



**EUROPEAN UNION  
STRUCTURAL FUNDS:  
MAXIMISING THE  
BENEFITS FOR WALES**



Report by the National Audit Office on behalf of the Auditor General for Wales

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# EUROPEAN UNION STRUCTURAL FUNDS: MAXIMISING THE BENEFITS FOR WALES

Report by Auditor General for Wales,  
presented to the National Assembly on  
13 June 2002

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This report has been prepared for presentation to the National Assembly under the Government of Wales Act 1998.

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27 May 2002

The Auditor General for Wales is totally independent of the National Assembly. He certifies the accounts of the Assembly and its associated sponsored public bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which the Assembly and its sponsored public bodies have used their resources in discharging their functions.

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# EXECUTIVE SUMMARY

- 1 The European Union has four Structural Funds at its disposal to address social and economic inequalities:
  - ▶ the **European Regional Development Fund (ERDF)**, which aims to reduce regional inequalities;
  - ▶ the **European Social Fund (ESF)**, which aims to improve employment prospects across the European Union;
  - ▶ the **European Agricultural Guidance and Guarantee Fund (EAGGF)**, which assists the development and diversification of communities in rural areas; and
  - ▶ the **Financial Instrument for Fisheries Guidance (FIFG)**, which assists the restructuring of the fishing industry.
- 2 The Structural Funds are delivered to beneficiaries through targeted programmes, addressing specific objectives determined at the European Commission level. In the current round of funding, 2000-06, in Wales there are three Objective programmes and four, much smaller, Community Initiatives. The three Objective programmes are:
  - ▶ **Objective 1**, operating in West Wales and the Valleys, which aims to assist the development and structural adjustment of regions whose economic development is lagging behind;
  - ▶ **Objective 2**, operating in parts of East Wales, which aims to support the economic and social conversion of areas hardest hit by urban and industrial decline, restructuring and the loss of traditional activities in rural areas; and
  - ▶ **Objective 3**, operating in all areas outside the Objective 1 area, which aims to combat long term unemployment by tackling such issues as social exclusion and equal opportunities, and by promoting lifelong learning.
- 3 Within each programme, the Structural Funds provide only a proportion of the resources for a project or scheme (this proportion varies but on average is just under 50 per cent). The remainder, known as match funding, must be co-financed from either the public or private sector within the member state.
- 4 The current programming period has seen a step change in the level of funding available to Wales. A total of £1.4 billion (excluding the match funding element) will be available for commitment in the seven years 2000-06, compared with £395 million of European Union funding in the previous period, the six years between 1994 and 1999. The reason for this increase is that the poorest parts of Wales for the first time now qualify for Objective 1 status and it is this programme which attracts the bulk of the Structural Funds.
- 5 Within Wales, the Structural Funds are managed by an executive agency of the National Assembly for Wales, the Welsh European Funding Office (WEFO) which was established in April 2000. However, in line with European Commission guidance, the Welsh Assembly Government has made partnership a key concept in the operation of the Structural Funds in Wales. Partners include those with a clear interest in the delivery and outcome of the programmes and include businesses, trade unions, voluntary bodies, environmental and equality groups, and public sector bodies. Programme Monitoring Committees, comprising members drawn from the public, private and voluntary sectors, oversee each programme. In addition, the Assembly has created a network of committees which are closely involved in the delivery of the programmes to give effect to the concept of partnership. For the Objective 1 programme (there are fewer partnerships for the other, smaller programmes), these are:

- ▶ 15 local partnerships, based on the local authorities in the Objective 1 region;
  - ▶ ten regional partnerships, responsible for specific sectors of the economy; and
  - ▶ four strategy partnerships, drawn equally from the local and regional partnerships.
- 6 The main role of the local and regional partnerships is to identify, support and assist with the development of projects. It is to these partnerships that potential applicants are directed for assistance in developing ideas and preparing applications. The strategy partnerships' main function is to assess projects for their contribution towards the programme's strategic objectives and to make a final recommendation to WEFO on whether to approve the project.
- 7 Although the partnership concept has underpinned Wales' approach throughout, some aspects of the structure put in place to manage the Funds have evolved throughout the first years of the Objective 1 programme. In particular, it proved difficult to reconcile the various local and regional action plans that were being produced and to link them coherently to the higher level strategy set out in the overall programme plan (the Single Programming Document). It was this problem which led to the creation of the strategy partnerships in April 2001. And WEFO also faced the challenge of being under pressure to get the programme up and running - generating expenditure - at a time when the management structure was not finalised and key plans and selection criteria had only very recently been approved. The co-ordination of strategies at various levels is a major ongoing task, and one that is particularly important as these strategies constitute the primary mechanism for assessing needs and opportunities, and thereby guiding the selection of effective projects.
- 8 Against this background and given the relatively early stage that the programmes are at, we examined the key risks to Wales gaining maximum benefit from this injection of Structural Funds and how these risks are being managed by WEFO and its partners. Good risk management requires the identification of key risks, and assessment of the probability of their occurrence and likely impact, and consideration of what preventive or contingency measures, if any, are appropriate. To inform our identification of risks, in addition to interviewing WEFO staff, we visited a number of partnerships, analysed a sample of project applications and carried out a survey of applicants.
- 9 On **whether WEFO has the staff resources to carry out its functions effectively**, we found that the nature of the organisation's activities meant that WEFO has had difficulty since its inception in recruiting sufficient staff with the right skills. Among the consequences are a very heavy workload on core staff, and an understandable focus on the immediate tasks in hand at the expense of less urgent work. Although the situation has eased in recent months, WEFO staffing levels remain below what the organisation considers it needs.
- 10 On **whether WEFO has the information systems to carry out its functions effectively**, we found that the various systems inherited by WEFO from its predecessor organisations were not designed to cope with a much larger programme, and were not integrated with each other. WEFO is working on enhancing these systems as a top priority; the results of this work should be available later in 2002. WEFO also plans to develop a fully-integrated and web-enabled system that will allow grant applications and claims to be made electronically, but this is unlikely to be ready until 2004 at the earliest.
- 11 On **whether the programmes are being promoted effectively**, we found that WEFO's main information medium, its website, compared well with those of other Objective 1 regions in England. It has also established Units specifically aimed at

engaging those sectors which have less direct experience of the Structural Fund programmes: the private and voluntary sectors. There remains scope for better co-ordination of promotional activity with the partnerships.

- 12 On **whether project applications are subject to robust appraisal procedures**, we found that, although its procedures were basically sound, there was scope for WEFO, together with the partners, to be more sophisticated in their approach, particularly when assessing the need for projects, their added value, value for money and risk. We have made a number of recommendations, set out below, to assist in this.
- 13 On **whether the appraisal process is too time-consuming and complex**, we found that, provided applications contained all the necessary information, WEFO should be able to meet its target of 90 days to process them, a timescale in line with comparators. There is a large volume of guidance available to applicants and WEFO is responding to their wishes to simplify it, although the range and complexity of the programmes makes this a difficult challenge. There are some options open to WEFO for reducing the information burden on applicants, particularly by working with partners to commission projects that meet specific needs.
- 14 On **whether match funding is readily available**, we found that Welsh Assembly Government officials are now working with WEFO to ensure that better guidance on potential sources of match funding will be available to applicants. The Welsh Assembly Government has established a number of match funding sources. Plans to include better information on match funding as part of the development of the new IT systems should help to alert WEFO and the partnerships to any incipient problems with applicants' access to match funding.
- 15 On **whether projects are properly controlled financially**, we found that WEFO has established procedures to ensure that claims are processed effectively while meeting European Union requirements. The size and complexity of the programmes mean that it is particularly important that WEFO focus its financial control activities on key risk areas, as it intends to do.
- 16 On **whether project and programme monitoring is adequate**, we found that WEFO, working with the partnerships, is taking steps to increase significantly project level monitoring. At the programme level, the main gap is the continuing absence of good information on outputs; work is in hand to address this.
- 17 On **whether funds are being spent fast enough to avoid "decommitment"** (the withdrawal of funding by the European Commission), we found that there is a low risk on ERDF and ESF, provided commitments turn into valid claims. The risk on EAGGF and FIFG is higher, where WEFO is dependent on a relatively small number of projects going to plan. WEFO is well aware of the potential risk of money being lost to Wales, but this remains a difficult risk to manage, particularly as WEFO is still building up its knowledge and understanding of how the programmes are operating.
- 18 On **whether there are effective evaluation arrangements**, we found that WEFO should be able to exceed the minimum standards laid down by the European Commission, particularly when the planned improvements to its information systems come through.
- 19 On **whether Wales will benefit from the performance reserve**, (four per cent of the value of the programmes payable depending on the results of the external mid-term evaluation), we found that, although the criteria have yet to be finalised, Wales should be well placed to qualify for this reserve.

20 **We recommend that:**

- i WEFO should continue to work on developing better information technology systems with a view to having a fully-integrated system in place as soon as possible;
- ii WEFO should ensure that all issues involving the exercise of judgement, including the assessment scores awarded in the appraisal process, are justified in writing;
- iii WEFO should do more to assess the added value case (the requirement that projects provide genuinely additional benefits) at the project appraisal stage, by focusing on areas at risk and ensuring that all parties are aware of what is required of them.
- iv WEFO should incorporate a more detailed assessment of project need and quality into its selection criteria when assessing ERDF, EAGGF and FIGG projects, and that for all Funds the work of partnerships in this respect should be documented and incorporated directly into the appraisal process to minimise duplication. Where a detailed assessment has not been undertaken, WEFO should review the necessary evidence itself and document this fully on its appraisal files;
- v WEFO should re-examine its arrangements for satisfying itself on the value for money of projects applying for funding, including the adequacy of the information on which judgements are made and the guidance available to staff who make such judgements;
- vi WEFO should incorporate more detailed guidance on the cross-cutting themes of equal opportunities, environmental sustainability and information and communication technologies into its scoring criteria;
- vii project sponsors should be asked to identify the risks of their project and how they will be managed;
- viii WEFO should examine the scope for shortening the application form to include mainly specific details on the project and its compliance with regulations, with a business plan containing the substantial justification for the project;
- ix the Welsh Assembly Government should develop guidance on sources of match funding, working in conjunction with the partnerships to ensure that applicants' needs are met and that best use is made of existing resources;
- x WEFO should review all instructions to auditors to ensure that sufficient background information is provided, that auditors are alerted to common risks and that testing programmes are consistent and comprehensive;
- xi WEFO should review the scope of its financial control work to focus on early confirmation that adequate systems are in place, and the verification of details that are not covered by the external auditors;
- xii WEFO should continue to develop its strategy to monitor large or complex projects, based on available resources and co-ordinated with the work of its Financial Control Team; and
- xiii WEFO should continue its current efforts to minimise the risk of decommitment of funds on EAGGF and FIGG.

## Overall conclusion

- 21 The challenge facing WEFO and its partners throughout Wales has been and remains considerable. The amount of Structural Funding available in the current programming period is far higher than Wales has had before, and there has been substantial political and public pressure to ensure that the most is made of this money. There will always be a degree of tension between a user-friendly application process and the need for WEFO to carry out a rigorous appraisal of projects against the selection criteria specified by the Programme Monitoring Committee, according to European Commission regulations and to the standards expected of a public body. Against this background, WEFO is faced with the need to strike an appropriate balance between approving projects rapidly to meet public expectations and to avoid decommitment, and ensuring that robust systems are in place such that the right projects are chosen in line with strategic objectives and that all expenditure is properly monitored and controlled. This has been particularly difficult in the early years of the current programming period and remains a key challenge as all concerned have been on a steep learning curve. Although we have suggested some ways to tighten up the appraisal process, and it is too early to judge the extent of the decommitment risk, we are generally satisfied that WEFO has been keenly alert to this challenge and has sought to achieve an appropriate balance.
- 22 In addition, the decision to work through partnerships at all levels, particularly on the Objective 1 programme, made the process more complex and time-consuming in the early stages as the partners endeavoured to reach consensus on key issues. WEFO considers that the difficulties and tensions that this caused were inevitable, and that this up-front investment in time and effort in building consensus will pay off as the programmes develop and mature. It will probably only be when the programmes are completed and evaluated that the success of this decision can be judged.
- 23 Progress is being made. But this is no mere exercise in getting the paperwork right for procedural reasons. The area of Structural Funds is a complex one with big money at stake. Our recommendations are designed to help Wales, through the agency of WEFO and its partners, make the most of the additional resources that are available to the country in this period.

# PART 1 INTRODUCTION

1.1 The European Union's Structural Funds exist to address structural economic and social problems in order to reduce inequalities between different regions and social groups. The Union negotiates a programme of support with the relevant authorities over a period of seven years; the current programming period is 1 January 2000 to 31 December 2006.

1.2 European Union structural funding is designed to lever further resources directed at areas most in need. Under the terms on which structural funding is supplied, money provided by the European Union must be genuinely additional to the money already spent on similar activities by the member state. This concept is known as additionality and is applied in two ways:

- ▶ the Structural Funds will fund only a proportion of a project or scheme - the rest is co-financed from either the public or private sector from within the member state (known as match funding); and
- ▶ total public expenditure on broadly similar activities, in the areas covered by the relevant European programme, must not fall below a level agreed at the outset with the European Commission.

1.3 Wales stands to benefit significantly from European structural funding in the current round, with the sums involved representing a step change from the level of funding previously available. A total of 2.2 billion euros (£1.4 billion) will be available for commitment during the seven years between January 2000 and December 2006, an average of £200 million per year. This compares with a total of £395 million in the six year period of 1994-99, equivalent to £66 million per year.

1.4 The reason for the increase in such funding is that the poorest parts of Wales, west Wales and the valleys of the south east, now qualify for "Objective 1" status (this is explained further at paragraph 2.11). The result is that, although the whole of Wales will benefit from the Structural Funds, 84 per cent of the money has been allocated to the Objective 1 area.

1.5 This level of support is unlikely to be repeated in the next seven-year period (2007-2013) as a number of central and eastern European states are likely to have joined the European Union by then. As these countries are less prosperous than the existing member states, their accession will have a clear impact on future eligibility for Structural

Funds and it is unlikely that Wales will be eligible for the same scale of Structural Funds receipts as it has previously enjoyed. It is therefore vital that Wales gains the maximum benefit from the current Structural Fund programmes.

1.6 Within Wales, European Structural Funds are managed by the Welsh European Funding Office (WEFO), an executive agency of the Welsh Assembly Government, in partnership with a wide range of interested parties including local authorities, government agencies, voluntary organisations, private businesses and trade unions. WEFO's primary objective is to "ensure that Wales derives the maximum benefit from European programmes and other regeneration funds and to:

- ▶ promote sustainable economic growth;
- ▶ increase prosperity in all parts of Wales;
- ▶ reduce disparities within Wales; and
- ▶ tackle inequality, inactivity and social exclusion."

1.7 WEFO and its partners manage and promote the programmes, help to develop the capacity of project sponsors to make best use of the funds and make grants to support projects. WEFO does not develop its own projects; money provided by the Structural Funds is spent on the ground by a number of very diverse project sponsors.

## Scope of the study

1.8 Within Wales there has been a high expectation that this funding will make a real difference, accompanied by some questioning of the way that programmes, especially Objective 1, are being implemented. Against this background, we decided, with the encouragement of the Assembly's Audit Committee, to examine the administration of the funds. It is too early to evaluate the effect of the programme as very few projects have been completed and most are at an early stage. The purpose of this report is therefore to:

- ▶ provide an overview of the Structural Funds as they apply to Wales (Part 2);
- ▶ offer a critique of the management system in place to administer the programmes, drawing out comparisons with other regions of England and Ireland where appropriate (Part 3); and



## What are the Structural Funds?

2.1 The European Union has several Structural Funds at its disposal to address social and economic inequalities. There are four Funds that are available to Wales in the period 2000-06:

- ▶ the **European Regional Development Fund (ERDF)** to address economic inequalities between regions by assisting disadvantaged regions. It finances infrastructure, job-creating investments, local development projects and aid for small and medium sized enterprises (SMEs);
- ▶ the **European Social Fund (ESF)** to address social inequalities, both between regions and between social groups. It promotes the return of unemployed and disadvantaged groups to the labour force, mainly by financing training measures and systems of recruitment aid;
- ▶ the **European Agricultural Guidance and Guarantee Fund (EAGGF)** to provide aid for rural development; and
- ▶ the **Financial Instrument for Fisheries Guidance (FIFG)** to provide assistance to restructure the fisheries industry in the context of the Common Fisheries Policy.

2.2 The average annual allocation of Structural Funds within the European Union's budget has risen from 13.6 billion euros (1997 prices) in the 1988-93 period to 30.4 billion euros each year in 2000-2006. The total allocation for the current programmes is 195 billion euros over seven years, of which 2.2 billion euros (£1.4 billion), or 1.1 per cent, will be received by Wales. As a comparison, Wales accounts for about 0.8 per cent of the European Union's population of 376 million people.

## Who benefits from the Structural Funds?

2.3 The Structural Funds are delivered to beneficiaries through targeted programmes. In the terminology of the European Union, there are three Objectives and four, much smaller, Community Initiative programmes. Each is described in **Figure 1 opposite**.

## Community Initiatives

2.4 Wales will also benefit from four **Community Initiatives**, which are designed to address specific issues. These are:

- ▶ **INTERREG IIIa**: promotes cross-border, transnational and interregional cooperation. The joint Ireland/Wales programme under the INTERREG IIIa strand covers West Wales and south-east Ireland. The total ERDF allocation for the programme is £29.4 million. Wales is also eligible under the INTERREG IIIb strand (United Kingdom indicative allocation £92 million) which promotes balanced development across large groupings of European regions, and the INTERREG IIIc strand (United Kingdom indicative allocation £14 million) which is dedicated to interregional networking;
- ▶ **URBAN II**: support for innovative strategies to regenerate cities and declining urban areas. Support is concentrated on a few urban areas. In Wales, west Wrexham has been selected to receive funding of £6.6 million over the life of the programme;
- ▶ **LEADER+**: assists the development of innovative local strategies for the sustainable development of rural areas. The European Union will provide some £9.1 million to Wales over the period 2000-2006; and
- ▶ **EQUAL**: promotes new ways of combating all forms of discrimination and inequalities in the labour market, through transnational cooperation. The European Union will provide about £13 million to Wales over the period 2000-2006.

In addition, the European Commission allocates a small amount (£2 million for Wales) specifically for projects which foster better programme delivery through innovative methods and practices. These innovation funds will typically be research studies, pilot projects and exchanges of experience. Wales will also benefit from £5 million of structural funding to assist the implementation of the Rural Development Plan, which brings together a range of measures to support the integrated and sustainable development of rural Wales.

## How do the Structural Funds work?

2.5 There are a number of regulations governing the use of the Funds, binding on all member states. They cover, for example, which activities and costs are eligible for support; how the Funds are to be drawn down; and monitoring and control requirements. There are also regulations on the nature and extent of state aid that may be given to companies from public sector sources, and these also affect the assistance provided through the Structural Funds.

Figure 1

Objective 1, 2 and 3 programmes

Objective	Aim	Structural Funds used	Total funding across Europe 2000-06 £ billion (proportion of total)	Maximum grant rate <sup>1</sup>	Proportion of EU population	Region within Wales	Other UK regions (excluding transitional regions)
1	To assist the development and structural adjustment of regions whose development is lagging behind, generally those with a per capita GDP less than 75% of the EU average	ERDF ESF EAGGF FIFG	85 (70%)	75% (85% in remote & outlying areas)	22%	West Wales and the Valleys	Cornwall, Merseyside, South Yorkshire  (Northern Ireland has a special Objective 1 programme, PEACE)
2	To assist the economic and social conversion of areas facing structural difficulties: <ul style="list-style-type: none"> <li>▶ industrial or service sectors subject to restructuring</li> <li>▶ loss of traditional activities in rural areas</li> <li>▶ declining urban areas</li> <li>▶ difficulties in the fisheries sector</li> </ul>	mainly ERDF ESF EAGGF FIFG	14.5 (11.5%)	50%	18%	Parts of Cardiff, Newport, Monmouthshire & Powys	Large number of localities across the UK, concentrated in large urban or industrial areas
3	To assist the adaptation and modernisation of national policies and systems of education, training and employment. Focus is on disadvantaged social groups rather than regions	ESF	15 (12.3%)	50%	Across the EU outside Objective 1 areas	All of Wales outside the Objective 1 area	All of UK outside the Objective 1 area

NOTE

1. Proportion of total programme expenditure funded by Structural Funds (as opposed to the match funding element).  
Objective 2 includes an element of transitional funding for the areas previously covered by Objectives 2 and 5b under the pre-2000 programmes but not eligible for support under the new programmes

Source: Inforegio website and Welsh Single Programming Documents/Operational Programme

2.6 The European Union requires specific bodies to be accountable for the key tasks involved in the management cycle:

- ▶ the **Managing Authority** is responsible for the efficiency and correctness of management and implementation. It may delegate its powers to select and monitor projects to "Accountable Bodies"; and
- ▶ the **Paying Authority** is responsible for drawing up and submitting certified payment applications and receiving payments from the Commission.

The same organisation may undertake both roles but, to avoid conflicts of interest, there must be an adequate separation of functions within the organisation concerned. In Wales, the Assembly has these functions which it has delegated to WEFO.

2.7 Each of the Objective and the Community Initiative programmes is administered separately. The structural funding programmes operate according to a clearly defined procedure established by the European Union. Key elements of the procedure are set out in the box below, with a full summary,

including the dates that each stage was achieved (or is expected to be achieved) for the three Objectives in Wales, at Appendix 2.

#### Single Programming Document or Operational Programme

Each region or member state draws up a development plan for the regions or social groups affected, which take into account the European Commission's thematic guidelines. The plans must review the current economic and social situation, analyse strengths and weaknesses, identify priorities and propose an integrated programme of activities with defined budgets and targets to address weaknesses. The plan must also consider sustainable development, equal opportunity, and implementation arrangements. This plan is known as the Single Programming Document for Objectives 1 and 2 and the Operational Programme for Objective 3 which operates within a United Kingdom-wide Community Support Framework. Once approved by the European Commission, the Single Programming Document or Operational Programme may not be changed without the permission of the Commission.

#### Programme Monitoring Committee

A Programme Monitoring Committee, consisting of individuals from a wide range of partners and supported by specialist advisers, is established to oversee each programme (the Committee for the Objective 1 programme in Wales is described further at paragraph 3.8). Responsibility for day to day management, however, rests with WEFO as the Managing Authority.

#### Programme Complement

Regions or member states prepare a Programme Complement, which specifies in more detail the nature, budget and targets of the measures for each priority (measures and priorities are described at paragraph 2.15). The Managing Authority has the discretion to amend the Programme Complement within the constraints of the Single Programming Document or Operational Programme with the agreement of the Programme Monitoring Committee.

#### Mid-term evaluation

During the fourth year of the programmes (2003), the effectiveness of each programme is subject to a mid-term evaluation organised by the region but carried out by an independent contractor following guidance provided by the European Commission. A performance reserve, representing four per cent of the total cost of each programme, is allocated to the most successful programmes in each member state (although the Commission has agreed that the performance reserve relating to Wales will stay entirely within the country).

#### Commitment of funds

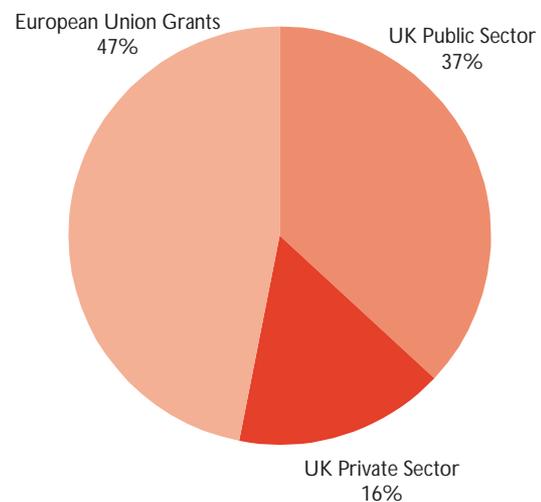
All funds are planned to be committed by 31 December 2006 (31 December 2005 for the Objective 2 transitional areas), and the majority of eligible expenditure must be defrayed by 31 December 2008. A final claim is submitted to the Commission by 31 October 2009 with a final report on implementation and a statement from a functionally independent authority (in Wales, the Assembly's Internal Audit Service) stating whether certain conditions have been met.

## How much money is available for Wales?

2.8 The total amount of money that is planned to be spent on European Union-funded projects over the seven-year period of 2000-06 is £2.9 billion. Of this sum, the European Union will provide up to £1.36 billion, or 47 per cent from the Structural Funds (the proportion of European Union funding, the "grant rate", varies depending on programme and measure). The remainder of £1.55 billion, the match funding element, is split between the public and private sectors. **Figure 2** shows the breakdown of funding for the European programmes, while **Figure 3** shows how the total is split between the various Funds, Objectives and Community Initiatives.

Figure 2

#### Planned sources of funding of the European programmes in Wales



Source: Single Programming Documents and Operational Programme

**Figure 3**

**Mechanisms for distributing Structural Funds in Wales**

**The Structural Funds:**

	Grant available £m	Percentage of total grant
European Regional Development Fund (ERDF)	800	58.9
European Social Fund (ESF)	460	33.8
European Agricultural Guidance and Guarantee Fund (EAGGF)	90	6.6
Financial Instrument for Fisheries Guidance (FIFG)	9	0.7
<b>Total</b>	<b>1,359</b>	<b>100.0</b>

	Grant available £m	Grant rate %	Match-funding £m	Total £m
Objective 1 (West Wales and the Valleys)	1,144	47	1,289	2,433
Objective 2 (parts of East Wales)	75	40	112	187
Objective 3 (East Wales)	82	42	114	196
<b>Total for Objectives</b>	<b>1,301</b>	<b>46</b>	<b>1,513</b>	<b>2,816</b>
EQUAL (all of Wales)	13	50	13	26
INTERREG IIIa (West Wales)	29	73	11	40*
LEADER+ (rural Wales)	9	47	10	19
URBAN II (Wrexham)	7	50	7	14
<b>Total for Community Initiatives</b>	<b>58</b>	<b>59</b>	<b>41</b>	<b>99</b>
<b>Total for Structural Funds:</b>	<b>1,359</b>	<b>47</b>	<b>1,556</b>	<b>2,915</b>

**NOTE**

\* This is the total for the joint Ireland/Wales programme.

Figures exclude the Innovation Funds and the Rural Development Plan.

Source: National Audit Office Wales analysis of the Single Programme Documents and Programme Complements for the European programmes

**Which areas in Wales will benefit from the funds?**

2.9 **Figure 4** shows which parts of Wales will benefit from the Funds. The money is being concentrated in the least prosperous Objective 1 area.

**Why is Wales receiving Structural Funds?**

2.10 The purpose of the Structural Funds is to aid convergence of disadvantaged regions with the European Union average, and to assist

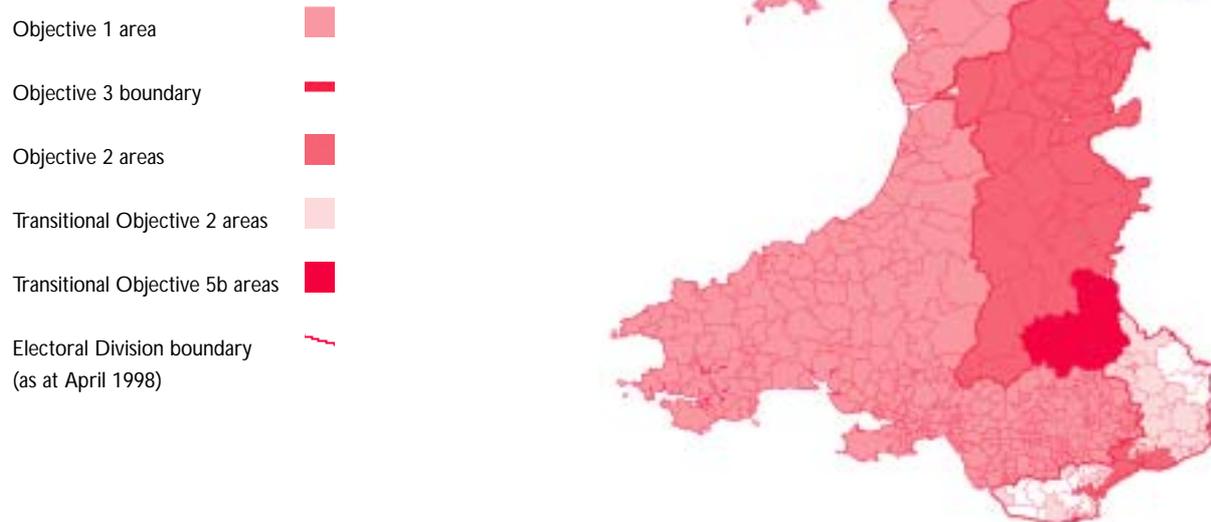
disadvantaged social groups. Wales has long been less prosperous than the United Kingdom average, with GDP per head averaging between 80 per cent and 85 per cent of the national average over the last thirty years. Wales has also trailed in terms of a number of other indicators of prosperity, such as unemployment, economic activity rates, business formation and growth, average earnings and household income.

2.11 These problems are particularly acute in West Wales and the Valleys, which has a per capita GDP that is 73 per cent of the United Kingdom average. Previously the European Union had recognised only

Figure 4

Map of areas eligible to receive Structural Funds in Wales

Mainstream European Structural Fund Programme Areas 2000-2006



Source: WEFO

two regions in Wales: North Wales and South Wales, neither of which would have qualified for Objective 1 status. However, the European Commission accepted Wales' argument that socio-economic differences between West Wales and the Valleys and East Wales justified recognising them as regions - thereby allowing West Wales and the Valleys to qualify for Objective 1 status.

## How will Wales use the Structural Funds?

2.12 The strategy set out in the Objective 1 Single Programming Document is designed to address the underlying structural problems and to improve the economic performance, and long-term capacity for growth, of the region. There are three primary aims:

- ▶ to raise GDP per head from 73 per cent to 78 per cent of the United Kingdom average by the end of 2006;
- ▶ to create 43,500 new jobs over the period; and
- ▶ to reduce by 35,000 the number of economically inactive people in the working age population.

2.13 Each programme is divided into broad areas of activity called priorities. There are seven priorities for Objective 1, four for Objective 2 and six for Objective 3. Each priority has an allocation of funds and specific output targets. Figure 5 lists the priorities for Objective 1, and shows how each one is intended to contribute towards an integrated solution to the region's structural problems.

2.14 Each objective has a "technical assistance" priority, designed to assist the management and administration of the programme. Overall £40.4 million or 1.4 per cent of the total funds available are set aside for technical assistance over the seven years of the programmes.

2.15 Each priority is further divided into measures, which specify in more detail what will be done to achieve the aims of the programme. Each measure also has an allocation of funds and appropriate output targets. There are 37 measures for Objective 1, nine for Objective 2 and 18 for Objective 3. The measures for Objective 1, and priorities for the other Objectives, are listed in Appendix 3.

**Figure 5**

**Objective 1 in West Wales and the Valleys: Priorities**

Priority	Purpose	Amount of EU grant (£m)	EU average grant rate	Examples of activities
Priority 1 - expanding and developing the small and medium enterprise base	To generate wealth and employment for the region by supporting the growth of the small and medium sized enterprise sector	285	46.5%	Loan and equity funds, business grants, advice and mentoring, small and medium enterprise support
Priority 2 - developing innovation and the knowledge-based economy	To improve the competitiveness of the region through the acquisition and use of knowledge and new technologies	183	49.0%	Centres of expertise for technology and industrial collaboration, opto-electronics cluster development
Priority 3 - community economic regeneration	To combat social exclusion by targeting local, community based action on the most deprived communities to increase skills and employability, provide greater access to more diverse opportunities and improve conditions for business	110	68.9%	Credit unions, capacity building (helping other groups to develop projects), support for the social economy
Priority 4 - developing people	To develop skills and employability of people living or working in the area, particularly those who are in any way disadvantaged	289	55.0%	Vocational training, childcare for students, Knowledge Exploitation Fund
Priority 5 - rural development and sustainable use of natural resources	To combine a healthy, well managed environment with economic productivity and viability	131	35.4%	Farm diversification, woodland renewal, development of the rural economy
Priority 6 - strategic infrastructure development	To secure additional investment and employment for the less developed parts of the region by promoting area based business investment supported by key infrastructure improvements	130	36.1%	Strategic sites for business development, intermodal transport initiatives
Priority 7 - technical assistance	To ensure efficient, transparent management of the programme	16	50.0%	Support for partnerships, research, evaluation of impacts
<b>Total</b>		<b>1,144</b>	<b>47.0%</b>	

Source: Programme Complement and WEFO

2.16 In preparing each programme's strategy, the former Welsh Office and the Assembly had to follow the Commission's thematic guidelines issued in July 1999, which set out the priorities for its regional development policy. Overall, the guidelines indicated a shift away from large infrastructure investments and a sharper focus on small and medium sized businesses, innovation, and disadvantaged groups. These areas are considered to have a greater potential for generating sustainable, long-term growth.

2.17 The three main planks of the over-arching programme - which are now reflected in the Assembly Government's economic development strategy, **A Winning Wales** - are therefore to:

- develop a strong, diversified economy that creates jobs and exploits new technologies. There will be a major focus on the development of new enterprises and support for particular growth sectors, with assistance for business targeted on small and medium sized enterprises (SMEs);
- develop a skilled, enterprising and adaptable labour force that is able to benefit from economic change; and
- secure prosperity and a high quality of life for communities across all parts of Wales, especially those areas in the Valleys that are

blighted by industrial decline, or are disadvantaged by their peripheral location in rural Wales.

2.18 The programme is delivered on a project basis; the Single Programming Document does not guarantee funding to any organisation. All project proposals must justify their use of the Structural Funds by demonstrating a contribution towards the targets of the relevant priority and measure. In addition, there are three cross-cutting themes that need to be incorporated into all activities funded by the programmes:

- ▶ equal opportunities - priority will be given to those groups most excluded from mainstream provision. The objectives are to maximise education, training and employment opportunities for women, disabled people and ethnic minorities, to increase their representation in higher paid and higher skilled occupations, and to increase the number of employers adopting equal opportunity policies;
- ▶ the information society - increase awareness, training and use of information and communication technology; and
- ▶ environmental sustainability - promotion of sustainable energy, integrated transport, efficient use of natural resources, sustainable land use, biodiversity, environmental education and environmental quality.

## What can the Structural Funds achieve?

2.19 The European Union has published figures showing that Europe's least prosperous regions are gradually converging with the average in terms of GDP. Ireland provides a particularly striking example as it has risen from relative poverty to now being richer than the European Union average (Figure 6).

Figure 6

### European Union convergence of wealth

	Proportion of European Union average GDP per capita	
	1988	1998
10 least prosperous regions	54%	65%
Ireland	74%	106% (1999)

Source: Info regio website

2.20 Ireland is often cited in Wales as an example of what can be achieved with European Union structural funding, and an expectation has risen in some quarters that Objective 1 will help to transform the Welsh economy along the same lines. However, successful economic development takes a long time and European funding, which was significantly larger than that available to Wales, was only one element of the growth of the Irish economy. The current programme can only begin the process of economic renewal. Long-term improvements in the Welsh economy depend as much on external economic factors - such as the world economy, interest rates and exchange rates - as on the annual boost to public expenditure from the Structural Funds, which is equivalent to under one per cent of Wales' GDP. It is therefore vital to target the money on where it will have the greatest impact in order to maximise the benefits from the limited money available.

# PART 3 THE MANAGEMENT SYSTEM

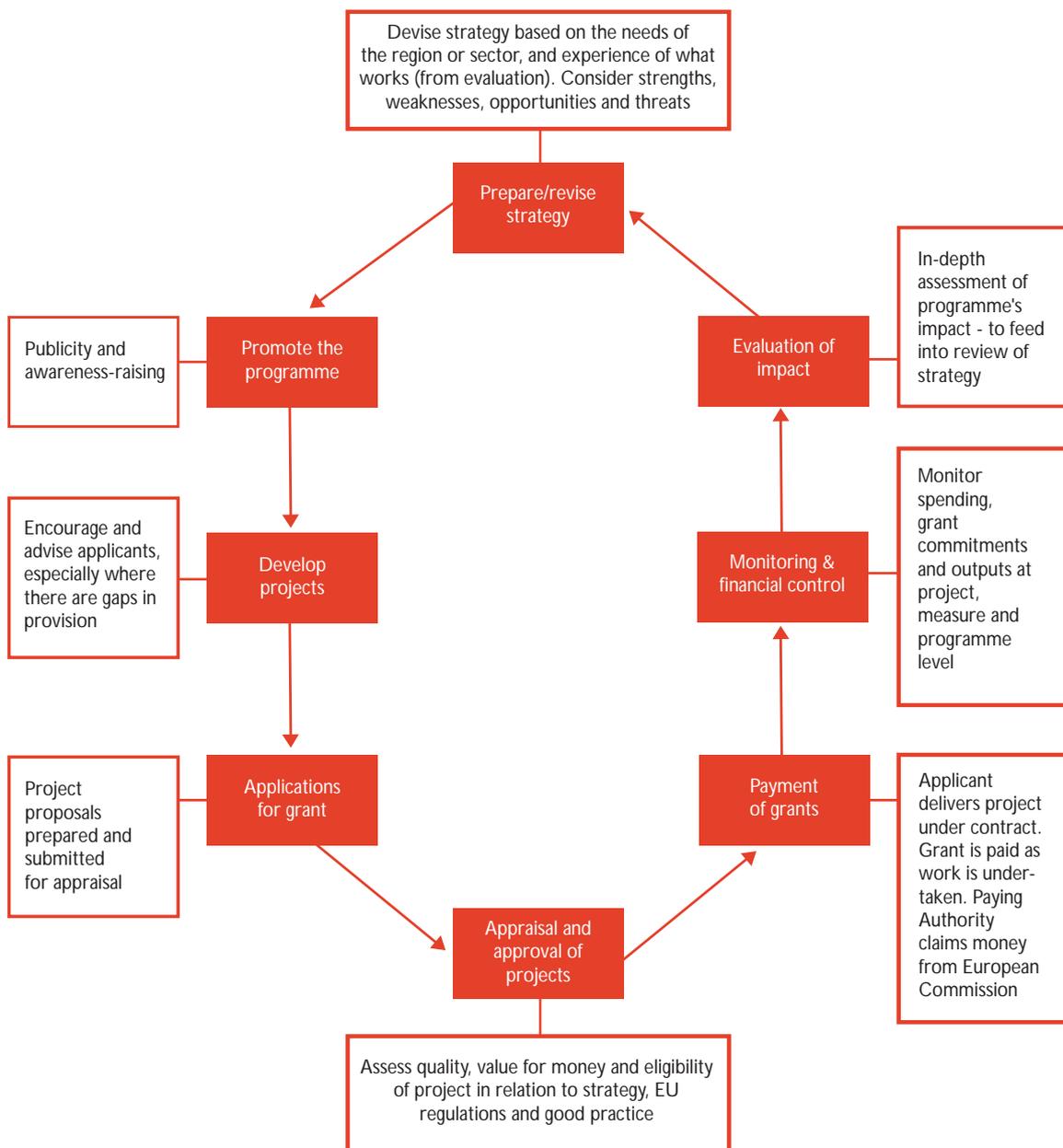
3.1 This part considers the management structure that has been put in place to administer the European programmes in Wales; how this structure was developed; and a comparison with the structures for the Objective 1 programmes in Ireland and areas of England.

## Arrangements in Wales

3.2 The European Union has set out its requirements for the management of the Structural Funds in a series of regulations, which apply to all member states. These are designed to maintain a high standard of management and control which in turn will produce the virtuous circle shown in **Figure 7**.

Figure 7

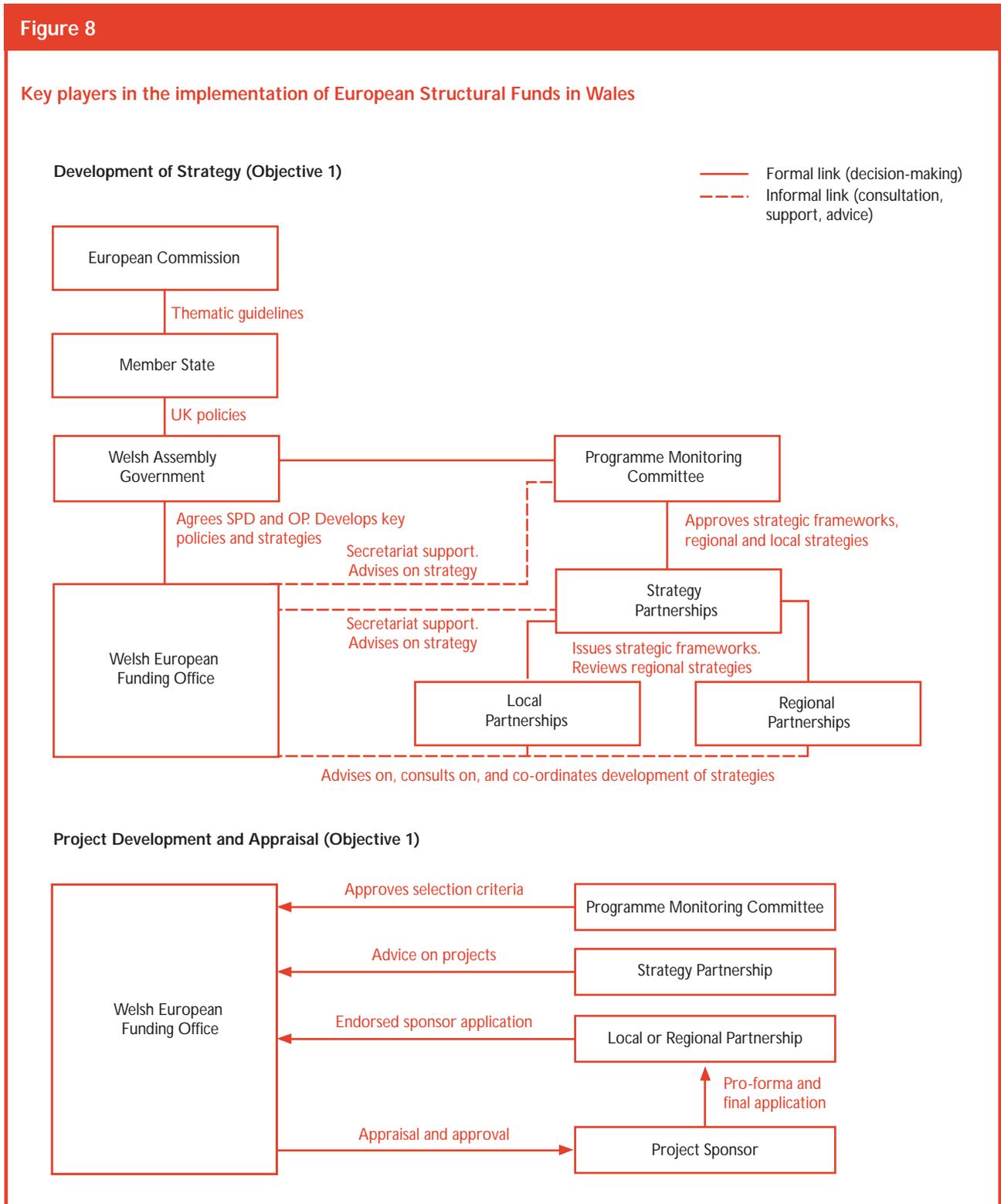
### The Management Cycle



Source: National Audit Office Wales

3.3 The management arrangements for each programme are set out in the Single Programming Document or Operational Programme which is approved by the European Commission.

This is a legally binding document and may not be changed without the European Commission's permission. The current system is summarised in **Figures 8 and 9**.



**Figure 9**

**Main roles of the key players**

Organisation	Strategy	Project development	Project appraisal and grant payment	Monitoring
European Commission	Sets priorities for programme support Approves Single Programming Document		Approves projects over 50m euros	Adviser status on Programme Monitoring Committee Receives Annual Implementation Report from WEFO
National Assembly for Wales	Approves Single Programming Documents and equivalents			Member of Programme Monitoring Committee Economic Development Committee has scrutiny role
Welsh Assembly Government	Negotiates the programmes Prepares national economic development strategy (latest version - A Winning Wales) Prepares Single Programming Document and Operational Programmes Ministerial/cabinet decisions on policy		Joint appraisal of Local Monitoring Committee Regeneration Fund applications	Appoints Chair of Programme Monitoring Committee Overseas WEFO
Programme Monitoring Committee	Approves key strategic decisions by strategy partnerships Approves local and regional strategies		Approves Programme Complement Approves project selection criteria	Reviews progress in delivering programme (expenditure and outputs) Reviews evaluations Approves Annual Implementation Report
WEFO	Manages the programmes Secretariat for the Programme Monitoring Committee and sub-committees Joint secretariat for Strategy Partnerships Liaison with the European Commission	Publicises and promotes programme Issues guidance to partnerships and project sponsors	Appraises project applications Issues grant offers Pays grants on receipt of claims Claims money from European Commission	Monitors progress of projects Monitors progress at measure, priority and programme level, reporting to Programme Monitoring Committee and partnerships Evaluates activity, results and impact Undertakes financial control audits of projects Produces Annual Implementation Reports
Local and regional partnerships	Prepare local or regional strategies within strategic framework prepared by strategy partnerships	Local partnerships promote programme locally All partnerships help potential applicants to develop project proposal	Partnership assesses project and decides whether to support it	Monitor progress in delivering their local/regional strategy

**Figure 9 (continued)**

Organisation	Strategy	Project development	Project appraisal and grant payment	Monitoring
Strategy Partnerships	Issue strategic frameworks  Approve regional strategies		Makes a qualitative assessment of projects	Monitor progress and develop strategic framework as required
Project sponsor		Develops application with help from relevant partnership  Finds match funding for project	Submits its project for appraisal in accordance with published guidelines	Carries out project  Claims grant from the WEFO  Monitors project and provides information to the WEFO

*Source: National Audit Office Wales*

## The Welsh European Funding Office (WEFO)

3.4 The National Assembly for Wales is the Managing Authority and the Paying Authority for all the European programmes in Wales, and has created an executive agency to exercise these functions. WEFO was established on 1 April 2000 and brought together the functions previously exercised by two separate organisations:

- ▶ the Welsh European Programme Executive Ltd, a company limited by guarantee and funded by the partnership through application and management fees, which appraised and approved all projects. WEPE ceased to exist after its functions were transferred to the Assembly; and
- ▶ the grant payment and monitoring elements of the relevant policy division supporting the Assembly Government.

3.5 WEFO is accountable for all aspects of the European Structural Funds in Wales, although it shares responsibility for many of them with a network of partnerships. These responsibilities include, for each programme:

- ▶ promoting awareness of the programme by providing information and publicity;
- ▶ establishing information systems;
- ▶ implementing the Programme Complement (see box after paragraph 2.7);
- ▶ appraising and approving project proposals;
- ▶ managing the programme;

- ▶ liaising with the European Commission;
- ▶ ensuring compliance with European policy and regulations;
- ▶ paying grants to project sponsors and drawing down the money from the European Commission;
- ▶ monitoring projects and undertaking financial control visits to a sample of projects;
- ▶ monitoring the progress of the programme and evaluating its impact; and
- ▶ meeting specific obligations such as preparing the Annual Implementation Reports and mid-term evaluations for each programme for the European Commission.

3.6 As a Civil Service executive agency, WEFO is part of the organisation supporting the Assembly Government. Its staff are Assembly Civil Servants, it uses the Assembly's central personnel and finance departments and is subject to the same personnel and procurement procedures as the rest of the Welsh Assembly Government.

## Partnership

3.7 The European Commission and Welsh Assembly Government promote partnership as a key concept underlying the operation of the Structural Funds. Partners are those with a clear interest in the delivery and outcome of the programmes, and include businesses, trade unions, voluntary bodies, environmental and equality groups, and public sector bodies. The key mechanism for doing this at the implementation stage is the Programme

Monitoring Committee, which has defined roles under European legislation. It is up to the Programme Monitoring Committee for each programme to consider how partnership should work in practice and whether any additional formal procedures need to be developed. However, accountability for the use of the funds - and executive decision-making - rests with WEFO on behalf of the Welsh Assembly Government, the Managing Authority.

**3.8** In Wales the Objective 1 Programme Monitoring Committee is chaired by an Assembly Member and consists of 18 members drawn equally from three sectors (the Committee also aims to have a minimum of 40 per cent both male and female representation):

- ▶ the public sector (one Assembly Member (in addition to the Chair), two local councillors, and three officials);
- ▶ the private/social sector (three business representatives, two trade union representatives and one farmers' union representative); and
- ▶ the voluntary/community sector: six members from organisations representing the voluntary sector, and rural, environmental and equality-related interests.

The Committee is supported by a number of specialist advisers, covering equality and environment issues, tourism and the arts, as well as representatives of the European Commission.

**3.9** In the Objective 1 region, the Assembly has created a network of committees to give effect to the concept of partnership. Like the Programme Monitoring Committee, each committee should have an equal number of representatives from the public, social (business and trade unions) and voluntary sectors, and a minimum of 40 per cent both male and female representation. Each committee is supported by a small secretariat, usually provided by a public agency. The partnerships operate at three levels:

- ▶ 15 **local partnerships** based on the local authorities in the Objective 1 area, whose secretariat is usually the local authority;

- ▶ ten **regional partnerships**, which are responsible for specific sectors of the economy. The secretariat is usually an Assembly-sponsored public body or other public agency; and

- ▶ four **strategy partnerships**, which are drawn equally from the local and regional partnerships and receive secretariat support jointly from WEFO and another public or voluntary agency.

**3.10** There is a very similar system for Objectives 2 and 3, although there are no strategy partnerships. Objective 2 has one regional partnership and six local partnerships; Objective 3 has one regional partnership and seven local partnerships. The local partnerships are again based on the local authorities. The Community Initiatives have separate arrangements, normally with a single monitoring committee or partnership. **Figure 10** outlines the various partnerships that have a role in the management of European Structural Funds in Wales.

**3.11** The main role of the local and regional partnerships is to identify, support and assist with the development of projects.<sup>1</sup> Potential applicants are directed to the relevant partnership, which then helps them to develop their idea and prepare an application. However, they also have other important roles:

- ▶ to develop a strategy to target resources to areas of need and opportunity within their area (local partnerships) or to add value to national policy within their area of expertise (regional partnerships). For Objective 1 partnerships, these strategies must be developed within a strategic framework set down by the strategy partnerships;
- ▶ to promote the programme locally (local partnerships only);
- ▶ to assist in the development of projects and submit those that they support to WEFO;
- ▶ to communicate with other partnerships, enabling effective consultation on projects that are being developed and liaising on issues of policy and strategy; and
- ▶ to monitor progress in carrying out their strategy, and to help evaluate impacts on their local area or their sector.

<sup>1</sup> Based on WEFO's Objective 1 Partnership Guidance issued in June 2001. There is no formal guidance for Objectives 2 and 3 but the partnerships have broadly the same functions.

**Figure 10**

**Partnership Committees in Wales**

Programme	PMC	Local	Regional	Strategy	Total
Objective 1	1	15	10	4	30
Objective 2 and transitional 2/5b	1	6	1		8
Objective 3	1	7	1		9
EQUAL	1				1
INTERREG III a	1				1
LEADER +	1				1
URBAN II	1				1
<b>Total</b>	<b>7</b>	<b>28</b>	<b>12</b>	<b>4</b>	<b>51</b>

		Secretariat
Objective 1 local partnerships	Anglesey, Blaenau Gwent, Bridgend, Caerphilly, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Merthyr Tydfil, Neath Port Talbot, Pembrokeshire, Rhondda Cynon Taff, Swansea, Torfaen	Relevant local authority (except Carmarthenshire - West Wales European Centre)
Objective 1 regional partnerships	Agri-Food Information Age Entrepreneurship Innovation/R&D Business Support Infrastructure Tourism Community Regeneration Human Resource Development Forestry, Countryside and Coastal Management	Welsh Development Agency (WDA) WDA WDA WDA WDA WDA Wales Tourist Board Wales Council for Voluntary Action (WCVA) Education and Learning Wales (ELWa) Forestry Commission
Objective 1 strategy partnerships	Business Assets Community Assets Human Assets Rural Assets	WEFO and WDA WEFO and WCVA WEFO and ELWa WEFO and WDA
Objective 2 partnerships	Regional Local: Wrexham (for transitional programme), Cardiff, Monmouthshire, Newport, Powys, Vale of Glamorgan	Welsh Development Agency Relevant local authority
Objective 3 partnerships	Regional: Human Resources Local: Cardiff, Flintshire, Monmouthshire, Newport, Powys, Vale of Glamorgan, Wrexham	ELWa Relevant local authority

Source: National Audit Office Wales

3.12 The strategy partnerships were created to give greater strategic direction to the Objective 1 programme. They have two key roles:

- ▶ to develop a detailed strategy for the use of Objective 1 funds (strategic frameworks); and
- ▶ to assess individual projects for their contribution towards the objectives of the strategy, and to make a final recommendation to WEFO. This happens after the local or regional partnership has assessed the project and it has been appraised by WEFO. It is intended to assist WEFO in deciding whether or not to approve the project.

3.13 WEFO considers that this high degree of commitment to partnership working at all levels, particularly in the Objective 1 programme, represents an up-front investment in time and effort that will pay off as the programmes develop and will build capacity for the long term. It considers it inevitable that there is an initial period when consensus has to be built among the various parties represented, to allow points of confusion and dispute to be ironed out.

## The application and appraisal process

3.14 For the applicant, the Objective 1 process may be summarised in terms of the eleven stages set out in **Figure 11**. The first seven stages occur as the project is developed in collaboration with the relevant partnerships; the remaining stages refer to WEFO's role in assessing value for money and confirming eligibility. A project may be withdrawn or delayed at any one of the stages, depending on the amount of information submitted and whether further work is required on the project (it is rare for WEFO not to ask for further information). Although Figure 11 also gives an indication of the time taken at each stage, the project development stage, in particular, can vary significantly depending on the project's size and complexity and how well developed it is when the relevant partnership is first approached. So while the project development and appraisal process is expected to take about five months overall, it can often take longer.

3.15 A similar procedure exists for Objectives 2 and 3. However, there are several differences from Objective 1:

- ▶ partnerships are given indicative allocations of funds;

- ▶ there is no strategy partnership, as each Objective already has one regional partnership to provide overall strategic direction (therefore stage 10 is excluded);
- ▶ there is no mandatory consultation phase (ie stages 4 and 9 are excluded); and
- ▶ there is no proforma stage in Objective 2.

This means that the assessment and appraisal procedure is somewhat shorter, as three of the 11 phases for Objective 1 do not exist. In addition, applications are assessed in rounds - there are periodic deadlines for submission to WEFO - and the applications are then appraised together to facilitate prioritisation. Objective 1 has a rolling programme - partnerships can submit applications at any time.

3.16 Following the approval of their grant, project sponsors have three months in which to begin the project. Project sponsors normally claim grant quarterly, but ESF applicants receive 30 per cent of the first year's grant at project commencement and may instead submit claims every month or every six months if they choose to do so. In recognition of their often difficult cash flow position, ERDF, EAGGF and FIFG project sponsors in the voluntary and private non-profit sectors may receive advances of grant each quarter which are offset against subsequent expenditure, and any necessary adjustment is then made to the following quarter's advance.

3.17 WEFO requires project sponsors to submit comprehensive information on costs and outputs each quarter even if they are not making a claim. Costs are assessed against the profile provided when the grant was approved and significant variations are discussed with the project sponsor.

3.18 Each year project sponsors must submit an annual claim, which normally must be audited independently. At the end of the project, WEFO retains part of the grant until a final, audited claim is received. For ESF projects, a closure report must be submitted detailing the outcomes of the project and an assessment of what it has achieved.

Figure 11

The application and appraisal process

Stage	Procedure	Typical time
1	Applicant approaches the relevant partnership to discuss a project idea.	
2	Partnership assists the applicant to develop the idea and prepare a pro-forma application which summarises the key features of the project (its fit with the local or regional strategy, likely costs and sources of finance, outputs and links with other projects and strategies).	Project development: about nine weeks (although see paragraph 3.14)
3	This proforma is considered by a sub-group of the partnership board, which assesses how well the project fits with the local/regional strategy, its links with other projects and strategies, the degree of innovation, the extent to which the cross-cutting themes have been built into the proposal, and whether there are adequate monitoring procedures in place.	
4	Details on the pro-forma are circulated to other interested partnerships, who have one month to comment.	
5	After any further development that is needed to reflect the comments received, the proposal is submitted to the full partnership board.	
6	If the partnership board decides to support the project, it will help the applicant to complete a full application form.	
7	Partnership submits the application form to WEFO, indicating its support for the project.	
8	WEFO appraises the project. It may seek external advice and there is usually an exchange of correspondence with the applicant as queries are resolved. There are two main elements to the appraisal: confirmation of eligibility (checking compliance issues, Community legislation and policies, obtaining comment from Welsh Assembly Government divisions); and appraising the project to ensure that it provides value for money. For the latter, various criteria are considered, including the outcomes of the project, its fit with the strategy laid down in the Programme Complement, links with other projects, the cross-cutting themes and monitoring and evaluation arrangements. The project is then scored to reflect its potential performance in these areas.	
9	WEFO prepares a short report on the project, with a recommendation for approval or rejection, and circulates it to partnerships who have commented previously on the proposal at the same time as to members of the strategy partnership. Any comments from the local and regional partnerships are reported to the relevant strategy partnership when it meets.	three weeks
10	Strategy partnership meets to discuss the project. Its role is to carry out a qualitative assessment on how well the project contributes to the overall strategy (as opposed to the quantitative nature of the scoring system, which may not reflect important matters of judgement). The partnership will recommend approval or rejection, or will request further information before making a decision.	three weeks
11	WEFO issues, where appropriate, a formal offer of grant to the applicant, which should be signed and returned within one month. This letter then becomes a contract between WEFO and the project sponsor. It sets out the costs, activities, expected results and impacts of the project, and the terms and conditions under which the grant is made available.	

Development of the process in Wales

3.19 In 1998 the then Secretary of State for Wales established a European Task Force to consider how the Structural Funds should be managed. This group proposed that the programmes should be managed strategically through a series of **Action Plans** (see box), prepared by **partnerships** representing all interested parties in an area or a sector. Each plan would be implemented by an

**Accountable Body** to be nominated by each partnership, which would have delegated responsibility for meeting all the obligations flowing from the grant (with the Assembly retaining a higher level oversight and overall control role). The Accountable Body would therefore take the lead in developing the Action Plan, would appraise and monitor projects, and report progress to the Programme Monitoring Committee. And each Accountable Body would have a financial allocation to implement the Action Plan.

**Action Plans**, prepared by the partnerships, would bring together a number of related projects so as to maximise co-ordination between Structural Funds and domestic regeneration and economic development and to provide an integrated and strategic approach to the use of the Funds. Action Plans would be prepared at a local level - integrating all the themes of economic development - and at regional level, with certain themes being developed in greater depth by partners with an expert knowledge of the sector.

3.20 In reality the system has evolved rather differently from that originally proposed as practical constraints became apparent. The concept of partnership has been implemented more or less as envisaged, each one being led by a committee representing the wider interests of the area or sector. Accountable Bodies were not widely favoured as there were concerns about resources and financial control (in particular the administrative costs and risks of splitting responsibility for appraisal and monitoring among many different organisations) and conflicts of interest (since many Accountable Bodies would wish to submit their own projects). It was also clear that they would take a long time to establish, and that it would be difficult to divide the money available on an equitable basis. Consequently the Objective 1 Programme Monitoring Committee decided, in June 2000, to defer the establishment of Accountable Bodies and to adopt an interim system of "Lead Bodies" with fewer powers, and without there being any pre-emption of funds. In December 2001 the Committee decided that, in the light of experience to date, the creation of Accountable Bodies should play no part in the rest of the Objective 1 Programme.

3.21 Action Plans proved to be one of the most problematical aspects of implementing Objective 1. Most local authorities had begun the process of preparing Action Plans in early 1999. The Welsh Assembly Government had also invited several of its sponsored bodies to prepare Action Plans on a regional basis for their respective sectors, and by July 2000 there were twenty plans under consideration. However, there was no clear agreement on how many Regional Action Plans there should be, what they should cover, and how they should inter-relate with Local Action Plans. Also, detailed guidance on the form and content of Action Plans, and the criteria that would be used to assess them, was not issued until June 2000. The Action Plans were submitted to WEFO at the end

of September 2000, but the full plans were never formally assessed against the criteria that had been established for them.

## Strategy partnerships

3.22 These difficulties contributed towards disaffection in some quarters, and in November 2000 the Economic Development Minister created a task and finish group to "bring together the Regional and Local Action Plans and look at how they fit into the strategy of the Single Programming Document". This proved to be impossible in the short time available, but the group made several recommendations intended to clarify the project development and appraisal process and to develop a more coherent strategic framework. The key elements were:

- ▶ a small policy group, the members recruited for their expertise, to address the main policy and implementation issues. The group would make recommendations to the Programme Monitoring Committee to ensure the smooth running of the overall process and the effective integration of the Objective 1 programme with the key domestic strategies and programmes. It would also review local strategies and advise the Programme Monitoring Committee on whether they should be adopted;
- ▶ four overarching strategy partnerships, to develop strategic frameworks for their sectors that would guide the development of more detailed regional and local strategies. These frameworks would set priorities for each measure, and could indicate the appropriate level of delivery (regional, sub-regional or local). The partnerships would also review all project applications to provide technical advice to WEFO and to ensure that they were consistent with the strategic framework; and
- ▶ a defined process of consultation between local and regional partnerships as projects were developed and appraised.

3.23 The recommendations of the task and finish group were accepted by the Programme Monitoring Committee and have been largely implemented. The strategy partnerships were established in April 2001 and issued draft strategic frameworks in September 2001, which were accepted by the Programme Monitoring Committee as a basis for ongoing development of local and regional

strategies. At that time, several measures remained closed because detailed strategies had not yet been developed for their use; these were considered necessary to prioritise the use of the limited funds available for infrastructure, and to reflect domestic policies that had not yet been finalised. Since then the policy context has become clearer: the Assembly's ten-year economic plan, **A Winning Wales**, was approved in December 2001 and reinforces the key themes of the Single Programming Document; and the Business Services Review has been finalised and provides a clear framework for the development of a wide range of business-oriented measures. The appropriate regional partnerships have also developed strategies for transport, environmental and energy infrastructure and the fisheries sector which will shortly enable the approval of projects in those sectors.

**3.24** More work is now being carried out aimed at ensuring that:

- ▶ local and regional strategies are consistent with each other and with the strategic frameworks of the strategy partnerships; an ad hoc group has been set up to take this forward; and
- ▶ there is more effective sub-regional co-operation between local partnerships, so that their strategies address issues of common concern at the most appropriate level and that they pool resources where this would improve services.

## Launching Objective 1

**3.25** The Programme Monitoring Committee decided to launch the programme in July 2000, using a fast-track procedure to accelerate the approval of one project from each partnership with a view to giving momentum to the programme and generating a substantial amount of expenditure. As a result, grants worth £17.6 million were approved by the end of 2000. Other project applications, together with full Action Plans, were invited by 30 September 2000. A further 676 project applications were received by this date, for more than £407 million in grant.

**3.26** The timescale involved was a major challenge for all involved in the programme. The Single Programming Document was not approved by the Commission until 20 July 2000 (a timescale in line with other Objective 1 areas in the United Kingdom), which delayed the issue of the full Programme Complement until October 2000.

WEFO issued an interim version of the Complement in July 2000 to assist applicants, but by that time the fast track applications had already been received. Detailed selection criteria were not issued until mid-September 2000, two weeks before the applications were due to be submitted. The very large number of applications made it difficult for WEFO to appraise projects as quickly as it would have liked, and the lack of familiarity with the detailed requirements of the programme meant that many applications were returned for further information. This led to long delays in processing some of the projects which were submitted in September 2000.

**3.27** Under the rolling programme (paragraph 3.15), projects may now be submitted at any time, thus removing any need to rush project development in order to meet a deadline. WEFO considers that this, together with the greater involvement of partnerships in project development and the increasing experience of all those involved in the process, is improving the quality of applications and has led to a much smoother process.

## Conclusion

**3.28** Establishing Objective 1 in Wales was a daunting challenge for all those involved. The addition of Objective 1 funding meant that the new programmes, and hence public expectation, were far bigger than anything Wales had previously experienced. The timing was such that preparations for the new round had to take place against the background of devolution and the establishment of new political and administrative structures. The decision to work through partnerships at all levels made the process more complex and time-consuming in the early stages as the partners endeavoured to reach consensus on key issues. This created difficulties and tensions as the process was evolving while Action Plans and projects were being developed, and definitive guidance often emerged at a late stage in the process. Nevertheless, procedures are now well established and the key strategic issues are being addressed through the new mechanisms that are being put in place.

**3.29** There are several lessons which may be relevant for similar programmes in the future:

- ▶ it is difficult to co-ordinate a range of strategies prepared on two bases - spatial (by local authority in Wales) and sectoral. The means of integrating these two dimensions

needs to be thought through carefully and settled as far as possible before the partnerships begin to prepare their strategies;

- ▶ the preparation of local and sectoral strategies needs to take place within a clear framework, and this needs to be agreed before the programme begins;
- ▶ a large number of strategies creates logistical problems of co-ordination and management. The Managing Authority needs sufficient staff, time and expertise to carry out its role effectively; and
- ▶ project applications need to be developed with clear guidance and assessment criteria issued in good time.

## Comparison with other Objective 1 areas

3.30 Although all recipients of structural funding are bound by the same European Commission regulations and guidelines, there remains some freedom for member states in the way that they implement them. The paragraphs below draw out the key aspects of the different approaches adopted by Wales, the two Objective 1 areas in England visited by the National Audit Office Wales, and Ireland: integration with domestic programmes; the involvement of partners; and the management of the ESF. (We have not, implicitly or otherwise, sought to comment on whether one approach is better than another; value judgements of that sort, which would need to reflect the very different contexts of each area, fall outside the scope of this work.)

## Integration with domestic programmes

3.31 The most significant difference is that, unlike **Wales** and the **English regions**, **Ireland** has fully integrated its European programmes with its domestic programmes, so that all money is distributed through government bodies as a single funding stream. The Irish National Development Plan identified investment priorities for the 2000-2006 period and allocated funding to the key sectors of activity. The Irish equivalent of Wales' Single Programming Document comprises two elements:

- ▶ the Community Support Framework is based on the National Development Plan - the Irish government negotiated with the European

Commission on which measures in the Plan would be co-financed from Structural Funds; and

- ▶ Operational Programmes are based on the Framework, identifying in more detail which operations would be co-financed.

The private sector usually accesses the Structural Funds through pre-funded government programmes. Consequently there is no need for a separate administrative system solely for the European funds.

3.32 In the United Kingdom, there is no equivalent of Ireland's National Development Plan at either the national or regional level. The National Economic Development Strategy in Wales sets out broad priorities and a strategy within which sponsored bodies such as the Welsh Development Agency and the Wales Tourist Board can develop their more detailed business plans; the strategies of the Regional Development Agencies in England fulfil a similar role. The managing authorities for each programme consider specific project proposals on an ongoing basis throughout the programme period. This is designed to widen access to the Funds beyond the public agencies that normally carry out the relevant activities, thereby encouraging innovation and competition. It is also intended to create an open culture in which all the parties involved in economic development (including government departments and agencies, local government, voluntary organisations, trade unions and private businesses) are able to apply for the Funds and to have an influence over how they are spent. Consequences are that:

- ▶ applicants must find their own match funding, either from their own resources or from outside the organisation; this is intended to ensure that a project idea is viable and that the applicant is committed to it;
- ▶ projects may vary in cost from small, locally-based operations spending a few thousand pounds to extensive projects costing tens of millions of pounds; and
- ▶ the private sector may access the Structural Funds directly, or more usually, as a match funding partner or as the beneficiary of a project run by someone else.

## Involvement of partners

**3.33** **Wales, Cornwall and Merseyside** have created similar structures to involve partners in the development of strategy and the decision-making process. At the highest level, partners participate in the Programme Monitoring Committee (although there is a greater emphasis in Wales on the equal representation of the public, private/social and voluntary sectors). The partners also have a major influence through their participation on the strategy partnerships (Wales), priority management groups and task forces (Cornwall) and the priority panels (Merseyside); these committees approve strategic plans for their respective themes and help to appraise projects.

**3.34** These structures operate at the programme level. There is more variation at the sub-programme level. Wales has created 15 local, and 10 regional (thematic) partnerships; these have a more extensive and formal role than similar committees in the smaller and less diverse regions of Merseyside and Cornwall:

- ▶ in **Wales**, every project must be endorsed formally by the relevant partnership board before the Managing Authority will consider it for appraisal. In **Cornwall and Merseyside**, most projects do not require formal endorsement by partnership committees before appraisal (although community regeneration projects are usually endorsed by local partnerships);
- ▶ in **Wales**, local partnerships are involved in all priorities and measures as they deal with all projects that cover four or fewer local authority areas. In **Cornwall and Merseyside**, the role of local partnerships is largely restricted to small-scale community regeneration projects and some area-based strategic investment. Business support and human resource development are usually handled at a county or regional (i.e. programme area) level;
- ▶ in **Wales and Merseyside**, each local partnership has a financial allocation for community regeneration activity, and in all three United Kingdom regions infrastructure spending has been targeted on strategically important locations. However, all the regions (including Ireland) have resisted pressure to allocate funds to geographical areas on a

more widespread basis, as they consider that this would undermine the strategic focus of their programmes;

- ▶ in **Wales and Cornwall**, partners encourage and assist project applicants through the local or regional partnerships (Wales) or theme-based task forces and locally-based Integrated Action Plans (Cornwall), which usually have their own staff to provide this support. In **Merseyside**, this role is undertaken mainly by a business development team in the Government Office.

**3.35** In **Ireland**, the partners are consulted during the preparation of the strategy and are represented on the Programme Monitoring Committees. However, these Committees are dominated by the public sector and tend to meet less frequently than in the United Kingdom; they are less concerned with implementation procedures as these are already well established. The social partners do not have an over-arching formal body to represent their interests or provide administrative support specifically for the European Structural Funds, and tend to make their influence felt through wider political structures.

## Management of the European Social Fund

**3.36** There is a significant difference in the way that the ESF is managed. In **Wales**, individual organisations (such as colleges, Assembly-sponsored public bodies or local authorities) may apply to WEFO for ESF grants. In **England** the Department for Education and Skills is currently introducing a system known as co-financing, whereby a single large organisation bids for all ESF resources in a particular area, combines it with domestic match funding, and passes it on to applicants as a single funding stream. In most cases the co-financing bodies are the local Learning and Skills Councils (the equivalent of the National Council for Education and Training for Wales). It is too early to judge whether the intended benefits - a reduction in administration and the ready availability of match funding for the colleges and other training providers - have been achieved, as the system has not been fully established. Wales has not introduced such a system on the grounds that it might undermine the system of local partnerships, which would be effectively excluded from the process. In **Ireland's** fully-integrated programme all activities, including ESF-funded projects, are co-financed.

## PART 4 MANAGING THE RISKS

4.1 This section of the report considers the major risks that might prevent Wales deriving maximum benefit from the Structural Funds, and how these potential risks are being managed by WEFO and its partners. The main risks are listed in **Figure 12**; the first two underpin the whole of WEFO's activities, while the others are based on the management cycle outlined in Part 3 of the report (Figure 7).

We have paid particular attention to risks 4 and 5, on appraisal procedures, as this is a critical part of the process. Given the scale of the programmes and the challenge facing WEFO, this part sets out only our key, high-level findings. We propose to report separately to WEFO management on our more detailed findings.

**Figure 12**

### The main risks

Potential risk	Potential Impact
1 Does WEFO have the staff resources to carry out its functions effectively?	<ul style="list-style-type: none"> <li>▶ Appraisal and monitoring procedures may not be rigorous enough or may be applied inconsistently</li> <li>▶ Possible delays in carrying out key tasks</li> </ul>
2 Does WEFO have the information systems to carry out its functions effectively?	<ul style="list-style-type: none"> <li>▶ Could lead to inefficient working practices</li> <li>▶ Danger of insufficient management information to enable good decision-making</li> </ul>
3 Are the programmes being promoted effectively?	<ul style="list-style-type: none"> <li>▶ Sound project proposals may not come forward for development</li> <li>▶ Private and voluntary sectors and innovative projects may be excluded</li> </ul>
4 Are project applications subject to robust appraisal procedures?	<ul style="list-style-type: none"> <li>▶ Projects may not be focused on strategic priorities</li> <li>▶ Projects might provide poor value for money</li> <li>▶ Poor quality projects might be approved that do not deliver programme objectives and do not address cross-cutting themes</li> <li>▶ Projects may not comply with regulations</li> <li>▶ Projects may not genuinely add value to existing provision</li> </ul>
5 Is the appraisal process too complex and time-consuming?	<ul style="list-style-type: none"> <li>▶ Good potential applicants may be dissuaded</li> <li>▶ There might be unnecessary delays in committing and spending the Structural Funds</li> <li>▶ There could be inefficient use of time and money</li> </ul>
6 Is match funding readily available?	<ul style="list-style-type: none"> <li>▶ Good projects may not proceed</li> <li>▶ European funds may not be fully used</li> </ul>
7 Are projects properly controlled financially?	<ul style="list-style-type: none"> <li>▶ European regulations could be breached</li> <li>▶ Fraud by applicants may not be detected</li> <li>▶ There may not be sufficiently early warning of potential problems with individual projects</li> </ul>
8 Is monitoring of projects and the programme as a whole adequate?	<ul style="list-style-type: none"> <li>▶ There may not be sufficiently early warning of potential problems with individual projects</li> <li>▶ Gaps in provision may not be identified and addressed</li> </ul>
9 Are funds being spent fast enough to avoid "decommitment"?	<ul style="list-style-type: none"> <li>▶ There could be decommitment of funds by the European Commission (ie lost to Wales)</li> </ul>
10 Are there effective evaluation arrangements?	<ul style="list-style-type: none"> <li>▶ Most effective activities and processes might not be identified, and strategy not revised to reflect findings</li> </ul>
11 Will Wales benefit from the mid-term performance reserve?	<ul style="list-style-type: none"> <li>▶ Additional funding could be lost to Wales</li> </ul>

## Risk 1: Does WEFO have the staff resources to carry out its functions effectively?

### Background

4.2 In the initial period after WEFO's creation in April 2000, the way that the Funds would be managed had yet to be fully worked out, making it difficult for the Assembly and WEFO to plan the number, skills and functions of the staff required. As the roles of WEFO and the partners gradually became clearer, WEFO was able to assess its staff needs more accurately. At 31 March 2002, WEFO had 142 staff in post against its complement of 190 full time posts, although some of these posts do not need to be filled until the volume of work increases, as programmes come on stream and commitments turn into payments. Nonetheless WEFO has had difficulty since it was established in recruiting the numbers of staff with the skills it needed. There remains the risk that if vacancies are not filled on time, project applications will not be processed as quickly as possible or will be appraised in less depth, or that projects are not subject to a rigorous financial appraisal or that awareness-raising activity is constrained

### Action taken by WEFO

4.3 WEFO has coped with staff shortfalls by focusing on the core activities of appraising grant applications, processing grant claims, and meeting essential obligations under European regulations. It is less urgent but nevertheless important work that has been delayed: developing guidance for staff and applicants, coordinating the development of local and regional strategies, and providing the level of service desired by the Programme Monitoring Committee and partnerships. In practice, given the rapid growth of WEFO and the inevitable lead time in training new staff, much of WEFO's key activities - including dealing with a high level of political scrutiny - have fallen to the same small core of staff.

4.4 These problems have arisen from a combination of factors. The introduction of the 2000-06 European programmes created a sudden increase in the number of staff needed, which could be met only partially from WEFO's predecessor organisations. At the same time, demand for experienced staff has increased elsewhere. WEFO has followed the normal Assembly procedures which require vacancies to be advertised internally before

external recruitment is possible. The pace of recruitment has not matched the needs of what has been a rapidly growing organisation. It has proved particularly difficult to recruit and retain staff with specialist skills, in areas such as research and evaluation, and the Private Sector Unit. However, WEFO has now made progress in recruiting staff and the number of vacancies has fallen. And the Assembly is currently reviewing its recruitment procedures, which may lead to greater flexibility in appointing staff.

### Conclusion on this risk

4.5 Given the considerable challenge facing a new organisation, WEFO has done well in initiating the programmes while building up a new organisation from scratch. However, the nature of WEFO's operations - dispersed across Wales and including some specialist activities - has made it more difficult to recruit and retain all the staff it needed. As the programmes continue to gather momentum, this remains an issue for WEFO, together with the Assembly, to deal with, not least so that pressure on staff does not lead to mistakes being made with the complex procedures required by the European Commission.

## Risk 2: Does WEFO have the information systems to carry out its functions effectively?

### Background

4.6 WEFO inherited three information systems from its predecessor organisations:

- ▶ the **European Fund Management System** - a database of all projects approved under three Funds: ERDF, EAGGF and FIFG;
- ▶ the **Dataflex system**, recording grant claims and payments for all non-ESF projects approved in the 1994-99 programmes; and
- ▶ the **Programming and Payments Database**, operated by the then Department for Education and Employment, which provided a fully integrated system for ESF projects. (The Department administered all payments of ESF projects until April 2001, when responsibility for the new programmes transferred to the National Assembly.)

4.7 When WEFO acquired these systems on its inception in April 2000 they were not integrated with each other. WEFO is therefore currently developing a series of projects that will enhance and integrate the systems. Meanwhile, because the systems that WEFO inherited were not designed with the current programmes in mind, there have been some problems as the programmes have got underway:

- ▶ the limitations of the European Fund Management System and Dataflex system have meant that WEFO staff have had to record project details on a series of spreadsheets that are not subject to the same tight controls as properly developed information systems, and which make it difficult to collate important management information;
- ▶ the absence of a link between the European Fund Management System and Dataflex, and the limitations of the Dataflex system, means that claimants have to complete details on previous grant claims and expenditure and WEFO staff have to process all the claims manually, making additional demands on the time of both parties; and
- ▶ significant staff time has been spent on re-entering data onto different computerised systems and preparing the various spreadsheets maintained by divisions in WEFO.

### Action taken by WEFO

4.8 To address these issues and to cope with the anticipated demands of a much larger programme, WEFO is developing an integrated system as a top priority. This involves two key elements:

- ▶ an **Interim Grant Payment System**, enhancing the European Fund Management System and replacing Dataflex, that will largely resolve the problems listed above by linking the grant approval and payment systems for all Structural Funds except the ESF. The plan is to implement progressively the new system from April 2002 and for it to be fully operational by September 2002; and
- ▶ a **Grant Management Information System** that will link the Interim Grant Payment System and the Programming and Payments Database to provide comprehensive management information reports for all the Structural Funds and Community Initiatives. WEFO plans to introduce this system in September 2002.

These improvements will greatly enhance control over the accuracy and integrity of data, will make the claims payment process more efficient by reducing manual checks, and will facilitate monitoring of expenditure and outputs by allowing better management reports to be generated.

4.9 WEFO appointed an information technology manager in May 2000 to review the needs of the organisation and, once the technical solutions and procurement route had been decided, appointed an external project manager in March 2001. A project board to give overall direction and control to the project was established in June 2001. Due to the urgent need for the new interim system, WEFO decided to adopt a "rapid applications development" approach, which involves overlapping the design, programming and user testing stages. The potential advantage of this approach is a saving in cost and time and a final product that reflects better the user's developing requirements; this must be set against the potentially higher risk of abortive work.

4.10 WEFO initially planned that these two systems would provide an interim solution, but now hopes to incorporate them into a fully integrated and web-enabled system that will allow grant applications and claims to be made electronically. This new system is unlikely to be ready until at least 2004.

### Conclusion on this risk

4.11 Given the amounts of money in the Structural Funds, the systems inherited by WEFO did not facilitate effective and efficient management, although there is no suggestion that public funds were put at risk. In view of the urgent need for improvement, the decision to enhance the European Fund Management System in the first instance was a sound one. The introduction of the final system, however, will not be available to WEFO until half way through the programming round. ***We recommend that WEFO continue to work on developing better information technology systems with a view to having a fully-integrated system in place as soon as possible.***

### Risk 3: Are the programmes being promoted effectively?

#### Background

4.12 It is essential that the programmes are promoted widely and effectively so that sound project proposals come forward from the widest range of sources, including those that traditionally have not accessed the Funds directly - the private and voluntary sectors. Responsibility for promotion of the European programmes in Wales rests mainly with WEFO, but local and regional partnerships are also responsible for promoting the programmes in their own areas.

#### Action taken by WEFO

4.13 WEFO has held a series of seminars and events around Wales, often aimed at the private sector. Interest in the programmes has been such that 10 seminars and roadshows had been held by June 2001, against two events originally envisaged, with more planned. WEFO considered this to be more useful than undertaking a general poster and public awareness campaign: there had already been much unsolicited media coverage of Objective 1 and the need was to target those groups that could deliver projects.

4.14 WEFO uses its website as the main way to provide information. It is based on the Welsh European Programme Executive's website, which won an award for its layout. It is now the most widely used source of information and compares well with the websites of the other Objective 1 regions in the UK in ease of navigation and breadth of content (Figure 13).

4.15 The results of the survey commissioned by the National Audit Office Wales showed that WEFO's activities have reached a wide range of those involved in projects. For example, 88 per cent had visited WEFO's website (compared with 57 per cent who had visited the former Welsh European Programme Executive's website), and 53 per cent had attended a seminar or presentation by WEFO staff. Full details are in Appendix 4. Overall, the survey showed that just over half of the applicants questioned were satisfied with the publicity and general information provided by WEFO.

Figure 13

#### Comparison of information on the websites of UK Objective 1 regions

	Wales	Cornwall	Merseyside	South Yorkshire
Single Programming Document / Programme Complement	✓	✓	✓	✓
ESF guidance / ESF application form	✓	✓	✓	✓
ERDF guidance / ERDF application form	✓	✓	✓	✓
Guidance and forms for other Funds	✓	✓	✓	✓
Latest news	✓	✓	✓	✓
Match funding sources	*	✓	✗	✗
Explanation of application process / timing etc	✓	✓	✓	✓
Programme Monitoring Committee minutes	✓	*	✗	✓
Publicity logos available to download	✓	*	✗	✗
List of approved projects / project search	✓	✓	✗	✗

\* Under development

Source: National Audit Office Wales

4.16 The responsibilities of the local and regional partnerships for promoting the programmes are very similar to those of WEFO and there is a danger of duplication and inefficiency if efforts are not sufficiently co-ordinated. Like WEFO, many have their own websites, issue newsletters, and hold promotional events. However, they vary in the amount of activity undertaken and information provided. All of the partnership secretariats visited by the National Audit Office Wales reported that there was very little co-ordination between their promotional efforts and those of WEFO, with some being unclear about WEFO's publicity arrangements. Some local partnerships had developed links with local Business Connect advisers, so that those seeking general business advice could be directed to the partnership secretariat if necessary.

4.17 In addition to the activities above, WEFO has taken steps specifically aimed at engaging those sectors which have less direct experience of the Structural Funds programmes. It has established:

- ▶ a Private Sector Unit to advise the private sector on opportunities provided by the Structural Funds, and to help potential applicants to develop their projects (see box); and

- ▶ a Voluntary Sector Support Unit with similar functions. This Unit is operated by the Wales Council for Voluntary Action, with financial support from the technical assistance budget.

### Conclusion on this risk

4.18 Much has been achieved, but there is scope for more co-ordination of promotional activity with the partnerships to ensure that the programme is widely promoted and covers all necessary aspects, while minimising overlap between those involved. There is also scope for more interchange between Business Connect and WEFO so that they both direct enquirers to the most likely appropriate point of contact for funding needs (since the need to demonstrate wider benefit and the complex nature of the European programmes means that they might not be the most appropriate route for many projects). The Private and Voluntary Sector Units also have a major role to play in enhancing the impact of their sectors on the programmes.

#### The Private Sector Unit

The Private Sector Unit was established in September 2000 to facilitate private sector access to the Structural Funds, which had been limited in previous programmes. Its specific objectives were approved by the Objective 1 Programme Monitoring Committee in December 2000:

- ▶ to provide an initial enquiry point for the private sector;
- ▶ to translate regulations and other key documents into clear guidance for the private sector;
- ▶ to provide guidance and regular briefing for organisations working with the private sector;
- ▶ to help private sector project sponsors develop projects, and particularly to offer advice and guidance on eligibility, process and submitting an application. However the Unit does not replace the role of the partnership or participate directly in project appraisal;
- ▶ to develop ideas for schemes which will deliver significant economic growth and to "sell" these to potential sponsors; and
- ▶ to seek to ensure that the process is made as accessible to the private sector as possible.

Progress in achieving these objectives has been slowed by several factors: staff shortages, a very high level of enquiries at the beginning of the Objective 1 programme, the need to address some difficult regulatory issues on state aid, and the need to hold general promotional events at the start of the programme. This meant that the Unit has concentrated on core work such as handling enquiries and helping project sponsors through the application process. However, these initial difficulties have now been overcome; significant recruitment has taken place (including three secondees from the private sector) and the Unit is now addressing longer-term objectives.

At 31 March 2002, only 22 private sector-led projects had been approved, although the Unit is dealing with a further 55 at various stages of development. (The programmes can only fund projects which demonstrate a wider benefit for the region and meet the specific objectives of the measure under which they are submitted). The Unit held three workshops in December 2001 to obtain the views of a range of private sector representatives on the operation of the Structural Funds, which indicated considerable dissatisfaction with the speed and 'bureaucracy' of the process. WEFO considers that these problems stem from excessive expectations at the beginning of the programme and cultural differences between the public and private sectors. The Unit now plans to develop project frameworks for areas of the programmes where the private sector could generate most benefit. These will not necessarily be those which currently attract most interest, such as infrastructure schemes. The frameworks will specify what is required, endorsed by the relevant partnerships, and then be promoted as specific business opportunities to the private sector. The Unit hopes that these frameworks will ease access to the programme for the private sector and will maximise its beneficial impact.

## Risk 4: Are project applications subject to robust appraisal procedures?

### Background

4.19 As the Managing Authority for the European programmes in Wales, WEFO is responsible for appraising all project applications to ensure that they are eligible for support under European regulations, fit with the strategy laid down in the Programme Complement and other documents, and provide good value for money. This role is vital for ensuring that the projects deliver the objectives of programmes at a reasonable cost and that grants are not later recovered because they have breached European regulations. The local and regional partnerships also play a crucial role, as they help develop and then assess projects to establish how well they meet local or regional needs. WEFO will only consider projects that are supported by the relevant partnership, and will usually award a grant only if the relevant strategy partnership has recommended the project for approval.

4.20 The National Audit Office Wales examined a sample of project applications for ERDF, ESF and EAGGF under Objectives 1 and 3. We considered the quality of evidence provided under the following headings:

- ▶ compliance with regulations;
- ▶ added value (the requirement that projects provide genuinely additional benefits to the programme area);
- ▶ need for the project;
- ▶ fit with strategy and integration with other projects;
- ▶ value for money in terms of overall unit cost for the results generated by the project;
- ▶ cross-cutting themes - equal opportunities, environmental sustainability and information and communications technologies. (A new European Union requirement for the 2000-06 programmes is that projects must show how they will contribute to these themes.); and
- ▶ risk assessment.

4.21 Overall, we found that WEFO appraises projects systematically using the set selection criteria (Appendix 5). Procedures have developed steadily since the organisation began appraising projects under the new programmes in September 2000; at that time many staff were new, and had to appraise

projects without the benefit of formal training or detailed instructions. Since then WEFO has developed more detailed guidance and more comprehensive checklists, and the standard of documentation has improved. A number of other developments provide further safeguards:

- ▶ well established procedures of moderation and review to reduce the risk of inconsistent scoring and to ensure that all requirements are met;
- ▶ for Objective 1, the Programme Monitoring Committee has established formal procedures to ensure that all projects undergo widespread consultation before approval;
- ▶ the strategy partnerships provide an independent recommendation on each project, based on a short appraisal report prepared by WEFO;
- ▶ projects are frequently referred for policy advice to appropriate parts of the Assembly Government; and
- ▶ increasing use is being made of financial appraisal (a detailed assessment of a project's financial plans) and specialist technical appraisal.

4.22 The results of the scoring procedures are documented on standard checklists, but in our opinion these do not always provide sufficient information on the judgements involved. For ESF projects the scores awarded for each criterion are not supported by any written comments. Without such comments, the decision-making process is not wholly transparent. **We recommend that WEFO ensure that all issues involving the exercise of judgement, including scores awarded, are justified in writing.**

4.23 On **eligibility** of projects, we found that WEFO applies the rules rigorously but that problems have emerged in certain areas where requirements are uncertain. State aid is a particularly complex issue, and WEFO submits all major private sector projects to the Department of Trade and Industry State Aids Unit for advice. In some cases, legal issues have resulted in considerable delays to the approval of projects; these may arise because planning consents are not in place, activity is taking place outside the programme area, or the European Union has imposed caps on revenue or capital funding within measures. Overall we are satisfied that WEFO addresses compliance issues rigorously.

- 4.24 The concept of **added value** is fundamental to the appraisal of projects and is a basic requirement of all Structural Fund grants. The grant awarded must be the minimum required for the project to proceed and projects must:
- ▶ not substitute for existing or planned activity;
  - ▶ not duplicate existing activity; and
  - ▶ demonstrate an additional and sustainable benefit to the socio-economic development of the area.
- 4.25 These are difficult risks to assess, particularly for ESF projects. WEFO relies on the partnerships, and the consultations between them, to identify any duplication of provision; it also consults officials and specialists with an in-depth knowledge of the sector. It is also difficult to assess the effect of substitution and need for grant; these are particular risks for projects that extend existing services (such as business development grant schemes or training courses), private sector projects, and revenue-generating projects that would normally be funded privately (for example, infrastructure).
- 4.26 WEFO carries out detailed financial appraisals on private sector projects to ensure that cost and revenue forecasts and profit levels are reasonable, and that it can recover an appropriate percentage of any abnormally high profits earned from the project after it has ended. However, we found there was less scrutiny of public sector projects that involved extending existing provision; it was not always clear how much additional provision was being made available with the grant or where any resources released by funding the project would be redirected.
- 4.27 Given the complexities involved, there is a limit on how much WEFO can do in assessing added value at the appraisal stage. However, rather than accepting applicants' assurances at face value, we believe that there is scope for WEFO to be more sophisticated in its appraisal of this issue, by:
- ▶ focusing on projects of high risk, such as existing projects which would normally be funded from mainstream sources and private ventures;
  - ▶ asking a series of linked questions. Is this a new project? Has it received European funding before? Will the project include activities that are already being carried out (in which case additional outcomes and costs need to be demonstrated)? If the funding is for existing provision, where will the resources released be redirected? and
- ▶ ensuring that all involved in the process, particularly project applicants, are fully aware of requirements and the sort of documentation needed to justify added value.
- 4.28 By taking these actions at an early stage, WEFO should go some way to forestall the risk of subsequent clawback of grant when audits identify problems with added value. ***We recommend that WEFO do more to assess the added value case at appraisal stage in the ways we have set out above.***
- 4.29 **On need for the project**, we found that projects varied in the quality of the case they put forward, particularly for the first round of projects in 2000. Some had undertaken specific research to support their case, but many others referred to existing strategies and policies in a vague way that did not demonstrate the need for the specific activity of the project in its proposed location. The need for the project, and related issues, can be addressed by asking a series of linked questions, such as: What is the specific need that the project addresses? What other provision is there and why is this not adequate? What evidence is there that this project will be effective (for example, results of pilot projects or results of similar projects?) What alternatives have been explored? How will the project be promoted and beneficiaries recruited to ensure that it delivers the required results? Does the applicant have the capability to carry out the project?
- 4.30 Most of these questions are directly addressed in the ESF selection system, but the scoring system for the other Funds assesses fit with relevant strategies and policies rather than the need for the project specifically. These strategies are high-level documents and vary considerably in the extent to which they map current need and provision of services, identify and assess potential solutions and prioritise activities. The degree of integration with other projects and programmes is also assessed as an indicator of synergy, maximising the beneficial impact of the programmes. For all the Funds, WEFO relies heavily on the partnerships to assess in detail the need for the project and its quality, but these assessments are not usually fully documented on WEFO's files and are not formally incorporated into WEFO's project selection system. The regional and local partnerships use their own assessment criteria which often overlap with WEFO's, but the depth of assessment is not clear from the appraisal documentation held by WEFO.

4.31 It is important that the evidence cited for project need is checked where necessary. There was little evidence of this from WEFO's files; indeed ESF applicants are asked not to submit any supporting documentation with their application as the form should include all information required for the appraisal. There is scope to work more with partnerships to ensure that a suitably detailed review is carried out to a consistent standard. **We recommend that WEFO incorporate a more detailed assessment of project need and quality into its selection criteria for ERDF, EAGGF and FIFG, and that for all Funds the work of partnerships in this respect be incorporated directly to minimise duplication. Where a detailed assessment has not been undertaken, WEFO should review the necessary evidence itself and document this fully on its appraisal files.**

4.32 Although partnerships develop and assess projects, WEFO is ultimately responsible for appraising the overall **value for money** of a project. A rigorous assessment of value for money might include asking questions such as (this is not an exhaustive list):

- ▶ whether all costs (and the goods and services they fund) are reasonable and appropriate;
- ▶ whether the project sponsor will procure services competitively (a regulatory requirement for most applicants);
- ▶ the amount of private sector finance provided (leverage); and
- ▶ whether the project outputs (a measure of activity) and results (the immediate outcome of the activity) are realistic, and reasonable when compared with overall costs. Cost per job is an especially important measure for ERDF.

4.33 We found that WEFO usually assesses costs in some detail, and is making increasing use of technical advice and financial appraisal for this purpose. It also ensures that project sponsors commit themselves to competitive procurement, and this is verified subsequently on a sample basis as part of the financial control work carried out by WEFO.

4.34 However, assessment of outcomes and unit costs is less well developed. The scoring system for ERDF, EAGGF and FIFG does not consider relative unit costs and differentiates only between direct, indirect and potential job creation / increase in business turnover. For ESF, unit costs are not included in the selection criteria. It would be helpful to have a more robust framework with more detailed criteria for assessing value for money.

For example, in Cornwall ERDF appraisals are based on specific indicators for each activity, such as unit costs for construction or job creation levels for business advice, which have been developed by external consultants. These indicators cover both activities (for example unit costs for construction) and results (for example, the likely number of jobs created for a given investment in small businesses). Such indicators are not used in Wales, although they could be developed from the cost and output assumptions underpinning the Programme Complement. For ESF, it is particularly important to assess the realism of costs and outputs as there have been serious problems with under-spending in recent years.

4.35 The partnerships in Wales have a role in assessing projects' value for money, and specialists in the regional partnerships in particular may have the technical expertise needed to make such judgements. There is an important distinction between the role of the local and regional partnerships in contributing to the development of good projects and that of WEFO in appraising them against a range of criteria. However, where the partnerships have carried out valuable work on a project which might assist WEFO in its appraisal function, it clearly makes sense for such work to be made available to WEFO - not least to avoid the risk of duplication of effort. **We recommend that WEFO re-examine its arrangements for satisfying itself on the value for money of projects, including the adequacy of the information on which judgements are made and the guidance available to staff who make such judgements.**

4.36 On **cross-cutting themes** we found that many applicants have found it difficult to address these themes, and have made general statements of intent rather than specific commitments about how the themes will be integrated into their project. For example, project proposals may state that they are "fundamentally open to all" or are "committed to equal opportunities", but few have specific commitments such as assisting course beneficiaries with childcare costs. WEFO has recognised the difficulties involved and appointed a specialist for each of the themes to advise applicants and assist other staff in project appraisal. It has also issued guidance for equal opportunities and environmental sustainability, and uses guidance developed by the Welsh Development Agency for information and communication technologies. **We recommend that WEFO incorporate this more detailed guidance into its scoring criteria.**

4.37 On **risk assessment**, although WEFO told us that appraisal officers and partnerships consider project risk as part of their assessment, we found very little evidence of this from our review of project files. The nature and potential impact of the risks involved will depend on the project and the quality of its management. Large or innovative projects are generally more risky, but the potential benefits may be correspondingly greater and therefore worth the risk. All of these factors should be assessed as part of the project appraisal and a judgement made on the acceptability of the overall risk to the European programmes. WEFO is currently developing a standard mechanism to document the risks identified during appraisal and to feed them into subsequent monitoring and financial control activity. **We endorse this initiative, and recommend that project sponsors should be asked to identify the risks of their project and how they will be managed.**

### Conclusion on this risk

4.38 Good project appraisal - choosing the right projects, which genuinely add value to the economy of Wales - is key to the success of the programmes. WEFO, together with its partners, has been under pressure to get the programmes moving and to commit money. This it has achieved. As the programmes develop, however, there is scope for WEFO to become more sophisticated in its appraisal techniques, through, for example, the development of value for money indicators and more robust risk assessments.

## Risk 5: Is the appraisal process too complex and time-consuming?

### Background

4.39 The European programmes in Wales are inherently complex because they cover a very wide range of inter-linking activities that need to be co-ordinated with each other, with other government programmes and policies, and to comply fully with a raft of European and domestic regulations. In the light of the findings from our survey of applicants (Appendix 4), we considered whether the appraisal process was likely to deter potential applicants under three categories: the length of the process; the amount of information requested on the application form; and the guidance available for applicants.

### The length of the process

4.40 Appraisal times depend on several factors, including the extent of additional information required by WEFO and/or the strategy partnership; whether external advice is sought (this is a major reason why ESF applications, which rarely need to be referred for external professional advice, tend not to take as long to approve); whether any complex policy issues are raised; and whether more than one strategy partnership is involved. This last factor affects large projects that cover several measures which involve more than one strategy partnership.

4.41 WEFO has a target of processing applications within 90 days. Performance against this target tends to be monitored by teams on a case by case basis; WEFO does not yet have an automated system for collating the data and reporting it to management, although this is being developed as part of the new IT system. A separate exercise in February 2002 showed that the average appraisal time for projects approved under the rolling programme (from 1 January 2001) was 103 days, with 42 per cent processed within the 90 day target. These figures exclude applications that were still outstanding at 31 January 2002. They also exclude time taken to develop the project in conjunction with the relevant local or regional partnership, before it reaches WEFO, which can take at least two months (Figure 11).

4.42 However, appraisal times for applications received in 2000 were much longer. One reason for this was that a large number of projects were submitted on the same day to meet the 30 September 2000 deadline. At this stage WEFO (which had only recently been established), the partnerships and the applicants were unfamiliar with the requirements of the new programme. In addition strategic policy and guidance in some key areas had not yet been established and WEFO required a lot of additional information before it could decide whether to approve projects. Many projects took at least a year to be processed and decisions on some projects are still outstanding.

4.43 WEFO considers that the operation of the process has greatly improved since the initial round of applications as everyone involved has become more familiar with their roles. It is possible to turn around applications in 90 days if they are well developed and include all necessary information; this requires close working between partnerships, applicants and WEFO to ensure that all parties are well informed

on what is required and when. However, a major reduction in overall assessment times is unlikely because of the many stages that a project has to go through (see Figure 11 in Part 3). WEFO's target of a three-month appraisal period is the same as those in place for Merseyside and Cornwall.

#### The amount of information requested on the application form

- 4.44 The application form is essentially a full justification of the project - it must show how the project meets all the criteria for a grant from the Structural Funds. These criteria are demanding and extensive and it follows that a substantial amount of information is needed on the application forms. For ESF projects the application form is fully computerised and submitted on an interactive disk. For other Funds, the form is available electronically but is not interactive, so that, for example, applicants need to analyse costs and calculate totals themselves. Guidance for completing the form is available in a separate document.
- 4.45 The National Audit Office Wales compared the Welsh Objective 1 application form for ERDF, EAGGF and FIFG with the English ERDF application requirements. The main difference is that the English form is shorter, and focuses on factual information about the project; however, the applicant also submits a business plan that provides the substantial justification for the project. This gives the applicant more discretion over the content and format of the information provided. Overall, the amount and nature of information required in England and in Wales is similar.
- 4.46 Shortening the application form and requiring more detail in the business plan, as has been done in England, has both advantages and disadvantages. On the positive side, the applicant would have more discretion to present their project, and hence give WEFO a better idea of how well developed the project idea actually was. It would also allow applicants whose project covers more than one measure to submit a single business plan, with separate application forms recording only the detail that is required separately for each measure; this would cut out a considerable amount of duplication for such projects and would bring out more clearly links between related projects. Many applicants, especially for larger and private sector projects, already prepare business plans as well as an application form. However, on the negative side, there would be less control over the type of

information submitted, some applicants may prefer a structured application form to the "open book" of a business plan, and it may be difficult in practice to avoid repetition of information between the two documents. ***We recommend that WEFO examine the scope for shortening the application form to include mainly specific details on the project and its compliance with regulations, with a business plan containing the substantial justification for the project.***

- 4.47 In response to requests for more detailed geographical information from the Programme Monitoring Committees and Economic Development Committee, WEFO has increased the amount of information required on application forms to include the timing and location of project outputs. This will allow the geographical distribution of each programme's activity to be monitored, and will facilitate the development of strategies by local partnerships. However, for larger projects it will represent a major expansion in the amount of information required.

#### Guidance for applicants

- 4.48 The quantity of guidance available for applicants is considerable, reflecting the very wide range of the Programmes. For example, the Single Programming Document and Programme Complement alone amount to over 500 pages between them, with a number of other sources of guidance also running into the hundreds of pages. The amount of guidance continues to increase as applicants are now expected to refer to the strategic framework produced by the strategy partnerships for their area of activity. In practice, applicants do not need to read all the guidance and the partnerships will direct them to the most appropriate sources.
- 4.49 Findings from our survey of applicants were that the main sources of written guidance were widely used and generally considered helpful. However, while there was no strong consensus on exactly how to change the guidance, the results indicate a general desire to simplify, shorten or consolidate it to make it easier to use. WEFO faces a difficult task in reconciling the desire for short and simple guidance with the need to provide comprehensive information where it is needed. A single, comprehensive guide is also liable to become outdated quickly, as strategic priorities and selection criteria are likely to change over time.

4.50 Another option might be to develop a "starter pack" of basic information for applicants, that is supplemented by a series of more detailed guidance notes that applicants and their advisors can refer to if necessary. Several partnerships have already introduced their own introductory guidance. Extensive information will always be needed for specific activities and situations, but this needs to be kept separate from the general guidance and made specific to each measure as far as possible. WEFO has investigated developing its website so that links from one set of guidance to another can be made electronically, but has not pursued it on the grounds that many of its customers do not have broadband access to the internet and would have difficulty downloading a more complex website.

4.51 WEFO has taken steps to make its guidance for Objective 1 more user-friendly by:

- ▶ re-writing the Programme Complement so that it is shorter, easier to use and more relevant to applicants. The revised version was given outline approval in March 2002;
- ▶ developing fact-sheets that are targeted at particular groups, and which suggest alternatives to the Structural Funds if these appear more appropriate; and
- ▶ introducing guidance on environmental sustainability and the use of information and communication technologies that is specific to each measure of the programme (although a large amount of general guidance remains).

#### Key funds and project commissioning

4.52 Two options for reducing the information burden on applicants are the greater use of key funds and project commissioning (see box). For a final beneficiary such as a small or medium enterprise or voluntary organisation, applying to **key funds** shortens the application process and the application form, as there is no need for the extensive assessment and consultation of the full Objective 1 process, and the detail requested on the application form can be tailored to the specific activity covered by the key fund. The drawback with key funds is that by introducing an intermediary the period between commitment and spend is lengthened, increasing the risk that Wales will lose funding through "decommitment" (see Risk 9).

4.53 WEFO reported that it was keen to introduce **project commissioning**, but would need detailed information on the amount, timing and location of project outputs; this will only become available when the new IT system is fully functional. The strategy partnerships will have a major role in identifying the best opportunities for project commissioning (for example sectors or localities where there are gaps in provision) and setting appropriate criteria for project selection.

The **key fund** or global grant is operated by an intermediary with some expertise in the specific type of activity which is covered. The intermediary applies for the money from the Structural Funds in the normal way and promises a certain level of outputs and results. The money is then provided to smaller organisations which apply to the intermediary for a grant from the key fund. Examples of key funds include Finance Wales (equity and loans, with management advice, for small businesses), various small business grant schemes run by local authorities, and the Social Risk Capital Fund (building capacity for community regeneration) run by the Wales Council for Voluntary Action.

Under **project commissioning**, the partnership or Managing Authority identifies a specific need and the best way of fulfilling it, and invites project applications that meet these specific criteria. This means that the project sponsor has a very clear idea of what is required and does not have to research links with other strategies or provide evidence of the need for the project. The Private Sector Unit plans to identify areas of the Programmes which would benefit particularly from greater private sector involvement, and develop frameworks within which private sector-led bids could be invited.

#### Conclusion on this risk

4.54 There will always be a degree of tension between a user-friendly application process and the need for WEFO to carry out a rigorous appraisal of projects against the selection criteria specified by the Programme Monitoring Committee, according to European Commission regulations and to the standards expected of a public body. WEFO should examine the scope for shortening the application form and introducing a business plan to give applicants more discretion over the presentation of information, and to cut down duplication for large projects. Key funds and project commissioning may offer scope for alleviating the information burden on beneficiaries from the Funds, but for the former with an increased risk of decommitment. We endorse WEFO's intention to develop project commissioning.

## Risk 6: Is match funding readily available?

### Background

4.55 It is essential that sufficient match funding is available for sound projects to go ahead, and to ensure that potential applicants are not deterred by the difficulty of obtaining the necessary finance. Applicants may obtain match funding from a wide range of sources, including their own funds, external sources of finance; and contributions in kind, mainly in the form of volunteer time and facilities made available free of charge (there are rules for ascribing a monetary value to these contributions). Each project applicant is responsible for securing its own match funding, and WEFO checks that it is in place before approving a project grant. WEFO itself is not responsible for providing match funding (although it does, exceptionally, manage the system of indicative allocations for Local Regeneration match funding set up for local authorities).

4.56 We considered two elements of this risk: whether applicants had sufficient support to identify match funding opportunities, and whether there is scope to improve the supply of match funding to applicants.

#### Support in identifying match funding

4.57 Results from the National Audit Office Wales survey of applicants (Appendix 4) show that there is a lot of scope for improving guidance to applicants on where to obtain match funding. The partnerships (particularly the local partnerships), which are the first port of call in helping applicants to develop their projects, generally confirmed this view during our discussions with them. Some partnerships were developing their own list of sources independently; there is scope to co-ordinate these efforts, thus improving efficiency and spreading best practice.

4.58 The Department of Trade and Industry has issued guidance on potential sources of match funding for applicants, but much of the information is relevant only for applicants in England. WEFO has started to develop its website to act as a source of information on match funding for partnerships and applicants. While WEFO is not directly responsible for providing such guidance, there is scope for it to work with officials of the Welsh Assembly Government and others to extend this. **We recommend that the Welsh Assembly Government develop guidance on sources of**

*match funding, working in conjunction with the partnerships to ensure that applicants' needs are met and that best use is made of existing resources.*

#### Access to match funding

4.59 Identifying possible match funding sources is straightforward for most applicants; the greater difficulty arises in actually obtaining the funds. The voluntary sector is likely to have the greatest difficulty in securing match funding and co-ordinating two or more match funding regimes; the Community Assets Strategy Partnership is considering the impact of these factors on the disappointing level of project applications for Priority 3 of Objective 1 (community regeneration). However, public sector bodies can also face difficulties raising funds to co-finance large projects. The Assembly Government has therefore created special funds or "match funding pots" within the economic development budget to provide match funding for projects which cannot obtain it from alternative sources. These funds will provide up to £207 million between 2001 and 2004, equivalent to 29 per cent of the total public sector match funding planned for the first three years of Objectives 1, 2 and 3 (Figure 14). Applications for Pathways to Prosperity and the Local Regeneration Fund will be handled in parallel with the related Structural Fund application, which should quicken the overall lead time to approval and ease the administrative burden on project applicants.

4.60 Specific information on the number and sources of match funding for different types of projects is collected by WEFO as part of the appraisal process but is not currently collated and monitored. When this information is available to the strategy partnerships as part of the development of the new IT system, it will mean that policies on delivery mechanisms can be made based on complete and timely information. We endorse WEFO's decision to develop its information system to provide data to the strategy partnerships on match funding actually obtained by applicants.

4.61 Most of the local partnerships visited by the National Audit Office Wales expressed support for the use of key funds (see paragraph 4.52) so that small projects could access the Structural Funds indirectly without having to find match funding themselves. As an example of how this might work in practice, the Objective 1 Programme Monitoring Committee has already adopted a policy of allocating up to 80 per cent of the funds available for a three year period for certain measures under

**Figure 14**

**Match funding pots provided by the Welsh Assembly Government**

Match funding pot	Amount available 2001-04 (£000)	Target applicants
Pathways to Prosperity	60,000	Private sector, WDA, Wales Tourist Board, Business Connect, Enterprise Agencies, Welsh Assembly Government
Finance Wales	17,396	Finance Wales
Euro Facilitators	1,500	Private and voluntary sector organisations
Local Regeneration Fund (local authorities)	90,901	Local authorities for community regeneration - financial allocation for each Local Authority
Local Regeneration Fund (voluntary sector)	13,605	Voluntary bodies for community regeneration
Food processing and marketing	10,574	WDA
Farm adaptation	10,195	WDA
LEADER+	3,000	LEADER projects
<b>Total</b>	<b>207,171</b>	

Priority 5 (rural development) to major schemes operated by the Welsh Development Agency and the Welsh Assembly Government, with the aim of ensuring that assistance to farmers was consistent with the Assembly Government's Farming Connect initiative. A potential spin-off benefit is that beneficiary farmers and small rural businesses would not have to identify match funding opportunities themselves or to go through the long application process for Objective 1. The corollary is the potentially higher risk of decommitment, as a high proportion of one measure's resources is dependent on the success of one project. Both Farming Connect and the agri-food schemes have fallen far short of their expected expenditure.

**Conclusion on this risk**

4.62 Ready access to match funding is key to the success of the programmes since it should amount to over half of the total programme expenditure - over £1.5 billion. WEFO does not have direct responsibility for guiding applicants to sources of match funding, but is now working with the Welsh Assembly Government to ensure that better guidance to applicants is provided. Information systems should be developed so that warnings about any problems with applicants' access to match funding are available as soon as possible.

**Risk 7: Are projects properly controlled financially?**

**Background**

4.63 WEFO is responsible, as the Paying Authority, for ensuring that project grants are paid correctly and for ensuring that each project meets the conditions of its grant after it has been approved. The main conditions, as stated in the project approval letter from WEFO, are shown in Appendix 6, together with the specific controls that WEFO operates to ensure that they are met.

**Action taken by WEFO**

4.64 WEFO has three main mechanisms for ensuring that projects meet their conditions:

- ▶ checks made on each claim form (normally submitted quarterly) by the relevant payments team;
- ▶ independent external annual audit of all projects (except ESF project with grants of less than £20,000); and
- ▶ detailed inspections of a sample of projects by the Financial Control Team within WEFO. European regulations require the Paying Authority to inspect projects covering five per cent of the total eligible expenditure supported by each programme. These are wider-ranging than the annual audits as they cover outputs and compliance with publicity and procurement regulations.

- 4.65 On the **checking and payment of claims**, we found that WEFO has sound procedures in place to ensure that claims are received on time and are paid reasonably quickly. ESF claims are usually processed within five days plus a further day for the funds to be released to the banking system. ERDF claims take longer as they tend to be more complex and because they are paid through the Welsh Assembly Government's finance system which is not currently integrated with WEFO's. However, the average payment processing time is 14 days within WEFO and a similar period within the finance system. Planned improvements in IT systems will enable quicker payment, easier checking by payments staff, and the provision of standing data on claim forms when they are sent to applicants.
- 4.66 On the **independent annual audit of claims**, we found that while the audits covered the main issues, there was inconsistency in the scope of work that auditors were being asked to do. Guidance has been issued for auditors by the former Department of Education and Employment (for all ESF projects), the Audit Commission (for local authority projects in other Funds) and by WEFO (for other projects). This guidance varies considerably in the amount of information provided and in the scope of the work that auditors are instructed to do. For example, only ESF auditors are asked to confirm project revenue, only Audit Commission auditors are asked to confirm competitive procurement, and only the WEFO instructions ask auditors to review general financial controls and to confirm that administrative expenditure has been restricted to 10 per cent of project costs. ***We recommend that WEFO review all instructions to auditors to ensure that sufficient background information is provided, that auditors are alerted to common risks and that testing programmes are consistent and comprehensive.***
- 4.67 The General Report on the financial audit work of the Auditor General for Wales 2000-01 stated that "the results of audit examinations to date [on the new programmes] highlight several problems resulting mainly from the failure of grant recipients to document project spend adequately. This is particularly evident on ESF-funded projects, which are often delivered by third parties operating at arms length from the project sponsors." In March 2002, WEFO, along with the English regions, decided to suspend annual audits on ESF claims while the scope of such audits was reviewed jointly with the Department of Work and Pensions and the relevant accountancy bodies. This review is expected to be completed by July 2002.
- 4.68 On the **Financial Control Team detailed inspections** we found that work was not as far advanced as originally planned, mainly because of problems found on claims from previous programmes. The regulation requiring the paying authority to carry out the monitoring checks was issued in late 1997 and applied also to the previous (1994-99) programming round which meant that there was a considerable catching up task for WEFO's financial control team. At March 2002, WEFO did not expect to complete outstanding work on the previous programmes until the autumn of 2002. Work on the new programmes will start in early 2003.
- 4.69 As a result of the work they carried out on the previous programmes, the Financial Control Team identified a number of issues that led them to disallow some project expenditure examined in inspection visits that had taken place in 2001. Problems found include poor control over project expenditure; claims that are not supported by original documentation; difficulties in confirming match funding in kind; difficulties in proving that ESF projects add value to existing provision; ineligible expenditure, and expenditure not approved by the Welsh European Programme Executive; and overheads not properly apportioned to the project.
- 4.70 Although these visits related to the old programmes, requirements for claiming under the new programmes are substantially similar, and these problems may underpin the findings of auditors of ESF projects on the new programmes, referred to above (paragraph 4.67). For inspections on the new programmes, we therefore endorse WEFO's plans to select projects for review based on risk assessments. And it would be desirable to visit projects in the early stages of delivery to ensure that adequate systems are in place before problems are detected by audits carried out well into the project's lifetime. ***We recommend that WEFO review the scope of its financial control work to focus on early confirmation that adequate systems are in place, and the verification of details that are not covered by the external auditors.***

## Conclusion on this risk

4.71 WEFO has established procedures to ensure that claims are processed effectively, that claims are correctly stated and that it meets European financial control requirements. As WEFO clears a backlog of work from the previous programmes, it will be well placed to re-focus its financial control activities onto key risk areas. In this respect, it needs to ensure that claim auditors have access to sufficient and consistent information, and that the best use is made of their services.

## Risk 8: Is monitoring of projects and the programme as a whole adequate?

### Background

4.72 WEFO is responsible for ensuring that the European programmes are managed efficiently and deliver the targets set out in the strategy (Single Programming Documents). This involves monitoring at the project level, to ensure that projects are delivering the expected outputs, and at the programme level to ensure that the programmes are delivering the activities, results and impacts at a rate sufficient to meet the targets agreed with the European Commission.

### Project level monitoring

4.73 Except for some large projects, WEFO does not routinely visit project sponsors to discuss general progress rather than financial control issues. The success of the programmes will ultimately depend on the quality, quantity and timeliness of services provided by individual projects. Meetings with individual project sponsors - to consider issues such as recruiting staff and beneficiaries and placing contracts - would provide an insight into the overall progress of projects that is not available from the claim forms.

4.74 WEFO's equivalents in Cornwall and Merseyside carry out visits to every ERDF project they sponsor. The size of the programmes in Wales makes it very difficult for WEFO, as currently resourced, to visit every ERDF project as there will soon be several hundred of them. However, it has recently developed some strategies that will enable better project monitoring:

- ▶ from April 2002, partnerships have been provided with customised data that will enable them to assess the progress of projects at local and regional levels. To assist

in the development of this role, two training days are planned for July 2002 on target setting, monitoring and evaluation;

- ▶ desk instructions for WEFO staff have been developed to identify project start-up difficulties and under-performance. These procedures will involve payment staff assessing risk on each project and alerting management teams to those which require closer scrutiny and support; and
- ▶ the development of guidance for projects and partnerships on monitoring and evaluation. This is contained in the Programme Complement and is currently being developed further in specific guidance.

*We recommend that WEFO continue to develop its strategy to monitor large or complex projects, based on available resources and co-ordinated with the work of the Financial Control Team.*

### Programme level monitoring

4.75 WEFO has reliable information on the value of commitments (projects approved) and expenditure (claims received and paid). It reports this information to the Programme Monitoring Committees, including assessments of progress towards meeting the profile for each year and whether any funds may be de-committed due to lack of spending. It also prepares Annual Monitoring Business Plans, showing actual and forecast commitments and expenditure for each measure against budget, and an Annual Implementation Report for each programme, which explains in more detail how the programme has performed and been managed during the previous year, and what the future is likely to hold. The latter is submitted to the European Union in June each year after approval by the Programme Monitoring Committee.

4.76 The key gap is the current absence of good information on outputs. WEFO's new information system is nearing completion and this should allow monitoring of planned outputs from June 2002. Information on actual outputs - collected from project claims - will be available from September 2002. WEFO has also taken steps to improve the quality of output information, by:

- ▶ amending targets in the Objective 1 Programme Complement to ensure that they were clearly defined and measurable, and that overall numbers were consistent with the Single Programming Document. The

Programme Complement had been prepared quickly in the summer of 2000 leading to lack of clarity in the definition of targets and discrepancies with the Single Programming Document;

- ▶ defining more precisely key indicators such as jobs, assistance, advice and new businesses. This should lead to more consistent and robust performance data, although inevitably discretion is still needed to estimate the effect of individual projects on job numbers and increases in turnover; and
- ▶ requiring in the future all project sponsors to analyse outputs by location (local authority) and, where appropriate, by gender, ethnicity and disability.

### Conclusion on this risk

4.77 WEFO's plans to improve the monitoring of both individual projects and the programmes as a whole are a welcome development. These changes, if implemented fully, will ensure that WEFO has robust output information to monitor delivery of the programmes, and that partnerships can monitor expenditure and delivery for their respective areas or themes. They will also improve the monitoring of equal opportunities by providing more measurable information.

## Risk 9: Are funds being spent fast enough to avoid "decommitment"?

### Background

4.78 Decommitment is the term used to mean withdrawal of structural funding. For the current rounds, the European Commission has introduced regulations designed to avoid the large under-spends that have previously characterised its programmes. This means that if funds are not spent in line with agreed profiles they are lost. **Figure 15** shows the "drawdown targets" - the minimum amounts that must be claimed to avoid decommitment - and the balance that needs to be spent by the end of 2002 (targets will also apply at the end of each subsequent year of the programmes).

4.79 Although the first deadline for drawdown is 31 December 2002, the lead time involved in project sponsors notifying WEFO of the spend and the latter putting the claim into the European Commission means that expenditure needs to be incurred well before this if it is to feed into the drawdown request. Many ESF projects rely on sub-contractors, and these will need to incur expenditure and be paid before the project sponsor can claim from WEFO, further increasing the time needed for project expenditure to feed into the European claim.

**Figure 15**

#### Expenditure needed at 31 December 2002 to avoid decommitment

Objective and Fund	Drawdown target £000	Expenditure at end March 2002 £000	Balance required	
			£000	% of target
Objective 1 (ERDF)	57,489	42,627	14,862	25.9
Objective 1 (ESF)	30,414	23,215	7,199	23.7
Objective 1 (EAGGF)	6,717	671	6,046	90.0
Objective 1 (FIFG)	782	6	776	99.2
<b>Objective 1 total</b>	<b>95,402</b>	<b>66,519</b>	<b>28,883</b>	<b>30.3</b>
Objective 3 (ESF)	7,717	6,026	1,691	21.9
<b>Total</b>	<b>103,119</b>	<b>72,545</b>	<b>30,574</b>	<b>29.6</b>

#### NOTE

The decommitment rule applies to each Fund within each programme. For Objective 2, the European Commission has agreed that WEFO will have until 31 December 2003 to meet the 2002 drawdown target, because of the late approval of the Single Programming Document.

Source: Welsh European Funding Office

4.80 Accurate forecasting of future claims must underpin WEFO's monitoring of the decommitment risk. These need to be based on the financial profiles submitted by claimants, with an allowance for slippage in expenditure, late claims and new projects based on risk assessment and experience. Currently forecasting is difficult because its information systems do not enable WEFO to identify accurately these causes of slippage. These difficulties should be resolved once the new IT system is introduced. More importantly, WEFO has had difficulty persuading sponsors to supply realistic forecasts. However, as the claims history builds up, WEFO will be better placed to take a view of the validity of forecasts.

4.81 Decommitment is a difficult risk to manage as it reflects the efficiency of everyone involved in the process - the partnerships (in developing and assessing projects), WEFO (in appraising and approving projects, processing claims and exercising judicious financial control) and the project sponsors (in managing their projects well, progressing them expeditiously and providing accurate information). There are also difficult issues of managerial balance to address:

- ▶ spending quickly or spending strategically: WEFO and the relevant partnerships have chosen to spend time developing a strategy for infrastructure to maximise the beneficial impact of projects selected, although it would have been easy to spend the money quickly;
- ▶ committing money as quickly as possible or spreading approvals over the life of the programme. Certain measures have been very popular and WEFO has closed them temporarily to ensure that money remains available later on. This will enable the results of existing projects to be evaluated and fed back into the design of new projects; and
- ▶ whether to over-commit grant to allow for unforeseen reductions in the scale of projects. Experience has shown this to be a particular risk on ESF and WEFO has a policy of approving projects up to 10 per cent above the allocations for each financial year, to ensure that the funds are fully spent but with the proviso that future commitments may have to be scaled back if projects do spend their full grant.

4.82 Several factors affect the level of decommitment risk:

- a) **the level of interest in the programmes:** generally there has been a lot of interest in accessing the Funds, and many project proposals have come forward. Many infrastructure measures have been closed because interest is so high that the partnerships are developing a strategy to prioritise proposals. This will lead to a delay in commitments but should lead to better projects than would have been the case if early project approvals had been made. Conversely, there is a lack of projects coming forward for Priorities 3 (community development) and 5 (rural development), which will mean a long lead time to develop project ideas into full applications with subsequent spending. WEFO continues to raise this with local partnerships who have a role in promoting the programme and helping to encourage local applications;
- b) **the speed of the approval process:** many projects submitted in the September 2000 round for Objective 1 took a long time to be approved (often owing to the quality of the applications) and in some cases the start of the project was delayed, in turn delaying spending. The overall project assessment and appraisal process takes several months with implications for the timing of claims;
- c) **slippage:** many projects delay expenditure once they have started, for a variety of reasons. In most cases WEFO agrees to re-profile the grant, but payments will be slower as a result; and
- d) **late claims:** several organisations, often leading large projects, have failed to claim money on time. For example, of 156 ESF claims paid in March 2002, only 19 had been received on time and 137 were late (of which 126 were more than one month late). WEFO issues reminder letters, contacts sponsors by telephone, has meetings with the major players and helps smaller bodies to complete their claim forms. It has the power to withdraw the grant if claims are persistently late - but this is a last resort and has not yet been done. It is likely that late claims will remain a problem, especially as the amount of information required will shortly increase substantially.

## Conclusion on this risk

4.83 The lack of previous experience with the new funding regime, together with the absence of sophisticated management information, means that the impact of under-commitment can only be estimated in broad terms. Overall, however, the following conclusions can be drawn for the first decommitment deadline of 31 December 2002:

- ▶ ERDF and ESF for Objectives 1 and 3 - which account for 93 per cent of the total value of the programmes - are showing good levels of project approval and there is a low risk of decommitment provided that substantial slippage or delays in returning claims do not occur;
- ▶ there is a much higher risk on EAGGF and FIFG because of the low levels of spend on these Funds and the low level of commitment on FIFG. WEFO is dependent on a relatively small number of projects going to plan to avoid losing grant. This is particularly the case on FIFG, where a handful of aquaculture projects must proceed quickly to avoid decommitment of £1.4 million of grant on 31 December 2002.

4.84 WEFO is fully aware of the decommitment risk and is monitoring the position on each measure to minimise the risk of it occurring. It faces an even greater challenge in avoiding decommitment in 2003, when an additional £207 million must be spent, compared with £103 million in 2002. More experience as more projects come on stream together with better information systems and more realistic predictions by project sponsors, should improve the ability of WEFO to forecast spend more accurately in future and thereby identify particular problem areas. ***We recommend that WEFO continue in their current efforts to minimise the risk of decommitment of funds on EAGGF and FIFG.***

## Risk 10: Are there effective evaluation arrangements?

### Background

4.85 Evaluation is a key element of the Structural Fund programmes. The European Commission requires an independent evaluation of each programme at three stages: before the programme begins (the "ex-ante" evaluation to ensure that the proposed strategy is soundly based), during the middle of the programme (the mid-term evaluation, to assess

progress in meeting strategic objectives) and after the end of the programme (the ex-post or final evaluation to assess the overall economic impact). The European Commission organises the final evaluation; the managing authorities organise the others, but they must be carried out by independent contractors in line with detailed criteria set by the European Commission. Half the cost is met from the technical assistance budget and the balance from WEFO's programme support and budget.

### Action taken by WEFO

4.86 WEFO's approach to evaluation is covered by its strategy, now at final draft stage, for research, monitoring and evaluation, developed by its multi-disciplinary team of specialists. To meet the regulatory requirements for the mid-term evaluations, WEFO has established a steering group to set the terms of reference. The evaluations will make extensive use of monitoring data to undertake analysis of each measure's efficiency and effectiveness. As discussed in paragraph 4.76, WEFO has revamped the monitoring indicators to ensure that they are coherent and properly defined, and the new information system will allow the indicators to be analysed by location and type of beneficiary.

4.87 In addition to the minimum requirements of the mid-term evaluations, there is considerable scope for additional evaluations on specific themes or types of project. Any work would need to be co-ordinated with evaluation activity elsewhere in the public sector to ensure synergy and avoid duplication of effort. For example, ELWa carries out extensive research on training programme beneficiaries, and the Welsh Development Agency and the Welsh Assembly Government have evaluation units that examine areas that overlap directly with activities funded by the European programmes. WEFO is already working with other managing authorities at a national level to carry out a major survey of leavers from ESF-funded projects, so that the outcomes can be evaluated. It has also organised a seminar involving Assembly-sponsored public bodies, the voluntary sector and relevant Assembly divisions to consider the synergy between strategies and the sharing of resources and knowledge. We endorse WEFO's plans to undertake a review of evaluation projects undertaken elsewhere in Wales and the United Kingdom, and to take forward the strategy with respect to co-ordination.

4.88 WEFO is also considering the scope for project-level evaluations. As the programme is delivered at project level, project evaluations could provide insights on management issues that are not readily available from higher-level evaluations. WEFO is holding discussions with the partnerships on the extension of their monitoring role and is developing guidance for projects to undertake self-evaluations.

### Conclusion on this risk

4.89 WEFO now has a team with multi-disciplinary specialist skills to develop a strategy that, if fully implemented, will provide a comprehensive evaluation service that goes well beyond the minimum standards laid down by the European Commission. Improvements to information systems should ensure that good quality monitoring data is available on which to base the forthcoming mid-term evaluations. WEFO is taking steps to involve as many relevant parties as possible: project sponsors, WEFO staff, partnerships and other public agencies engaged in evaluation. This is important as the European programmes are closely linked to a wide range of domestic activities, and it is important to ensure that lessons learned feed back into project development and appraisal.

### Risk 11: Will Wales benefit from the performance reserve?

4.90 Four per cent of the value of the main structural fund programmes (Objectives 1, 2 and 3) is set aside as a performance reserve. This is withheld until the mid-term evaluation has been completed, when it will be allocated to the best-performing priorities within each programme (the European Commission has agreed that the reserve will not be allocated outside Wales).

4.91 WEFO is currently discussing with the Commission which criteria will be used to allocate the reserve. The monitoring indicators used (such as the number of firms receiving financial support, number of people completing training courses and gross jobs created) must cover at least 50 per cent of the value of each priority. It is not yet possible to assess progress against performance targets, but the necessary systems are being developed and should be complete by September 2002 (targets for Objective 2 will be adjusted to reflect the programme's late start).

4.92 In addition, WEFO must meet certain financial and management criteria to receive any of the reserve. These are yet to be finalised, but will include:

- the quality of monitoring systems. The new information system, and the staff in the Research Monitoring and Evaluation Team, should ensure that all expenditure is adequately monitored;
- all projects selected using clearly identified selection criteria - WEFO complies with this requirement;
- satisfactory completion of the mid-term evaluation. WEFO has matters in hand (paragraph 4.86);
- no de-commitment of funds. Most of the money is reasonably secure for 2002, but there is a higher risk for the relatively small proportion of the programmes that is paid under EAGGF and FIG (paragraph 4.83); and
- percentage of planned private sector investment obtained relative to the planned target, a measure of the private sector match funding in the programme.

4.93 While the criteria for allocation of the performance reserve have yet to be finalised, close monitoring and good management across the whole range of WEFO's activities should enable Wales to gain the full benefit of the reserve.

# APPENDIX 1 METHODOLOGY USED BY THE NATIONAL AUDIT OFFICE WALES

1. We used a variety of methods to collect evidence for this study. These fall into five broad areas, which are outlined below.

## Background work on strategies and procedures

2. We reviewed the development of the strategy underpinning the European programmes in Wales and the procedures to put them into practice. Our principal sources of evidence were:
  - ▶ the Single Programming Documents and Programme Complements for Objectives 1 and 2, and the Operational Programme for Objective 3;
  - ▶ the European regulations governing the use of the Structural Funds, and the checklists and guidance developed by WEFO to ensure compliance;
  - ▶ the minutes and papers of the Programme Monitoring Committees, especially those for Objective 1;
  - ▶ the strategic frameworks developed by the Objective 1 strategy partnerships;
  - ▶ project selection criteria, grant application forms and guidance for applicants; and
  - ▶ discussions with WEFO's staff and internal auditors.

## Review of projects

3. We reviewed a sample of project appraisals undertaken by WEFO to assess their compliance with established procedures and regulations, and the degree to which they accorded with the relevant selection criteria and demonstrated value for money. The sample, which covered a range of activities and project sizes, included:
  - ▶ 24 projects from the first round of applications in 2000 and 18 from the "rolling programme" which operated from 2001 onwards;
  - ▶ 37 projects from Objective 1 and five from Objective 3; and
  - ▶ 20 ERDF projects, 17 ESF projects and five EAGGF projects.

## Telephone survey of applicants

4. We commissioned a survey of 100 successful and unsuccessful applicants to the Funds. The survey was organised on behalf of the National Audit Office Wales by Market Research Wales Limited based on information supplied by WEFO and validated by the National Audit Office Wales. The applicants were asked for their views on publicity and information, the appraisal process, match funding, and the overall quality of service provided by WEFO. Further details are provided in Appendix 4.

## Meetings with partnership secretariats

5. We discussed the operation of the Structural Funds with officials from a sample of the organisations that provide secretariat services to the local and regional partnerships in Wales. We met officials from three regional and nine local partnerships (of the latter, six were in the Objective 1 region of West Wales and the Valleys and three in East Wales). The discussions covered the development of strategy, the formation and operation of partnership boards, project development and assessment procedures, and match funding.

## Comparison with Cornwall, Merseyside and the Republic of Ireland

6. We met various officials in the Managing Authorities for Objective 1 programmes in two United Kingdom regions (Cornwall and Merseyside) and in the Republic of Ireland to discuss the development of strategy, project appraisal and selection, match funding, financial control, and monitoring and evaluation. These meetings were followed up with a comparison of project selection criteria, guidance for appraisal staff, monitoring strategies and other procedures where such comparisons were relevant to Wales.

## Review of financial control, monitoring and evaluation arrangements

7. We based this work principally on discussions with WEFO staff, a review of information systems, a review of guidelines issued for WEFO's Financial Control Team and for external auditors of grant claims, and a review of regulations and strategies relating to monitoring and evaluation. We also reviewed WEFO's management information on commitments (grants approved), grant payments, forecast expenditure, outstanding claims and staff numbers.

Key stage	Wales Objective 1	Wales Objective 2	Wales Objective 3
European Council decides on the budget for the Structural Funds and the basic rules governing their use.	Berlin Council, March 1999 (EU-wide)		
European Commission issues common thematic guidelines which all member states must reflect in their plans for the Structural Funds.	1 July 1999 (EU-wide)		
European Commission decides which regions are eligible for support.	1 July 1999 (EU-wide)	30 March 2000 (UK)	1 July 1999 (EU-wide)
Each region or member state draws up a development plan for the regions or social groups affected, which take into account the EC's thematic guidelines. The plans must review the current economic and social situation, analyse strengths and weaknesses, identify priorities and propose an integrated programme of activities with defined budgets and targets to address weaknesses. The plan must also consider sustainable development, equal opportunity, and implementation arrangements. This Plan is known as the Single Programming Document (SPD) or Operational Programme (OP). For large areas, this stage may be split in two, with a Community Support Framework setting broad objectives and operational programmes being developed once it has been approved.	Developed March- Nov 1999	Developed March- Nov 1999	Developed March- Nov 1999
	Submitted to EC - Nov 1999	Submitted to EC May 2000	Submitted to EC - Dec 1999
	Approved by National Assembly - May 2000	Approved by National Assembly - May 2000	Approved by National Assembly - May 2000
	Approved by EC - July 2000	Approved by EC - March 2001	Approved by EC - July 2000
The plan is submitted to the European Commission, negotiations take place, and the European Council formally approves the plan once agreement is reached. The Single Programming Document and Operational Programme may not be changed without the permission of the European Union.			
A Programme Monitoring Committee is established to oversee each programme, but responsibility for day to day management rests with the Managing Authority, nominated by the government of the member state.	March 2000 (shadow)	March 2001	March 2000 (shadow)
	July 2000 (full)		July 2000 (full)
Regions or member states prepare a Programme Complement, which specifies in more detail the nature, budget and targets of the measures for each priority. The Managing Authority has the discretion to amend the Programme Complement within the constraints of the SPD or OP.	Oct 2000	May 2001	Oct 2000

Key stage	Wales Objective 1	Wales Objective 2	Wales Objective 3
The programme is implemented under the control of the Managing Authority and Programme Monitoring Committee. The region or member state pays grants to projects, and reclaims the European element from the European Commission.	From Sept 2000	From April 2001	From Sept 2000
Each Managing Authority submits an annual implementation report to the Commission each year, describing progress made, any irregularities found, and whether any change in social or economic conditions has occurred that may affect the programme.	First report submitted June 2001	First report due in June 2002	First report submitted June 2001
During the fourth year of the programmes, the effectiveness of each programme is subject to a mid-term evaluation organised by the region but following guidance provided by the European Commission.	Due for completion by 31 Dec 2003		
A performance reserve, representing four per cent of the total cost of each programme, is allocated to the most successful measures in each member state (although the Commission has agreed that the performance reserve relating to Wales will stay entirely within the country).	By 31 March 2004		
Preparations begin for the new programmes (2007-2013). For the current programmes, all funds are planned to be committed by 31 December 2006, and the majority of eligible expenditure must be defrayed by 31 December 2008. A final claim is submitted to the Commission by 31 October 2009 with a final report on implementation and a statement from a functionally independent authority (in Wales, the Assembly's internal audit service) stating whether certain conditions have been met.			

## APPENDIX 3 FINANCIAL PLANS FOR OBJECTIVES 1, 2 AND 3

Each Objective is divided into priorities, which are further sub-divided into measures. These tables show how the total European grant available has been allocated between each priority (and each measure for Objective 1) for the period 2000-06, and the grant rate (the balance must be provided as match funding from domestic sources).

### Objective 1

Priority/Measure	Allocation £m	Grant rate %
1.1 Financial Support to SMEs	57.0	49.3
1.2 Promoting Entrepreneurship and Increasing the Birth Rate of SMEs	46.3	50.0
1.3 Developing Competitive SMEs	67.5	49.1
1.4 Promoting Adaptability and Entrepreneurship	76.8	44.2
1.5 Providing Sites and Premises for SMEs	37.2	39.9
<b>Total Priority 1: Expanding and Developing the SME Base</b>	<b>284.8</b>	<b>46.5</b>
2.1 ICT Infrastructure	24.5	37.3
2.2 Stimulate and Support Demand for ICT	37.9	49.0
2.3 Support for the Development of Innovation and Research and Development	71.5	53.0
2.4 Skills for Innovation and Technology	23.2	48.4
2.5 Clean Energy Sector Developments	25.8	54.3
<b>Total Priority 2: Developing Innovation and the Knowledge Based Economy</b>	<b>182.9</b>	<b>49.0</b>
3.1 Community Action for Social Inclusion	13.9	64.5
3.2 Partnership and Community Capacity Building	20.7	72.9
3.3 Regeneration of Deprived Areas Through Community-Led Action	52.3	70.7
3.4 Support for the Creation and Development of Businesses in the Social Economy	23.3	64.9
<b>Total Priority 3: Community Economic Regeneration</b>	<b>110.2</b>	<b>68.9</b>
4.1 Preventative and Active Employment Measures	93.6	59.2
4.2 Social Inclusion	63.6	59.2
4.3 Lifetime Learning for All	69.3	49.6
4.4 Improving the Learning System	40.8	48.2
4.5 Improving the Participation of Women in the Labour Market	17.7	64.4
4.6 Anticipation and Analysis of Skills Needs	3.9	50.0
<b>Total Priority 4: Developing People</b>	<b>288.9</b>	<b>55.0</b>

## Objective 1 (continued)

Priority/Measure	Allocation £m	Grant rate %
5.1 Processing and Marketing of Agricultural Products	23.5	20.0
5.2 Training: Services to Help Farmers Adapt and Diversify	8.5	50.0
5.3 Forestry	9.8	40.1
5.4 Promoting the Adaptation and Development of Rural Areas	9.2	50.0
5.5 Investment in Agricultural Holdings	13.0	29.6
5.6 Promoting Local Economic Development	27.4	42.0
5.7 A Sustainable Countryside: Enhancement and Protection of the Natural Environment and Countryside Management	16.6	50.0
5.8 Support for Recreational Opportunities and Management of the Natural Environment	14.1	47.0
5.9 Support for Fisheries and Aquaculture	8.4	42.7
<b>Total Priority 5: Rural Development and the Sustainable Use of Natural Resources</b>	<b>131.5</b>	<b>35.4</b>
6.1 Accessibility and Transport	51.7	35.8
6.2 Energy Infrastructure	15.9	30.0
6.3 Strategic Employment Sites	33.6	37.2
6.4 Environmental Infrastructure	28.5	40.0
<b>Total Priority 6: Strategic Infrastructure Development</b>	<b>129.7</b>	<b>36.1</b>
7.1 Promoting Effective Programme Management (ERDF)	9.7	50.0
7.2 Promoting Effective Programme Management (ESF)	2.4	50.0
7.3 Raising Awareness of the Programme (ERDF)	3.2	50.0
7.4 Raising Awareness of the Programme (ESF)	0.8	50.0
<b>Total Priority 7: Technical Assistance</b>	<b>16.1</b>	<b>50.0</b>
<b>Total Objective 1</b>	<b>1,144.1</b>	<b>47.0</b>

## Objective 2

### Mainstream

Priority		Allocation £m	Grant rate %
1	Developing Sustainable and Competitive Small and Medium Enterprises	29.2	35.8
2	Sustainable Rural Development	9.8	46.9
3	Urban Community Regeneration	9.8	50.0
4	Technical Assistance	1.5	50.0
<b>Total</b>	<b>Mainstream Objective 2</b>	<b>50.3</b>	<b>40.2</b>

### Transitional (for areas covered by Objectives 2 or 5b under the 1994-99 programmes but not eligible for Objective 2 status for 2000-06)

Priority		Allocation £m	Grant rate %
1	Developing Sustainable and Competitive Small and Medium Enterprises	13.1	33.8
2	Sustainable Rural Development	3.6	46.6
3	Urban Community Regeneration	7.1	50.0
4	Technical Assistance	0.7	50.0
<b>Total</b>	<b>Objective 2 transitional related</b>	<b>24.5</b>	<b>39.4</b>
<b>Total</b>	<b>Objective 2</b>	<b>74.8</b>	<b>39.9</b>

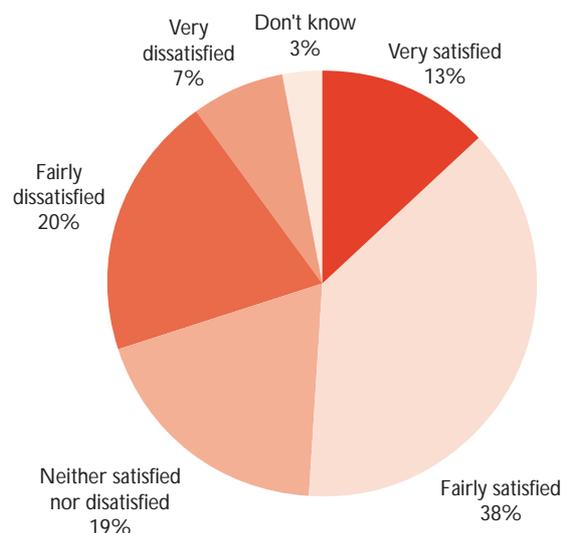
## Objective 3

Priority		Allocation £m	Grant rate %
1	Developing Active Labour Market Policies to Prevent and Combat Unemployment	20.4	44.6
2	Equal Opportunities for All and Promoting Social Inclusion	17.1	44.6
3	Lifelong Learning	18.0	41.9
4	Promoting Business Competitiveness	18.8	36.0
5	Promoting Gender Equality within the Labour Market	5.7	44.6
6	Technical Assistance	1.6	45.0
<b>Total</b>	<b>Objective 3</b>	<b>81.6</b>	<b>41.7</b>

1. The National Audit Office Wales commissioned the survey to establish the opinions of project sponsors on the management of the Structural Funds, and to assess how the issues raised might be addressed.
2. We commissioned Market Research Wales Limited to survey a representative sample of organisations that had applied for Structural Fund grants at 31 August 2001, and had received a decision or withdrawn their application at that date. It therefore covered Objectives 1 and 3, but not Objective 2 or the Community Initiatives. The survey was designed jointly by Market Research Wales and the National Audit Office Wales in consultation with WEFO.
3. After piloting the survey, Market Research Wales interviewed 100 project sponsors by telephone in September 2001. This represented 31 per cent of the total number of organisations that met the criteria for inclusion in the survey (the survey population). The sample was selected randomly and reflected closely the structure of the population as a whole. It was therefore focused on projects that were submitted in 2000 when there was considerable uncertainty about procedures, long appraisal times and less familiarity with the requirements of the new programmes.
4. The results of the survey are based on a sample, and we therefore cannot ensure that the results replicate the views of the whole population. The sample used in this study allows us to estimate the proportion in the population holding a particular view to within  $\pm 10$  per cent, given a 95 per cent confidence level. For any given estimated proportion in the figures, there is a 95 per cent probability that the true proportion in the population would lie between (proportion - 10 per cent) and (proportion + 10 per cent).
5. Due to the relatively small number of respondents - which was inevitable given the small size of the sample population - it was not possible to analyse the data between categories of applicant and produce statistically significant results.
6. The main findings of the survey are outlined below.

## Publicity and information

7. The survey found that WEFO's main publicity and information mechanisms had a high level of penetration among project applicants: 88 per cent had visited WEFO's website, 74 per cent had read its newsletter and 53 per cent had attended a seminar or presentation by WEFO staff. However, these were not necessarily the main sources of general information about the Structural Funds. When asked to name their main sources, there were 129 responses. Of these, 52 (40 per cent) referred specifically to WEFO - 20 per cent to WEFO staff, 14 per cent to the website and 6 per cent to press releases and newsletters. The other main source of information was the secretariat of the applicant's local or regional partnership (19 per cent of responses, or 24 per cent if partnerships and local authorities are included). The remaining 36 per cent of responses mentioned other organisations (10 per cent), the media (9 per cent), other websites (6 per cent), word of mouth (5 per cent) and other sources (6 per cent).
8. Just over half (51 per cent) of respondents were satisfied with the quality and helpfulness of the publicity and general information that WEFO provides, with a relatively high level of dissatisfaction (39 per cent):



## Appraisal process

9. Satisfaction levels with the appraisal process are shown below:

Question	Satisfied		N/nor		Dissatisfied		Don't know	Total	Avg	
Overall satisfaction	6	28	34	25	19	21	40	1	100	3.22
Number of people involved in the process	10	34	44	11	16	10	26	19	100	2.78
Understanding of division of responsibilities between WEFO and the lead bodies	9	37	46	9	29	9	38	7	100	2.91
Involvement of local and regional partnerships in decision-making	8	37	45	11	28	9	37	6	99	2.92
Information	9	51	60	11	13	14	27	2	100	2.66
Amount and complexity of information required for application form	1	22	23	11	34	30	64	2	100	3.71
Help provided by WEFO	17	28	45	10	17	15	32	2	89	2.83
Information asked for by WEFO after receiving application	4	45	49	11	15	16	31	2	93	2.93
Impartiality of WEFO	18	55	73	5	5	5	10	7	95	2.14
Time taken to process applications	5	25	30	5	20	44	64	1	100	3.74
Feedback from decisions	7	22	29	9	16	26	42	5	85	3.40
<i>Average excluding overall satisfaction</i>										3.00

**NOTE**

The mark is based on the average (mean) of responses other than "don't know" and "not applicable". It is based on a scale from 1 (very satisfied) to 5 (very dissatisfied), with 3.0 being neutral.

Sub-totals for the satisfied and dissatisfied cohorts are given in the shaded columns.

10. Overall, 35 per cent were very or fairly satisfied with the process and 40 per cent were very or fairly dissatisfied. A similar survey carried out for the Welsh European Programme Executive Ltd in 1999 found that 56 per cent were very or fairly satisfied and 26 per cent very or fairly dissatisfied with the appraisal procedures at that time. This indicates that satisfaction with the process fell sharply for projects received in the first round of the new programmes (September 2000), which accounts for 79 per cent of the survey respondents. This is perhaps unsurprising as the first round was a very difficult period when WEFO was just becoming established, with new staff and a large number of applications arriving at the same time. Other key findings from the survey were:

- ▶ applicants were most dissatisfied with the time taken to process applications: 64 per cent were dissatisfied, with 44 per cent of all respondents being very dissatisfied;
- ▶ 64 per cent of applicants were also dissatisfied with the amount and complexity of information requested on the application form, with 34 per cent of all respondents being dissatisfied;
- ▶ applicants were most satisfied with the impartiality of WEFO (73 per cent satisfied, with 18 per cent being very satisfied) and the information and guidance provided (60 per cent, with nine per cent being very satisfied);
- ▶ satisfaction levels for the other aspects of the appraisal process were below 50 per cent, but for most of these the number of satisfied applicants exceeded the number of dissatisfied applicants.

## Guidance for applicants

11. The key findings are that:

- ▶ the main sources of written guidance were widely used, and most respondents considered them to be very or fairly helpful;
- ▶ most respondents found the guidance less helpful for certain specific aspects of completing the application - for example in addressing cross-cutting themes, monitoring and evaluating the project and completing the cost analysis in the application form;
- ▶ there was no strong consensus on exactly how to change the guidance, but there was a general desire to simplify, shorten or consolidate it - a prevailing wish to make it easier to use.

*Main sources of guidance used (per cent of survey respondents using the source) and the helpfulness of each source of guidance (average [mean] score given by those using the source, where 1 is very helpful, 3 is neither helpful nor unhelpful and 5 is very unhelpful)*

Source of guidance	% using the source	Average score
Guidance notes on completing the application form	92	2.0
Single Programming Document or Operational Programme	85	1.9
Local or Regional Action Plan	78	1.9
Programme Complement	71	1.8
Secretariat of local or regional partnership	70	2.0
Equal opportunities guidelines	68	2.1
EU regulations	63	2.1
Advice from WEFO officials	60	2.2

*Helpfulness of information on specific aspects of application (mean score)*

How to identify eligible and ineligible expenditure	2.3
How to fit project into a strategic context	2.6
How to address cross-cutting themes	2.9
How to monitor and evaluate project	2.9
How to complete the cost analysis in the application form	2.9

*Changes that applicants would like to see in the guidance (percent of suggestions: 108 suggestions received from 108 interviewees)*

Type of change requested	Per cent of responses
Easier to understand / simpler	23
Shorter guidance	21
Consolidate guidance into one document	13
More specific guidance on a certain topic	17
Telephone helpline / workshop	5
Guidance that is more up to date	4
Web-enabled / online application form	3
Other	14
<b>Total</b>	<b>100</b>

## Match funding

12. In the absence of definitive information, the National Audit Office Wales included questions about match funding in the survey of applicants undertaken by Market Research Wales Ltd.

Number of external sources of match funding (Base:100)	%
One	30
Two	31
Three	10
Four	9
Five or more	15
Don't know	5
<b>Total</b>	<b>100</b>

Main source of match funding (Base:100)	%
Own resources	36
Public sector (other than local authority)	32
Public sector (local authority)	11
Voluntary / not for profit sector	12
Private sector	8
Other	1
<b>Total</b>	<b>100</b>

### NOTE

Although these results indicate the number and relative importance of the various sources of match funding, they relate to the number of projects included in the survey and not the relative value of the project grants. The results may be significantly different if weighted for the size of the grant.

13. The survey also asked applicants whom they approached for advice about match funding, how satisfied they were with this advice, and changes they would like to see in the way that help is provided to find match funding. The key points to emerge from the survey were:

- ▶ 50 per cent of respondents did not approach anyone for advice;
- ▶ the remaining applicants sought advice from a wide range of bodies. Twenty per cent approached the secretariat of their partnership and 14 per cent approached the Assembly Government or the Funding Office;
- ▶ of the 42 respondents who expressed an opinion, 60 per cent felt that the advice they received was very or fairly satisfactory, and 22 per cent were dissatisfied; and

- ▶ thirty-one per cent of all respondents did not wish to see any changes in the way that match funding was provided, but 42 per cent wanted WEFO or the Assembly to provide a list of match funding providers (22 per cent) or to provide specific advice on whom to approach (20 per cent).

### Quality of service and perceptions of WEFO

14. There was a high level of satisfaction with the service provided by WEFO's staff. There was a somewhat lower level of satisfaction with WEFO's perceived openness and transparency (23 per cent dissatisfied) and the ease of contacting the relevant people (28 per cent dissatisfied).

	Agree strongly	Agree slightly	Neither /nor	Disagree slightly	Disagree strongly	Don't know
WEFO is open and transparent	17	34	22	11	12	4
WEFO staff are friendly and helpful	46	38	7	4	1	4
It is very easy to speak to the relevant person/people in WEFO	30	34	6	19	9	2
Staff at WEFO always conduct themselves courteously	66	29	1	2	0	2
Staff at WEFO always conduct themselves professionally	60	28	3	7	0	2

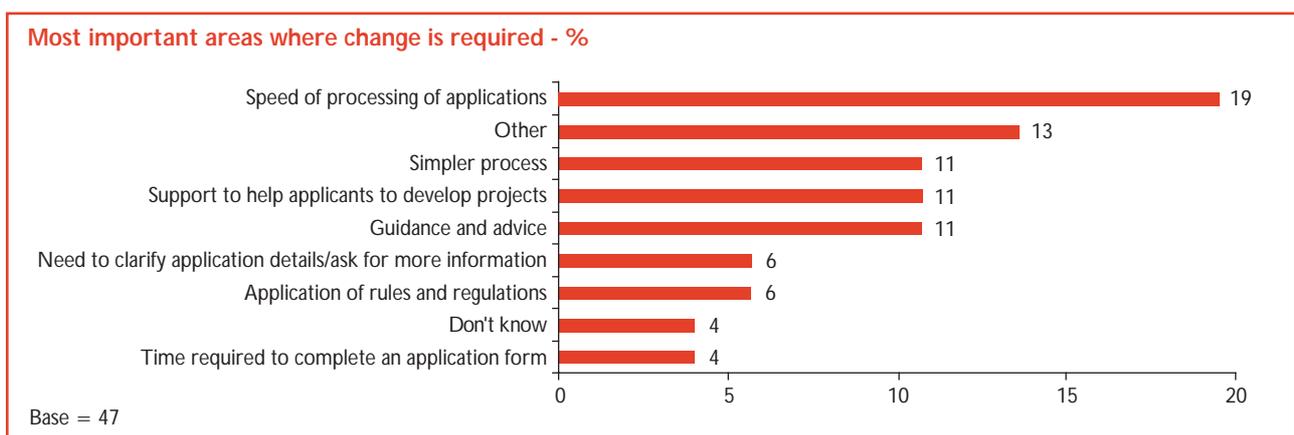
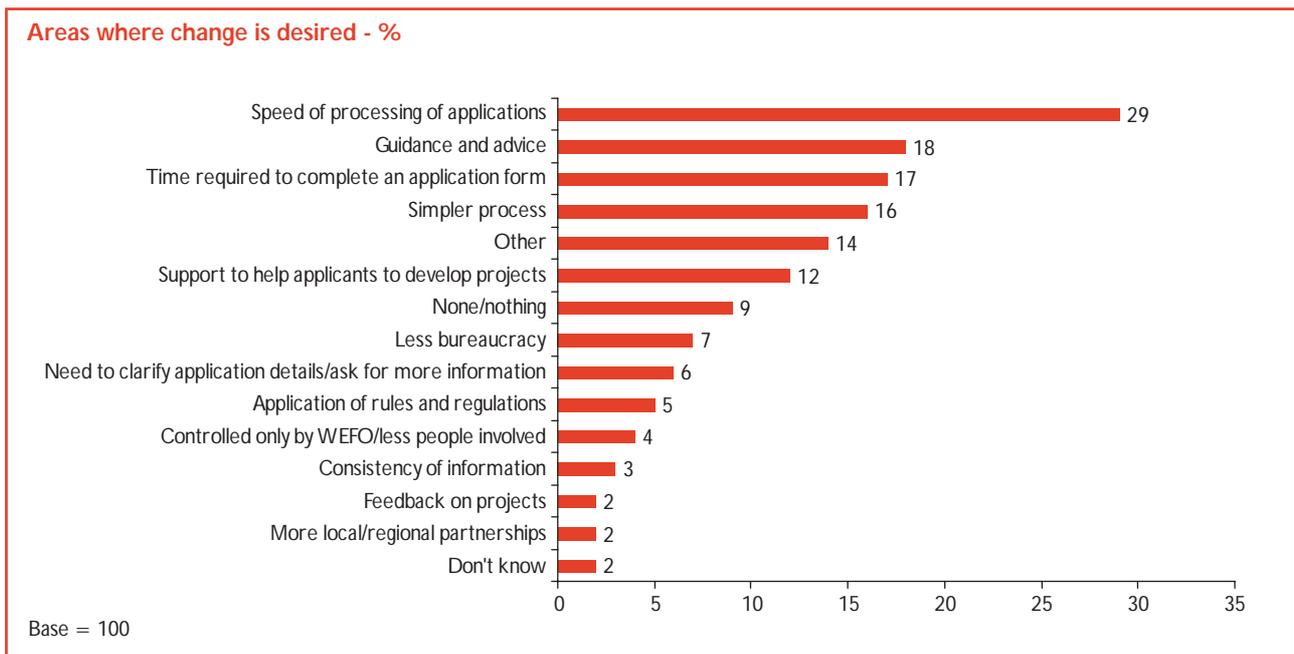
Numbers represent those in each category; in each case there were 100 responses (100% response rate).

## Overall satisfaction with the processes for administering European Structural Funds

15. Interviewees were asked to rate their overall satisfaction on a scale of one to ten, with ten being the best score and one the worst. The results are shown in the table below. Overall 40 per cent gave scores of six or more (a greater level of satisfaction), 60 per cent gave scores of five or below (a greater level of dissatisfaction), and the mean score was 4.69. Twelve per cent were very dissatisfied with the processes, compared with just three per cent who were very satisfied.

16. Interviewees were asked which changes they would like to be made to the processes for administering Structural Funds. The most frequent response was to improve the speed of processing of applications (29 per cent) which was also considered the most important area where respondents would like to see change (19 per cent). Another aspect that was seen as both a desired and an important change was the simplification of the process involved (16 per cent and 11 per cent in the respective graphs below). Similarly guidance and advice was seen as an important area for change (18 per cent and 11 per cent in respective figures below).

Score	1	2	3	4	5	6	7	8	9	10	Total
Number of respondents	12	7	13	13	14	18	9	9	1	3	100



### Initial checks: is the project eligible for support?

1. All projects must meet certain basic criteria to be eligible for support. Each project must:
  - ▶ take place within the programme area;
  - ▶ carry out an activity referred to in the Programme Complement;
  - ▶ demonstrate added value: grants cannot be provided for projects that would have gone ahead without European Union support, or which duplicate existing activity;
  - ▶ have clear targets that contribute directly to the programme targets;
  - ▶ have clear sources of funding, which need to be confirmed before the project is approved;
  - ▶ not exceed the maximum grant rate set out in the Programme Complement (between 40 per cent and 75 per cent for Objective 1, depending on the measure);
  - ▶ not include any ineligible costs or relate to ineligible activities under European Union regulations; and
  - ▶ stay within the European Union's state aid rules (these complex regulations place limits on the amount of assistance that can be given to commercial undertakings, in order to prevent unfair competition between member states).
2. If the project meets these criteria, it is then assessed against the value for money criteria approved by the Programme Monitoring Committee. These are assessed on a scoring system.

### Selection criteria for ESF

3. For the European Social Fund, each criterion carries a certain number of points and a score is awarded for each one. Any project with a score of less than 98 out of 150 (65 per cent) is automatically rejected as having "failed minimum quality". In the past, this score was used to rank projects during competitive bidding rounds and the available resources were allocated to the highest scoring projects. This is no longer the case for Objective 1 as there are no fixed deadlines for the receipt of applications, and the final decision is based on the recommendation of the Human Resources Assets Strategy Partnership. The criteria - and distribution of points - are as follows:

▶ Why the project is needed: local detailed evidence from a particular sector, barriers faced by the target groups, links with other government strategies or initiatives	33 points (22%)
▶ Who the project is for: is it targeting the right people?	20 points (13%)
▶ How the project will be designed, carried out and managed to meet the needs of the target group	18 points (12%)
▶ Results of the project - usually qualifications, increased levels of business or employment	15 points (10%)
▶ Support and promotion of equal opportunities	12 points (8%)
▶ Sustainable development - protection of the environment, careful use of natural resources, "progress which recognises the needs of everyone", high and steady levels of economic growth and employment	12 points (8%)
▶ Information society - use of IT and resultant benefits	12 points (8%)
▶ Fit with local initiatives	8 points (6%)
▶ Promotion of lifelong learning	20 points (13%)

## Selection criteria for ERDF, EAGGF and FIFG

4. The scoring system is less precise for the other Structural Funds, and is used more as a guide than a decisive factor in project selection. No overall score is awarded as it is for ESF. Each criterion is weighted as being of high, medium or low importance depending on the measure of the programme under which the programme is being submitted. Each criterion is then scored high, medium or low based on the information in the application form.
5. If a project scores "low" for a project with a "high" weighting, WEFO would ask the applicant to improve their application in the relevant respect before approving the project.
6. Both systems use broadly the same criteria. The ESF systems specifies in more detail what is required, and scores certain attributes such as the applicant's experience in the relevant field and research into the needs of target groups which are not specifically considered for the other Funds. One significant difference is that monitoring and evaluation is not scored for ESF; it is treated as a basic eligibility question.

## Consideration by strategy partnership (Objective 1 only)

7. For Objective 1, the final decision for all projects is based on the recommendation of the relevant strategy partnership. The partnership board receives a short report from WEFO, outlining the scores, costs, expected outcomes and any key issues. The partnership will recommend acceptance, reject a project, or defer a decision until further information is received. Its decision is a qualitative one, based on its collective judgement and not necessarily on how well the project has scored. However, a project will not normally be submitted to the strategy partnership until WEFO considers that it has reached a sufficiently high quality - and this is based on the outcome of the scoring system.

Criterion	Selection methods
Outcomes/value for money	Job creation and/or increase in business turnover
Leverage contribution	Amount of private sector
Strategic nature	Fit with policies and objectives of Single Programming Document and Programme Complement
Integration	Direct linkages and coherence with plans and projects, and adequacy of communication structure
ICT	Contribution to the strategy for ICT development set out in the Single Programming Document
Equal opportunities	Contribution to the strategy for equal opportunities set out in the Single Programming Document and Programme Complement
Monitoring and evaluation	Evidence of a sound monitoring and evaluation system in place, appropriately funded
Measure-specific criteria	Each measure has between one and three specific criteria against which projects are appraised. There is usually at least one relating to environmental practice, and others may relate to value-adding activities such as management advice for grant schemes to small businesses, and the degree of local consultation for community regeneration projects.

## APPENDIX 6 CONDITIONS OF GRANT

### Condition (the applicant must):

Spend in accordance with the profile agreed with WEFO

Submit complete claim forms on time (claims are usually due quarterly, and must include information on outputs even if no grant is payable)

Not transfer more than 10 per cent of the expenditure between the categories in the application form, without the permission of WEFO

Arrange an independent external audit of grant claims each year and submit audited claim to WEFO

Comply with state aid and publicity regulations

Repay on demand if WEFO considers that:

- ▶ there has been a substantial change in the nature, scale or timing of the project;
- ▶ the future of the project is in jeopardy;
- ▶ there has been an overpayment of grant;
- ▶ there is unsatisfactory progress towards completion of the project;
- ▶ there is unsatisfactory progress towards meeting the forecast results specified in the approval letter

Meet specific criteria if the project has started work or let the main contract before grant approval:

- ▶ in anticipation of approval, other projects have been deferred or scaled down; or
- ▶ an organisation's overall expenditure programme has been increased; or
- ▶ loans taken out to cover the potential contribution.

Retrospective expenditure is only permitted for project applications received in 2000.

### How WEFO confirms that the condition is met

Payments team reviews project expenditure against profile when each claim is received, and will discuss significant variations with the project sponsor

Checks by payments team. Late claims are pursued by WEFO with a series of letters, but there are limited sanctions available if project sponsor does not respond

Checks by payments team

Audit certificates are sent out by payments teams with the relevant claim forms. Late returns are pursued and subsequent claims may not be paid if audit certificate is overdue

5% inspections by Financial Control Team

- ▶ Annual audit of project claims

- ▶ No formal controls

- ▶ Grant amended if overpayment is made

- ▶ Project outputs monitored against approval letter. From June 2002, timing of delivery will be monitored against profiles submitted by the project sponsor. Outputs are not confirmed by auditors but are confirmed in the 5% inspections by WEFO

Not specifically included

Source: National Audit Office Wales analysis of WEFO procedures