

**National Assembly for Wales**  
Finance Committee

The Effectiveness of European Structural  
Funds in Wales

December 2012



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Finance Committee

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Funds in Wales

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## Finance Committee

The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

### Current Committee membership



**Jocelyn Davies (Chair)**  
Plaid Cymru  
South Wales East



**Peter Black**  
Welsh Liberal Democrats  
South Wales West



**Christine Chapman**  
Welsh Labour  
Cynon Valley



**Paul Davies**  
Welsh Conservatives  
Preseli Pembrokeshire



**Mike Hedges**  
Welsh Labour  
Swansea East



**Ann Jones**  
Welsh Labour  
Vale of Clwyd



**Julie Morgan**  
Welsh Labour  
Cardiff North



**Ieuan Wyn Jones**  
Plaid Cymru  
Ynys Môn

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## Chair's Foreword

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It has been said that if you can provide the funding and you get the leadership, you'll have a competitive team.

Convergence programmes for West Wales and the Valleys comprise funding from two separate European Structural Funds: the European Regional Development Fund (ERDF - £1 billion) and the European Social Fund (ESF - £690 million). Such funding is clearly very welcome, but in this inquiry, we wanted to examine how effectively it was being utilised to create sustainable jobs and growth, and how clearly the Welsh Government was leading and guiding the use of such funds.

The evidence of our inquiry suggests that key targets and requirements determined by Europe for the use of such funds are being met. Wales has put in place effective systems for monitoring and distributing funds received from Europe, to a wide range of both national and local projects that make a critical difference to peoples' lives.

However, our inquiry also suggested that there is considerable room for the Welsh Government - and specifically the Welsh European Funding Office - to improve in terms of co-coordinating and monitoring the outcomes being delivered by such projects. We believe that a wholesale review of WEFO's strategic role and function is required to address these concerns. We have also made recommendations to introduce a social impact survey for projects enabled by European structural funds; and programme level indicators to measure both projects' social and economic impact.

Concerns were also expressed to us about organisations who received European Funds having been historically constrained to a limited range of mechanisms for procuring services from other parties, which sometimes appeared inappropriate to their circumstances. We consider that different investment forms can be more or less appropriate to particular situations, and believe that the Welsh Government should not seek to constrain the procurement of services to any one methodology.

The findings of this report will now be considered by the Welsh Government, and I urge them to accept its recommendations.

I would like to close this foreword by thanking the various organisations who provided us with evidence and assisted us in our deliberations. Without your knowledge and expertise we could not have conducted this investigation effectively on behalf of the people of Wales.

## The Committee's Recommendations

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The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

**Primary recommendation:** We recommend that the Welsh Government's review of arrangements for implementation of European Structural Fund programmes post-2013 gives independent, unfettered and imaginative consideration to the future role, responsibilities and structure of WEFO. (Page 11)

**Recommendation 1.** We recommend that the Welsh Government defines its strategic priorities for the next funding round in a clear and accessible format at the earliest available opportunity, with a particular focus on the intended legacy of spend. (Page 28)

**Recommendation 2.** We recommend that ahead of the next funding round, the Welsh Government establishes that WEFO will be accountable for the co-ordination and oversight of all projects enabled by European Funding in a regional area, with a responsibility to avoid duplication of services and intended long term outcomes. (Page 34)

**Recommendation 3.** We recommend that the Welsh Government improves the collection and analysis of procurement and contract data to enable a strategic overview to be taken on a local and regional basis of the delivery and intended long-term outcomes of European structural funded projects. (Page 34)

**Recommendation 4.** We recommend that the role of the PMC should be encompassed in the Welsh Government's ongoing review of WEFO's application and management processes, to examine whether the PMC is currently functioning to its full potential as a critical friend to WEFO. (Page 36)

**Recommendation 5.** We recommend that, ahead of the next European Funding Round, the Welsh Government reviews its processes for applicants applying for funding from WEFO, with a view to ensuring that they are both appropriately robust and that any unnecessary

bureaucracy is eliminated. We consider that this review should be performed in consultation with appropriate stakeholders. (Page 39)

**Recommendation 6.** We recommend that in its review of WEFO's application and management processes, the Welsh Government should consider how inconsistencies in advice from WEFO can be minimised. We anticipate this will incorporate examining how staff turnover within WEFO can be minimised, and how more procurement specialists can be developed within- or recruited into- WEFO. (Page 43)

**Recommendation 7.** We recommend that the Welsh Government undertakes a detailed analysis of the costs and benefits of using procurement in the delivery of structural funds in Wales, quantifying these where possible. We anticipate the Welsh Government would then report on these findings. (Page 51)

**Recommendation 8.** We recommend that the Welsh Government enables project sponsors to consider a wide spectrum of funding options when determining the most appropriate and efficient way in which to deliver their project, supported with appropriate guidance. (Page 51)

**Recommendation 9.** We recommend that the Welsh Government provides third sector and private sector project sponsors with direct access to appropriate procurement experts within Value Wales or any other appropriate organisation (and WEFO, at such time as it has procurement specialists). (Page 54)

**Recommendation 10.** We recommend that the Welsh Government clarifies Wales' position, in relation to other regions of Europe, in terms of its success in engaging the private sector in the use of structural funds. (Page 56)

**Recommendation 11.** We recommend that, ahead of the next European Funding round, WEFO reviews its guidance on monitoring of financial expenditure by project sponsors. We anticipate that this should result in the development of explicit guidance to enable monitoring of projects' financial expenditure that is not excessive, while still being appropriately robust. (Page 63)

**Recommendation 12.** We recommend that WEFO takes action to enable, in the next funding round, the introduction of a social and economic impact survey for projects enabled by European structural

funds; and programme level indicators to measure both projects' social and economic impact. (Page 69)

**Recommendation 13.** We recommend that in the next funding round WEFO publishes and makes publicly available output and outcome data for live projects. (Page 69)

**Recommendation 14.** We recommend that the Welsh Government takes action to enable appropriate evaluations of projects during their lifetimes. (Page 73)

**Recommendation 15.** We recommend that the Welsh Government reviews its current guidance on the application of Article 55. We anticipate that this will include consideration of alternative mechanisms for putting European funding into projects, such as tapered grants, with a view to encouraging long-term profit generation where appropriate. (Page 81)

## **Key concerns arising from our inquiry**

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### **The need for radical reform**

1. There is an urgent need for a radical restructuring of the Welsh European Funding Office (WEFO).
2. Time and again in our lengthy inquiry into ‘The effectiveness of European Structural funds in Wales’ we have heard concerns expressed around WEFO’s:
  - strategic leadership;
  - its guidance and processes for people applying for European Funds,
  - its monitoring and evaluation processes; and
  - its lack of proactive engagement activity.
3. These are critical issues, and we believe that the Welsh Government needs to be robust in responding to them. The Welsh European Funding Office is already achieving against the European Commission’s requirements, but we believe it needs to go further: to deliver structural funds in the most effective and imaginative manner possible to enable long term growth and jobs in Wales.
4. We therefore welcome the Welsh Government initiating an independent review of arrangements for the implementation of European Structural Fund programmes post-2013.
5. We believe it is critical that this review gives fresh and independent consideration to WEFO’s role in such arrangements. For example, we consider that this review should question whether it is appropriate for WEFO to simply await proposals from the public, private and third sectors on the use of European Structural Funds. We believe the review needs to examine whether WEFO should not be proactively seeking out potential partners with which to undertake work, in order to deliver key strategic outcomes and objectives. We are pleased that the second part of the review will give consideration to whether the role of WEFO should be changed to encompass

responsibility for promoting and facilitating access to a broader range of EU funding opportunities.<sup>1</sup>

6. It is imperative that consideration is also given to whether WEFO is adequately resourced to fulfil both its existing and additional roles and responsibilities. We believe that a review should challenge assumptions about WEFO's underlying staffing structure. We believe a review should question, for example, whether WEFO needs to be headed up by a more senior official. Equally, a review should examine whether there is a case for actively recruiting procurement specialists into the office's ranks, and whether there are imaginative solutions by which staff turnover can be limited.

7. We also consider that this review should give consideration to the role of Value Wales in providing guidance and support to organisations working with European Structural Funds, which we found to be unclear and undefined. Similarly, we consider that this review should consider whether the Programme Monitoring Committee is actively fulfilling its potential as a critical friend to WEFO.

**We recommend that the Welsh Government's review of arrangements for implementation of European Structural Fund programmes post-2013 enables independent, unfettered and imaginative consideration to be given to the future role, responsibilities and staffing structure of WEFO.**

### **The structure of our report**

8. In the initial 'background' section of this report, we have sought to explain what the Finance Committee is, what European Structural Funds are, and why we wanted to look at them.

9. The first six chapters of our report are then primarily focussed on the role of WEFO in enabling effective use to be made of European Structural Funds.

10. In our first chapter, we have examined the evidence we received about WEFO's strategic approach, leadership and vision for the management of European Structural Funded programmes. Notably, we

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<sup>1</sup> Wales European Funding Office; Guilford Review of Implementation Arrangements; Terms of Reference of the Independent Review;  
<http://wefo.wales.gov.uk/programmes/post2013/Guildford/6525682/;jsessionid=175FF17388D7F6002B72C2474615001A?lang=en>

heard positive evidence that WEFO and the Welsh Government had displayed clear strategic leadership in terms of the core function of actually getting European money effectively out into Wales. We heard for example that funding had been deliberately ‘over-programmed’ (i.e. more funding had been promised to projects than was actually available to be spent), because it was considered likely that some projects would under-spend.

11. However, we heard more mixed evidence on whether there was a clear strategic vision for how such funding was to actually be utilised once it had gone out into Wales, with questions being raised about whether projects were necessarily guided towards realising long term objectives and legacies.

12. In the following five chapters, we have then looked at how this strategic vision (or lack thereof) was delivered, in terms of:

- the process of applying for European Structural Funds from WEFO;
- WEFO’s provision of general guidance to projects’ lead sponsors;
- WEFO’s guidance on procurement, for projects’ lead sponsors;
- WEFO’s engagement of the private sector in utilising European Structural Funds; and
- WEFO’s monitoring and evaluation of projects

13. Notably, issues arising in our first chapter resonate across these subsequent five chapters. For example, questions about a lack of strategic focus on the long term outcomes of projects enabled by structural funds, raised in our first chapter, are echoed in our sixth chapter with concerns that there are not processes in place to monitor the long term outcomes of projects.

14. The final two chapters of our report then look at the Welsh Government’s use of targeted match funding and the sustainability of projects.

## Background

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### Who are we?

15. The Finance Committee is a cross-party committee of the National Assembly for Wales, made up of Members from all four of the political parties which are represented at the Assembly.

16. We are not part of the Welsh Government. Rather, we are responsible for reporting on proposals laid before the Assembly by Welsh Ministers relating to the use of resources. We are also able to consider and report on any other matter related to, or affecting, expenditure from, the Welsh Consolidated Fund.

### What are European Structural Funds?

17. European Structural Funds are a financial tool which redistribute the European Union's funding with the intention of reducing regional disparities in terms of income, wealth and opportunities.

18. For the programming period 2007–2013, Wales qualifies for European Structural Funds support for three types of programmes:

- Convergence - (West Wales and the Valleys);
- Regional Competitiveness and Employment - (East Wales);
- Territorial Co-operation, including the Ireland-Wales Cross-border programme.

19. WEFO is part of the Welsh Government and manages the delivery of the Convergence and Competitiveness programmes in Wales.<sup>2</sup> It is focused on creating sustainable jobs and growth in line with European Union's Lisbon and Gothenburg agendas, and the policies and strategies of the Welsh Government.

20. The Convergence programmes for West Wales and the Valleys comprise funding from two separate European Structural Funds: the European Regional Development Fund (ERDF - £1 billion) and the European Social Fund (ESF - £690 million).

21. The ERDF fund is intended to progress the region's transformation into a sustainable and competitive economy by

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<sup>2</sup> The Territorial Co-operation programmes are not managed by the Welsh Government.

investing in the knowledge economy and helping new and existing businesses to grow. It also focuses on regenerating Wales' most deprived communities, tackling climate change and improving transport. The ESF fund is used to tackle economic inactivity, and increase skills and employment.

22. It is expected that, together with match funding, Convergence will invest £3.5 billion in West Wales and the Valleys. Convergence funding accounts for over 90 per cent of the structural funds managed by the Welsh Government during the current programme period.

23. The Regional Competitiveness and Employment programmes also comprise funding from the ERDF (£60 million) and the ESF (£50 million). Competitiveness ERDF is intended to be used to help Wales' economic, social and environmental transformation, by helping new and existing businesses to grow and move up the value chain, and increase the 'value added' per job. It also focuses on regenerating Wales' most deprived communities and tackling climate change. Competitiveness ESF is to be used to tackle economic inactivity, increase skills and employment. It is expected that, together with match funding, the total investment of the Competitiveness programme will be around £280 million.

24. A significant proportion of this funding is directly utilised by the Welsh Government itself. The Welsh Government is the lead sponsor of 98 projects enabled by £710 million of EU funding. This represents over 35 per cent of projects and 41 per cent of EU funding approved to date.

25. The remaining funding is held by the Wales European Funding Office (WEFO). WEFO operates an open call for project proposals from the public, private and third sectors that are intended to deliver objectives that are in line with the ambitions of the programmes. The current round of European programmes (2007-2013) is scheduled to close to applicants on 31 December 2013, although expenditure will continue into 2015.

26. The Welsh Government has previously emphasised that for this programming round (2007-2013) there would be fewer, more strategic projects delivering on the priorities of the Operational Programmes, as compared to the programmes in the 2000-2006 round.

27. As at 15 October 2012, a total of 273 projects have been approved EU funds of over £1.7 billion, representing a total project investment of £3.56 billion. The vast majority of these projects (220) are led by project sponsors from the public sector, with EU funds of over £1.5 billion.

28. The percentage of a project's total costs, which are funded by European Structural Funds, is referred to as its intervention rate. There is a maximum intervention rate which the Welsh Government can support. The remainder of a project's costs must be paid for by other funding streams, such as other grants public or private funding, etc. The Welsh Government also has a 'funding of last resort' known as the Targeted Match Fund

29. Typically, most organisations who receive European funding will need to involve other parties in order to deliver their projects, which is likely to involve payments. Organisations who receive European funding are sometimes referred to as the 'lead sponsor' of a project. They can pay other organisations to help them deliver their work, but because the payments are being made with European funding, there are certain restrictions around how they can procure such assistance.

### **Why did we examine the effectiveness of European Structural Funds in Wales?**

30. The future of European funding streams for 2014 onward is under consideration across Europe. We felt that this made 2012 a particularly appropriate time for us to assess the impact of European money already spent in Wales. We wanted to find evidence which demonstrated how such money had affected certain areas, whether that effect has been broad and positive or whether little, if any impact had been felt.

31. In addition, our predecessor, the Third Assembly's Finance Committee suggested in its legacy report that a future Finance Committee might wish to consider undertaking an inquiry into how the structural funds are being used in Wales, 'particularly in relation to impact and effectiveness of spend against objectives and value for money.'

32. We therefore focussed our inquiry on examining the use of the EU Structural Funds in the Convergence and Regional Competitiveness and Employment Programmes in Wales for the 2007-2013 period.

33. In particular, we sought to look, where possible, at the impact and effectiveness of spend against objectives and value for money. However, while we found that there was considerable data on financial expenditure toward projects, there was more limited information on the outcomes that they were achieving. This made it difficult for us to accurately evaluate the value for money of projects.

### **Contextual reviews of WEFO and the effectiveness of European Structural Funds**

34. In undertaking this inquiry, we were aware that a number of other investigations are currently underway into the effectiveness of European Structural Funds. For example, we noted that the Wales Audit Office is currently undertaking an inquiry into 2007-2013 European Union Funding in Wales. Their investigation is intended to:

“examine progress in delivering the programmes and assess whether they are on track to deliver their expected benefits. It will also examine the arrangements that the Welsh Government has put in place to administer the programmes and evaluate their impact.”<sup>3</sup>

35. We are also aware that the Wales Audit Office published its report on *The Welsh Government’s relationship with the All Wales Ethnic Minority Association* on 18 October 2012. Of the £7.15 million paid to AWEMA by the Welsh Government, £4.58 million was paid by WEFO.

36. We launched our inquiry in conjunction with the National Assembly for Wales’ own Enterprise and Business Committee, which was investigating ‘Draft legislative proposals for EU structural funds 2014 – 2020.’ In our report we have looked at the effectiveness of existing structural fund arrangements, whereas the Enterprise and Business Committee looked at future proposals. We believe that the conclusions of our inquiry support the recommendations made in the Enterprise and Business Committee’s recent report, and that the two documents may helpfully be read in conjunction.

37. We also note that in responding to the Enterprise and Business Committee’s report, the Minister has acknowledged a need to take strategic decisions on:

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<sup>3</sup> Wales Audit Office, *The Wales Audit Office’s programme of value for money studies*, Briefing Paper for the Public Accounts Committee, 31 January 2012.

- “Identifying the core priorities for funding support under future EU programmes, including the need to make choices and to concentrate resources to maximise impact;
- Improving the sustainability of investments, including through a greater emphasis on outputs, results and outcomes, and the greater use of innovative delivery mechanisms (such as Financial Engineering Instruments);
- Identifying the best ways of contributing towards the goals of smart, sustainable and inclusive growth, including use of innovative financial investment instruments;
- Considering the balance and scope for integration of the various EU funds in Wales whilst maximising the impact of these investments;
- The extent of geographical and spatial targeting, including considering how the needs and opportunities of urban and rural areas can best be supported through the various EU funds and the scope for stronger integration of interventions; and
- Reviewing delivery approaches with the aim of facilitating easier access to funds, while still ensuring high quality projects.”<sup>4</sup>

38. We also note that the Minister has launched a review of WEFO and future management arrangements for 2014-2020 EU programmes. We were informed that:

“The review, being undertaken by Dr Grahame Guilford, will look at WEFO’s application and management processes and their suitability for the next round of Programmes, including the use of procurement in project delivery. The review is specifically aimed at continuous improvement in the delivery of the Structural Funds in Wales and in finalising its recommendations will also take into account the recommendations from this Committee’s inquiry into the ‘Effectiveness of European Structural Funds in Wales’.”<sup>5</sup>

39. In our final evidence session, the Minister for Food, Fisheries, Agriculture and European Programmes stated that he would like to:

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<sup>4</sup> Written Response by the Welsh Government to the report of the Enterprise and Business Committee entitled Draft legislative proposals for EU structural funds 2014 - 2020

<sup>5</sup> Value Wales, Effectiveness of European Structural Funds, 17 September 2012, Page (P)8

“thank the committee for the investigation that it has conducted. I have found it very useful, I have to say. I have kept a close eye on what you have been doing, and have been reading through the transcripts and the written evidence that you have received... I very much look forward to your report, which I think will be a valuable document in informing our reviews, which we will be announcing in the next few weeks. I thank the committee for the work that it has done. It has been a valuable exercise.”<sup>6</sup>

40. We welcome the Ministers’ comments that that this report’s recommendations would inform the Welsh Government’s review of the implementation arrangements for the 2014-2020 structural funds programme. Indeed, much of our report focuses on the role of WEFO, both in terms of its application and management processes, but also more widely in terms of its communication of a strategic vision for structural funds’ delivery.

41. We believe that this report, like that of the Enterprise and Business Committee, will have a significant role to play in preparing for the future of European structural funding in Wales after 2013. We look forward to the Welsh Government’s response to this report.

### **How did we conduct this inquiry?**

42. During the course of our inquiry we issued a general call for written evidence and also took oral evidence from a range of individuals and organisations. Full lists of those from whom we received evidence and consultation responses can be found at Annexes A and B.

43. One of our Members also undertook a short rapporteur visit to a project supported by European Structural Funding, and provided a note of their visit to the Committee.

44. We are very grateful to all the organisations and individuals who gave evidence to us, without whom we could not have completed this inquiry.

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<sup>6</sup> Record of Proceedings of the National Assembly for Wales (RoP), Finance Committee, 30 May, Paragraph (Para) 153.

## **1. WEFO's strategic approach to Programme Management**

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45. In this section we have considered a range of evidence related to the Welsh Government's management of the programme of projects funded by European Structural Funds. In its written evidence, the Welsh Government stated to us that:

“WEFO has adopted a more strategic approach to delivery for the current programme period, with a stronger focus on objectives, outputs and outcomes to secure a more effective use of the funding and avoid waste and minimise duplication.”<sup>7</sup>

46. In particular, the Welsh Government emphasised that for this programming round (2007-2013) there would be fewer, more strategic projects delivering on the priorities of the Operational Programmes, as compared to the programmes in the 2000-2006 round.

### **A strategic vision for the financial delivery of European Structural Funds**

47. As noted in the introduction of this report, our evidence was generally positive about WEFO's strategic approach on what might be crudely described as the more 'financial' aspects of its programme management.

### ***Over-programming***

48. Notably, the Welsh Government informed us that it had deliberately sought to over-commit its intended expenditure on projects enabled by European Structural Funds. In September 2012, WEFO advised us that:

“95% (£1.7bn) of EU funds committed (as of 31 August 2012), which compares very well with the equivalent point in the implementation of the 2000–2006 programmes (86% in August 2005).”<sup>8</sup>

49. In justifying this decision, the Minister advised us that

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<sup>7</sup> Welsh Government, written evidence, P5, Para 16

<sup>8</sup> WEFO, Effectiveness of European Structural Funds in Wales, 17 September 2012, P3

“there will be individual projects that will underspend and will not achieve their objectives. If necessary, we will claw back money from those projects in order to redeploy it elsewhere. That is part of the dynamics of managing the programmes. We have therefore moved to overcommit, to over-programme, in the way that we did before Christmas, in order to ensure that we have the capacity to maximise spend.”<sup>9</sup>

50. A Welsh Government official advised us that:

“this is like trying to land a jumbo jet on a sixpence, because you do not want to overshoot, but you do want to spend as much of the money as you can. On past experience, it is better to overcommit in anticipation of projects underspending. So, we think that it is prudent to do that.”<sup>10</sup>

51. There are clearly risks in the Welsh Government’s approach of overcommitting its anticipated expenditure of European Structural Funds, but there would arguably be greater risks in it not doing so. We consider it is to the Welsh Government’s credit that it has sought to set out a clear strategic lead in managing the financial delivery of European Structural Funds.

### ***Managing fluctuations in exchange rates***

52. We also note that the financial allocation of the structural funds available to Wales is agreed in Euros with the European Commission, but the money is spent as Pounds Sterling. To assist the management of the European Programmes, WEFO uses a planning rate to convert the allocation to sterling. As the sterling figures are based on estimates they will vary with changes in the exchange rate during the lifetime of the programmes. For instance, if the Euro strengthens against sterling, the sterling value of the Programmes increases, and vice versa.

53. The planning rate is reviewed quarterly in light of economic developments. For the last year, WEFO have been using £1/€1.17 as the planning rate. However, in February WEFO decided to change the planning rate to £1/€1.20. This decision reduces the sterling value of the Programmes by the following amounts:

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<sup>9</sup> RoP, Finance Committee, 29 February 2012, Para 184

<sup>10</sup> RoP, Finance Committee, 29 February 2012, Para 187

	Grant (£m)	Total Expenditure (£m)
Convergence ERDF	-19.8	-30.7
Competitiveness ERDF	-1.1	-2.3
Convergence ESF	-12.1	-16.8
Competitiveness ESF	-0.9	-2.0
<b>Total</b>	<b>-33.9</b>	<b>-51.8</b>

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54. A paper from the March meeting of the Programme Monitoring Committee identifies the revised planning rate as a 'Significant Implementation Issue' and stated that:

“The revised planning rate and the reduced funding resources is being managed very carefully particularly at priority level where demand for certain types of projects continues but where resources are now very tight.”<sup>12</sup>

55. The Minister advised us that as a result of this planning rate change:

“we are doing a piece of work on the scope of that, on what we believe the potential impact could be... Our planning rate is €1.20. It changed in January and that has had a significant impact on the planning value of the programmes. Every cent equals £12 million up or down. So, if we change the planning rate once again to reflect a weakening euro, we will potentially be taking more money out of the planning budgets available to us.”<sup>13</sup>

56. In subsequent correspondence, the Minister advised us that if:

“current commitments were to be recalculated at a rate of €1.30... 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.

<sup>11</sup> March 2012 PMC papers

<sup>12</sup> ERDF Convergence 2007-2013, West Wales and the Valleys, Programme Monitoring Report, February 2012, P3

<sup>13</sup> 30 May 2012, Para 139 & 140

“PMC Members were advised of, and supportive of, the risk management measures 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.”<sup>14</sup>

57. We note the Minister’s intended action to manage risks associated with exchange rate changes. Again, on this issue, we consider that the Welsh Government and WEFO have set out a clear strategic vision in terms of managing this risk.

### ***Intervention rates***

58. In 2009, due to the global recession and to allow greater flexibility to mitigate potential match funding pressures, the Welsh Government negotiated the following increases in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes:

- ERDF Convergence: from 46.46% to 57.47%
- ERDF Competitiveness: from 40.16% to 45.30%
- ESF Convergence: from 55.56% to 64.36%

59. Programme level intervention rates were adjusted to provide flexibility for sponsors applying for funds for new projects to receive a greater proportion of EU funding.

60. The Welsh Government advised us that:

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<sup>14</sup> Finance Committee inquiry into the effectiveness of European Structural Funds in Wales, 18 July 2012, P4

“WEFO continues to monitor the match funding position at programme and project level, particularly in light of the budget reductions following the UK Government’s 2010 Comprehensive Spending Review (CSR) and the ensuing 2011 Welsh Government budget. WEFO works closely with project sponsors on a case-by-case basis and can provide grant intervention rates of up to 100% for individual projects if necessary, provided the average intervention rates are respected at programme level.”<sup>15</sup>

61. We received a mixture of evidence on the respective cases for increasing, or decreasing the overall intervention rate. Some witnesses were relatively neutral on whether overall intervention rates should increase. For example, the WLGA were supportive of the 2009 increase in rates, but cautioned that “care has to be taken as higher intervention rates means that the size of the overall programmes shrinks.”<sup>16</sup> Similarly, Powys County Council commented that:

“The increase in the intervention rate has been beneficial for a number of project sponsors. Especially at a time when the economy was particularly affected by the global downturn, some sponsors have been able to counterbalance a shortfall in matchfunding or even to lever further resources... However, the intervention rates must be negotiated within a realistic framework.”<sup>17</sup>

62. Other witnesses considered that Wales should seek to “negotiate the best intervention rate possible,”<sup>18</sup> and then determine whether to use such on individual projects merits. For example, the WCVA advocated that:

“If Wales pushes for the maximum intervention rate it can get, we can always make a decision in Wales because, ultimately, it is about what match funding is available. That determines the intervention rate. So, if you have a project that is well financed with match funding, it should get the lower intervention rate.

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<sup>15</sup> Welsh Government, written evidence, P6.

<sup>16</sup> WLGA, written evidence, P1

<sup>17</sup> Powys County Council, written evidence, P8.

<sup>18</sup> Chwarae Teg, written evidence, P6

However, where you have projects with minimum match funding, you at least need to build the flexibility.”<sup>19</sup>

63. But by contrast, Pembrokeshire County Council considered that:

“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.”<sup>20</sup>

64. The evidence of our inquiry illustrated that higher intervention rates potentially enable greater flexibility for Wales in utilising effective financial management practices. But it also illustrates that a higher intervention rate can adversely affect the overall impact of European funding.

65. In the context of the current recession, we consider that it was entirely appropriate for the Welsh Government to have sought to increase its intervention rates in 2009. Once again, on this issue we consider that the Welsh Government and WEFO have showed clear strategic vision and leadership.

66. Indeed, in the current economic climate, we consider that there would be merit in the Welsh Government and WEFO seeking to have higher intervention rates in the next funding round.

### **WEFO’s strategic approach to delivering outcomes from European Structural Funds**

67. As noted in the previous sub-chapter, the evidence of our inquiry was broadly positive about the strategic vision showed by the Welsh Government and WEFO in its core function of effectively getting European money out into Wales.

68. However, our evidence was significantly more mixed on the quality of WEFO’s strategic vision for how such funds were then used,

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<sup>19</sup> RoP, Finance Committee, 11 January 2012, Para 161

<sup>20</sup> Pembrokeshire County Council, written evidence, P7

and the long-term outcomes achieved with such expenditure. In particular, we heard that:

- while WEFO and the Welsh Government had strategic objectives for the 2007-2013 programme, it had taken too long for these to be developed.
- WEFO's approach did not sufficiently consider the longer term, being overly focussed on outputs and objectives in the funding period itself;
- there was little strategic oversight or co-ordination in the delivery of projects at local and regional levels.

### ***The development of a strategic approach***

69. A range of our witnesses expressed concern that while there was now clarity about what the Welsh Government itself was directly taking forward, it had taken too long to develop such in the 2007-2013 funding round.

70. The WLGA commented that the beginning of the current funding period was frustrating for potential users of structural funds because:

“...we were not sure about our part in the implementation at a regional and local level... for the next programmes, I would like to see Government departments, for example, making it known earlier in the programme which type of projects they would want to see being approved so that we can see earlier in the process where regional and local delivery will be needed.”<sup>21</sup>

71. These comments were echoed by Too Good to Waste, which described how information did not come:

“quickly enough to say, ‘This is the strategy coming from Europe and this is the interpretation of how Wales wants to target certain points’.”<sup>22</sup>

72. The WCVA noted that this slow start in bringing forward the Welsh Governments' own projects, aligned to strategic priorities, had a

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<sup>21</sup> RoP, Finance Committee, 25 January 2012, Para 125

<sup>22</sup> RoP, Finance Committee, 14 March 2012, Para 106

knock-on consequence for “external project sponsors in developing their projects that were required to fit around Government schemes.”<sup>23</sup>

73. Projects enabled by European Structural Funds do not continue from one programme period to the next, but it is possible that the same project sponsor might get funding in successive programme periods for similar activity. Recognising such, the Welsh Social Enterprise Coalition considered that:

“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.”<sup>24</sup>

74. Looking ahead to the next funding round, we are conscious that a delay in establishing strategic priorities or particular processes could potentially place additional pressure on the projects to deliver in the last few years of the programme.

75. We were therefore pleased that the Minister advised us that:

“I understand that criticism and that is why we are responding two years before any further programmes are commenced in Wales, with work on planning and policy. The reflections exercise was completed two months ago. I will, in the next few months, publish a Green Paper on how we take these programmes forward. So, we are ensuring that people have had the opportunity to make comments and have a debate with us across the whole of Wales on how we manage these European funding streams. We will be looking at the structures that we have in place over the coming year or so. Therefore, we will not be simply going into 2013 in the same way as we finished 2012.”<sup>25</sup>

76. We welcome the Minister’s commitment to defining Wales’ priorities for the next funding round in advance of it coming into effect. In the following subsection we have recommended that the Welsh Government define its strategic objectives for the next funding

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<sup>23</sup> WCVA written evidence

<sup>24</sup> Welsh Social Enterprise Coalition, written evidence, P1

<sup>25</sup> RoP, Finance Committee, 29 February 2012, Para 196

round. We recognise that the Welsh Government and WEFO does not have free reign in determining a vision for the use of European structural funds, with a broad direction for the use of such funds provided by the European Union. Within this direction, the Welsh Government then has scope to develop its own specific strategies and desired outcomes and objectives.

***Insufficient consideration of the longer term outcomes of expenditure***

77. Several witnesses expressed concern that even when WEFO’s strategic approach had finally been developed, it had limited strategic focus on the intended long-term outcomes and impacts of projects enabled by European funds. Indeed, several witnesses expressed doubts as to whether the intended impact of the programme as a whole would be achieved in the long term. For example, Higher Education Wales commented that:

“The term from Brussels is ‘transactional’—they give you money and you produce something. It does not focus on long-term delivery and transformational impact.”<sup>26</sup>

78. Higher Education Wales also considered that the focus of expenditure was on short, rather than long term benefits, commenting that:

“Our view is that the programme has struggled to deliver strategically on the original objectives and vision of how this round would operate.”<sup>27</sup>

79. Similarly, the Association of Chartered Certified Accountants (ACCA) Cymru commented that there was a need to focus in the next programme round on the long-term legacies of European expenditure, observing that currently:

“There is perhaps too much of a focus on time-limited projects that might not necessarily be focused on addressing a time-limited need.”<sup>28</sup>

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<sup>26</sup> RoP, Finance Committee, 29 February 2012, Para 11

<sup>27</sup> RoP, Finance Committee, 29 February 2012, Para 13

<sup>28</sup> RoP, Finance Committee, 14 March 2012, Para 10

80. ACCA Cymru considered that this short-term strategic perspective resulted in too little emphasis on capturing the long term outcomes and impacts of projects, which output data alone would not provide. It commented that:

“I understand why the number of enterprises created and the number of jobs created are useful measures, but they are blunt measures to some extent. These measures are dictated by the Commission, not by us. In the next round, we should be looking at the legacy of spend.”<sup>29</sup>

81. We were particularly struck by the need to consider the legacy of spend from European Funding. We consider that the Welsh Government should take action to ensure that in the next funding round priority is given to projects that will have long term, sustained outcomes, beyond the duration of funding.

**We recommend that the Welsh Government defines its strategic priorities for the next funding round in a clear and accessible format at the earliest available opportunity, with a particular focus on the intended legacy of spend.**

82. We also consider that the Welsh Government should seek to demonstrate that its current approach ensures that structural funding is spent in such a way as to achieve the most beneficial long term outcomes.

83. Inevitably, this focus on the short term outputs of projects rather than their long term outcomes has had a significant impact on the Welsh Government’s monitoring and evaluation processes. We have considered this in greater detail in Chapter 5 of this report.

***Insufficient strategic oversight for the co-ordination and delivery of European Structural Funding at local and regional levels***

84. European Structural Funds are intended to deliver sustainable growth and jobs in Wales. A sizeable proportion of projects funded in this way are taken forward directly by the Welsh Government, with its February 2012 written evidence stating that:

“Welsh Government-led projects represent a significant proportion of projects approved to date (98 of 260 or some

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<sup>29</sup> RoP, Finance Committee, 14 March 2012, Para 35

40% of resources committed to date). As with all EU funded projects, these have been developed in partnership and are largely delivered through procurement arrangements. The remaining projects are being led by other organisations including 67 Local Authority projects, 38 third sector, 10 private sector and 31 from the HE/FE sector.”<sup>30</sup>

85. Beyond these directly operated projects, WEFO operates, in its own words, “an open call for project proposals from the public, private and third sectors – encouraging them to bring forward projects that can deliver on the aims and objectives of the programmes.”<sup>31</sup>

86. We consider that this ‘open’ approach does have merits, in terms of empowering organisations to creatively suggest imaginative ideas for proposals on how such funds may be utilised. However, the inherent risk of such an approach is that different organisations’ diverse proposals will not automatically be co-ordinated, beyond being in general alignment with the overarching aims and objectives of the programmes.

87. We believe that this means particular focus should- in theory- be given to co-ordination of projects at local, regional and national levels to enable them to be ‘joined-up.’ Theoretically, the delivery of this co-ordinated approach then involves taking difficult decisions: a project might be rejected for example, not because the project is itself without merit, but because there are already plans in place for a project intended to achieve similar outcomes in the local area.

88. Theoretically, a co-ordinated approach to delivering outcomes would also involve the co-ordinators proactively seeking out particular organisations to undertake work in order to supplement the outcomes being realised from an ‘open call for project proposals.’ This would enable gaps in the delivery of outcomes at a regional or national level to be filled.

89. However, witnesses in our inquiry expressed concern that this theory was not being delivered in practice, and that the different projects enabled by European Structural funds are not co-ordinated effectively. In particular, we received no evidence that WEFO has

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<sup>30</sup> Welsh Government, written evidence, p. 5, para 18. At the time of this report’s publication there are now 273 projects funded.

<sup>31</sup> Welsh European Funding Office webpage: Applying for funding.  
<http://wefo.wales.gov.uk/applyingforfunding/?lang=en>

proactively sought out potential partners with which to work in delivering key objectives. Moreover, ACCA Cymru noted that its members reported that “there was not a strategic oversight of whether the services being delivered needed to be replicated in the same locality.”<sup>32</sup> ACCA Cymru observed that it was not particularly sustainable or effective for multiple projects enabled by European Structural Funds to be delivering similar training or targeting the same businesses. It also noted that oversight was needed on whether particular projects were actually needed in a particular area:

“this is about having that strategic oversight as to... what that project is providing and whether it needs to be replicated in that locality.”<sup>33</sup>

90. The WLGA likewise expressed concern that it was difficult to know whether replication was taking place at a local level because:

“The difficulty that we have at the moment is not knowing what is being captured at a regional or local level, with the plethora of projects that are often involved in delivering within an area, whether it is delivering grant schemes for businesses, or supporting and tackling the inactivity problems that we have in our areas. So, it is quite a complex system. The data tend to be high-line data—we know what is happening at a local level for capturing some of the job outcomes, but it is very difficult to know what is happening below that. The databases will capture some of the data, but not all of them.”<sup>34</sup>

91. Responding to these concerns, Value Wales argued that:

“To maximise EU funds for Wales, avoiding duplication is a key factor in WEFO’s implementation and management of the programmes. All project proposals are assessed on their ability to add value to provision which already exists in the local or regional area whether delivered by a local authority, Welsh Government or other organisation. Individual project sponsors are responsible for liaising with local stakeholders to ensure

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<sup>32</sup> RoP, Finance Committee, 14 March 2012, Para 66

<sup>33</sup> RoP, Finance Committee, 14 March 2012, Para 66

<sup>34</sup> RoP, Finance Committee, 25 January 2012, Para 102

consensus is reached in meeting and not duplicating local need.”<sup>35</sup>

92. While we welcomed the intention of WEFO to avoid duplication, we were concerned that the apparent method for delivering this objective was to simply charge project sponsors with the responsibility of liaising with local stakeholders to avoid duplication. Given that project sponsors may not necessarily be aware of existing or prospective services, and may lack capacity for determining such, we did not consider this to be an effective methodology. Value Wales also acknowledged that this same methodology was used when projects were delivering an all-Wales service, contending that:

“The extent to which an all-Wales service takes local needs and local activities into account is a matter for the project sponsor and concerns the effectiveness of their stakeholder engagement.”<sup>36</sup>

93. Exploring these concerns further, we asked Value Wales and WEFO whether they knew if contractors to project sponsors were based in Wales. Value Wales and WEFO collectively responded that:

“Value Wales does not hold data specific to EU funding awarded by WEFO. Value Wales does analyse purchase ledger data approximately every three years. In 2010/11 just over 51% of total expenditure was estimated to have been spent with businesses with a Welsh invoice address. The division also manually monitors contract awards in the construction sector. In 2011/12 two-thirds of all contracts or places on frameworks were awarded to businesses with their head-quarters in Wales.

“... WEFO requires project sponsors to submit details of procured delivery on a regular basis. There is considerable variation in the scale and value of contracts awarded by Structural Funds projects. An analysis undertaken by WEFO in 2011 of projects’ awarded contracts indicated that nearly eighty percent of the value of these contracts was awarded to Welsh companies or organisations with a Welsh presence. Furthermore, only 22% of the total procured financial value was

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<sup>35</sup> Value Wales, Effectiveness of European Structural Funds, 17 September 2012, P4

<sup>36</sup> Value Wales, Effectiveness of European Structural Funds, 17 September 2012, P4

awarded to companies outside of Wales, which were primarily construction companies or training companies.”<sup>37</sup>

94. Considering this response, we noted that companies with a Welsh invoice address would not necessarily have their headquarters in Wales. We also noted that this response did not give us clarity on the amount of Convergence funding assigned to businesses outside the Convergence area.

95. We are concerned that the evidence of our inquiry suggested that WEFO does not seek to actively co-ordinate the delivery of outcomes at local, regional or national levels, but rather that it delegates such responsibility to project sponsors.

96. Evidence from Bangor University and the WCVA concurred that WEFO had delegated the responsibility for co-ordinating the delivery of outcomes to the lead sponsors of projects. Projects sponsors were “expected to manage all elements of the project, delivering activity through direct, procured or grant awarded delivery.”<sup>38</sup> The WCVA noted that delegating such strategic responsibilities could create inconsistencies, and undue pressure on lead sponsors, particularly if this was not accompanied by appropriate guidance and leadership from the Welsh Government. The WCVA recommended that in the next programme round WEFO should provide:

“timely and much clearer guidance on the types of projects that will be considered for funding and how collaboration between sponsors will be facilitated.”<sup>39</sup>

97. Some witnesses were also concerned that this methodology introduced greater levels of bureaucracy. For example, Higher Education Wales commented that:

“the current round is meant to be more strategic; there is emphasis on larger projects and, therefore, they have taken much longer to process.”<sup>40</sup>

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<sup>37</sup> Value Wales, Effectiveness of European Structural Funds, 17 September 2012, P4

<sup>38</sup> Bangor University, written evidence

<sup>39</sup> WCVA, written evidence, P1

<sup>40</sup> RoP, Finance Committee, 29 February 2012, Para 43

98. Similarly, Powys County Council commented that the delegation of responsibility for co-ordinating outcomes to project sponsors had resulted in:

“extra layers of management that had a negative impact on resources, thus reducing the value for money of outputs. More worryingly this approach has reduced the levels of consistency of delivery, an issue that the approach was supposed to address.”<sup>41</sup>

99. This is not to say that there are no arguments in favour of delegating strategic responsibilities to project sponsors. For example, we noted that the lead sponsors of projects would potentially understand their sectors better than WEFO necessarily would. The Welsh Social Enterprise Coalition appreciated the value of the WCVA’s engagement gateway, which enabled different organisations to co-ordinate their roles in taking forward different parts of an individual’s developmental journey. This meant an individual organisation within the gateway could specialise in “meeting a target that is not about employability, but getting people ready to move on to the next step.”<sup>42</sup>

100. We recognise that there are arguments in favour of project sponsors having particular strategic responsibilities delegated to them from WEFO for the oversight of European funded projects, particularly when they are being delivered on a pan-Wales basis. In such circumstances it is imperative that project sponsors are provided with appropriate support and guidance by WEFO in order to deliver such responsibilities.

101. However, we believe it is imperative that WEFO has an accurate overview and ability to co-ordinate projects taking place in different regional areas. If responsibilities for maintaining such awareness are delegated to project sponsors, or other partners this should take place in such a way that WEFO is ultimately still accountable for decision-making, and co-ordination of projects in local and regional areas.

102. The evidence of our inquiry strongly suggested that there is currently no clarity on which organisations have the over-arching responsibility for co-ordinating European Funded projects in a particular region. This may also mean that no single organisation has

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<sup>41</sup> Powys County Council, written evidence.

<sup>42</sup> RoP, 14 March 2012, Finance Committee, Para 185

an understanding of how to guide other bodies through the complex system of potential involvement in different projects. We believe that this needs to be resolved.

**We recommend that ahead of the next funding round, the Welsh Government establishes that WEFO will be accountable for the co-ordination and oversight of all projects enabled by European Funding in a regional area, with a responsibility to avoid duplication of services and intended long term outcomes.**

103. We consider it to be critical that clear, long-term strategic objectives are established for the use of European Structural Funds, and that this vision is then put into practice by monitoring appropriate data.

104. We note that Value Wales does not currently hold contract or procurement data specific to EU funding awarded by WEFO, and that while in 2011 WEFO conducted an analysis of contracts awarded by project sponsors this does not appear to be undertaken more regularly.

105. We consider that such monitoring information should be available, and utilised to co-ordinate activity at local and regional levels, which should also minimise the potential for replication of services at local levels. We consider this information to be vital in terms of establishing the extent to which the European funding assigned to the Convergence and Competitiveness regions of Wales has ultimately remained within and benefitted those areas.

**We recommend that the Welsh Government improves the collection and analysis of procurement and contract data to enable a strategic overview to be taken on a local and regional basis of the delivery and intended long-term outcomes of European structural funded projects.**

### **The role of the Programme Monitoring Committee**

106. The All-Wales Programme Monitoring Committee (PMC) is responsible for monitoring the implementation of the Convergence and Regional Competitiveness and Employment (ERDF and ESF) programmes 2007–2013 in Wales. The Committee meets around 3-4 times a year at various locations across Wales and is chaired by a

representative of the Welsh Government (currently Mark Drakeford AM).

107. The PMC's duties are defined in Articles 65 and 66 of Regulation (EC) 1083/2006 and amplified in the Operational Programmes. These provisions include:

- considering and approving the criteria for selecting the operations to be financed and any revision of those criteria in accordance with programming needs; and
- reviewing progress towards achieving the specific objectives and targets of the Operational Programmes on the basis of documents submitted by the Managing Authority (the Welsh Government).

108. We believe the PMC has the potential to act as a critical friend to WEFO, independently monitoring its delivery of European Structural Funds. The PMC has considerable strengths, being drawn together from a wide range of representatives from the public, private and voluntary sectors. The Chair of the PMC observed that:

“My job is to ensure that what the PMC debates gets heard by Government and that is genuinely important to people around the table. They would not turn up and have the discussions if they did not feel that it had a chance of making a difference somewhere.”<sup>43</sup>

109. The Programme Monitoring Committee (PMC) also receives in its public meetings “very detailed information about how individual strands in the programmes are working out.”<sup>44</sup>

110. We believe the PMC is well placed to critically monitor the overarching delivery of the European funded programmes and projects.

111. However, the PMC currently works under a number of limitations. The Committee does not look at individual projects, currently only meets around “three times a year,”<sup>45</sup> and that with so many representatives involved:

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<sup>43</sup> RoP, Finance Committee, 25 January 2012, Para 265

<sup>44</sup> RoP, Finance Committee, 25 January 2012, Para 258

<sup>45</sup> RoP, Finance Committee, 25 January 2012, Para 247

“as an individual member of the PMC, you talk once on an agenda item and you know that you will be very lucky to have a chance to say anything else. So, conversations are not what you would call free-flowing around the table.”<sup>46</sup>

112. We believe that these limitations may impact on the effectiveness of the PMC in critically monitoring and advising WEFO.

**We recommend that the role of the PMC should be encompassed in the Welsh Government’s ongoing review of WEFO’s application and management processes, to examine whether the PMC is currently functioning to its full potential as a critical friend to WEFO.**

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<sup>46</sup> Chair of PMC, RoP, Finance Committee, 25 January 2012, Para 254

## 2. Applying for European Structural Funds from WEFO

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113. We heard a range of evidence around the processes involved in applying for European structural funds. We heard about the bureaucracies involved in such processes, and their unintended consequences, though we also heard positive comments about them being generally robust and transparent.

114. A number of witnesses provided us with evidence on the process of applying for European Structural Funds from WEFO. Furnace Farm Limited were relatively positive in their account of the process, detailing that:

“Although I would not go so far as to say that it was an easy process, we found it manageable, and we found WEFO to be quite understanding of the position that we were in and of the constraints on what we could do as well as the constraints on what it was able to do.”<sup>47</sup>

115. Similarly, the Countryside Council for Wales praised the fact that WEFO utilised a two stage process for considering applications (avoiding the potential for detailed business plans to be submitted for projects that were intrinsically unsuitable for funding). They commented that:

“The WEFO process on inviting Expression of Interests, and then if approved, issuing invitation to prepare full Business Plans, is a big improvement over the application process in place in Objective 1 and previous programmes. The structure of the Business Plans required by WEFO is sufficiently flexible to set out a template of what is required whilst giving the scope to elaborate on the specifics of each project.”<sup>48</sup>

116. However other witnesses were more critical of the process. Rhondda Cynon Taf considered that the process for accessing Structural Funds “remains complex and often lengthy despite efforts

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<sup>47</sup> RoP, Finance Committee, 16 May 2012, Para 235

<sup>48</sup> Countryside Council for Wales, written evidence, P3

by WEFO to simplify the arrangements.”<sup>49</sup> Similarly, Coleg Morgannwg stated that while the application process was thorough, it was also:

“time consuming, and the WEFO application process seemed to be out of proportion to the amount of money that we were trying to secure, compared to the applications to other funding sources. An example of this is that we made our application to WEFO in October 2009, but did not receive the signed contract until November 2010, so it was a year-long process. You may say that we had to go through a rigorous process for the amount of money that we were trying to secure, and we appreciate that, but the majority of the funding was coming from the Welsh Government and that process was less lengthy.”<sup>50</sup>

117. Similarly, Coleg Pembrokeshire detailed that “the application process is very long and detailed, and there was a lot of to-ing and fro-ing with the business plan process.”<sup>51</sup> Likewise, Aberystwyth University commented that while its experience of accessing European Structural funds had been largely positive:

“there are occasions when the ‘opportunity costs’, in terms of the necessary commitment of time and resources to prepare proposals with no predictable outcomes, results in a lack of enthusiasm and ‘buy-in’ from some colleagues, particularly if they have previously experienced disappointing outcomes to proposals.”<sup>52</sup>

118. We consider that every effort should be made to minimise unnecessary bureaucracy in the process of applying for funding.

119. However, we also consider that such processes must be robust, to reflect the importance of public funding. We therefore concur with the recommendation of the Wales Audit Office’s recent report on the Welsh Government’s relationship All Wales that clear processes for due diligence work should be built into its processes for awarding grant funding.<sup>53</sup> We note, for example, the importance of considering the

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<sup>49</sup> Rhondda Cynon Taf, written evidence, P1

<sup>50</sup> RoP, Finance Committee, 25 January 2012, Para 168

<sup>51</sup> RoP, Finance Committee, 25 January 2012, Para 170

<sup>52</sup> Aberystwyth University, written evidence, P1

<sup>53</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, 18 October 2012, Recommendation 1, Page 16.

overall financial viability and governance arrangements of organisations applying to be funded by the Welsh Government and WEFO.

120. At the same time we consider that it would be reasonable for the Welsh Government to review its application systems, with a view to minimising any unnecessary bureaucracies.

**We recommend that, ahead of the next European Funding Round, the Welsh Government reviews its processes for applicants applying for funding from WEFO, with a view to ensuring that they are both appropriately robust and that any unnecessary bureaucracy is eliminated. We consider that this review should be performed in consultation with appropriate stakeholders.**

### 3. WEFO's general guidance to project sponsors

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#### WEFO's written guidance

121. In the first chapter of this report, we expressed concerns about an apparent lack of accountability from WEFO for the strategic oversight of European-Funded projects and co-ordination of their delivery and long term objectives. Our concerns were then compounded by evidence in our inquiry that there was room for improvement in the clarity and timeliness of WEFO's guidance to project sponsors. For example, Powys County Council observed that:

“timely preparation and approval of rules and guidelines and greater clarity and consistency of their interpretation from the managing authority would help project sponsors and delivery organisations to ensure that resources are deployed in efficient and compliant way. This has not always been the case in the current programmes.”<sup>54</sup>

122. Similarly, Higher Education Wales observed that:

“The provision of more categorical guidance on occasion would aid delivery and help share risk between delivery organisations and the managing authority.”<sup>55</sup>

123. Given that WEFO has delegated certain responsibilities for the strategic oversight of European Funded projects to lead project sponsors, we consider it imperative that prompt, comprehensive guidance is provided to such sponsors. We believe that such guidance should not impinge on WEFO being ultimately accountable for the co-ordination and delivery of European funded projects.

124. We are also conscious that guidance needs to be timely and up to date, and that revisions or withdrawal of guidance “can have significant implications for projects already in delivery.”<sup>56</sup>

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<sup>54</sup> Powys County Council, written evidence, P5

<sup>55</sup> Higher Education Wales, written evidence, P4

<sup>56</sup> Rhondda Cynon Taf, written evidence, P1

## **Inconsistencies in WEFO's oral guidance to project sponsors**

125. Clearly no set of written guidance will be comprehensive for every situation that arises, and oral advice is sometimes vital.

126. In the following chapter of this report, we have considered specific concerns from private and voluntary sector witnesses around a systemic unavailability of guidance from WEFO on the procurement of services with European Structural Funds.

127. However, beyond this specific issue, a variety of our witnesses expressed concerns about the consistency of oral guidance for project sponsors. A range of our witnesses expressed concerns that general inconsistencies in advice arose from the seemingly high turnover of staff in WEFO.

128. For example, Higher Education Wales suggested that:

“WEFO has had difficulty with staff leaving and being replaced. So, you could say that WEFO is probably under-resourced for some of the scale of the operation that it has to deal with. Some of the delays we experience are because desk officers have moved elsewhere and new people are coming in and being trained up to the job.”<sup>57</sup>

129. Newport County Council were similarly concerned that that a high turnover of WEFO staff “resulted in poor and inconsistent advice being provided to Newport,”<sup>58</sup> while Aberystwyth University commented that:

“the high turn-over of staff within WEFO has been unhelpful in developing effective working relationships with officers and building up a body of knowledge and understanding in relation to funded projects.”<sup>59</sup>

130. Bangor University also expressed concern around the consistency of advice provided by Project Development Officers, but commented that on a positive note:

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<sup>57</sup> RoP, Finance Committee, 29 February 2012, Para 43

<sup>58</sup> Newport County Council, written evidence, P1

<sup>59</sup> Aberystwyth, written evidence, P1

“WEFO now seems to be moving towards allocating a PDO as the single point of contact for organisations and this is welcomed.”<sup>60</sup>

131. The evidence of our inquiry suggests that staff turnover within WEFO (and delays in bringing in replacements) is perceived as a disruptive factor in the provision and consistency of advice to project sponsors, and that this should be regulated where possible. Turnover can be particularly disruptive if a project is required to re-evaluate, or is otherwise in a period of particularly challenging circumstances.<sup>61</sup>

132. We note that WEFO is staffed by generalist civil servants, in a similar fashion to other Welsh Government departments, and therefore staff will currently be able to move with relative freedom in and out of WEFO. We believe that as part of its review of WEFO, the Welsh Government should consider whether the fundamental assumption that the office is staffed in a similar fashion to other departments should still hold true. For example, staff could be required to work for a minimum number of years in WEFO before they are eligible to apply for other positions within the Welsh Government.

133. We also note that the Welsh Government has acknowledged that WEFO staff themselves:

“would not suggest for a moment that we were experts on procurement. We go to Value Wales and to our legal services for advice.”<sup>62</sup>

134. We believe consideration should be given toward enabling recruitment of staff who are more specialist in the fields of procurement and European Legislation and whether there are mechanisms of limiting staff turnover. We believe such options should be given consideration, in an effort to address our witnesses strong concerns around the consistency of advice from WEFO.

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<sup>60</sup> Bangor University, written evidence, P1

<sup>61</sup> Notably, the Wales Audit Office’s recent report on the Welsh Government’s relationship with the All Wales Ethnic Association highlighted high staff turnover in its equalities unit was also a contributing factor in disrupting the continuity of the Welsh Government’s relationship with an external stakeholder (AWEMA). Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, 18 October 2012, Para 2.82.

<sup>62</sup> RoP, Finance Committee, 30 May 2012, Para 69

**We recommend that in its review of WEFO's application and management processes, the Welsh Government should consider how inconsistencies in advice from WEFO can be minimised. We anticipate this will incorporate examining how staff turnover within WEFO can be minimised, and how more procurement specialists can be developed within- or recruited into- WEFO.**

135. We also believe that WEFO should continue to utilise a 'case owner system,' whereby a specific member of WEFO's staff acts as a single, consistent point of contact, with responsibility for WEFO's relationship with an organisation. The case owner should have ultimate responsibility for WEFO's role in every aspect of an organisation's receipts of structural funds, from beginning application to the end of funding.

136. Following any contact with the organisation the case owner should be required to complete a note of the dialogue and advice they have provided, so that a new member of staff who succeeds them in their role has accurate information on the rationale for any decisions previously taken. We consider that such note-taking would be well supported by the development of a customer relationship management system across WEFO and the Welsh Government, as recommended in the Wales Audit Office's recent report on the Welsh Government's relationship with the All Wales Ethnic Minority Association.<sup>63</sup>

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<sup>63</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Ethnic Minority Association, 18 October 2012, Recommendation 1b, Page 17.

## **4. WEFO's guidance on the procurement of services by Project Lead Sponsors**

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137. We heard a range of concerns around WEFO's guidance on the procurement of services by project lead sponsors. Notably, in October 2010, WEFO published revised guidance on procurement which introduced opportunities for projects to use competitive grants. Witnesses advised us that prior to October 2010 WEFO's guidance had strongly promoted competitive tendering exercises as the sole means for procuring with European Structural Funds.

138. Many of our witnesses' concerns were consequently focussed around the appropriateness of competitive procurement as the primary means of engaging other organisations in the delivery of European Funded projects. Some of these related to concerns considered elsewhere in this report. For example, we heard arguments that the widespread use of procurement for project delivery made it more difficult for WEFO to oversee what was being delivered and where, and that therefore there could be a danger of duplication of services in particular areas.

139. In addition, we also heard concerns from witnesses in the private and voluntary sectors, that they systematically lacked opportunities to get oral advice on procurement processes. We have considered this specific issue in the final sub-section of this chapter.

### **Appropriateness of procurement processes to particular situations**

140. Most of our witnesses concerns focussed around whether the competitive procurement processes that they felt WEFO guided and instructed them to utilise were necessarily appropriate to particular situations. For example, Tidal Energy Limited asked whether they, as a mirco SME, needed to:

“follow the European procurement guidelines. We have done, and we have set up our own procurement guidelines in line with WEFO's guidance, which are that anything greater than £5,000 needs to go through a process. The larger contracts involve going through the *Official Journal of the European Union* process, namely advertising in the European journal and publishing the various notices that are required. However, if we make a minor amendment to that—if we are a day short on the

tendering period, for example, or if we have not identified our Alcatel standstill period correctly—we run the risk of clawback.”<sup>64</sup>

141. The WCVA similarly questioned whether it was appropriate for voluntary sector organisations to be competing against private companies for tendered services, noting that:

“as a voluntary organisation...you are working with the furthest and hardest to reach... [which means that] your costs will be greater.”<sup>65</sup>

142. More broadly, concerns were raised with us as to the unintended consequences of using competitive tendering processes to procure services. For example, we heard that Tidal Energy Limited were concerned that rigid, competitive procurement processes- as opposed to grant funding- could be incompatible with attempting to enable innovation. They commented that:

“It is difficult to identify clearly from the outset the scope of the work that we want our contractors to carry out and, every time we go down a particular contracting route, there is always additional work or variations required.”<sup>66</sup>

143. The WCVA similarly expressed concern to us about procurement as opposed to collaborative grant funding. They suggested that procurement processes could inhibit dialogue between organisations, and the overall speed of progress:

“we have seen an increase of between four and five times the amount of time to sign off a contract because charities and their boards are afraid to do it because of what it ties them into, whereas now we have moved to the competitive grants process, we are getting the offer of grant letters back really quickly. Not only that, in a procurement process, you cannot talk to that organisation freely or ask for more information if you do not quite understand what is being said because it has to be judged on that submission. The competitive grants process gives you a little more freedom, so that you can say, ‘That looks good, but I need a bit more information’. So, you

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<sup>64</sup> RoP, Finance Committee, 16 May 2012, Para 250

<sup>65</sup> RoP, Finance Committee, 11 January 2012, Para 78

<sup>66</sup> RoP, Finance Committee, 16 May 2012, Para 248

can go back and ask that question without making the process incorrect, as you would under procurement.”<sup>67</sup>

144. When we raised these concerns with Value Wales, it commented that “there are advantages and disadvantages in all the funding mechanisms available.”<sup>68</sup> Value Wales acknowledged that competitive grant funding could be a more rapid means of delivering funding, commenting that:

“A competitive tender under the OJEU regulations does require resource to specify the requirements and to evaluate responses. The time to complete an OJEU tender would typically be 4-6 months. If external goods and services are required by the project sponsor and are over the threshold then this process would be necessary to comply with European legislation, unless a contract or framework already existed that covered the requirement. In some circumstances it is possible to use a competitive grant funding mechanism. This may require less resource to set up – but this mechanism typically exercises less control over delivery. Using in-house resource to deliver may be quicker – unless recruitment is required – however this does not provide Welsh business the opportunity to put forward delivery proposals. Competitive tendering does ensure that all potential suppliers have the same opportunity, the competitive pressure can drive down costs and the contractual conditions create robust controls with remedies available in the case of non-performance.”<sup>69</sup>

145. Concerns were also expressed that competitive procurement was incompatible to adopting a consortia approach to an issue. We heard that in a consortia approach different organisations worked together to tackle the problem, but Valleys Kids told us that when tendering to deliver competitively procured services:

“you are not even sure whether, if you do things co-operatively, it is legal and whether you should be showing them your tender documents and so on. So, it totally destroyed the significant

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<sup>67</sup> RoP, Finance Committee, 11 January 2012, Para 30

<sup>68</sup> Value Wales, Effectiveness of European Structural Funds in Wales, P5

<sup>69</sup> Value Wales, Effectiveness of European Structural Funds in Wales, P2

amount of partnership working that had been built up at a local level.”<sup>70</sup>

146. ACCA Cymru concurred that consortia approaches were not being enabled by procurement processes, though they questioned whether this was problematic, commenting that:

“We support the idea of consortia, but we must get over the issue that we are not effectively encouraging the flourishing of those consortia.”<sup>71</sup>

147. We also heard from a wide variety of witnesses, including small voluntary organisations and private companies, that the procurement processes were lengthy and time consuming. The Welsh Social Enterprise Coalition commented that:

“the procurement processes can be challenging and can seem to take a long time... sometimes, there are opportunities in the market that we cannot address.”<sup>72</sup>

148. We were also given an illustrative example of how a lengthy application process could impact on business planning by Too Good to Waste, which detailed that:

“we submitted an expression of interest in the south-east Wales community economic development fund—it is ERDF consortium funding—but we could not complete the application form until June 2011, some 11 months later, because the application forms were not running. That was 11 months of a business opportunity lost. That was 11 months of employing somebody lost.”<sup>73</sup>

### ***Potential advantages of competitive procurement processes***

149. However, we also heard positive evidence about the value of competitive procurement processes. For example, the European Commission suggested that procurement enabled transparency, commenting that:

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<sup>70</sup> RoP, Finance Committee, 11 January 2012, Para 34

<sup>71</sup> RoP, Finance Committee, 14 March 2012, Para 6

<sup>72</sup> RoP, Finance Committee, 14 March 2012, Para 101

<sup>73</sup> RoP, Finance Committee, 14 March 2012, Para 108

“The name of the game is that the process should be fully transparent and all the beneficiaries or applicants should have access to the fund. That is a principle that WEFO has been implementing in this present programming period.”<sup>74</sup>

150. Similarly, the Welsh Government advocated that procurement enabled better value for public money to be achieved and enabled a focus on outcomes, commenting that:

“WEFO is working with project sponsors to use project evaluations over the life-time of the Programmes to assess the full impact of procurement in securing value for money. Early indications reflect a general acknowledgement by many project sponsors that despite earlier concerns, the use of procurement has secured an increased focus on outcomes and a more targeted approach in the deployment of services to achieve project and Programme objectives.”<sup>75</sup>

151. The Welsh Government also argued that procurement was transparent, and could actually enable innovation:

“procurement delivers better value for money, it opens up innovation because it encourages into the market organisations that may not previously have been associated with a particular business and, as the Deputy Minister indicated at the outset, it opens up opportunities, particularly in structural funds, for private and third sector organisations to get involved in the programmes.”<sup>76</sup>

152. The Minister also suggested to us that competitive procurement was a key factor in enabling private sector engagement, stating that:

“I think that nearly 1,000 contracts, worth £430 million, have been won by different businesses across Wales because we have this open procurement process. I would argue that that is the strong benefit of the procurement process. I understand that it can sometimes appear onerous, and we will review how

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<sup>74</sup> RoP, Finance Committee, 25 January 2012, Para 53

<sup>75</sup> Welsh Government, Effectiveness of European Structural Funds in Wales, 17 September 2012, P2

<sup>76</sup> RoP, Finance Committee, 30 May 2012, Para 32

we do it, but it might well be a case of the benefits outweighing the disadvantages.”<sup>77</sup>

153. ACCA Cymru concurred that procurement provided an opportunity for:

“private sector organisations to engage with the structural funds process. Work streams are under way at the moment to make those procurement processes more efficient, so there is an element of waiting and seeing. I am encouraged by the approach shown by Welsh Government towards helping to streamline the procurement process. Something needs to be done as quickly as possible, not only on the wider procurement process across the public sector, but also on helping these processes within the structural funds.”<sup>78</sup>

***Our consideration of the different mechanisms for delivering projects***

154. We recognise that there are advantages and disadvantages to utilising competitive procurement processes. We do not believe that either ‘competitive grant funding’ or ‘procurement’ is inherently superior to the other, but rather that both can be more appropriate to particular circumstances and situations.

155. Indeed we consider that there is value in utilising a mixture of different delivery models, and concur with the recent remarks of the National Assembly for Wales’ Public Accounts Committee that:

“Rather than simply look at a ‘one-size-fits-all’ approach to grants or commissioning arrangements we consider that the Welsh Government should seek to use the most appropriate and proportionate procurement methods for delivering Ministerial objectives. These are not limited to ‘grants’ and ‘commissioning’ but rather are a wider spectrum, including:

- grants which organisations are assumed to be ‘entitled’ to (without need for bids);
- competitive grants (i.e. with need for bids);
- conditional grants;

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<sup>77</sup> RoP, Finance Committee, 30 May 2012, Para 22

<sup>78</sup> RoP, Finance Committee, 14 March 2012, Para 62

- grants with limited conditions;
- collaborative commissioning;
- competitive tendering;
- loans; and
- other investment forms.”<sup>79</sup>

156. We welcome the fact that WEFO published revised guidance on procurement in October 2010, referring to introducing opportunities for projects to use competitive grants. We consider it appropriate that project sponsors should be able to select from a range of delivery mechanisms, and agree with the comments of the WLGAs that there is a:

“need to use the procurement process for some major projects and that it is useful to do so, but it is also necessary to recognise that there are other delivery models that we would like to see developed for the new programmes.”<sup>80</sup>

157. We also welcome the Minister’s comments that he understood that:

“many people would prefer to go back to a grants system or a competitive grants system, which has its strengths. With regard to moving forward and how we are going to structure this in the next round of funding, I have an open mind at the moment, frankly.”<sup>81</sup>

158. Going into the next funding round, we consider that the Welsh Government should seek to maintain this open minded approach. However, rather than move to ‘a grants system’ or ‘a competitive grants system,’ we believe a more mature approach would be to develop a flexible system in which project sponsors are empowered to determine the most appropriate procurement mechanism to their circumstances, supported with appropriate guidance and advice. We consider that different investment forms can be more or less appropriate to particular situations, and believe that the Welsh Government should not seek to constrain the delivery of projects to any one methodology.

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<sup>79</sup> National Assembly for Wales, Public Accounts Committee, August 2012, Para 45

<sup>80</sup> RoP, Finance Committee, 25 January 2012, Para 121

<sup>81</sup> RoP, Finance Committee, 29 February 2012, Para 213

**We recommend that the Welsh Government undertakes a detailed analysis of the costs and benefits of using procurement in the delivery of structural funds in Wales, quantifying these where possible. We anticipate the Welsh Government would then report on these findings.**

**We recommend that the Welsh Government enables project sponsors to consider a wide spectrum of funding options when determining the most appropriate and efficient way in which to deliver their project, supported with appropriate guidance.**

### **The availability of oral guidance on procurement processes for private and voluntary sector organisations**

159. A limited number of our witnesses expressed concern that they were systematically barred from taking- or otherwise unable to access- advice directly from experts on key issues. We were particularly concerned by this because although written guidance is useful, inevitably: “the difficulty with any guidance is that there is probably a disclaimer with it.”<sup>82</sup>

160. Witnesses were clear as to the value of getting advice on the procurement of services with such funding. Several witnesses provided us with illustrations of how they had gained such advice from sources outside WEFO. For example, Too Good to Waste commented that it gained support through the Prince’s Trust,<sup>83</sup> while Furnace Farm Limited described the value of getting advice from the Office of Government Commerce.

161. However, Tidal Energy Limited, one of a small number of private sector organisations receiving European Funding, suggested that it was not possible for it to access expert advice from WEFO itself on legal issues related to procurement. It described that:

“... we are not allowed, as a sponsor, to liaise directly with the procurement department or Value Wales... so going through our project development officer, messages can often be lost in translation.”<sup>84</sup>

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<sup>82</sup> RoP, Finance Committee, 16 May 2012, Para 260

<sup>83</sup> RoP, Finance Committee, 14 March 2012, Para 89

<sup>84</sup> RoP, Finance Committee, 16 May 2012, Para 227 and 261

162. We were particularly concerned by these remarks, and asked the Welsh Government why organisations were not able to liaise directly with experts. In response to our questions, the Welsh Government stated that:

“WEFO uses the Welsh Government’s legal services, and Government legal advice is kept within Government. Clearly, we act on that advice, but the Welsh Government’s legal services are not available to private or third sector organisations. They are required, under the terms of our agreement, to seek their own legal advice.”<sup>85</sup>

163. Given the value that witnesses placed on being able to get accurate oral advice, and given that private and third sector organisations were being charged with utilising public money, we were surprised by these remarks. Responding to our concerns, Value Wales clarified that:

“The Value Wales division was established to improve public sector procurement practice. The division engages directly with public sector contracting bodies across Wales to provide policy advice and guidance, although this does not extend to providing advice on individual procurement exercises. It does not provide procurement advice to private sector organisations directly – they are not subject to the European Directives, and business support is the responsibility of the BETS department. Value Wales provides WEFO project development officers with advice on request as WEFO are part of Welsh Government.

“In some circumstances WEFO officials will ask for advice on behalf of project sponsors. This process means that the project development officer is fully sighted on all issues ensuring robust project governance for sponsors and a consistency of advice. It also means that the project development officer’s understanding of procurement is enhanced. Advice provided in this way is likely to be generic as Value Wales cannot provide detailed advice to private sector sponsors. Detailed advice is likely to either be legal in nature and therefore carry risk to Welsh Government or be of a nature that will impact decisions concerning the running of the business potentially placing

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<sup>85</sup> RoP, Finance Committee, 30 May 2012, Para 36

Value Wales in conflict with state aid rules or create the potential of officials being seen to favour one supplier above another. Project sponsors would not expect Welsh Government to provide detailed legal or HR advice and procurement is treated in the same way. A further consideration is that the Value Wales division is not resourced to carry out such a role.”<sup>86</sup>

164. We note that concerns around access to expert advice came primarily from a single witness, and were not a universal source of concern to witnesses engaged in our inquiry. We also recognise that evidence from Value Wales indicates that most project lead sponsors- specifically those from the public sector- will already be able to access expert advice as part of Value Wales’ role in improving public sector procurement practice.

165. Nevertheless, we are concerned by the principle that private sector- and indeed voluntary sector- organisations are seemingly barred from gaining direct access to sources of expert advice, when they are charged with the responsibility for appropriately utilising and strategically managing public funds.

166. This seems particularly incongruous to us in the context of WEFO officials acknowledging that they are themselves not experts in terms of the procurement processes required around European Structural Funds. We have already recommended in this report that action is taken to improve the knowledge and understanding of procurement processes by public sector officials. If knowledge of procurement processes is beyond public sector officials, we are uncomfortable with automatically expecting small voluntary sector organisations or micro SMEs to have or be able to afford to purchase in such expertise.

167. We also find this situation to be particularly concerning in the context of evidence from the Welsh Government on the importance of getting procurement processes correct- not just for individual projects, but for Wales’ European Funding as a whole. The Welsh Government commented that:

“Getting procurement wrong is the biggest reason for the disallowance of funds across the European Union in cohesion policy... getting it wrong could lead to some of these

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<sup>86</sup> Value Wales and WEFO, Effectiveness of European Structural Funds, 17 September 2012, P6

organisations having real financial difficulties—but also to the programme, because if a number of our project sponsors get procurement wrong, the European Commission could say that it was systemic and could impose a penalty on the programmes of between 25% and 100% of the funding.”<sup>87</sup>

168. If a mistake by a private or voluntary sector organisation could seemingly endanger Wales’ wider European funding, it seems remarkably unwise to us not to ensure that appropriate advice is available to organisations that have been charged with such funding.

**We recommend that the Welsh Government provides third sector and private sector project sponsors with direct access to appropriate procurement experts within Value Wales or any other appropriate organisation (and WEFO, at such time as it has procurement specialists).**

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<sup>87</sup> RoP, Finance Committee, 30 May 2012, Para 45

## 5. WEFO's engagement of the Private Sector in applying for European Structural Funds

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169. As the number of private sector organisations directly applying for European Structural Funds from WEFO is relatively low (compared to the voluntary and public sectors) we examined private sector engagement with European Structural Funds.

170. According to the WEFO database of approved projects, only 11 out of the 261 projects approved to date are led by the private sector. These 11 projects are supported by £22.7 million of EU funding, out of the £1.7 billion committed in total to date (1.3 per cent).

171. Tidal Energy Limited's written evidence noted that it was:

“disappointing that there is such little take up of European structural funding by the private sector in Wales as it can provide a great opportunity to generate technology, employment and investment.”<sup>88</sup>

172. Similarly, evidence from DG Regional Policy and DG Employment both pointed to the fact that there are very few private sector-led projects in Wales during the current round of funding. Both suggested that consideration needs to be given to how to best engage the private sector more extensively in the future. However, DG Regional Policy also commented that:

“Wales is quite ahead in involving the private sector and seeking private sector direct application and match funding in the implementation of the programmes and the projects... [Although] the figures for what is happening in Wales are lower than those for what, on average, is happening in the UK, and particularly in England.”<sup>89</sup>

173. Prior to our inquiry, the Minister had stated on record his belief that Wales was “second from top of the European countries in working with the private sector.”<sup>90</sup> However, in correspondence to the Enterprise and Business Committee he advised that since making these comments he had “asked WEFO to undertake a number of in-depth

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<sup>88</sup> Effectiveness of European Structural Funds in Wales, 4 January 2012, P5

<sup>89</sup> RoP, Finance Committee, 25 January 2012, Para 67 & 68

<sup>90</sup> RoP, Enterprise and Business Committee, 22 September 2011

studies of the place of the private sector and the role played by that sector in the management and delivery of European Programmes.” He also advised the committee that “it is difficult to provide the Committee with the evidence to support and underpin the remarks” that Wales is second from top of the European countries in working with the private sector.<sup>91</sup>

**We recommend that the Welsh Government clarifies Wales’ position, in relation to other regions of Europe, in terms of its success in engaging the private sector in the use of structural funds.**

174. We therefore asked witnesses why there appeared to be limited engagement by the private sector in applying for such funds.

***Factors potentially deterring private sector applicants***

175. As previously detailed in this report, a range of our witnesses noted that the application process for becoming a lead sponsor of a project was lengthy. ACCA Cymru suggested that this might potentially deter private sector organisations from applying for such funds, commenting that:

“against the processes for funding from private sector sources—even though we know that that funding has been in relatively short supply over the past few years, it can still be seen as a slightly easier pot to access... If it [the process of applying for structural funds from WEFO] were more time-responsive, there would certainly be a better level of intervention and engagement, particularly from microbusinesses, or even in our members guiding microbusinesses towards it.”<sup>92</sup>

176. Tidal Energy Limited concurred with these remarks, and also suggested that some organisations might simply not be aware of such funding, commenting that:

“From an advertisement point of view, it was directly through the Welsh Government that we became aware of it. I am not sure whether more than 11 initial inquiries were made to WEFO,

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<sup>91</sup> Deputy Minister for Food, Fisheries, Agriculture and European Programmes, European Structural Funds: Private Sector Engagement, 27 February 2012.

<sup>92</sup> RoP, Finance Committee, 14 March 2012, Para 19 & 33

but after making initial inquiries, there can be many reasons why your project might not fit in with the outputs and results required from the various frameworks. I am not aware of many projects within the climate change framework, for instance, and there are reasons for that. Turning to the application process itself, it is a long, protracted process and it requires a lot of expertise to get through it.”<sup>93</sup>

177. We consider that the Welsh Government and WEFO should more frequently seek to adopt this proactive approach in identifying private organisations that they wish to work with to deliver strategic objectives, and engaging them in dialogue around the use of structural funds.

178. ACCA Cymru also suggested that the culture of the private sector might be a factor in deterring applications, commenting that “there is no pride for a business in dependency on some of this.”<sup>94</sup> These remarks were echoed by the Chair of the Welsh Social Enterprise Coalition, when talking about his own social enterprise, who commented that:

“in our wisdom, we chose to concentrate our energies on trying to generate a business rather than going for funding. That was simply because of the complexity of the process and the fact that earning our own income seemed a better and more appropriate way to go, rather than having to worry about the protocols of adjusting to funding.”<sup>95</sup>

### ***Broader private sector engagement with Structural Fund Programmes***

179. However, despite providing us with a number of factors that might deter private sector organisations from directly applying for structural funds, ACCA Cymru stated that overall they did “not think that the private sector is insufficiently engaged in the Structural Funds Programmes.”<sup>96</sup>

180. This apparent paradox is due to the fact that many private sector organisations tender to deliver services to structural fund projects.

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<sup>93</sup> RoP, Finance Committee, 16 May 2012, Para 244

<sup>94</sup> RoP, Finance Committee, 14 March 2012, Para 8

<sup>95</sup> RoP, Finance Committee, 14 March 2012, Para 88

<sup>96</sup> ACCA Cymru, written evidence, February 2012.

Higher Education Wales detailed that as a project sponsor “we are working with the SMEs all the time, and most of our projects have very considerable involvement by SMEs.”<sup>97</sup> Indeed, Higher Education Wales considered that there were advantages to private sector organisations in not having to apply directly for funding because:

“They can get direct support, subsidised or at no cost at all to them, without having to deal with the bureaucracy and procurement requirements. So, we help them through that. Working on their own, they would have considerable difficulty.”<sup>98</sup>

181. The Chair of the Programme Monitoring Committee concurred that the private sector was actually heavily involved in projects enabled by European structural funds, though rarely as the lead sponsors of such projects. He commented that this was reflected by the fact that:

“business has the largest representation on [the Programme Monitoring Committee] with people from umbrella organisations and individuals who have run successful businesses across Wales. It also includes local government, the trade unions, the third sector, and higher education.”<sup>99</sup>

182. The Minister similarly considered that:

“the private sector is eager to benefit from and to participate in delivering European projects, but there is a difference between participating and delivering, and managing. Often, businesses do not want to manage projects, but want to participate in their delivery. That is a different role.”<sup>100</sup>

183. We consider that reviewing the Welsh Government’s process for applying for European Structural Funds may potentially enable a greater number of private sector organisations to directly apply for such funding.

184. We note that in 2010, the 3<sup>rd</sup> Assembly’s Enterprise and Learning Committee heard significant evidence around limited private sector

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<sup>97</sup> RoP, Finance Committee, 29 February 2012, Para 80

<sup>98</sup> RoP, Finance Committee, 29 February 2012, Para 82

<sup>99</sup> RoP, Finance Committee, 25 January 2012, Para 246

<sup>100</sup> RoP, Finance Committee, 29 February 2012, Para 217

engagement with European Structural Funds. The Committee recommended that the Welsh Government

“... 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.

“...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.”<sup>101</sup>

185. We are pleased that the evidence of our inquiry suggests that there is now a more significant level of engagement by the private sector in projects enabled by European Structural Funds. However, we note that very few projects are led by the private sector, which will have an impact on its ability to strategically utilise such funds.

186. As noted earlier in this report, evidence from Value Wales and WEFO also highlighted that 22% of private sector contracts resulting from Structural Funds were awarded to companies outside of Wales.<sup>102</sup> Indeed, the evidence we received from Value Wales and WEFO did not clarify whether the 78% of private sector contracts with ‘an address’ in Wales necessarily had their headquarters in Wales.

187. We remain concerned that there is limited engagement of the private sector in strategically leading projects- as opposed to being engaged by project sponsors from the public (or voluntary) sector. We consider that this could be addressed by WEFO being more proactive in actively targeting private sector bodies to engage in utilising structural funds. We also believe that making oral advice on procurement and wider project management more readily available to private sector sponsors could help to address this disconnect.

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<sup>101</sup> Enterprise and Learning Committee, Structural Funds: Implementation of the 2007-2013 Programmes, Recommendation 9 & 11

<sup>102</sup> Value Wales and WEFO, Effectiveness of European Structural Funds, 17 September 2012, P4

## **6. WEFO's processes for enabling monitoring & evaluation of projects**

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188. In the first chapter of this report we detailed our concerns around WEFO's strategic vision for the use of European Structural Funding. Inevitably, these concerns are then echoed in our consideration of the processes by which WEFO monitors and evaluates projects.

189. In this chapter we have looked in more detail at the types of data being monitored - including financial expenditure and project outcomes - and the processes involved in collecting it.

190. We have also considered the evidence we received about the value of evaluating projects' delivery methods, to enable better practice across Wales.

### **Monitoring of projects' financial expenditure**

191. In our first chapter, we commented that there was positive evidence around WEFO's strategic vision and leadership in its core role of effectively getting European money into Wales. These findings were mirrored in the evidence of our inquiry around monitoring of such funding. A clear conclusion coming out of the evidence gathered in our inquiry was that there was considerable monitoring of projects' financial expenditure. For example, the European Commission advised us that:

“we can say that the progress is very good compared with the average in the EU. The programmes are nearly fully committed, and also, in terms of delivery on the ground, in terms of payments, the progress is very much on track. The proof of that is that Wales was successful in meeting its targets in financial implementation.”<sup>103</sup>

192. The Chair of the Programme Monitoring Committee concurred that significant attention was given to the expenditure of such funds, detailing that:

“we look at expenditure because we are obliged to do so by the Commission... We also have to look at commitment because we

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<sup>103</sup> RoP, Finance Committee, 25 January 2012, Para 11

are charged with ensuring that maximum use is made of the European funding that is available to Wales. So we try to ensure that we look, each time, at how much money is likely to be spent.”<sup>104</sup>

193. Similarly, the Minister observed that a high priority was given to monitoring expenditure, commenting that:

“It would be hugely irresponsible for any Government not to monitor public expenditure on a programme of this size in the way that we do... We are accountable for spending over £1 billion of public money. Are we simply saying that we do not have to put structures in place to monitor that performance effectively? I just find that inexplicable. I reject that completely. We have to put in place significant management structures and we are aware of reasons for that. Were we not to do so, I think that there would be very fair criticism of us for not being an effective and mature guardian of public moneys.”<sup>105</sup>

194. This is not to say that there are not areas for improvement in WEFO’s financial monitoring mechanisms. For example, we note that the recent Wales Audit Office report on the Welsh Government’s relationship with the All Wales Ethnic Minority Association identified a number of concerns around WEFO’s financial monitoring processes. For example, it identified that a review of AWEMA in December 2011 did not pick up issues related to:

“financial recording- the review confirmed that a process was in place to codify transactions into AWEMA’s financial ledgers but did not identify that the ledger records were significantly out of date;

“ineligible expenditure- the review did identify some ineligible expenditure but did not to the extent that is now apparent.”<sup>106</sup>

195. Nevertheless, a range of the witnesses in our inquiry questioned whether the monitoring processes of the current round of structural funds were overly excessive compared to other funding streams. Coleg Morgannwg, for example, observed that:

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<sup>104</sup> RoP, Finance Committee, 25 January 2012, Para 277 & 278

<sup>105</sup> RoP, Finance Committee, 29 February 2012, Para 192

<sup>106</sup> Wales Audit Office, The Welsh Government’s relationship with the All Wales Ethnic Minority Association, 18 October 2012, Para 2.115

“With WEFO, you have to go online... it is quite complex. It splits the funding into a number of different headings, and you must not vire the funding by more than 15% within those headings, which is very difficult with a capital build. With Welsh Government funding, it is much simpler: here is your funding, here is your project, you report your cash flows and draw down the funding.”<sup>107</sup>

196. The Welsh Social Enterprise Coalition were similarly concerned that:

“The level of bureaucracy, based on my understanding, is excessive. We would be the first to say, as, indeed, would anyone getting a grant, that there have to be checks and balances—of course there have to be—but we are a bit worried about the layers of bureaucracy that seem to be put into place.”<sup>108</sup>

197. Likewise, Too Good to Waste reported that

“the volume of administration required, over and above normal financial accounting, is prohibitive. You have to employ an administrator just to administer the amount of paperwork involved in spending the money. That seems a bit of a waste of the resource... As the project goes through the different layers, they each keep adding things... we have been asked to provide timesheets of what the staff are doing in half-hour intervals.”<sup>109</sup>

198. On this point, the Welsh Government sought to clarify that:

“Asking for timesheets every half hour is not something that we would press for, but we do require timesheets where people do not work full-time on projects, because we need to be able to evidence that their salary costs are legitimate against the project... We do not have a contractual relationship with Too Good To Waste. It is a subcontractor for Merthyr Tydfil County Borough Council, which is working with six other local authorities on the project. I can only assume that this is a requirement that has been placed on it by one or other of the

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<sup>107</sup> RoP, Finance Committee, 25 January 2012, Para 216

<sup>108</sup> RoP, Finance Committee, 14 March 2012, Para 115

<sup>109</sup> RoP, Finance Committee, 14 March 2012, Para 107 & 123

local authorities. We can certainly make sure that they are aware of our requirements.”<sup>110</sup>

199. We consider it entirely appropriate that the Welsh Government seeks to utilise financial discipline and sound monitoring around the expenditure of public funding. The Wales Audit Office’s recent report on the Welsh Government’s relationship with the All Wales Ethnic Association illustrates how critical this role is. We concur with the Wales Audit Office’s recommendations, and note the importance of ensuring that current projects have been monitored regularly, and documented in accordance with WEFO’s requirements.

200. At the same time, we believe that the monitoring of such expenditure should be proportionate to the levels of finance involved, taking into account wider risks in terms of clawback and reputational damage. For example, we do not believe it be appropriate for small voluntary sector organisations, which may consist of a handful of staff working part time, being routinely required to complete half hourly timesheets.

201. On this particular example, we note that WEFO does not specifically require half-hourly timesheets to be collected. However, we believe this is an illustrative point, because WEFO has a key role in providing leadership and clarity to project sponsors on the types of monitoring required. We believe that if WEFO’s guidance is ambiguous, or unduly emphasises fears around clawback of European Funds, this opens up a potential for monitoring processes to evolve into being overly excessive on certain issues.

202. As such, we believe that WEFO is ultimately responsible for any and all monitoring processes associated with European Structural Funds. If such processes are overly cumbersome, it is the responsibility of WEFO to have dialogue with project sponsors to ensure they become more appropriate. We believe that just as WEFO has a role in ensuring monitoring conducted by project sponsors is sufficiently robust, so we believe it has a role in ensuring it is not inappropriately onerous on contracted parties.

**We recommend that, ahead of the next European Funding round, WEFO reviews its guidance on monitoring of financial expenditure by project sponsors. We anticipate that this should result in the**

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<sup>110</sup> RoP, Finance Committee, 30 May 2012, Para 110 & 112

**development of explicit guidance to enable monitoring of projects' financial expenditure that is not excessive, while still being appropriately robust.**

### **Monitoring of projects' outcomes**

203. While monitoring of financial expenditure is critical, there was a general consensus in the evidence of our inquiry that this needs to be accompanied by an evaluation of the quality and impact of projects.

204. Witnesses concurred that how funds were managed, and what results were achieved with them, were two different things.

205. Evidence from the WLGA suggested that there was too much emphasis in the current programmes on monitoring project expenditure at the expense of capturing the quality and impact of interventions. However, this was refuted by the Minister, who advocated that:

“The new legislation that the Commission published in October demonstrates very clearly that it is going to be output focused, and I agree with that, and there will be managing from a European perspective on project achievements. I think that that is right and good... That does not mean that we need to make the choice, and I do not believe that we do. That is why I find the evidence that you quoted so difficult, as it implies that we have to somehow make a choice between doing one or the other.”<sup>111</sup>

206. Higher Education Wales concurred that there was currently a greater focus on outcomes than in the past, commenting that:

“Under the old programmes, as you say, evaluation was very much focused on financial reporting; there was not even a need for any report of activity, which is really surprising for these large strategic projects. It was just focused on finances, really, and the auditing was very much focused on that. So, it is good to see that, under this programme, they have encouraged projects to build in resource to bring in external evaluators.”<sup>112</sup>

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<sup>111</sup> RoP, Finance Committee, 29 February 2012, Para 192

<sup>112</sup> RoP, Finance Committee, 29 February 2012, Para 68

207. Similarly, Tidal Energy Limited reported that consideration was given to “the softer issues of equal opportunities, environmental sustainability and such like.”<sup>113</sup> Likewise Furnace Farm Limited described that monitoring did focus “on the economic benefits and the cross-cutting themes and what is emerging there.”<sup>114</sup> The Chair of the Programme Monitoring Committee also detailed to us that substantial volumes of information were publicly available about individual strands in the programmes.<sup>115</sup>

208. We consider that data is being captured on projects’ outputs, illustrated by the Welsh Government being able to provide us with pan-Wales statistics that:

“WEFO has committed £1.6 billion (86% of the total EU funds available) to 260 projects, representing a total investment of over £3.2 billion in Wales (as of 15 February 2012)... EU projects have already assisted almost 288,000 participants, of which nearly 82,000 have been supported to gain qualifications and some 34,400 helped into work.”<sup>116</sup>

### ***Detail of data on outcomes***

209. However, while we received clear evidence that monitoring was undertaken to examine the outputs of projects, our evidence was more mixed as to whether this monitoring provided sufficient detail or was even focussed on the right outcomes to begin with. This problem may be partially indebted to the fact that- as the European Commission advised us: “there were no predefined indicators set from the beginning of the programme that were the same for all the programmes in the EU.”<sup>117</sup> Instead, the Commission explained that with no predefined indicators:

“in the course of the implementation of these programmes, a set of core indicators were identified, which will allow the Commission, after a couple of years, to make the comparison

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<sup>113</sup> RoP, Finance Committee, 16 May 2012, Para 277

<sup>114</sup> RoP, Finance Committee, 16 May 2012, Para 278

<sup>115</sup> RoP, Finance Committee, 25 January 2012, Para 248

<sup>116</sup> Welsh Government, written evidence, P1 and P4

<sup>117</sup> RoP, Finance Committee, 25 January 2012, Para 12

between the different programmes and how they are behaving.”<sup>118</sup>

210. Higher Education Wales stated that they had particular concerns about what outcomes were being measured in projects enabled by European Structural Funds:

“because they are measuring what they have to measure... there is not a formal system for monitoring long-term impact. They are measuring and auditing outputs at the end of the project.”<sup>119</sup>

211. The Countryside council for Wales commented that:

“The cross cutting theme of environmental sustainability does not allow sufficient monitoring of such impacts or the resultant outcomes.”<sup>120</sup>

212. Similarly, the WLGA advised that data on the outcomes of projects did not take into account the different backgrounds of people being assisted by them, describing that:

“Some of those people, especially youngsters, who are so far removed from employment, need extra investment, whether they have any particular issue or problem. So, we know that we have to invest more time, effort and money in order to move them up the ladder to get to a position where they are available for work. So, those data are critical, but we do not necessarily have all of the data to make that comparison at the moment.”<sup>121</sup>

213. The WLGA suggested that there was a lack of guidance from the Welsh Government on the kinds of “detailed monitoring information”<sup>122</sup> that should be picked up. They suggested that as a result of this lack of guidance:

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<sup>118</sup> RoP, Finance Committee, 25 January 2012, Para 12

<sup>119</sup> RoP, Finance Committee, 29 February 2012, Para 61 & 63

<sup>120</sup> Countryside council for Wales, written evidence

<sup>121</sup> RoP, Finance Committee, 25 January 2012, Para 112

<sup>122</sup> RoP, Finance Committee, 25 January 2012, Para 108

“local authorities have been undertaking their own evaluations, in order to capture some of the more indirect outcomes and the more sustainable outcomes going forward.”<sup>123</sup>

214. Too Good to Waste expressed particular concern that different funding sources often asked them to monitor different sets of outcomes:

“some count job creation, some count volunteering hours or how many people we get into work. Some 42% of our volunteers found employment last year. I can throw statistics out, but we do not currently measure the social impact. No-one is asking how much of our money is being invested locally.”<sup>124</sup>

215. Higher Education Wales were similarly concerned that the overall impact of projects was often not monitored, commenting that:

“we can provide some of the outputs in projects for which those outputs are not relevant, which means, if they could be counted against other projects, we could over perform. I am thinking in particular of ‘jobs created’ where, in some of the European social fund projects we have, we are creating long-term jobs through working with companies, but these are not counted because it is not one of the outcomes for that type of funding.”<sup>125</sup>

216. The WCVA also expressed concern that without a collective approach, data on individuals’ outcomes could be misleading, with multiple projects seeking to ‘claim’ them:

“organisations are trying to almost barter with an individual or a business as to who takes what output. The difficulty is that everyone has their own systems for doing it, and everyone sends that separately to WEFO, and, on the ground, we are not sure what happens to that within WEFO. We feel that a participant monitoring system such as WEFO online, which already handles the finances, and takes away the need for a system for organisations that are delivering, would be a good thing. If WEFO had such a system, then instead of creating our own systems to log individuals and businesses that we work

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<sup>123</sup> RoP, Finance Committee, 25 January 2012, Para 108

<sup>124</sup> RoP, Finance Committee, 14 March 2012, Para 155

<sup>125</sup> RoP, Finance Committee, 29 February 2012, Para 22

with, we could use that central system, as we do for finance. If we could upload that information, that would probably make it easier for organisations and WEFO to see where the links are for individuals, using their national insurance number.”<sup>126</sup>

217. In an effort to bring these different sets of potential data together, the Welsh Social Enterprise Coalition suggested that a social impact survey should be introduced by the Welsh Government for monitoring the outcomes of projects funded by European Structural Funds, commenting that:

“there are some simple models that will tell you how many jobs have been created and the value saved by employing people who have been long-term unemployed, people with disabilities and so on... I am very wary of putting another layer of bureaucracy in there, but if we can get some processes like that moving, it could make the whole funding process more understandable to those people.”<sup>127</sup>

218. We were pleased that Minister indicated support for this idea, commenting that he:

“would be happy to do that. It is very difficult to do so for the existing programmes because we are over halfway through them, but I would be very happy to do that for the next round.”<sup>128</sup>

219. The Minister also indicated support for a suggestion that WEFO should include new programme-level indicators to measure the combined social and economic impact of the convergence and competitiveness programmes in the next programme round. The Minister commented that:

“The determination of this Government is not simply to achieve the targets on paper—although, clearly, we will do that—but to change the lives and the life chances of people living in the communities of west Wales and the Valleys.”<sup>129</sup>

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<sup>126</sup> RoP, Finance Committee, 11 January 2012, Para 50

<sup>127</sup> RoP, Finance Committee, 14 March 2012, Para 161 & 162

<sup>128</sup> RoP, Finance Committee, 30 May 2012, Para 144

<sup>129</sup> RoP, Finance Committee, 29 February 2012, Para 119

220. We consider that effective monitoring of projects' outcomes needs to be built- as far as practicably possible- into their development from the beginning. We do not believe it is effective to ask projects to retrospectively build in monitoring systems midway through their lifecycle, and that it is far more appropriate to shape these as part of their original development.

**We recommend that WEFO takes action to enable, in the next funding round, the introduction of a social and economic impact survey for projects enabled by European structural funds; and programme level indicators to measure both projects' social and economic impact.**

221. We consider that accurate monitoring of projects' outputs and outcomes is a critical role for WEFO. The need for accurate monitoring was also recently highlighted by the Wales Audit Office's recent report on The Welsh Government's relationship with the All Wales Minority Ethnic Association. Notably, the report recommends that WEFO should:

“Ensure that all project officers are fully aware of the purpose and importance of their monitoring and of their responsibilities in supporting projects and verifying that projects are proceeding satisfactorily and delivering intended outcomes. We consider that such improvement could be achieved through mandated and periodic refresher training.”<sup>130</sup>

222. We concur with, and fully support, this recommendation.

223. We also consider that live information on the outputs and outcomes being achieved by projects would be invaluable in enabling a strategic overview and coordination of projects. It does little good for such information only to be available at the end of a funding round or at a project's end, by which time it is too late to strategically intervene to support or assist projects.

**We recommend that in the next funding round WEFO publishes and makes publicly available output and outcome data for live projects.**

224. We also note that, in light of evidence received during the Enterprise and Learning Committee's inquiry in relation to the

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<sup>130</sup> Wales Audit Office, The Welsh Government's relationship with the All Wales Minority Ethnic Association, 18 October 2012, P 17, Recommendation 2a.

potential risk of double-counting of project outputs, it was recommended 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.”<sup>131</sup>

225. We are pleased that this recommendation was accepted by the then Minister for the Economy and Transport. The Minister’s response to the Committee’s report stated that:

“WEFO has already developed a participant level data collection system that ensures all ESF projects report this data to WEFO... 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.”<sup>132</sup>

### ***Definitions of outcomes***

226. Concerns were also expressed to us about the definitions associated with particular outcomes- particularly that of job creation. For example, the WLGA told us that:

“the job creation definition at the moment does not reflect what is happening on the ground—it does not capture some of the fixed-term jobs that are being created. I know that many of the infrastructure schemes would involve an investment of three or four years in delivery time, and we are not capturing those kinds of data.”<sup>133</sup>

227. Similarly, Higher Education Wales reported that:

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<sup>131</sup> Enterprise and Learning Committee, Structural Funds: Implementation of the 2007-2013 Programmes, Recommendation 17, P27

<sup>132</sup> Response to the Enterprise and Learning Committee report- Structural Funds: Implementation of the 2007-2013 programmes, 13 October 2010, P11.

<sup>133</sup> RoP, Finance Committee, 25 January 2012, Para 106

“There are a number of niggling issues, which everyone has all the time with structural funding, about interpreting definitions from Brussels and how they are locally interpreted. WEFO listens but sometimes it has to take time to get it right, because anything that it decides can be challenged by auditors at a later stage... WEFO rules mean that the fact that we employ many people on externally funded short-term research contracts means that they cannot be counted as permanent jobs. They will be posts and they will be replaced as people move on, we will get more research money, new people will be appointed and they will then progress on to academic careers or careers in industry... other regions classify any job with a duration of one year or more as a job created, although the current Welsh definition states that a job created must have no finite duration, and, in the current economic climate, it is difficult to say that a job is permanent.”<sup>134</sup>

228. However, the Minister advised us that:

“We have amended the definition to include fixed-term contracts of a year or more, to recognise the change in labour market circumstances, but we have been very clear that, where we seek to create jobs, we seek to create jobs for people and not simply means of keeping people off various benefits and doing a statistical analysis to enable us to meet the target without creating real jobs for people.”<sup>135</sup>

229. We welcomed the Minister’s comments on this issue, and consider that he - and WEFO - should remain receptive to any concerns expressed by stakeholders around the definitions used in identifying outcomes. In particular, we believe that he should keep the issue of ‘job creation’ under review.

### **Evaluation of delivery models**

230. In addition to monitoring the outcomes of projects, a range of our witnesses suggested that it would be helpful to evaluate the means and effectiveness with which projects were delivering outcomes. The WLGA noted that such evaluations were conducted, but that the information they provided was:

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<sup>134</sup> RoP, Finance Committee, 29 February 2012, Para 20

<sup>135</sup> RoP, Finance Committee, 29 February 2012, Para 146

“sometimes not available until the end of the projects being delivered, and that is, very often, too late to take any kind of action to improve things in the future.”<sup>136</sup>

231. Similarly the WCVA advised us that:

“what is not necessarily marrying up is what is happening with the evaluations of the projects... We work with our evaluators and get reports on an annual basis so that we can tailor the projects. It allows us to develop and evolve projects. I am not sure what else is happening. As a project sponsor and someone representing the sector, it is difficult to understand what other projects are doing. We pick up intelligence from other organisations, but we do not have a formal way of recording ongoing activity.”<sup>137</sup>

232. Likewise, Coleg Pembroke stated that:

“we tend only to see the data for our college, our project and what is happening there. We do not necessarily get the data as to what is happening in a broader context. We feed in to WEFO, but we are not necessarily able to get the data – and that is unfortunate, in a way, because they can inform other things that may need to happen in order to achieve value for money and meet the programme objectives.”<sup>138</sup>

233. The Welsh Government already requires projects with grants in excess of £2 million to carry out an independent evaluation, the reports of which are published on its website. Higher Education Wales commented that:

“The sector has benefited already from external evaluation, from the larger projects, and really getting that in the system for the new period is one of the key concerns.”<sup>139</sup>

234. However, the Welsh Government acknowledged that presently “evaluation does not tend to come until towards the end of a project.”<sup>140</sup>

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<sup>136</sup> RoP, Finance Committee, 25 January 2012, Para 102

<sup>137</sup> RoP, Finance Committee, 11 January 2012, Para 61

<sup>138</sup> RoP, Finance Committee, 25 January 2012, Para 214

<sup>139</sup> RoP, Finance Committee, 29 February 2012, Para 66

<sup>140</sup> RoP, Finance Committee, 29 February 2012, Para 200

235. We are conscious that external evaluation carries a financial cost, and believe there is an appropriate balance to be struck in evaluating projects. We also consider that making preparations for the evaluation of projects in their initial design is very valuable, as evaluations will enable project leaders to adjust things as they go along rather than waiting until the end. We believe that making the findings of such evaluations publicly available, where appropriate, would also enable greater circulation of good practice.

**We recommend that the Welsh Government takes action to enable appropriate evaluations of projects during their lifetimes.**

## 7. Targeted Match funding

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### The application of Targeted Match Funding

236. The Welsh Government's Targeted Match Fund (TMF) is a fund of last resort for EU projects, which has committed £102 million of TMF to 34 EU projects worth £425 million in total.

237. According to the WEFO website, following the UK Government's Comprehensive Spending Review in October 2010, the Welsh Government's budget has had to reflect significant capital reductions, meaning that the TMF has been reduced. No new TMF applications for capital support can be accepted but applications may still be submitted for TMF revenue support. Revenue applications for the TMF and the associated Structural Funds will be considered simultaneously.

238. Our witnesses were supportive of the existence of the TMF fund, but a number of witnesses expressed concerns that applications for TMF were not sufficiently joined up with applications for European Structural Funds. For example, Valleys Kids considered that:

“instead of the claim being approved fully and the payment made, we would get an element of the ESF or other European funding but would then have to wait another month to six weeks for the TMF money... It affected our cash flow. When you are being driven to ramp up spend, as an organisation and as a charity, there is a limit to what we can spend from our reserves and what have you. Our reserves and everything are pushed to the limit in keeping up, to ensure that local groups get their money, and we end up with a major cash flow problem. Once or twice, we came very close to the limit as a charity of what we were able to spend. It got quite difficult, although we are now working with WEFO to resolve that.”<sup>141</sup>

239. Similarly, the WCVA reported that it had experienced “unnecessary delays in receiving TMF payments” which had “posed an unacceptable risk to the WCVA's own financial position.”<sup>142</sup>

240. The WLGA were also critical that there was originally no link or alignment:

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<sup>141</sup> RoP, Finance Committee, 11 January 2012, Para 149 & 151

<sup>142</sup> WCVA, written evidence, Para 3.2, P1

“between the development of the fund and the actual structural funds. That made for quite challenging experiences for the project sponsor involved in terms of applications.”<sup>143</sup>

241. However, the WLGA considered that:

“Things have improved over time. There are better links in the process now between officials in WEFO and TMF. So, I think that we need to learn the lessons from the experience of TMF when we start to think about the development of the new programmes.”<sup>144</sup>

242. Similarly, Furnace Farm Limited considered that they:

“do not recall duplication. We put in an application very early in the process. I do not recall much discussion of the application once we had submitted it. Since then, there have been one or two hiccups in drawing down TMF—it has been rather slow in paying, in contrast to our WEFO claims, which are paid remarkably quickly. However, I cannot say that the application process was too complicated.”<sup>145</sup>

243. The Minister also sought to refute to us suggestions of undue bureaucracy in the TMF application process, commenting that:

“I want to see an example of it. We in the Government do not want to create unnecessary bureaucracy. One of the conversations that I have with the European Commission is that we want to see simplification... I want to see an example of how we can change the way we manage and run projects to make things simpler and better for people. If people come to us with those, it is something that I hope we can address immediately.”<sup>146</sup>

244. We believe that such examples were provided by the WLGA, which commented that:

“...from the start, and indeed during our involvement in the discussions in setting up the fund, we voiced our concerns regarding a number of aspects regarding this Fund.

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<sup>143</sup> RoP, Finance Committee, 25 January 2012, Para 141

<sup>144</sup> RoP, Finance Committee, 25 January 2012, Para 142

<sup>145</sup> RoP, Finance Committee, 16 May 2012, Para 282

<sup>146</sup> RoP, Finance Committee, 29 February 2012, Para 287

“Our main concerns regarding this Fund is that it was set up as a completely separate application process by officials in a different Welsh Government department based on appraisal criteria that were different to those applying for the Structural Funds. This led to unnecessary duplication and bureaucracy. Other concerns include the lack of openness and transparency in the process, with lead project sponsors not kept fully informed of the progress of their applications and not given an opportunity to make their case directly to the TMF panel. There has also been lack of communication and clarity regarding the process and decisions made. Further, major changes to the guidance for the business plans for applying for TMF half way during the current programming period proved to be extremely challenging for many applicants.

“The nature of the fund, with annual approval, with the need to spend allocations within the specified financial year, has proved extremely challenging when managing extremely complex funding packages for delivering capital projects within the ERDF programmes in particular. The delays in decisions regarding TMF applications has also caused a number of difficulties for many project sponsors in terms of adhering to delivery profiles. This is one of the reasons why many project sponsors have had to re-profile their planned expenditure on a number of occasions.”<sup>147</sup>

245. We were therefore pleased that the Minister also acknowledged that:

“one of the great things that I hope that we will see in the next round, if we qualify for funding at this level, is far greater integration of funding streams. At the moment, the funding streams are not entirely in silos, but they are managed as legislatively and legally separate entities. I hope that we will see a coming together and integration of different funding streams.”<sup>148</sup>

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<sup>147</sup> WLGA Response to the National Assembly for Wales’ Finance Committee inquiry into the effectiveness of European Structural Funds in Wales, January 2012, paras 15-17.

<sup>148</sup> RoP, Finance Committee, 29 February 2012, Para 160

246. We welcome the Minister's remarks around reviewing the various funding streams of TMF and European Structural Funds, and consider that it would be helpful to ensure there is minimal duplication for applicants applying to both funds.

## 8. Sustainability and project exit strategies

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247. Article 55 of Regulation 1083/2006, which sets out the general provisions covering the ERDF and ESF for the current programme round, states that:

“eligible expenditure on revenue-generating projects shall not exceed the current value of the investment cost less the current value of the net revenue from the investment over a specific reference period for:

- (a) investments in infrastructure; or
- (b) other projects where it is possible to objectively estimate the revenues in advance.”<sup>149</sup>

248. The Regulation itself does not define what is meant by net revenue. However, according to the [WEFO guidance document](#) on the application of Article 55, net revenue is the difference between total revenues and the operating costs. The definition of operating costs includes running costs (e.g. labour, raw material, electricity), maintenance expenses and costs for the replacement of project shortlife equipment. Financing costs (e.g. interest payments) and depreciation are excluded, and taxes are also ignored.

249. This was not an issue for capital projects, because the immediate purpose of the project was to build a building - which could then be used to enable jobs and growth.

250. However, a number of our witnesses expressed concern that this regulation discouraged revenue projects from becoming profit making, which in turn meant they were not encouraged to become sustainable after European funds were withdrawn. For example, Chwarae Teg commented that:

“Chwarae Teg believes that there should be some consideration of the rules around income generation for EU funded activities. For example, whilst we recognise that profit generation for commercial purposes is inappropriate, the development of

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<sup>149</sup> Council Regulation 1083/2006 of 11 July 2006, laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999, Article 55 (2)

income generation to support sustainable activity in charities and not for profit organisations to support desirable outcomes beyond the term of EU funding is worthy of consideration.”<sup>150</sup>

251. Similarly, ACCA Cymru observed that:

“projects carried out by non-government organisations will struggle to achieve sustainability, especially given the rules around the prohibition of income generation from projects. While the generation of income for commercial purposes may be inappropriate, there is an argument to be made that the generation of income to support a not for-profit organisation or charity in sustaining its project activity should be assessed differently. Without some means of replacing project income, activity will simply stop.”<sup>151</sup>

252. Coleg Morgannwg’s evidence appeared to confirm these concerns, with the college reporting that had took a decision to reduce its dependency on ESF Funding, specifically to avoid becoming over-reliant upon it.<sup>152</sup> We were concerned at this, as the need for training amongst the populace supported by Coleg Morgannwg has potentially not significantly changed from previous funding rounds, but there is now less ESF Funding being deployed towards meeting this need. In making this comment, we attach no criticism of Coleg Morgannwg, but rather of a situation whereby issues associated with ESF funding may potentially mean there is less training available than is required.

253. To address concerns around the impact of Article 55, the WCVA suggested that

“we ought to think about how we can have some sort of tapered grant or something that allows that sort of process, whereby organisations can keep some of the money that they generate to develop their own projects.”<sup>153</sup>

254. However, the European Commission argued that it was not unreasonable to deduct profits from the grant provided to a project, detailing that:

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<sup>150</sup> Chwarae Teg, written evidence, P5

<sup>151</sup> ACCA Cymru, written evidence, P4

<sup>152</sup> RoP, Finance Committee, 25 January 2012, Para 237

<sup>153</sup> RoP, Finance Committee, 11 January 2012, Para 107

“we only fund the part that is necessary to realise the project. This means that, if there is income, it cannot be additional income; it has to be deducted from the grant.”<sup>154</sup>

255. The Welsh Government concurred that:

“We only put European money in where there is a need. During our appraisal processes we work hard with projects to ensure that we are providing only what is actually needed, because some projects tell us that everything is needed. We work hard to try to ensure that we are only funding the gap. Where projects have the potential to generate significant revenue, we take that into account in assessing what the funding gap is. That is essentially what article 55 is about. So, it is not about making a project sustainable; it is about controlling the investment of public funds.”<sup>155</sup>

256. One possible solution to this difficulty was suggested by Higher Education Wales, which suggested that the terminology used in such regulations could be challenging. They commented that:

“we are always trying to clarify exactly what is meant by these definitions, and that we have that understanding upfront, so that our projects know what is meant by the terminology. For example, ‘investment induced’ and ‘profit benefit’ are two challenging outputs for not only us, but other sponsors. It is those kinds of things that we try to pin down in definitions. We would look to other regions to see how they have interpreted them, and then try to work with that to tell our project, ‘This is what it means, this is what you must do, and this is the evidence you must capture’.”<sup>156</sup>

257. Our understanding of the principles of Article 55 is that it should not impede projects from generating income or from paying costs in terms of staff or maintenance. We were concerned that some of our witnesses appeared to be under the impression that Article 55 prohibited the generation of any income whatsoever. We believe that the Welsh Government could helpfully review its guidance on this

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<sup>154</sup> RoP, Finance Committee, 25 January 2012, Para 58

<sup>155</sup> RoP, Finance Committee, 29 February 2012, Para 233

<sup>156</sup> RoP, Finance Committee, 29 February 2012, Para 25

issue, considering whether there is any potential for confusion that can be eliminated.

258. More broadly, we sympathise with concerns expressed that Article 55 can impede the generation of profit, and that it may be difficult to accurately estimate future revenues generated by projects. We note that the European Commission stated in its oral evidence to us that they were:

“happy to look at what is happening with these projects in more detail with WEFO, because that is certainly not the purpose of our contribution. The aim is not to make projects unsustainable. So, we have to look at what is happening there and at the particular issue to which you refer.”<sup>157</sup>

259. We welcome these comments, and encourage WEFO to work with the European Commission to eliminate any unnecessary impairments to projects’ sustainability.

**We recommend that the Welsh Government reviews its current guidance on the application of Article 55. We anticipate that this will include consideration of alternative mechanisms for putting European funding into projects, such as tapered grants, with a view to encouraging long-term profit generation where appropriate.**

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<sup>157</sup> RoP, Finance Committee, 25 January 2012, Para 60

## Witnesses

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The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

<http://www.senedd.assemblywales.org/ielIssueDetails.aspx?IId=1604&Opt=3>

### *11 January 2012*

Matthew Brown	Wales Council for Voluntary Action
Phil Fiander	Wales Council for Voluntary Action
Richard Morgan	Valleys Kids

### *25 January 2012*

Guy Flament	European Commission
Marc Vermyle	European Commission
Agnes Lindemans	European Commission
Lowri Gwilym	Welsh Local Government Association
Neville Davies	Welsh Local Government Association
Peter Mortimer	Welsh Local Government Association
Nicky Howells	Pembrokeshire College
David Evans	Pembrokeshire College
Judith Evans	Coleg Morgannwg
Karen Phillips	Coleg Morgannwg

### *29 February 2012*

Professor Richard Davies	Higher Education Wales
Berwyn Davies	Wales Higher Education Brussels
Alun Davies AM	Minister for Welsh Government
Damien O'Brien	Welsh European Funding Office
Peter Ryland	Welsh European Funding Office

*14 March 2012*

Ben Cottam	ACCA Cymru
Linda Davies	Too Good to Waste
John Bennett	Welsh Social Enterprise Coalition

*16 May 2012*

Chris Williams	Tidal energy Ltd
Katherine Himsworth	Furnace Farm Ltd

*30 May 2012*

Alun Davies AM	Deputy Minister for Agricultural, Fisheries, Food and European Programme
Jonathan Price	Welsh Government
Damien O'Brien	Welsh European Funding Office

*18 July 2012*

Alison Standfast	Value Wales
Paul Williams	Value Wales

## List of written evidence

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The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at <http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?Ild=1604>

<i>Organisation</i>	<i>Reference</i>
Wales Council for Voluntary Action /Valley Kids	FIN(4) 01-12 P(1)
Pembrokeshire College	FIN(4) 02-12 P(4)
Coleg Morgannwg	FIN(4) 02-12 P(5)
Welsh Local Government Association	FIN(4) 02-12 p(3)
European Commission	FIN(4) 02-12 P(1)/P(2)
Higher Education Wales	FIN(4)-04-12(P1)
Welsh Government	FIN(4)-04-12P(2)
ACCA Cymru and ICA	FIN(4)-05-12P(1)
Welsh Social Enterprise Coalition	FIN(4)-05-12P(2)
Tidal Energy Ltd	FIN(4) 07-12(P3)
Furnace Farm Ltd	FIN(4) 07-12(P4)
Value Wales	FIN(4) 12-12(P1)