infrastructure vs soft measures

The relative importance of investment in infrastructure compared with other actions was a theme in discussions. There was a strong view that there should be a shift away from general investment in infrastructure, as it was felt to be unrealistic to expect a new EU programme to fund major infrastructure and that instead the programme should focus on **people** and their skills and capabilities. Indeed some suggested that the need for new infrastructure was overstated.

However, a minority of participants argued that a future programme should focus on a small number of major infrastructure projects that could transform the fortunes of an area, e.g. an airport or coastal / marina developments. It was claimed that these do make a difference, especially if they are coupled with investment in other actions to realise their potential.

The question of whether infrastructure or investment in people is the key to transforming a region is for the Welsh Assembly Government to resolve, albeit that the European Commission is unlikely to divert from its long-term shift away from infrastructure investment.

Given all this, what should a new programme focus on? We found that the core priorities should be:

- skills and learning
- knowledge economy
- getting people into jobs
- worst affected areas.

3.3 Skills and Learning

There should be an intensive focus on skills and learning - it was even suggested that skills should be the sole action within the programme.

However, funding should not take the form of current ESF support, which many people felt was inadequate because it focused too much on supporting existing activity in established providers, was too short term and, crucially, had not achieved a significant improvement in skills levels. Instead, there should be radical action to transform the

skills levels of the workforce, e.g. giving purchasing power to the user of training whether an individual or an SME.

Within skills and learning, there was a consensus that the emphasis should be on:

- **improving basic skills** – literacy, numeracy, IT and personal effectiveness;
- **workforce based skills and learning** - for people in the workforce at present (either in employment or seeking work). This should take a long-term view and not be driven solely by employers' immediate needs.

There was also a view that ESF support should not exclude training for employment in certain sectors of the economy (e.g. healthcare) as the reality of the labour market and the needs of the economy are to equip people with generic skills, not least because workers move between different economic sectors once in employment, taking their skills with them.



An ESF funded course – University of the Valleys

3.4 Knowledge Economy and Society

We found strong support for a new programme to seek a step-change in Wales' research and development and innovation capability, although there was less agreement about how to achieve it. The knowledge economy was seen as a key driver and creator of jobs, which would ensure sustainable economic growth, rather than supporting quick-fixes.

This is a difficult area on which to comment as it is hard to know which of the many initiatives is most successful as few have been formally evaluated. Moreover standard measures of success e.g. job creation are not necessarily appropriate for this measure.

As a starting point, it was suggested that there needs to be a much stronger 'institutional infrastructure': the work of the Welsh Assembly Government, WDA, ELW and higher education institutions and innovative SMEs need to be much more strongly linked. In particular higher education institutions should be encouraged to deliver outcomes in Wales, to create a 'regional knowledge platform'. This is a matter for the Assembly Government and not a regional programme alone. It was also felt that the number of separate initiatives needs to be reduced - they need to be brought together and better focused on supporting the innovation process.

Other suggested actions included:

- **extending the knowledge economy infrastructure** into schools, around science and IT;
- **using consumer demand** to drive innovation;
- **help for businesses** to 'pull through' innovation into the economy and move them up the knowledge chain;
- **licensing and royalties** as a means of developing HE's contribution;
- **Allowing funding to large companies** as well as SMEs.

3.5 Getting people into jobs

Getting people into jobs is a third key action. Discussants acknowledged that this was a potentially difficult area where the results may not be immediate, and that actions would need to be sensitive to individuals' circumstances e.g. to acknowledge limitations caused by ill-health.

Actions would therefore need to be a combination of removing barriers to participation in the workforce (e.g. transport and childcare) and supporting and encouraging individuals and families into employment. Appropriate actions in this priority might be:

- **improvements to public transport** – in particular to provide fast, frequent and affordable services from disadvantaged communities to areas of job growth;
- **developing the social economy** – as a means of creating jobs in

- disadvantaged areas and helping people into work;
- **provision of childcare** – formal childcare provision in disadvantaged communities is very poor even though it helps families to find employment and beneficial to children aged 2 plus;
- **support and guidance for individuals** – some participants called for more intensive support for people who are out of the labour market;
- **rehabilitation / healthy workers** - the potential to help people with ill-health back into work should be explored.

3.6 Worst affected areas

The problems in some areas of Wales are very long term and deep seated, and those involved in the round table discussions considered that it was both unrealistic and undesirable to expect large-scale medium–long distance travel to work. There is potential to support action which helps to create the conditions for growth and job creation, by making them attractive places in which to live and work. The view was these areas are **sub-regions of Wales** e.g. the heads of the valleys and not community / ward level areas.

Possible actions under this heading were:

- **Town centre improvements**
- **community economic development** – in particular to develop the real capacity of communities to drive change. Discussants called for more emphasis on communities' priorities rather than the European Commission's preferences, an end to the narrow spatial targeting and possible alignment with Communities First areas, and long-term;
- **Provision of physical infrastructure to support other measures** (e.g. innovation centres, learning centres, childcare facilities);
- **Innovative measures** – e.g. get people into jobs through refurbishing housing.

3.7 What not to fund

Just as important as the priorities for funding are views about actions that are generally negative in impact or at best make a limited contribution. We found overwhelming support for the view that there were either insufficient funds or insufficient benefit to the long term sustainability of the economy for investment in the following actions:

- General business infrastructure
- General business support
- Tourism promotion / development
- Environmental regulation.

4. PROGRAMME MANAGEMENT AND DELIVERY

Inevitably discussion covered programme management and delivery and a number of positive suggestions for change were made. The resounding message was for much greater simplicity and transparency for the user of grants. The structural funds are widely perceived to be exceptionally difficult for project deliverers to secure and manage, which has contributed to the growth of 'fund manager' jobs without achieving real benefits on the ground. Expectations about what can be achieved with a new programme must be managed carefully and realistically.

4.1 Flexibility

Greater flexibility in the way in which ERDF and ESF funds could be used is vital, including:

- flexibility in the type of expenditure that each fund could be used for,
- an end to the artificial distinction between capital and revenue expenditure which was felt to be artificial and restrictive,
- more flexibility within programmes to manage their funding, with financial allocations at priority rather than measure level
- in spatial targeting with an end to very localized targeting.

4.2 Finance

Finance for projects could be better managed and in particular:

- the same maximum grant rate should be applied across priorities and measures
- a substantial proportion of funds should be 'pre-matched' so that successful applicants receive 100% funding
- where funds are not pre-matched, regional funding should be awarded **first** to help innovative projects to get match funding.

4.3 Private Sector engagement

The lack of engagement of the private sector is seen to be a major weakness of the current programme, not least because its focus was on grant-allocation and not on development per se. A more proactive and positive approach to the private sector as a partner and co-financer of development is essential.



4.4 Project assessment

Changes to the methods by which projects are evaluated was called for, although the ideas need further development. Proposals include:

- job creation should no longer be the main output;
- there should be a simple test of whether a project adds value;
- competitiveness should be a criterion in assessment;
- an end to competitive bidding for funding and a move towards 'allocations' to responsible bodies to deliver agreed projects and outcomes.

develop, and the kind of strategic approach and change in delivery that has been suggested will require a considerable investment of time by the National Assembly for Wales and potential project managers.

4.5 Evaluation and monitoring

It was widely felt that not enough is known about what works and what does not – whether funded by the structural funds or domestically. A much greater emphasis on *effective* evaluation was called for, coupled with more robust government statistics e.g. it was suggested that GDP should be measured annually.

4.6 Programme Development

There was strong agreement that the process of developing the next programme needs to begin as soon as possible. Whilst the process needs to engage key stakeholders, it is imperative that an early steer is given on the core priorities and approach to delivery. Most projects – even small scale – take time to

5. CONCLUSIONS

Our discussions identified a surprising consensus about the shape of any future structural fund programmes in Wales. Although there were some issues, mainly about the relative importance of infrastructure, there was an overwhelming wish to see a development-driven set of actions that would make a difference to the wellbeing of Wales, especially west Wales and the valleys, delivered efficiently and effectively.



The way forward seems to be as follows:

- Planning for a new programme needs to start now;
- Some policy development will be required as neither the Welsh Assembly Government's or local authorities existing policies are likely to be sufficient;
- A new programme should focus on a small number of priorities that will make a difference
- A view needs to be taken on whether to prioritise investment in infrastructure or investment in people – the programme cannot do both;
- The programme could be shaped around the following four priorities:

1. **Skills and learning**
2. **Knowledge economy**
3. **People into Jobs**
4. **Worst affected areas**

- The programme should be dramatically simplified and streamlined, use more transparent and meaningful methods to assess and evaluate projects, involve the private sector fully, and be more flexible and accountable.

Annex 1 List of participants in round table discussions

Ann Beynon	BT
Prof Brian Morgan	Cardiff Business School
Helen Conway	Cardiff Chamber of Commerce
David Rosser	CBI Wales
Steve Thomas	Director, Welsh Local Government Association
Jill Shuker	Head of Economic Development, Merthyr Tydfil CBC
Jeff Andrews	Cardiff County Council
Peter Slater	Consultant (former Director of Regeneration, Blaenau Gwent CBC)
Nigel Keane	Welsh Social Partners' Unit
Martin Jones	Newidiem
Prof Dylan Jones Evans	Bangor University
Jeremy Wright	Head of Economic Development Services, Powys CC
Joan Asby	Planed
Gareth Williams	Old Bell 3 (consultant)
Bryn Richards	WDA
Gerallt Llewellyn	Menter Mon
Sioned Williams	Gwynedd Council

A number of others were invited to attend but were unable to do so. They are not listed here.