

## **Written Response by Welsh Assembly Government to the report of the Finance Committee entitled “The Effectiveness of European Structural Funds in Wales”**

**14 February 2013**

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Maximising the European Structural Funds to benefit businesses, the people and communities of Wales is a key priority for the Welsh Government both in the implementation of the current Programmes 2007-2013 and in developing the next round of programmes 2014-2020.

A difficult global economic climate since 2008 has meant a very challenging context for the implementation of the current Structural Funds Programmes. Prior to the global recession, Wales had begun to make good progress in tackling some of its long-standing structural economic challenges. The two previous rounds of Structural Funds investments, including the Objective 1 programme 2000-2006 for West Wales and the Valleys, had made an important contribution to economic and labour market successes including the narrowing of historic gaps between Wales and the UK which were evident before devolution.

The prospective Structural Funds Programmes 2014-2020 in Wales are being developed in very different and challenging economic circumstances and at a time of financial austerity. Against this backdrop, it is vital that we invest our future European Funds on creating economic growth and jobs to maximise impact and secure a transformational effect on the Welsh economy.

It is in this context that the Finance Committee’s Inquiry and its final report into the effectiveness of the Structural Funds programmes 2007-2013 has been a useful exercise to help the Welsh Government and its partners to build on the successes achieved so far, but also to learn lessons for the future.

Over the course of the Committee’s Inquiry – lasting just over a year – I followed with interest the evidence papers and discussions from a number of organisations, projects and partners, and I very much appreciate the time and effort that witnesses have given. Together with my attendance at several meetings and provision of Written Evidence, it is clear that a number of common themes emerged: the impact of the Programmes as measured by GVA; whether the programmes are on track to achieve their objectives; the added value and sustainability of investments; the Welsh European Funding Office’s (WEFO) processes; and project procurement.

Some organisations giving evidence raised issues on complexity of the applications processes. Some of this complexity is inevitable given the nature of European Union (EU) regulations combined with the reality – as the Committee itself has realised – that we are investing very large sums of EU funds. Indeed, these are often multi-million pound projects, and we need to ensure the highest standards of financial control in safeguarding these funds

and delivering value for money. This does not mean “gold-plating” bureaucracy, but exercising proper due diligence.

As for issues raised on the application of EU and UK procurement legislation, on one hand procurement helps us to ensure value for money and opens up opportunities for private and third sector organisations to benefit from EU funds. For example, businesses have already won over 1,200 contracts worth nearly £500 million. That said, I agree that public sector organisations need to get better at managing procurement and this has been helped by the Welsh Government’s review of public sector procurement policy completed last year.

I am also determined that we should streamline and simplify our processes where possible. With this in mind, in July 2012, I announced an independent review of implementation arrangements for the next round of Structural Funds. This review by Dr Grahame Guilford – a long-standing member of the All Wales Programme Monitoring Committee and of the European Programmes Partnership Forum 2014-2020 – includes consideration of WEFO’s project application and management processes to support continuous improvement. The review is also considering the appropriateness of WEFO’s current governance and reporting arrangements in fulfilling its role as both the Managing and Certifying Authority for the Structural Funds Programmes and whether its role should be changed to encompass responsibility for promoting and facilitating access to a broader range of EU funding opportunities.

I am pleased that good progress is being made with the review, which has involved significant research and discussions with stakeholders and I look forward to receiving Dr Guilford’s final report in early March, which I will make available. In the meantime, it is already clear from the discussions Dr Guilford and I have had that there will be some synergies in the evidence collected by the Committee and by Dr Guildford. In particular, the need for more focused strategic and economic prioritisation in the implementation of the Funds, with improved alignment and integration across the range of European Structural and Investment funds and other Welsh Government programmes.

Despite our common goals for sharing lessons learned to support continuous improvement, it is disappointing that some of the Committee’s recommendations do not seem to be supported by the evidence presented or reflect comments made in the body of the Report itself. Several witnesses, for example, indicated that we are getting better at monitoring and evaluation and by measuring outputs and results will be better able to assess the impact of our investments in the long-term.

It is also disappointing that the Committee seems to have given relatively little weight to the views of the European Commission and its role in setting the overall framework within which Structural Funds operate. Recommendations 7, 8, 9 and 11, for example, assume a greater degree of flexibility for WEFO as Managing Authority than exists in reality, but I do believe we need a more considered and appropriate balance between compliance with EC requirements and operational efficiency.

The Report's evidence is all the more unsettling given that we are highly regarded by the European Commission in the way we manage and deliver our programmes and are often held up as an exemplar to other EU regions. While the Committee's Inquiry was underway, I had the pleasure of accompanying Commissioner Johannes Hahn (European Commissioner for Regional Policy) during his first visit to Wales (April 2012), where he was very complementary of the approach adopted by the Welsh Government and our partners and was impressed by the projects he visited.

The Report also fails to acknowledge the progress made in addressing operational issues which emerged during the early years of the Programmes and the situation which prevails today. For example, in respect of procurement, we listened to our sponsors and improved our guidance in 2010.

Neither does the Report refer to the successes of the programmes in delivering real benefits to businesses, people and communities across Wales, where EU projects have already assisted nearly 374,000 participants, of which 123,000 have been supported to gain qualifications and 46,400 helped into work. In addition, 16,400 jobs and almost 4,475 enterprises have been created, and over 10,000 enterprises assisted.

The Report also fails to acknowledge that without EU funds – regardless of regulations or processes – some projects just would not get off the ground. This was clear from the evidence presented by Tidal Energy Ltd – whereby without EU funding, the company would not have been able to develop Wales' first tidal energy project.

The Welsh Government is committed to maximising future European Structural Funds to help shape conditions for smart, sustainable and inclusive economic growth in Wales. I have also made clear on numerous occasions that the 2014-2020 period should be the last occasion in which any part of Wales should qualify for the highest level of Structural Funds support, as measured by GDP/GVA.

We will therefore continue to review the effectiveness of implementation and this Report, and the evidence presented during its preparation, will help us in that process. I share with the Committee the desire to learn lessons from the experience of delivery of the 2007-2013 Programmes and thank the Committee for actively engaging in this work.

I have set out below my response to the report's individual recommendations.

### **Detailed Responses to the report's recommendations are set out below:**

#### **Primary Recommendation**

The Committee recommends that the Welsh Government's review of arrangements for implementation of European Structural Fund programmes post-2013 gives independent, unfettered and imaginative consideration to the future role, responsibilities and structure of WEFO.

**Response: Accept**

In July 2012, I asked Dr Grahame Guilford to carry out an independent review of arrangements for the implementation of European Structural Funds Programmes post-2013. As outlined in the review's Terms of Reference, Dr Guilford will consider the appropriateness of the Welsh European Funding Office's (WEFO) current governance and reporting arrangements in fulfilling its role as both Managing and Certifying Authorities for Structural Funds Programmes and consider whether the role of the organisation should be changed to encompass responsibility for promoting and facilitating access to a broader range of European Union (EU) funding opportunities. Good progress is being made with Dr Guilford's research and discussions with stakeholders and I look forward to receiving his report in early March 2013.

**Financial Implications – None.**

**Recommendation 1**

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

**Response: Accept**

As agreed with the European Commission, the 2007-2013 European Structural Funds Programmes are focused on a number of clear Priorities and each has a set of indicators and targets to help drive project performance. Amongst these targets, the Programmes aim to create 38,540 new jobs and 5,604 new enterprises, to help 31,000 participants into work and 89,180 individuals to achieve qualifications.

The European Regional Development Fund (ERDF) Programmes have separate Priorities focused on building the knowledge based economy; stimulating enterprise and business development, developing the physical infrastructure necessary for the development of a modern competitive economy, promoting sustainable business growth and new business opportunities and providing integrated regeneration solutions to support the development of vibrant local economies. The European Social Fund (ESF) Programmes are focused on increasing participation in the labour market and on up-skilling the workforce in order to create a high skill, knowledge driven economy, with high rates of employment and a skilled and adaptable workforce and have separate Priorities helping people into employment and up-skilling the workforce.

All Programme and project activity is assessed for its legacy of spend as part of WEFO's appraisal process but in addition specific use is being made of innovative financial engineering instruments which provide loan funding that can, upon repayment, be reallocated to support further projects. For example, instruments such as JEREMIE (Joint European Resources for Micro to Medium Enterprises), which provides access to funding for micro business and SMEs.

The draft 2014-2020 European Structural Funds Programmes have been prepared drawing on Welsh Government strategic objectives for Jobs and Growth as set out in the Programme for Government. The draft Programmes set out the overall strategic priorities for the use of the funding in line with those objectives. They have been prepared in full consultation with Welsh Government policy departments and other stakeholders, including the third and private sectors.

**Financial Implications – None.**

### **Recommendation 2**

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

### **Response: Accept in principle**

This is an area that the Committee is right to raise as an area of concern. Responsibility for the effective delivery of Structural Funds projects and outcomes rests with WEFO as Managing Authority and also with partners. I place high importance on ensuring that the future Structural Funds (ERDF and ESF), Rural (EAFRD) and Fisheries (EMFF) Funds work in synergy and focus effectively upon Welsh Government policy priorities in order to maximise their impact for the people of Wales. I have already ensured a more co-ordinated approach in the design and development of future EU Funds specifically to ensure greater complementarity in the delivery of activity at a local level and to ensure easier access to European Union funds.

The draft regulations for the 2014-2020 Programmes offer greater flexibility in this respect than those for the 2007-2013 Programme period. Therefore, the Welsh Government is developing the 2014-2020 Structural, Rural and Fisheries Funds in parallel in order to identify means of utilising this flexibility to support the adoption of an integrated approach that aims to reduce complexity and to facilitate effective investment in a range of growth opportunities. To support this work and to act as a key mechanism for partnership working, our European Programmes Partnership Forum (2014-2020), ), Chaired by Mark Drakeford AM, which has met regularly over the last 18 months, provides strategic advice on the development of the 2014-2020 Structural, Rural and Fisheries Funds. Meanwhile, the current Programmes (2007-2013) have already adopted a more strategic approach with fewer, larger projects, which has led to less duplication of activities than under the 2000-2006 Programmes. Furthermore, with a portfolio of projects largely led by the public sector – either through Welsh Government pan-programme projects or local authority led collaborative regional projects – these partners are well placed to play a more effective role in the co-ordination of delivery at a local level under the future Programmes.

**Financial Implications – None.**

### **Recommendation 3**

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

#### **Response: Accept in principle**

WEFO holds procurement and contract data for Structural Funds. It has collected and collated data (e.g. name and type of organisation, financial cost of procured activity etc) from the early part of Programme implementation and in early 2011 extended the level of information required. Since then, all project sponsors are required to capture and submit information on completed procurement exercises directly through WEFO's Online IT system.

WEFO reports to the All-Wales Programme Monitoring Committee (PMC) on procurement as part of its regular reports for Committee meetings. These reports are published on the WEFO website. In addition WEFO has provided the PMC with further analysis on the level of procured Welsh delivery agents.

WEFO is considering how this data could be best utilised under the future Programmes to co-ordinate activity at local and regional levels.

**Financial Implications – None.**

### **Recommendation 4**

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

#### **Response: Accept in principle**

It is of course appropriate when considering how we might use any future round of Programmes to also assess the role of the monitoring structures. I have therefore asked Dr Grahame Guilford to consider the role of the PMC as part of his review. Dr Guilford is well placed to carry out this work as a current All-Wales PMC member.

It is also important to recognise that the role of the PMC is defined by European Commission Regulations. The Regulations stipulate the tasks to be undertaken by a PMC and the full extent of its remit. This includes allowing a PMC to monitor the programmes, but not for it to become involved in the approval or monitoring of individual projects.

In line with the current Rules of Procedure, the frequency of PMC meetings is agreed (and can be amended) by PMC members and reflects the volume and urgency of Committee business. The present frequency of meetings reflects the advanced stage of programme implementation and was thoroughly debated and agreed by the Committee. The PMC Chair does consider additional meetings when necessary to accommodate pressing issues.

The new PMC will require the appointment of new members and the development of a new membership structure. In line with the high importance I place on ensuring complementarity between Structural, Rural and Fisheries Funds, we will explore a mechanism for achieving synergy in terms of monitoring. This might include the introduction of a single PMC with oversight across all European Union funds, building on the use of a single PMC for the ERDF and ESF Programmes under the current round. There is effective challenge to WEFO at a strategic level and members are able to suggest agenda items to the Chair.

**Financial Implications** – None.

### **Recommendation 5**

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

### **Response: Accept**

WEFO re-designed its application and appraisal process for the 2007-2013 Programmes, moving from an application form to a two-stage collaborative development and appraisal process. The first stage Expression of Interest (EOI) provides an early indication of the feasibility of a proposal, eliminating the need for sponsors to put in significant work developing a non-viable proposal. Proposals which progress to the second stage – the Business Plan – are developed in detail and formally assessed by WEFO. This process is co-ordinated by a WEFO Project Development Officer (PDO), who works closely with project sponsors to provide guidance and support as well as to monitor progress. This process underpins WEFO's approach of supporting a smaller number of larger and more strategic collaborative projects in order to maximise impact, whereby most organisations will benefit from Structural Funds indirectly from WEFO.

Nevertheless, I am committed to seeking continuous improvement and I have already asked Dr Grahame Guilford to consider the application and appraisal process as part of his review.

To inform his review, Dr Guilford has met with a range of stakeholders and partners from across the Structural Funds spectrum, including key Welsh Government, local authority, higher education and third and private sector stakeholders. He has also conducted a detailed review of specific "case study" projects and their progress through the application and appraisal process, and has reviewed a range of evidence, including WEFO management and performance data and evaluation reports on the 2007-2013 Programmes. To complement this work, Dr Guilford has also conducted two open discussion exercises to obtain views from all interested parties on key

issues being covered by his review, including the application and appraisal process.

**Financial Implications** – None.

### **Recommendation 6**

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

### **Response: Accept in principle**

Dr Grahame Guilford's review is examining the governance and management of Structural Funds by WEFO and its Terms of Reference includes a review of the design and operation of the EU funds application, and monitoring and reporting processes.

The review will take account of the action already taken by WEFO to address issues raised by project sponsors about the need for clearer guidance during the early stages of the current Programmes.

In addition, to ensure WEFO's guidance reflects lessons learned and EC regulatory developments, it is regularly reviewed by WEFO's Delivery and Compliance Group which includes stakeholders from the third, private and public sectors, all with a working knowledge of EU funding.

Key revisions include the revised Sponsorship and Delivery Models guidance (published October 2010) as a result of issues raised by project sponsors about the need for greater clarity in the use of procurement. WEFO is already considering how best to strengthen its expertise in procurement and is in discussion with Value Wales on how best to achieve this.

Other WEFO internal processes have also been improved, including advice to project sponsors being channelled through a single point of contact, in turn allowing for greater consistency. It has also enhanced internal staff training on project and financial management and is working on improvements in the handling of work transitions and knowledge transfer management between individual staff members or teams. As previously stated, WEFO is already in discussions with Value Wales on how best to improve provision of procurement advice.

**Financial Implications** – None.

### **Recommendation 7**

The Committee recommends that the Welsh Government undertakes a detailed analysis of the costs and benefits of using procurement in the delivery



of structural funds in Wales, quantifying these where possible. The Committee anticipates that the Welsh Government would then report on these findings.

**Response: Reject**

The Welsh Government has already commissioned a review into maximizing the impact of Welsh procurement; the full report of the McClelland Review was delivered in August 2012. Utilising this Review, and the recommendations of the Enterprise & Business Committee's Report into "Influencing the Modernisation of European Procurement Policy", the Finance Minister & Leader of the House issued a Statement on 6 December setting out the Welsh Government's intent for procurement and ensuring that the maximum impact will be secured from this important activity.

Additionally, WEFO undertakes its own review of the requirement for procurement within individual projects. WEFO has already undertaken a review of the use of procurement as a delivery model within projects and introduced the use of competitive grants in 2010. It is important to note that there will be occasions (depending on the activity being delivered and the potential for State Aid), where the need for procurement cannot be avoided in project delivery. Where procurement is required the procurement exercise to be undertaken must be in line with the EU procurement directive 2004/18/EC and the Public Contracts Regulations 2006.

**Financial Implications – None.**

**Recommendation 8**

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

**Response: Reject**

As the Managing Authority, WEFO has overall responsibility for managing implementation which includes the need to ensure the use of compliant delivery models within project delivery.

As previously stated, WEFO has reviewed its approach to delivery models for the 2007-2013 Programmes and provided further procurement guidance in 2010 to address concerns over the types of models used in project delivery.

WEFO is also working with partners to ensure the availability of effective and timely guidance and advice on the delivery and management of projects supported by the future funds so that projects can hit the ground running in early 2014.

**Financial Implications – None.**

**Recommendation 9**

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

**Response: Accept in principle**

As previously stated WEFO is already considering how best to strengthen its expertise in procurement and is in discussions with Value Wales on how best to achieve this. This includes the need to provide all project sponsors with access to better advice on procurement matters.

**Financial Implications – None.**

**Recommendation 10**

The Committee recommends that the Welsh Government clarifies Wales' position, in relation to other regions of Europe, in terms of its success in engaging the private sector in the use of structural funds.

**Response: Accept in principle**

The comment on the Wales position as second from the top of European countries in private sector engagement was made in September 2011 and on the basis of the amount of private sector match funding for the 2000-2006 Programmes. It was based on longstanding feedback on Wales' historic performance provided by the European Commission to WEFO. Clearly, the positions of Member States / regions continually change, as certified expenditure continues to be confirmed by Member States to the European Commission.

It is also important to distinguish between engagement via private sector led projects and engagement via private sector involvement, and above all the benefits for business from the delivery of Structural Funds projects. In Wales, businesses have already won over 1,222 contracts worth £496.6 million to deliver the activities of Structural Funds projects with completed procurement exercises. Based on an analysis of procurement data undertaken in January 2013, of the contracts awarded to the private sector, over 70% had been awarded to Welsh companies or companies with a Welsh presence.

**Financial Implications – None.**

**Recommendation 11**

The Committee recommends that, ahead of the next European funding period, WEFO reviews its guidance on monitoring of financial expenditure by project sponsors. The Committee anticipates that this should result in the development of explicit guidance to enable monitoring of projects' financial expenditure that is not excessive, while still being appropriately robust.

**Response: Accept in principle**

WEFO is already reviewing all of its guidance in anticipation of the next round of expenditure. It would be wrong however to raise expectations of any significant shift in the monitoring and compliance requirements for projects sponsors. WEFO must work within the legislative requirement set by the European Commission. These regulations are set with the whole of the EU in mind, not just Member States with well developed control frameworks. In Wales, we already have processes which are considerably less onerous than they might be – the normal requirement in most Member States for example is for a 100% check of supporting documentation for each claim before it can be paid. It is important also to remember the consequence of poor controls. We have an exemplar record in European Commission compliance – averaging a 99% success rate across the Programmes in both 2011 and 2012, while European Commission payments to other UK regions have been suspended in previous years due to high error rates. So the costs of non-compliance to Wales are very high.

For the future Programmes, WEFO will seek to ensure that a good balance is achieved between control measures and administrative burdens and is already working with stakeholders to consider and communicate effective processes and compliance issues. WEFO has also recently begun to hold annual review meetings with all sponsors (lead and joint) in a collaborative sponsorship to identify and overcome any unnecessary administrative burden imposed by lead sponsors.

**Financial Implications** – None.

**Recommendation 12**

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

**Response: Accept in principle**

WEFO closely monitors programme and project expenditure and outputs, and evaluates the impact of the programmes – all of which are essential for programme success and maximising the impact of EU funds. Building on lessons learned, WEFO has strengthened its monitoring and evaluation arrangements at programme and project level for the current programmes, and is leading best practice across the EU.

Current programme indicators are aggregated from Priority-level indicators, which capture data for all interventions and allow for comprehensive monitoring of overall programme performance.

Clarity on the data to be captured and how to effectively monitor outcomes is provided by WEFO to sponsors as early as the project development stage. WEFO also requires all sponsors to undertake project evaluations, which are then published on the WEFO website.

To support these processes, monitoring and evaluation guidance and advice, which include information on indicator definitions, and the selection and use of indicators appropriate to the project activity, is available for project sponsors. Support is also available during the project lifecycle.

The published Strategic Frameworks (which guide implementation) contain a set of evaluation questions that projects should attempt to answer in their evaluations. WEFO intends to synthesize the responses to these questions as part of its suite of Programme level evaluations starting when a critical mass of reports have been received. As these questions relate to outcomes (impact) which are achieved towards the end of the project lifecycle this work will not start until later in 2013 / early 2014.

Inevitably, there are different research models and methods available to assess the performance of projects and programmes in areas that matter most in achieving jobs, skills and growth. All research, analysis and evaluation activity conducted by WEFO is to high professional standards and the methods used have been established in liaison with the All-Wales PMC and other partnership technical experts.

For the current programmes, WEFO uses a mixed method approach to evaluate impact, pioneering more rigorous techniques which includes estimates of what would have happened without the EU funded intervention (i.e. the counterfactual) to produce more sophisticated and balanced results. This approach has been applied to various fund-type evaluation studies including three large-scale surveys of individuals who have benefited from ESF support and a survey of businesses who have benefited from ERDF support. As well as providing information on the overall effectiveness of Structural Funds support for individuals and businesses, the survey datasets have also been used in project level evaluations.

On the ESF side, using ESF and Annual Population Survey data, WEFO has been able to compare the extent to which ESF participants and non-

participants move into employment over a 12-month period. On the ERDF side, this kind of analysis has been hampered by the timeliness of nationally available datasets. As a result, WEFO will undertake a survey later this year to establish the impact of ERDF funding in the early part of the Programme period.

WEFO will continue to build on lessons learned on data collection and analysis in the context of developing the future Programmes.

**Financial Implications – None.**

### **Recommendation 13**

The Committee recommends that in the next funding round WEFO publishes and makes publicly available output and outcome data for live projects.

#### **Response: Accept**

Current European Commission regulations require the publication of basic details of approved projects (e.g. project name, organisation and amount of European Union funds awarded), and WEFO has already gone beyond EC requirements by also publishing forecasted outputs of projects and actual outputs on project completion. Information and publicity measures for the future Programmes will be reviewed by WEFO over the course of the year to accommodate new European Commission regulations and best practice in transparency; this will include the development of a new approved project database, including output information, for 2014-2020 Structural Funds projects in Wales.

**Financial Implications – None.**

### **Recommendation 14**

The Committee recommends that the Welsh Government takes action to enable appropriate evaluations of projects during their lifetimes.

#### **Response: Accept in principle**

All projects supported by the 2007-2013 Programmes in Wales are already required to undertake independent evaluations of their projects, which are published on the WEFO website. Project evaluations are usually undertaken towards the end of a project lifecycle to allow for a full impact assessment.

All projects are required to agree a monitoring and evaluation plan as part of the application and appraisal process for EU funding. While projects that are very innovative in nature, or of a certain size or complexity need to undertake a mid-term evaluation. In addition, WEFO provides technical evaluation support to projects where necessary.

WEFO will be conducting a synthesis of project evaluations towards the end of 2013 which will highlight best practice found in projects.

This is an area which is being considered by Dr Grahame Guilford's review.

**Financial Implications – None.**

### **Recommendation 15**

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

### **Response: Reject**

The rules for projects that generate income and the 'no profit' principle are determined by European legislation, with no latitude for flexibility in interpretation delegated to Member States or regions. Structural Funds grants contribute towards the net costs of a project and cannot have the effect of producing a profit for the grant recipient.

WEFO has an important role to play in helping grant recipients to understand their compliance obligations. WEFO will revisit its guidance to see if clarity can be improved, whilst retaining the necessary technical content around European Commission rules and definitions.

Article 55 (2007-2013 European Commission legislation) will be replaced by new rules for 2014-2020 Programmes. These rules are still subject to negotiation but are expected to be finalised in 2013. Although the basic principles of 'no-profit' and treatment of income are expected to remain unchanged, WEFO welcomes the simplifications presented in the draft proposals. WEFO will be producing revised guidance in due course to explain the revised rules to potential grant applicants to support projects from 2014 onwards.

WEFO has already established a Post-2013 Delivery and Compliance Workstream to engage with key partners on the design and implementation of delivery models, guidance notes, eligibility rules, and other implementation arrangements. Later in 2013 this group will examine WEFO's draft delivery and sponsorship models guidance in light of the recommendations made by Dr Grahame Guilford in his review. Members will have the opportunity to suggest further innovative ways of improving project sustainability while still complying with European Commission requirements.

**Financial Implications – None.**

**Alun Davies AM**

**Deputy Minister for Agriculture, Food, Fisheries and European Programmes**