

The background of the entire page is a close-up, slightly blurred image of the European Union flag, showing the blue field and the golden stars. A semi-transparent blue rounded rectangle is overlaid on the left side of the page, containing the text.

Investing in Growth and Jobs:

An Independent Review of Arrangements
for Implementation of European Structural
Funds Programmes 2014 - 2020

Dr Grahame Guilford
March 2013

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Foreword: Structure of Report and Acknowledgements

This report is divided into six sections. Section 1 provides a brief introduction and Section 2 lists my recommendations. In Section 3 I have attempted to provide some critical background and context that describes how I have approached the review, discusses some underlying and generic issues and defines some key terminology that I use throughout. Section 4 is a description of the key themes that have emerged from the review, the conclusions that I draw from them and the key opportunities that I believe arise as a result to enhance the role that Structural Funds play in the Welsh economy. It provides the principle rationale for my recommendations. Section 5 contains a range of background and support material including a more detailed description (Section 5.7) of the historical development of the use of Structural Funds in Wales and its achievements to date. Finally Section 6 consists of a range of appendices including the Terms of Reference of the review and its methodology.

I would like to formally record my gratitude to the large number of people who have taken the time to provide verbal and written input to the review and with whom I have been able to have a range of valuable discussions. It goes without saying, however, that, in a review of this kind, the conclusions and recommendations, and the responsibility for them, rest entirely with me. I would also like to thank the Secretariat team from the Welsh European Funding Office (WEFO) who have supported me admirably throughout the review and without whom the volume of work that we have been able to get through would have been impossible, and to the team from the Research, Monitoring and Evaluation (RME) team within WEFO for their very positive and constructive support.

1. Introduction

Since its inception, European Union Cohesion Policy has aimed to reduce disparities between the richest and poorest regions of Europe. Structural Funds comprising the European Regional Development Fund (ERDF) and the European Social Fund (ESF) provide funding to support this aim. Wales has been, and remains, a significant beneficiary of the Structural Funds programmes. The Objective 1, 2 and 3 Programmes invested £1.5bn of Structural Funds between 2000-2006, supporting the development of the economy and workforce of Wales. In the current 2007-2013 programme period, Wales receives Structural Funds through the Convergence Programme in West Wales and the Valleys and the Regional Competitiveness and Employment Programme in East Wales. Additionally, the European Territorial Co-operation (ETC) Programme supports collaborative Ireland-Wales initiatives, including the Ireland Wales Programme. Together, these programmes are worth £1.9bn in EU funding alone and have a primary focus on creating sustainable jobs and economic growth.

As Wales prepares to embark on a further round of European Structural Funds, the Deputy Minister for Agriculture, Food, Fisheries and European Programmes has asked me to review the management and implementation arrangements under which the funds operate. In particular he has asked me to examine how they have developed during the previous two rounds, what has been learned from that development and how that learning might be used as a basis for changes designed to secure improved outcomes for Wales in the next round.

An exercise at the end of the 2000-2006 round of Structural Funds resulted in a decision to move to a simplified, more strategic delivery model with fewer projects and a clearer framework of economic prioritisation. This was intended to focus investment on the key areas of the economy and to seek synergies with overall Welsh Government economic development strategy. The combination of focus and synergy was felt to provide the optimum approach to the creation of the areas of critical mass in the economy that would be the basis of a sustainable economic legacy.

In my view these objectives were, and remain, appropriate. Continuing efforts are required in order to fully deliver them in the next round and I have therefore attempted to identify the areas in which those efforts might be most beneficially employed. It has been encouraging to observe the experience that has been gained operationally during the course of the current round as this will provide a secure foundation for many of my suggested enhancements in the next round. This experience has revealed, however, that a number of imbalances still remain within the Structural Funds system which tend to inhibit the creation of economic critical mass and my recommendations are intended to suggest ways in which these might be beneficially adjusted. My overall conclusion, however, is that I believe that adjusting these key balances will help support increased growth in the next round but that the transformational change we aim for will require determined work by the key stakeholders in the run up to, and beyond, 2014.

2. Recommendations

In this section I have set out my recommendations. The background to them is contained in Section 4. Section 4 concludes that a solid operational base exists within the Structural Funds system and these recommendations are intended to build on that foundation and provide a practical basis for moving into the next round. They are set out under three headings. This is because I believe they have a hierarchical interdependency with the key recommendation (1) being a pre requisite which facilitates the operational recommendations (2-6) and enhances their impact. This impact can then be further enhanced by a series of environmental and organisational recommendations (7-14) which I believe will improve the overall efficiency of the Structural Funds system, increase the understanding of it externally and provide enhanced strategic management information.

Strategic Recommendation

R1 The development of an Economic Prioritisation Framework (EPF) that allows the identification of the areas in which Structural Funds can contribute in the most effective and synergistic way to overall Welsh Government economic development policy. The EPF should be constructed at a level of detail sufficient to provide guidance to potential project sponsors, to inform decision making at the time of project selection and to support the management of implementation. WEFO should be responsible for the production of the EPF drawing on relevant input from Welsh Government economic strategy development and bearing in mind any specific obligations in relation to EU policy and Structural Funds regulations. ([Section 4.2.1](#) and [Section 5.6](#))

Operational Recommendations

R2 Timely publication of the EPF as part of the process of developing the implementation strategies for the next round in order to allow for meaningful discussions on project development. WEFO should encourage

- and facilitate wide ranging discussions with key stakeholders around their ability to contribute to delivery of the EPF objectives. ([Section 4.2.1](#))
- R3** Use of the EPF to facilitate the development of project appraisal process that more effectively discriminates between compliance risk and business risk. This may involve the creation of a two phase mechanism in which eligibility is seen in the context of a gateway function and in which the EPF subsequently informs a selection process based on fit with its priorities. WEFO should consider this recommendation in light of its existing processes and in light of its ongoing consultations with stakeholders. ([Section 4.2.2](#) and [Section 5.6](#))
- R4** Use of the EPF in conjunction with experience gained in the current round of Structural Funds programmes to establish a phased programme for the next round. This might comprise an initial group of strategic backbone projects which demonstrate clear potential for early delivery of key objectives of the EPF with subsequent phase(s) providing the ability to react to changing economic circumstances, to fill gaps in the economic landscape or to facilitate the use of alternative funding and project selection mechanisms. WEFO should use their experience from the current round, in conjunction with the EPF, to identify projects which might form part of the backbone and initiate appropriate discussions on implementation. ([Section 4.2.2](#))
- R5** Encouragement and support for the creation of credible regional and thematic planning mechanisms able to provide input to the EPF, for example on the identification of demand drivers, and to provide support for post approval delivery mechanisms. WEFO should undertake appropriate consultations on the structure and operation of these mechanisms. ([Section 4.2.1](#))
- R6** Consideration of mechanisms that might provide more effective support to projects in their early delivery stages. Such mechanisms might include the use of mobilisation phases and the development of real time monitoring processes. The potential contribution of the regional and thematic mechanisms referred to in recommendation 5 should be explored. ([Section 4.1.4](#), [Section 4.2.3](#) and [Section 5.4](#))

Environmental and Organisational Recommendations

- R7** The development of a working model of the Structural Funds delivery system providing a real time picture of progress against plan at a strategic level. ([Section 5.5](#))
- R8** Formal adoption of a portfolio management approach to the next round of Structural Funds in which an overall objective is established within the context of economic development in Wales as a whole and use of this approach in progress reporting. ([Section 5.2](#))
- R9** The ongoing processes of review of WEFO guidance to be considered in light of experience gained in the current round and of stakeholder input with a view to achieving continuous improvement of the guidance itself and also ensuring an adequate delineation between guidance (which WEFO can provide) and legal advice (which project sponsors must obtain themselves). ([Section 4.1.3](#) and [Section 5.7](#))
- R10** Use of the experience gained in the current round to establish expertise and experience databases within WEFO, perhaps supplemented by appointment of experienced mentors, to ensure that WEFO staff have access to wide ranging accumulated knowledge to assist in their interactions with external stakeholders. ([Section 4.1.3](#) and [Section 4.2.4](#))
- R11** Review, in conjunction with the European Commission and the Welsh Government, the risk assessment processes and resultant level of audit and evaluation work carried out to ensure, as far as possible, it is proportionate to the actual level of risk in projects. ([Section 4.2.3](#))
- R12** Consideration should be given at the appropriate time to whether WEFO might be more effectively located elsewhere within Welsh Government. These considerations should give particular weight to timing in light of the performance of the Structural Funds system in a future round. ([Section 4.2.4](#))
- R13** At an appropriate time the All-Wales Programme Monitoring Committee (PMC) should be asked to consider its future role within the statutory limits of its function. ([Section 4.2.4](#))
- R14** Encouragement should be given to the continuing efforts to examine integration of funding streams in order to achieve increased effectiveness

and impact in a future round of Structural Funds. Consideration should be given to supporting integration through common management and process systems and common governance perhaps through an expanded role for a future PMC. ([Section 4.2.4](#))

3. Background, Context and Definitions

3.1. Approaches

Although the objective of the review is to consider the management and implementation arrangements for the way in which we use Structural Funds to drive economic development in Wales, I believe that it is only possible to do that fully if we consider Structural Funds within the context of the overall Welsh economy. In that context, they become one of the financial levers available to the economy. They have certain conditions attached to them, over how and where they can be used for example, but broadly speaking they can address the same areas of activity as those addressed in the wider economy. One might argue therefore that continuing to focus on identifying the optimum synergistic role that Structural Funds can play in an overall economic development strategy offers the best chance of contributing effectively to the creation of critical mass and long term growth. This approach has represented the primary focus of the review.

I have also attempted to take a pragmatic and practical approach, taking account of the experience gained in Wales during ten years of work with Structural Funds, the operating mechanisms created and the achievements made (Section 5.7). I have been particularly conscious of the importance of creating early momentum in the next round. In the case, therefore, of recommendations that might cause disruption to existing structures and mechanisms I have sought to carefully balance the risks and benefits. As such, my question has not been “what is broken and how can we fix it?” but rather “what is working and how can we improve it?”.

A second area in which I believe a degree of pragmatism is required is that of compliance with Structural Funds regulations. The investment of public funds is necessarily accompanied by a need to demonstrate that such investment is properly incurred and accounted for and this is clearly understood and accepted in Wales. This is particularly important in the case of Structural Funds given that the sanctions available to the European Commission in the event of non-compliance are significant. Nevertheless the largest volume of concerns expressed to me

during the review, in both verbal and written (Section 5.9) form, related to this area. Similar experiences are seen in other parts of Europe (Section 5.8). It would be unreasonable not to acknowledge that the compliance requirements are significant, in particular for those projects involved in delivery of services to businesses and individuals. There is also some evidence that they may be more acutely felt in Wales than elsewhere (Section 5.8). Nevertheless they are not unexpected and given the scale of many of the projects in the current round of Structural Funds they are, in principle, not unreasonable. My approach, therefore, has been to acknowledge that significant compliance requirements will remain in a future round of Structural Funds and to focus on utilising the considerable experience that has been gained in the current round as a driver for maintaining continuous efforts to ensure appropriate balance and proportionality.

3.2. Underlying Issues

There are two areas on which I believe it may be valuable to comment at this point as they represent some of the key premises on which the Structural Funds debate in Wales is based.

The first of these relates to opinions on what Structural Funds in Wales are capable of achieving, what they should be achieving and what they are actually achieving. It has been interesting to note that the extent to which individuals attribute “success” to the use of Structural Funds in Wales is highly dependent on their individual perspective on each of these three elements. I have sought through my recommendations to suggest ways in which a more consistent level of understanding and agreement could be achieved.

The second area relates to the definition of “success”. Any meeting or discussion on the use of Structural Funds in Wales will inevitably include references to numbers, targets, outcomes, impacts, quality, quantity and so on. In my experience participants in those discussions will not always share consistent definitions of those terms or consistent views on their relative importance. For example if one’s definition of success is achievement of the numerical targets

agreed between WEFO and the European Commission, achievement of overall expenditure targets and compliance with regulations, then at the end of the current round of Structural Funds, Wales will look very successful as shown in Section 5.7. Indeed Wales' success has already been formally recognised within the European Commission. On the other hand, if one's definition of success relates to performance against figures for GDP/GVA per head, a different view might be taken. I believe this area is one of the most critical in determining whether Wales can enhance the effectiveness of its use of Structural Funds and my recommendations are intended to suggest ways in which more useful definitions of success can be arrived at which then offer improved ways of assessing the potential ability of projects to deliver success and improved ways of measuring whether they have done so.

3.3. Key Definitions

I have used a number of terms throughout this report which may not be automatically familiar to everyone who reads it. Section 6.6 contains a formal glossary but I thought it would be useful at this point to provide more detailed definitions of the terms that I believe are particularly crucial.

The Structural Funds System (SF system). For the purposes of this report, I use the phrase "SF system" to describe the combination of the overall partnership responsible for the implementation of Structural Funds including the Welsh Government, WEFO and stakeholders together with their interactions and responsibility for planning, delivering and monitoring the use of Structural Funds in Wales. The SF system, as it has developed during the current round, is what life scientists would describe as a complex system. By that they would mean an isolated multi component system (organism) with complex internal interactions which was subject to influence from the external environment in which it existed. The SF system in Wales in the current round is self-contained (isolated) to the extent that it has a discrete budget, a discrete timescale, a discrete Managing Authority (WEFO) and discrete compliance obligations but it is, nevertheless, subject to influence from its external environment in the sense that it operates

within the overall Welsh economy and is subject to environmental influences from the European Commission. When I refer to the SF system in this report I refer to it in that context.

WEFO. I have found during the review that when people have used the term “WEFO” they have frequently used it to mean different things. At one extreme it is used simply to mean the Welsh European Funding Office as an organisation; at the other it is used to mean the entire system through which we deliver Structural Funds in Wales (what I have defined in the report as the SF system). In this review, I have used the term WEFO exclusively to mean the organisation.

Economic Prioritisation Framework (EPF). I have started my review from the premise that there is no universally applicable definition of success in economic development. Rather, the ability to define and measure success at the local level depends crucially on the establishment of locally relevant criteria which firstly enable investment decisions to be made in a timely manner and secondly enable the outcomes of those decisions to be monitored and evaluated in a productive manner. In the current round for example, the Strategic Frameworks were established as part of this process. There are a number of pieces of work taking place in this area currently and when I refer to EPF in this report, I refer specifically to the output of that work intended to inform the next round of Structural Funds.

Synergy. One of the main themes running through this report is synergy and the need to seek synergy in our use of Structural Funds. When I use that term I do so in the conventional sense that seeking synergy means seeking complementary and mutually supportive activities. This is particularly important with Structural Funds which represents a relatively small amount of funding in relation to the scale of the Welsh economy (around 1-2%). Therefore it will be important in the next round to seek focus in the way in which it is used. An enhanced EPF and enhanced synergy to further lever its impact may be helpful in providing this focus and my recommendations are intended to assist this process. There are three areas in which I believe synergy will be found. Firstly within the SF system itself, secondly

between a Structural Funds project and a complementary activity in the wider economy and thirdly through identification of larger scale projects in which Structural Funds can play a relatively small, but nevertheless, enabling role. An example of such a project in the current round is the Swansea University Science and Innovation Campus where a Structural Funds contribution to a particular element of the project has facilitated the attraction of much larger amounts of external funding from both public and private sources including the European Investment Bank.

Risk. I refer widely to risk in the report and when I do so I use the word in the strictly technical sense of a set of circumstances or events that can influence the outcome of a particular activity and which must therefore be assessed and managed. The use of Structural Funds involves the taking of economic investment decisions within a regulated environment and this results in exposure to two types of risk which I have referred to as compliance (regulatory) risk and business risk. The former is essentially non-discretionary while the latter, an economic suitability decision for example, has a discretionary element.

Demand Drivers. I believe the concept of demand drivers will be of benefit in the next round in exemplifying ways in which the EPF can lead to synergistic use of Structural Funds. In this context, I define demand drivers as strategic growth opportunities many of which might be regionally based. Examples may be:

- Development of major energy infrastructure in North Wales.
- Rail electrification and associated infrastructure development in South East and South West Wales.
- Major strategic national projects emerging from the Wales Infrastructure Investment Plan (WIIP).
- Development of a Wales-wide high speed broadband network.

Each of these and other similar opportunities could then lead to the identification of opportunities for Structural Funds support under the four economic activity headings below. The synergy implicit in this analysis could, in turn increase the likelihood of critical mass creation as a basis for growth and job creation. So, for

example, the development of energy infrastructure in North Wales could lead to the need for improved connectivity to facilitate access to employment opportunities, for development of new knowledge to support the projects, to the identification of supply chain opportunities for SMEs requiring investment in training or equipment and to the identification of key skills requirements leading to training and employability programmes.

Activities. I use the word activities frequently in the report and in four main senses. The first of these are economic activities. It is generally accepted that the key elements required by a developed economy in order to maintain growth is a knowledge base, a business sector that can exploit that knowledge base, a workforce that can supply the skills that business needs and an infrastructure that facilitates the essential connectivity. In order to allow comparison with activity in the wider economy, I have categorised Structural Funds investment into these four activities at certain points. Structural Funds has a formal categorisation system involving “priorities”. The graphic on the next page shows how the two relate in the current round.

Correlation of SF Priority Classification with Economic Activity Classification				
Priority Classification	Economic Activity Classification			
	Business Support	Individual Support	Infrastructure - Knowledge	Infrastructure - Physical
ERDF Convergence				
1	■		■	■
2	■		■	■
3				
4	■		■	■
5	■			■
6				
ERDF Competitiveness				
1	■		■	
2	■			
3	■			
4				
5				
ESF Convergence				
1		■		
2		■		
3		■		
4		■		
5		■		
ESF Competitiveness				
1		■		
2		■		
3		■		

Source WEFO February 2013. Black cells indicate areas in which >2% of total spend within each priority is within the designated activity heading

Table: The correlation of Structural Funds priority classifications with economic activity classifications. Source WEFO February 2013.

My second use of activity relates to output activity. Within the four economic activities, I have defined two categories of output activity, physical and service. This is in order to focus on the differences that I see in their management and control. For example if the output of a physical infrastructure project is the construction of a road between two points at a certain cost, it is fairly straightforward to determine whether that has been achieved. Economic impact, however, depends on whether the road is being built in the right place. In other words, economic impact is determined more by getting the strategy right than the

delivery. On the other hand, the impact achieved by business and individual support projects is highly dependent on delivery. It requires that the right businesses and individuals are selected and provided with the right interventions. The third use relates to process activities. In my analysis of the SF system I have used four process activities. These are planning, project selection, delivery and compliance.

Finally I have referred to worthwhile activities. This topic is considered in more detail in Sections 5.2 and 5.6 but broadly speaking its use refers to adjusting the balance in selection of an activity towards its value as a synergistic contribution towards a communal objective and away from its value as a standalone activity.

The graphic below shows diagrammatically how I believe the use of demand drivers and worthwhile activities can be linked to the four types of economic activity to achieve enhanced synergy.

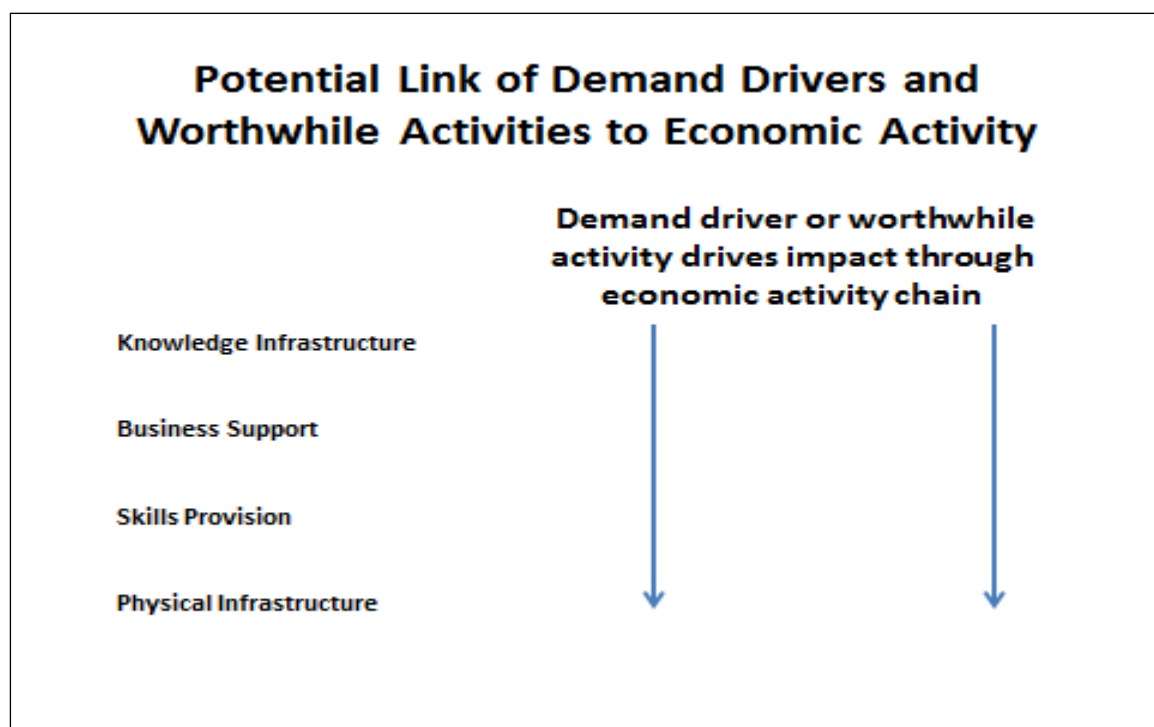


Diagram: The potential link of demand drivers and worthwhile activities to economic activity.

4. Themes, Conclusions and Opportunities

4.1. Themes and Conclusions

The first part of this section attempts to present a picture of what the SF system looks like, at an operational level, as we near the end of the current round. Understanding what the system consists of, how it operates and gaining some insight into why it looks and operates that way is, I believe, a key pre requisite to the identification of potential improvements. I have then considered in turn each of the four process activities (planning, project selection, delivery and compliance) which have provided the operating basis for the current round. I draw a number of conclusions from this which lead to opportunities for enhancements in the next round. The second part of the section then considers these opportunities and directly informs my recommendations.

4.1.1 Where Are We Today?

I initially undertook an exercise to construct an operational model of the SF system at a strategic level. This had three key elements to it:

- Use of a turnkey delivery model as an analogy (Section 5.1) in which a main contractor (WEFO in this case) is appointed to deliver an overall programme through the appointment of sub-contractors (project sponsors) who in turn might deliver all or part of their activities through the creation of a supply chain.
- Categorisation of economic activity by the four headings of knowledge infrastructure, physical infrastructure, business support and individual support.
- Data segmentation at an intermediary level (Section 5.5) by, for example, project sponsor, project activity and project size.

I also sought to put the level of funding available through Structural Funds into the context of the overall Welsh economy. Examples of some of this data are given below with further examples in Section 6.7.

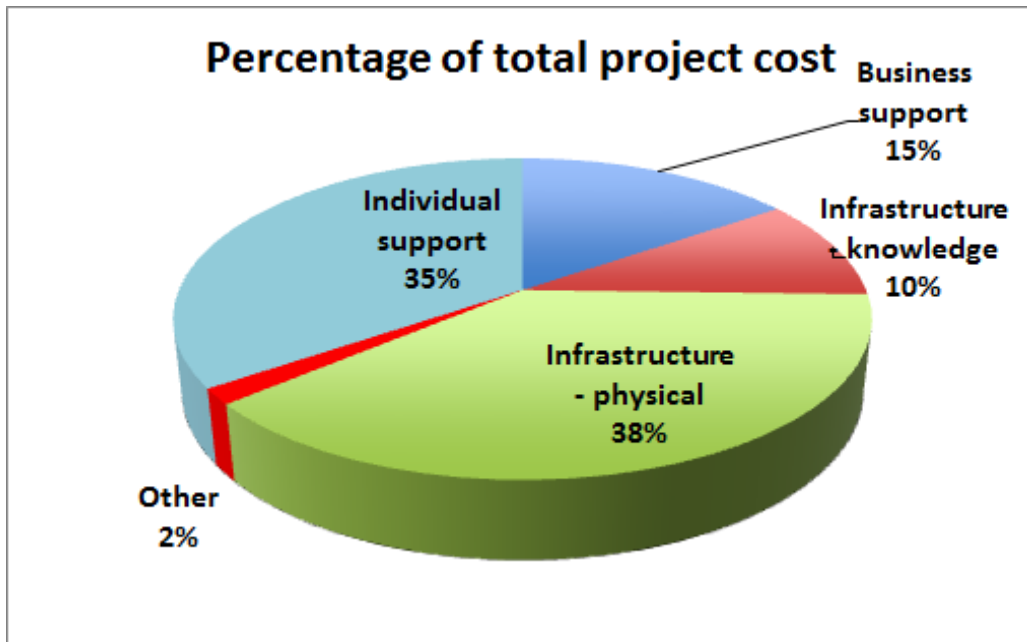


Chart: The total project cost (committed) in each economic activity category as a percentage of total programme cost. Source WEFO December 2012.

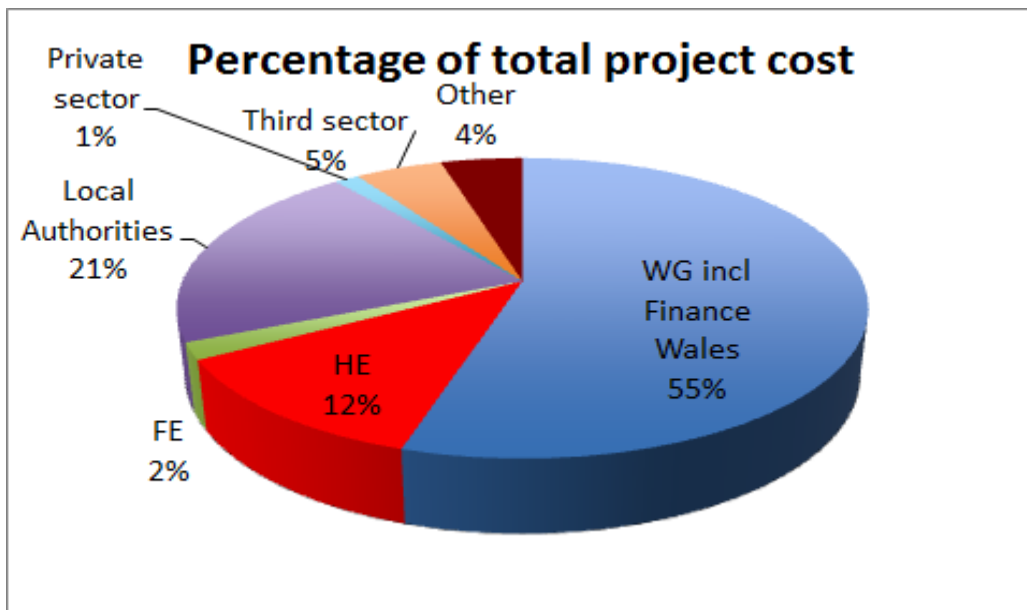


Chart: The total project cost (committed) in each sector category as a percentage of total programme cost. Source WEFO December 2012.

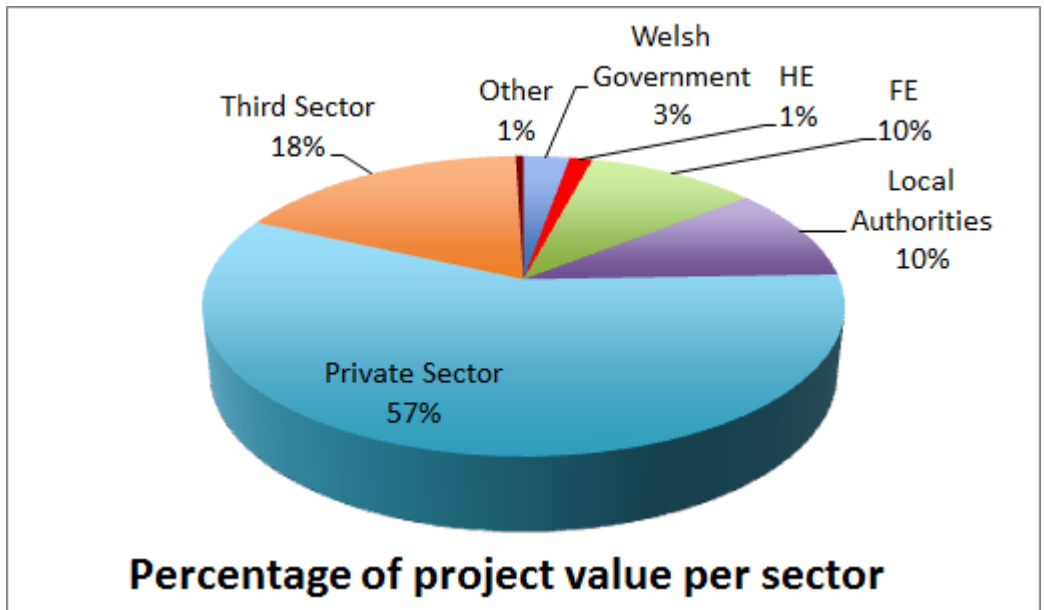


Chart: The total supply chain expenditure in each sector category as a percentage of total programme cost. Source WEFO December 2012.

Project Title	Sponsor Name	Categorisation of Activity	Total Project Cost
Next Generation Broadband for Wales			
Convergence	WAG DEandT Transport	Infrastructure - physical	294.0 million
A465 Head of the Valleys Dualling Scheme	WAG DEandT Transport	Infrastructure - physical	150.2 million
Modern Apprenticeship World Class Skills For A Knowledge Economy	WAG DCELLS Lifelong Learning and Skills	Individual support	97.8 million
Harbour Way	Neath Port Talbot County Borough Council	Infrastructure - physical	96.5 million
Skills Growth Wales	WAG DCELLS Lifelong Learning and Skills	Individual support	75.8 million
JEREMIE Fund (P2 Conv)	Finance Wales Jeremie	Business support	75.8 million
All Age Skillbuild for the Unemployed Inactive and NEET	WAG DCELLS Lifelong Learning and Skills	Individual support	60.0 million
Genesis Cymru Wales 2 Convergence	WAG DCELLS Lifelong Learning and Skills	Individual support	55.8 million
ReAct ESF Convergence P2	WAG DCELLS Lifelong Learning and Skills	Individual support	50.8 million
COASTAL	City and County of Swansea	Individual support	48.8 million
Pathways to Apprenticeships	WAG DCELLS Lifelong Learning and Skills	Individual support	44.7 million
JEREMIE Fund (P2 Comp)	Finance Wales Jeremie	Business support	40.8 million
JESSICA Wales Urban Development Fund (UDF)	Regeneration Investment Fund for Wales LLP	Infrastructure - physical	40.4 million
High Performance Computing Wales	High Performance Computing Wales	Infrastructure - knowledge	39.9 million
Wales Station Improvement Programme	WAG DEandT Transport	Infrastructure - physical	39.9 million
Nantgarw 3	Coleg Morgannwg	Infrastructure - knowledge	39.3 million
Skills Growth Wales Competitiveness	WAG DCELLS Lifelong Learning and Skills	Individual support	38.0 million
Physical Regeneration In North West Wales	WAG DESH Regeneration	Infrastructure - physical	37.8 million
A40 Penblewin to Slebech Park Improvements	WAG DEandT Transport	Infrastructure - physical	37.2 million
Arbed Phase 2 Convergence	WAG DESH Climate Change	Business support	36.6 million
LCRI	Cardiff University	Infrastructure - knowledge	34.3 million
Work Based Learning Strategies	University of Glamorgan	Individual support	34.0 million
Knowledge Economy Skills Scholarships	Bangor University	Individual support	33.0 million
The Waterfront City	City and County of Swansea	Infrastructure - physical	32.2 million
Blaenau Gwent Learning Zone	Blaenau Gwent County Borough Council	Infrastructure - knowledge	31.8 million

Table: The top 25 projects by committed value in the current programme.
Source WEFO December 2012.

The key conclusions I draw from this analysis are:

- Structural Funds represents a small percentage of total Welsh GDP (ca 2%) and annual expenditure (ca 1%) and is used to add value to a range of activities similar to those supported by Welsh Government economic development expenditure itself.
- The split of activity between the four economic categories probably represents a sensible balance for the Welsh economy.

- At the sub-contractor (project sponsor) level, the programme is heavily dominated by the public and higher education sectors; the private and third sectors are largely absent.
- At the supply chain level the private and third sectors are heavily represented.
- The majority of total programme investment is concentrated in a relatively small number of large strategic projects. A number of these are projects delivering the key infrastructure interventions and a number are projects delivering the key service interventions. In many of these latter projects the profile of activity is capable of development and modification during the course of the programme in response to need.
- The total number of projects in the current round, 2007-2013 (ca 300) will be approximately 10% of the number in the 2000-2006 round thus achieving one of the key objectives of simplification outlined for the current round (Section 5.7). However within the large strategic service delivery projects which necessarily have lengthy supply chains and multi component delivery mechanisms, an element of complexity remains.

4.1.2. Planning

At the start of the current round, a key objective was to achieve a more strategic use of Structural Funds. The intention was to identify those areas in which Structural Funds could contribute most effectively in terms of a synergistic link with overall Welsh Government economic strategy. The principle mechanism chosen for this was the creation of Strategic Frameworks. These were developed through a partnership approach involving all the key stakeholders in the SF system. Their role was to provide guidance for potential project sponsors on the areas in which activity should be focussed and for project assessors in terms of appraising the suitability of a project for support. I have encountered different views during the review on how effective these frameworks were in practice with some contributors feeling that they provided useful direction in certain areas in the early parts of the programme, while others felt this value declined as the programme proceeded and major changes in the external economic environment

were experienced from 2008 onwards. Both programmes, and their associated Strategic Frameworks, required modification as a result of the introduction of the Economic Renewal Programme in 2010 and the UK Government's Work Programme in 2011.

A number of the people I spoke to felt that in areas where the Strategic Frameworks were less useful than others, the reason for this was that they did not go down to a level of detail sufficient to allow a clear delineation between areas and activities that were a priority for support and those that were not. This may have made it more difficult to achieve an appropriate balance between eligibility (compliance risk) criteria and economic suitability (business risk) criteria which in turn can affect the appropriate balance between a focussed and a more widely distributed expenditure pattern (Section 5.3). There is certainly some preliminary evidence from the data that actual expenditure, particularly in some of the service delivery projects has tended towards a distributed pattern.

4.1.3. Project Selection (R9, R10)

In accordance with European Commission requirements, selection of individual projects within the SF system must be subject to a detailed and rigorous assessment process in order to ensure that activities proposed are eligible and are likely to deliver an appropriate contribution to overall programme objectives. The criteria by which project selection is made are agreed by the All-Wales PMC and are administered by WEFO. Selection criteria include assessment of the projects eligibility for support and its economic suitability, the latter facilitated by the Strategic Frameworks. In this round, a two stage appraisal process was introduced in which an initial expression of interest, if accepted, was followed up by a detailed business plan development stage leading in appropriate cases to final approval. The business planning stage was overseen within WEFO by a designated Project Development Officer (PDO) who would aim to remain associated with the project during development and into the implementation phase with the aim of providing continuity ("cradle to grave" approach). Alongside the appraisal process, potential project sponsors are supplied with a range of technical guidance

designed to assist them in dealing with issues of eligibility and compliance for example. The outcome of the appraisal process, if a project is successful, is the agreement of a legal contract between WEFO, as Managing Authority and the sponsor outlining the sponsor's obligations in relation to delivery of numerical targets and in relation to compliance.

I found that this process was well understood by project sponsors and that there was general support, in principle, for the move made by WEFO to the two stage application process and the introduction of the PDO system. Nevertheless there were many expressions of concern about the way in which the process operated in practice. There were two key themes to these concerns. Firstly the elapsed time taken by projects to progress through the system and secondly the availability and consistency of advice and guidance provided to project sponsors. In order to try and understand these issues better, I identified a number of case study projects and, together with the sponsors and the members of the relevant WEFO appraisal teams, followed their chronological progress through the system, discussing what issues had arisen and how they were dealt with. A number of consistent themes emerged:

- The elapsed time taken by projects in moving through the appraisal process was accounted for in the main by time spent with project sponsors with the business plans of a number of projects undergoing extensive revisions.
- A number of the more difficult issues that arose were related to compliance, for example issues of state aid, procurement, eligibility of certain activities or participants and resolution of these sometimes added to the elapsed time.
- In the early stages of the programme, availability of certain elements of guidance was more limited than was the case at later stages.
- Experience of issues that might arise during appraisal and how to deal with them increased as the programme progressed.

I saw evidence for a particular generic issue that affected a number of projects and which may have led to some of the misunderstandings over provision of guidance. The project appraisal process is designed to be collaborative and there

is a common desire that the outcome should be a project whose activity adds economic value. However, the outcome is also a formal contract with strict obligations and liabilities attached. It is important therefore to understand where the dividing line occurs between guidance that can be appropriately supplied by WEFO and legal advice which must be taken individually by parties to a contract.

4.1.4. Delivery and Compliance (R6)

During the implementation phase of projects, sponsors have two sets of responsibilities, firstly the delivery of numerical targets and secondly delivery of a range of compliance obligations. The latter involve sponsors in being subject to a range of audit activity from the European Commission and from inside Wales and being required to undertake a number of evaluations.

As I have noted above (Section 3.1), the majority of sponsors noted that they had encountered problems in meeting the compliance requirements. In the main this related to the amount of effort needed rather than the inherent difficulty, although it was clear that some projects encountered difficulties in the early stage of the programme in relation to procurement regulations. One interesting, and perhaps unanticipated observation was that the preponderance of public sector organisations at the project sponsor level resulted in projects being subject to additional audit requirement as a result of the local governance requirements of their own parent organisations.

In terms of delivery of numerical targets some projects reported that they had been over optimistic in assessing the speed at which projects would start to generate activity. I believe one of the reasons for this is that a number of projects move from approval straight into implementation without a formal mobilisation phase during which WEFO and project sponsors could ensure that appropriate project management processes and resourcing were in place and that interpretations of guidance, regulations; data recording and reporting were consistent. Early, uncorrected delays in project delivery can, of course, be difficult to rectify later and may result in eventual decommitment of funding.

Some projects, particularly those involved in service delivery activity, also reported that they experienced problems in identifying appropriate participants for their projects and in determining which participants were priorities from an economic perspective. Some also found themselves in effective competition with other projects for the same participant group.

However, as we approach the end of the current round, data shows that good progress is being made on delivery of numerical targets and on achieving compliance. Many project sponsors report that they have gained valuable experience in meeting their compliance obligations and that they are now well placed to adjust the balance of their activity in a future round in favour of an increased focus on growth and economic impact.

4.1.5. Conclusions

As we approach the start of the next round of Structural Funds, I believe we have a clearer picture of where the current round has taken us, and more importantly why, and that we can use that information to go into a future round with an increased sense of optimism, hopefully tempered with an understanding of the difficulties and threats that remain. My key conclusions are:

- An operationally compliant delivery mechanism is in place in which a significant level of experience and maturity has been established.
- This mechanism can be significantly enhanced by provision of a stronger EPF at the planning phase and by continued strengthening of management and control systems to ensure it delivers against those plans.
- Many activities in the current SF system are capable of transitioning into the next round of Structural Funds relatively seamlessly and forming a backbone of activity to deliver initial momentum.

4.2. Opportunities

4.2.1. Planning (R1, R2, R5)

In terms of planning, the key conclusion that emerges from the work I have described above is that a prioritisation framework approach, as employed in the current round, remains valid but that it should be expressed at a greater level of detail, be closely integrated with overall Welsh Government economic strategy and be sufficiently flexible to allow updating during the course of the programme in light of changing circumstances. The data in Section 4.1.1 shows that activity in the current round of Structural Funds has focussed on four key elements crucial to achieving economic growth as shown in the table below:

Structural Funds Support for Key Economic Activity	
Knowledge Infrastructure	13%
Business Support	16%
Skills Provision	33%
Physical Infrastructure	38%

Diagram: The percentage of Structural Funds Support allocated to each Key Economic Activity.

At the national level, other Welsh Government economic development activity will be similarly categorised but will also take account of the non-convergence areas, will take a broader view of the role of anchor companies and key sectors and will consider the national and international links of the Welsh economy. This could then allow a consideration of the potential role of Structural Funds in the context of the broader economy leading to an analysis of those areas where the synergistic impact of these funds can be maximised. In particular, I believe this process should focus on identifying the key demand drivers that may provide growth opportunities during the course of the next round.

I believe it is important therefore that, in the period before the start of the next round, WEFO and Welsh Government use the discussions already in progress to carry out the type of analysis outlined above with the intention of producing, and publishing, an EPF at a sufficient level of detail to identify the areas in which Structural Funds could have the most effective impact and to provide a useful basis for project selection. I also believe that, given that many of the demand drivers will be regionally specific, WEFO and the Welsh Government should seek input from regional planning structures in this process. My discussions during the review have indicated that these structures are developing throughout Wales.

The publication of the EPF would allow the opportunity for potential project sponsors to consider the suitability of their own ideas for inclusion in the next round and the opportunity to amend these ideas if appropriate. Informal discussions with WEFO could also take place in this period as could exploratory discussions between potential partners in project delivery. The presence of a more detailed policy framework than was available in the current round might help enhance the value of these discussions.

4.2.2. Project Selection (R3, R4)

I believe that through the area of project selection significant opportunities exist to create a more economically effective portfolio of activities in the next round. This opportunity arises through the development of an enhanced EPF with the

programme delivery experience gained in the current round particularly in the larger strategic projects. Examples of this experience are:

- The larger strategic projects in the current round involve examples of the four key economic activities and, where the potential impacts of these activities in the next round are prioritised within the EPF they could form the basis of a backbone of initial projects.
- Experience gained in the current round on the delivery activities of projects (for example physical outputs or service outputs) can identify the key risk elements associated with each type of activity and this can provide valuable input to appraisal.
- Experience and evaluation of key projects in the current round can provide indicators of critical success factors and these can also become key selection criteria in appraisal.

Section 5.2 points out that, in a mature portfolio management system, a combination of good knowledge of the market being served and its demand drivers, coupled with good intelligence on the reception of new products and services within that market, makes the process of selecting new projects easier through the effective creation of a filtration mechanism as shown below.

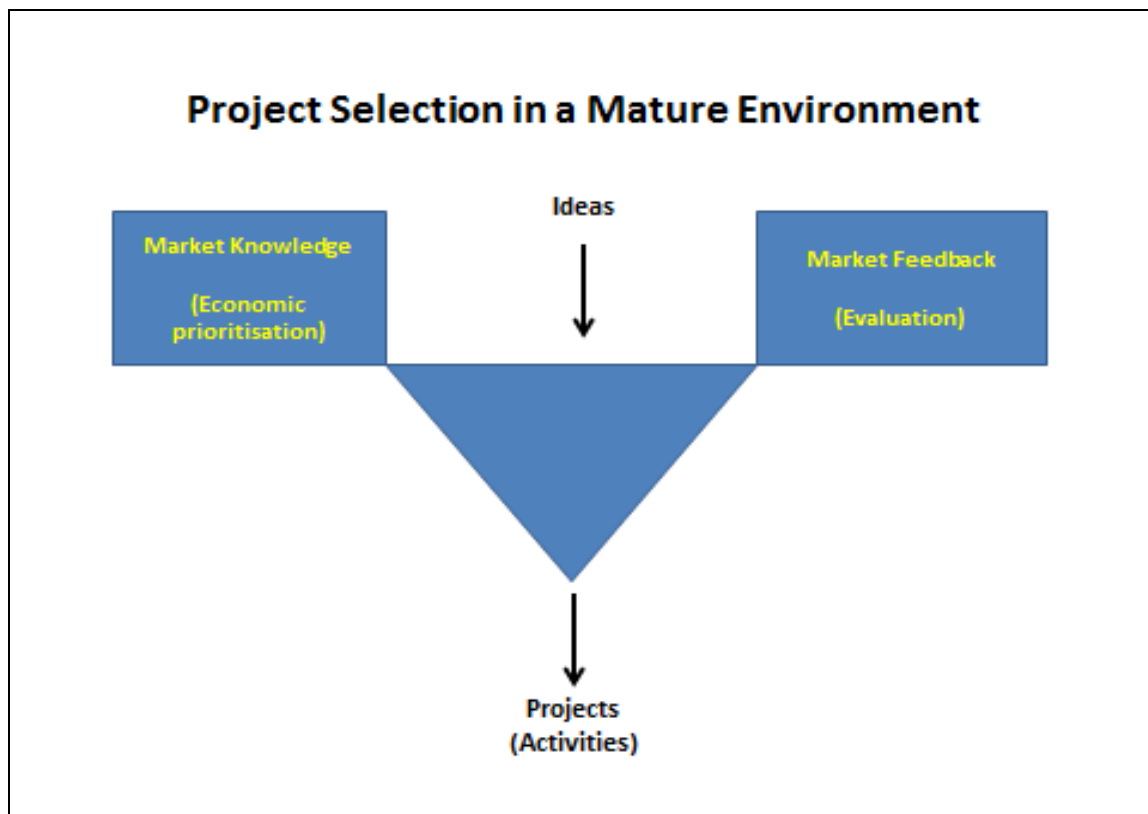


Diagram: The high level process for project selection in a mature environment.

In the next round of Structural Funds, an effective EPF could provide the equivalent of market knowledge and the experience gained in the current round could provide the equivalent of market feedback.

This would create the opportunity to establish a project appraisal system with the following objectives and characteristics:

- It could aim for the early establishment of the key backbone projects that will form the basis of the programme. These projects may be similar in activity profile to many in the current round and may involve similar delivery structures.
- Project approval later in the programme could then focus on gap filling and can be responsive to changes in demand drivers. It could also involve more innovative approaches including finance instruments and commissioning and could be able to tolerate a higher overall risk profile given that the risk profile of the backbone projects might be expected to be relatively low.

- An improved separation of business and compliance risk might be enabled perhaps through a two phase mechanism in which eligibility is seen in the context of a gateway function and fit with the EPF and the overall portfolio on a priority basis.
- Experience gained in the current round would also enable greater consideration to be given in assessment to issues associated with delivery.

The current round has also led to the accumulation of considerable experience both within WEFO and the wider SF system which could be gathered together to provide a more effective basis for the provision of advice and guidance to projects. I believe WEFO needs to decide the best way to do this in light of its own organisational structures. However, examples used elsewhere would include the establishment of databases which could be used as reference sources to assist in the resolution of issues, the opportunities to exchange and disseminate best practice and the establishment of mentoring processes taking advantage of the experience gained by key individuals.

4.2.3. Delivery and Compliance (R6, R11)

As with the area of project selection, I believe it is possible to see opportunities for enhancements and adjustments to balance in the area of compliance and delivery that could lead to more effective economic outcomes. However, the specific operational modifications that might bring about these benefits are less easily identified in this area and my recommendations take account of this.

This is because, at one level the performance of Wales in the use of Structural Funds is already successful. A high level of compliance is delivered; expenditure proceeds at close to the required rate and numerical targets are largely achieved. Nevertheless this area, as I have noted elsewhere, attracted high levels of concern throughout the review from people working within project delivery.

I believe the reasons for this apparent contradiction are twofold. Firstly the delivery and the compliance parts of the system, particularly in service delivery projects, are necessarily highly integrated and secondly, again as I have noted

elsewhere, there are differing views within the SF system on what delivery actually means.

The two key themes that emerge in this area, therefore, are the appropriate balance between the delivery and compliance activities themselves and whether the delivery mechanisms are adequately enabled and appropriately supported. The experience gained during the current round should, in theory, facilitate more sophisticated risk assessment leading to an ability to ensure that audit and evaluation activity remains proportionate. I have seen at all levels in the SF system an understanding of this and a desire to apply it. It is important to acknowledge, however, that Structural Funds is an area in which the demonstration of high levels of compliance is seen as a priority and, as such a continuing effort to achieve balance and proportionality is the focus of my recommendations.

Two examples that have emerged that may be helpful in this respect are the reviewing of formal audits to eliminate unnecessary duplication and the collation and dissemination of best practice between projects.

In the case of delivery and delivery mechanisms there were three areas in which the key themes and opportunities emerged:

- **Definitions.** The need to have definitions of economic impact at a sufficient level of detail to provide meaningful input to project selection activity is highlighted in my primary recommendation. However it is also crucial in providing direction to project delivery and in providing the means to ensure that achievement of numerical targets and achievement of desired outcomes are in balance. I believe the availability of an effective EPF in conjunction with enhanced feedback mechanism through the medium of regional structures will be helpful in this respect.
- **Types of delivery activity.** Projects delivering physical outcomes (e.g. infrastructure) and projects delivering service outcomes (e.g. business and individual support) will clearly have different needs in terms of management

and control. Some service delivery projects in the current round have experienced issues of effective coordination, avoidance of duplication and so on. I have observed work underway in both the Welsh Government and Local Authorities to address these issues and I believe it is important that these continue. Regional structures have a valuable role to play here also in terms of their local knowledge. Coupled with an EPF that is capable of providing enhanced guidance on the high priority activities (through their link to demand drivers for example) I believe there is an opportunity to ensure that numerical targets and economic outcomes are in better balance in the next round.

- **Support provided.** Provision of support to projects in the early stages of the delivery phase is a key element in many turnkey projects. This activity is intended to prevent problems occurring and, where they do occur, to correct them as quickly and simply as possible. I have seen throughout the SF system an appreciation that this approach might achieve greater efficiency in the delivery phase of the next round and I have seen some encouraging examples of its use in the current round and in other regions. I believe that further work is needed, however, to consider how this approach could be incorporated in a future round while maintaining the appropriate balance with regulatory requirements and the Managing Authority role of WEFO.

4.2.4. Opportunities in Governance and Integration (R10, R12, R13, R14)

I have made clear elsewhere in this report that a key objective of mine in the review has been to take a pragmatic approach that seeks to identify ways in which enhanced outcomes can be achieved in a future round of SF without losing sight of the fact that overall outcomes will be beneficially influenced if early momentum is achieved. Adapting and rebalancing existing structures and seeking to minimise unnecessary disruption has therefore been an important consideration.

I have applied that consideration also to issues of governance and integration of funding streams and I believe there are three areas worthy of comment.

The first relates to the position of WEFO. From a management perspective, this organisation currently falls within the control of the Department for Business, Enterprise, Technology and Science (BETS). BETS and the Department for Education and Skills (DFES) are major project sponsors (sub-contractors) within the SF system. I have attempted to look at the SF system as far as possible in comparison with, and as a component of, the wider Welsh economy and at the Structural Funds themselves as one of the available funding sources on which the Welsh economy can draw. This consideration raises an inevitable question of whether WEFO is best placed inside one of the major sponsor/beneficiary departments within the Welsh Government or whether it should be relocated as part of the central finance management function. This view is strengthened in my mind by that department's responsibility for the Wales Infrastructure Investment Plan and ownership of a number of ongoing discussions on compliance and governance, all of which are relevant to the SF system. In due course, therefore, it may be appropriate to reconsider the position of WEFO inside Welsh Government.

My second consideration relates to the All-Wales PMC. The PMC is a statutory body within the SF system with a governance role. This role is particularly important at the start a new round of Structural Funds when the PMC must approve elements of programme structure and project appraisal methodology. As the programme progresses, the role of the PMC takes on an increasing element of monitoring. The PMC is a large body which, in the current round has met on a regular basis during the programme of three to four times a year. Its agendas have largely been taken up by the discharge of its statutory duties. I believe its overseeing role will be enhanced in the next round as a result of some of my recommendations, in particular the establishment of the EPF and the provision of increased levels of intermediary data. This, I believe will provide the PMC with improved management information on both the objectives of the programme and its progress towards meeting them. Beyond that any changes to the role of the PMC would probably imply greater time commitment from its members. However, as we approach the start of a new round of SF, I believe it would be appropriate for PMC

to consider any changes it would wish to see to its role within the confines of its obligations.

Finally I should comment on the potential integration of other funding streams with the current components of the SF system, ERDF and ESF. Clear opportunities exist in this area through the potential integration of the Rural Development funds for instance and the encouragement of consideration of ways in which Structural Funds can be used synergistically alongside funding streams such as Horizon 2020. A key theme of this report has been synergy so my view is that these opportunities are to be welcomed and pursued and indeed it is clear that discussions along these lines are already under way. Subject to appropriate caution in relation to any delays that could potentially arise through integration, I believe this work should continue.

5. Supporting Material

The material in this section is intended primarily as a series of discussion pieces designed to provide some alternative perspectives on the use of Structural Funds. I have found some of them helpful in my own discussions during the review and I hope others may do likewise. However, other than where I have made specific recommendations in relation to them, I do not intend to imply that there are operational procedures or ways of working implicit in this material that should, or even could, be implemented in the SF system.

5.1. The Turnkey Model

The current round of Structural Funds in Wales has involved the creation of several hundred individual activities (projects) designed to utilise around £3bn of funding over seven years to achieve a range of economic benefits through the mechanism of many thousands of individual activities and interventions. It is, at one level, a self-contained system but it operates within an external environment (the European Commission's Regulatory framework, the Welsh political, social and economic landscape) which inevitably shapes and influences it. However, to an outside observer, it can seem difficult to understand the key structures, drivers and mechanisms that manage and control it. It seemed to me, therefore, that the establishment of models which would assist in understanding both the interactions within the SF system itself and the effect of the external influences would be helpful in looking at where the SF system had got to in the middle of 2012 and how and why it had got there. They would also, if properly established, allow testing of hypotheses for improvement.

At the start of the review, I sought to establish two types of model: a data model showing the outputs of the system and an operational model showing the mechanisms that were delivering those outputs. Section 5.5 covers the data model; this section considers the operational model.

The model is based on a typical turnkey project in which one has a client with a specific project requirement against which it engages a main contractor. The main contractor employs sub-contractors to deliver individual elements of the overall project and these sub-contractors may, in turn, operate through a supply chain.

If this model is applied to the SF system, WEFO fills the role of main contractor and engages a range of sub-contractors (project sponsors) primarily through an application and appraisal process leading to the award of a grant subject to a range of contractual commitments. Project sponsors will then, if appropriate, establish supply chains primarily through formal public sector procurement processes which lead to the creation of standard commercial contracts.

It seems to me that the key areas of relevance to the review that emerge from this model are:

1. Client Identity - Typically a turnkey project will have a single client who defines the project objectives, provides funding and has a strong vested institutional interest in ensuring project success. Structural Funds in Wales have a client input from Welsh Government (as the guardian of the economy) but also from the European Commission as the provider of the initial funding. The European Commission are, of course, the contract partner with WEFO as Managing Authority.
2. Relationship of Welsh Government and WEFO - Welsh Government has both a client and sub-contractor relationship with WEFO which is unusual in turnkey projects. The sub-contractor relationship exists in the main with two departments in Welsh Government - BETS and DfES.
3. Balance of Expenditure and Activity - In relation to the SF system in Wales, a turnkey project would show a greater proportion of total activity and total expenditure within the client and main contractor. This would be focussed on preparatory work (planning, design, project specification, sub-contractor requirements) in advance of the implementation of the project and post implementation support, particularly in the early stages of the project.

4. Sub-contractor selection - In selecting sub-contractors, turnkey projects will typically focus in two main areas. Firstly the detailed requirements of the project and the sub-contractors ability to meet them and secondly the sub-contractors delivery track record in similar projects. Appraisal processes typically spend significant time in advance in establishing the selection criteria and contract formats such that the process of selection itself is quite short and often focuses on practical issues.
5. Sub-contractor support, monitoring and audit - The vested institutional interest that the client brings to a turnkey project drives a relationship with both the main contractor and sub-contractors which seeks to create a joint interest and incentive in success. Success, in that context, is defined both in terms of achieving desired outcomes and of following due process. Risk assessment and allocation processes take account of this and seek to achieve a balance between the formal contractual relationships and the informal support relationships such that these evolve during the course of the project. In terms of a "carrot and stick" analogy, one would see the early stages of a project being more "carrot" and the later stages being more "stick".

5.2. Portfolio Management (R8)

The process of investment - the commitment of funding today in anticipation of a desired outcome at some point in the future - is a process in which the management of risk is of paramount importance. However, equally important is an understanding and acceptance that risk can never be entirely eliminated from the process. When the investment in question is publically funded economic development this leads to potential conflicts between the statutory obligations in relation to the use of public funds and the risk based nature of investment. So, for example, in practical terms how does one demonstrate "best value" use of public funds in an environment where an evidence base for "best value" is, according to the strict definition of that word, difficult to achieve.

This conundrum exists, although perhaps in a less visible sense, in private sector environments and the preferred solution is generally some form of portfolio management. This involves the definition of an overall objective, generally a return on investment, which is delivered through a mixture of activities designed to achieve a combination of internal synergy and risk spreading.

I believe this approach is well suited to the SF system in Wales firstly because it recognises the reality that in the current round we have a portfolio of around 300 individual projects with a combined objective of achieving growth in the Welsh economy. In that sense a portfolio management approach is already in place. More importantly, however, I think it offers an opportunity to adjust to a more appropriate balance in terms of our approach to risk management and project selection. This is because:

- A portfolio approach accepts that some projects, despite the best efforts of all involved, will not be as successful as was hoped. Others will overachieve but ultimately what matters is whether the overall return on investment criteria across the portfolio are met. The approach does not, in general, concern itself with whether an individual project is the “best” thing that could be done; rather it is concerned with whether a project is a “worthwhile” activity in the context of the overall objective. The view is that investment in a worthwhile project is justified on the basis that it generates an adequate return on investment. In Wales we have sometimes tended, I think, to interpret the best value objective too literally and, as a result, have sought to de-risk projects to a level that is difficult to achieve when one is dealing with economic development.
- The portfolio approach, with its focus on overall programme output as opposed to individual project output, carries with it an in-built acceptance that individual project performance will vary across the portfolio. It also acknowledges that an individual project can be of greater value as a result of its synergistic contribution to the portfolio than as a standalone activity.
- Portfolio management systems tend to focus on particular types of opportunity or particular markets with the intention of using experience gained in those markets to better inform their investment decisions. This

usually involves developing an understanding of market need on one side and market reaction to products and services at the other. It is possible, I believe, to see an analogy of this approach in the SF system and an opportunity to use the experience gained in the current round as a result.

5.3. Default Mechanisms

I believe that in order to understand any organisation or operation, it is also important to understand the environment in which it operates and, in particular, how that environment shapes and influences the organisation. This is important because if one wishes to achieve change in the organisation then trying to do so in the absence of complementary changes to the environment can make the task more difficult.

If we were to apply that thought process to the SF system, it would imply that the SF system cannot be understood in its entirety without considering its context within the European Commission's regulatory framework and the political, social and economic landscape of Wales. Structural Funds have a focus driven primarily by economic considerations. However, the expenditure of public money carries with it a number of governance requirements and governments themselves are subject to a competing range of short term demands and pressures. This implies that the relationship between the long-term nature of economic development and the short term impact of process and accountability must be understood and accepted as part of the external environment. The objective then becomes to achieve an appropriate balance between these two areas.

In achieving that balance, environmental factors are often more important than organisational factors and when one examines the SF system in Wales it is possible to see the effect of this through the creation of what I have referred to as default mechanisms.

Throughout my review, many of the people I have spoken to have started from an assumption that a key objective of Structural Funds and indeed economic

development expenditure in Wales in general, is focussed concentration of resource into key areas of the economy with the objective of creating critical mass and that it is this critical mass that will result in the creation of the sustainable legacy that will persist after Structural Funds support itself has ceased. If we accept that this is, indeed, the organisational objective, it is interesting to observe that these organisational forces are counter-balanced by the existence of environmental forces (the default mechanisms) which tend to favour a less focussed and more widely distributed use of funds. These arise in two ways primarily:

- Structural Funds require the expenditure of a fixed sum of money within a fixed period and at a fixed rate if they are to be fully utilised. Full utilisation (i.e. not giving any of the money back) is perceived as a key objective. This creates a pressure to establish and maintain momentum.
- The perceived desire of the Welsh Government to demonstrate that all geographical areas and thematic sectors in Wales are benefiting from Structural Funds and the perceived desire of each region and sector in Wales to show that it has achieved its “share” of Structural Funds.

These environmental forces are likely to continue to play a role in a future round of Structural Funds and this leads me to believe that our objective must be to ensure an appropriate balance between them and the organisational forces. This is where the focus of my recommendations lies but it is important to understand that if the organisational forces are not sufficiently strong; the environmental forces will continue to predominate.

5.4. Delivery and Monitoring (R6)

In the description of the Turnkey model (Section 5.1) I have noted the importance given to the delivery aspects of projects - ensuring that desired outcomes are achieved and making timely adjustments if this is not happening. This area is one in which some of the largest differences are seen between the turnkey approach and the Structural Funds system, in particular in those projects (around 60% of the overall programme) in which the delivery is primarily service based. Turnkey

systems clearly involve contractual commitments between the parties as do the SF systems and these contracts are based on processes of risk assessment and risk allocation; they involve clear descriptions of responsibilities and liabilities and clear descriptions of the sanctions available to the client and main contractor if objectives are not achieved.

However, the underlying objective of turnkey projects, particularly in the private sector, is the creation of a shared investment in success and part of this process is a mutual understanding that the legal sanctions available are a last (and unwelcome) resort. It is of little comfort to a business, for example, to be involved in a lengthy legal battle for compensation if a project has failed and a major market opportunity has been missed.

This shared investment in success manifests itself in a variety of processes designed to ensure that sub-contract projects exist within a strong support framework aimed at increasing the chances of successful delivery without compromising legal obligations and rights and without incurring regulatory risks. Processes used might involve:

- A formal mobilisation phase in which no project activity occurs but during which the appropriate resource is assembled and during which the opportunity exists for clarification of operational issues and agreement on reporting and monitoring mechanisms.
- Project review meetings which place the onus on the sub-contractor to provide real-time information on progress and provide an incentive for the sub-contractor, particularly in the early stages of a project, to flag up potential issues. This incentive normally arises from a shared view that problems in projects tend to manifest themselves early and that identification at that point can lead to minor, mutual, modifications to process that will bring a project back on track.

Within the SF system, contracts exist between the European Commission and WEFO (as Managing Authority) for delivery of agreed targets at the programme level and subsequently between WEFO and project sponsors for delivery of individual project

targets which will, in aggregate, achieve the programme targets. These contracts are established through offer letters which are of standard legal form and which set out the relative obligations, liabilities and sanctions. These contracts, however, give significant powers of intervention and discretion to WEFO as required under WEFO's obligations to the European Commission. This creates a very formal framework in which responsibility and liability for delivery of targets is transferred to project sponsors who are then subject to a range of formal audit, monitoring and evaluation procedures.

I believe it is likely that the essentially formal nature of the contract relationships in Structural Funds will persist into a future round. However, the availability of an enhanced EPF together with experience drawn from the current round could, I believe, play a part in achieving a more effective balance between the formal control mechanisms and enhanced support mechanisms.

5.5. Data Analysis and Modelling (R7)

It is generally accepted that the key elements that a developed economy requires in order to maintain growth is a knowledge base, a business sector that can exploit that knowledge base, a workforce that can supply the skills that business needs and an infrastructure that allows the efficient movement of raw materials as inputs and products and services as outputs of the economy. The nomenclature of Structural Funds aligns relatively well with these four categories in terms of the official priority classification but the current reporting of Structural Funds impact tends to focus, at a high level, on numerical targets at a pan Wales level and, at a lower level, on very detailed regional and thematic indicators. Both of these are of course important but they exclude an intermediary reporting level which I believe could help in providing both the overall economic context and, more importantly, useful tools to assist in management.

The majority of the data I have presented in this report is at this intermediary level. Many businesses and public sector organisations seek to present and use it

through a “war room” approach and I believe this would be valuable in Structural Funds.

Having had the opportunity during the review to examine the WEFO data collection and reporting system, it is clear that it is comprehensive and flexible and capable of delivering a wide range of analyses. It has some limitations, most notably the ability to analyse expenditure at a detailed geographical level, but these are outweighed by its ability to produce the type of sectoral, activity and expenditure analyses I have included in the report. The availability of this type of information provides, I believe, an important management tool, for PMC for example, as it gives the economic context within which to examine more detailed indicator data. Data showing the different sectoral involvements at sub-contractor and supply chain level can be used, as I have in the report, to suggest enhancements to project selection and delivery mechanisms.

The data could also find useful application in giving a public picture, at a regional level for example, of the range of Structural Funds activities in a particular area and how they interact synergistically, both with themselves and with other Welsh Government economic activities.

5.6. An Approach to the Development of an Economic Prioritisation Framework (R1, R3)

Decisions on where and how to spend Structural Funds are subject, in broad terms, to two considerations; those being eligibility (compliance risk) and economic suitability (business risk). The first of these is essentially non-discretionary and would normally be seen to operate in the context of a gateway function within project selection; in the second discretion and judgement are required to select between a range of competing options.

Discussions on economic selection criteria have tended to focus around two approaches. The first involves specifying priorities in terms of very broad themes. Difficulties can arise with this approach however because it can fail to provide the

precise selection criteria needed to discriminate between a range of eligible options and there is therefore a tendency, by default, for compliance risk (eligibility) to become the predominant selection criterion. The second approach has sought to define priorities at a much more detailed level and tends to be criticised as a “picking winners” approach. This arises firstly for the understandable reason that one might pick the “wrong” winners and therefore leads to debates on the appropriate evidence bases for such decisions. More importantly however, identifying a small group of “winners” immediately identifies, by implication, a larger group of “losers”.

I believe a more fruitful approach might lie at an intermediary position between these two. It would restore decisions on business risk to their correct role by accepting that a discretionary (judgement) element is involved and seek to provide an agreed framework within which those decisions can be made.

This framework would be based, in my view, on two assumptions. Firstly, that economic legacy arises through the creation of centres of critical mass in the economy and secondly that in the context and timeframe in which we are working, those centres can best be encouraged to form by building on existing areas of “latent capability”. An economic prioritisation framework would then seek to define the characteristics of latent capability such that part of the selection procedure for potential Structural Funds projects could be an assessment of their ability to add synergistically to the already existing capability. I believe that this approach, when combined with the four types of economic activity I have used as categories in the report and the concept of worthwhile activities as discussed in Section 5.2, could provide a robust framework within which the business risk decisions could be taken.

In conjunction with portfolio management (Section 5.2), this would help to focus attention around the creation of large scale interventions as the means of encouraging critical mass formation. These interventions would be likely to arise as a combination of the four types of economic activity within a combination of pre-existing and newly funded capability. The selection (business risk) decisions

would then be based around a range of worthwhile activities leading to an acceptable return on investment within the overall portfolio.

I would define large scale interventions, in the Welsh context, as support designed to achieve leverage through synergistic or marginal investments in areas in which critical mass (latent capability) already exists. The characteristics of latent capability, to my mind, are:

- An area in which strength exists in three key areas - resources (buildings, facilities, equipment), expertise (Intellectual Property, academic knowledge, industrial know-how) and people (skills, attitude).
- An area in which that strength is broad enough to be capable of exploitation in a range of ways that offer potential involvement for all of the key elements of the Welsh economic ecosystem - large business, small business, HE/FE - as well as being attractive to external investment (venture capital, UK Research Councils, Technology Strategy Board, Horizon 2020).

5.7. Historical Background (R9)

As I prepare this report, the 2007-2013 programme is well advanced and the performance of Wales in the use of Structural Funds is already viewed as successful. The management processes and systems used by WEFO are used by the European Commission as exemplars for other member states. A high level of compliance is delivered, error rates are currently less than 1%; expenditure proceeds at close to the required rate as all N+2 targets are met and numerical targets are being achieved and having a real impact on the lives of people, communities and businesses in Wales. To date, over 384,100 participants have been assisted, of which 46,600 people have been helped into work and 125,400 have been supported to gain qualifications. In addition, 10,200 enterprises have been assisted and 17,600 jobs and some 5,200 enterprises have been created.

The review has taken account of the significant changes introduced to management and implementation arrangements between the 2000 - 2006

programmes and the current programmes and the extent to which their intended impact has been delivered. The key changes in this respect are:

- A move to a more strategic approach through attempts to better define priority areas and significantly reduce the overall number of projects with a view to reducing complexity and minimising overlap.
- A move to a more collaborative approach to identification and appraisal of projects with a view to better identifying priority areas and opportunities for partnership and collaboration.
- Adoption of revised procedures for procurement of delivery within projects.
- Introduction of enhanced support and training mechanisms for project sponsors including greater use of online resources.

This review, the terms of reference of which are appended below, is intended to examine the ways in which we have implemented programmes in 2000-2006 and 2007-2013, and the results of that implementation, in order to identify practical and implementable measures that might support us in managing a future round of programmes in a way that maximises their potential benefits to Wales. The focus is therefore on the “how” rather than the “what” of the programmes and, as such, the review has not engaged in discussions on the specific policy priorities or specific areas of intervention that might be supported by the next round of programmes.

The terms of reference state that the review will be divided into a phase 1 and phase 2. In order to better fit within the context of the overall work taking place to prepare for the next round, it was decided to divide the review into an initial exploratory phase, followed by this report and recommendations.

5.8. Research and Case Studies

At the start of this review I was interested to see what research and other information existed in Europe that might offer insight into what other European regions had found to be successful or unsuccessful in their own application of

Structural Funds. It became apparent that there was not a great deal of material available on the use of Structural Funds specifically although there was extensive research into specific aspects of relevant activity, for example labour market interventions. Welsh academics with whom I spoke confirmed that this was indeed not an extensively researched field with one noting that this was probably simply because it was not well-funded.

I have attempted therefore to draw some brief conclusions from the material that is available and from discussions with two European case study areas, Saxony in the former East Germany and Cornwall in the UK, although it should be noted that the research material tends to focus heavily on process issues as opposed to issues of economic impact.

In terms of management and delivery structures there were some comparisons based on the degree of centralisation. Advantages and disadvantages of highly centralised and highly decentralised systems were seen but the evidence suggested that where creation of critical mass was a key economic objective then centralised systems were favoured. However, it was noted that centralised systems tended to result in stresses on capacity. In these cases, delivery of certain strategic objectives through specialist external bodies was seen as beneficial. A further advantage of centralised systems was seen as their ability to achieve integration of funding streams both within Structural Funds and in combination with relevant external funding sources.

In terms of issues and concerns, these were almost universally in relation to the administrative and regulatory burdens of Structural Funds. There was little evidence to suggest that these were felt differentially across Europe although there was a note that the differences between Structural Funds regulations and “domestic” regulations seems to be a little wider in Wales than in other areas of Europe. The strong performance of Wales in regulatory compliance was clearly reflected in the research however.

There was evidence that the European Commission was aware of these issues and was making attempts to mitigate their impact in the main through the introduction of a greater level of proportionality. For example it was suggested that audit should focus more strongly on fraud prevention than the detection of “lower level” errors.

In terms of the case studies, both Saxony and Cornwall had adopted highly integrated, centralised management systems with very tightly focussed economic objectives. In Saxony’s case the financial benefits that had accrued from reunification had been used as demand drivers with a particular focus on the creation of higher level skills. Cornwall had produced a very tightly specified description of the desired economic outcomes of their programme and had then used a broad mix of project development methods including funding calls and commissioning to deliver it. Cornwall commented in particular on the importance of working closely with project sponsors in the early stages of the delivery phase in order to ensure that the tightly specified desired outcomes were achieved.

5.9. Written Responses

Much of the information and opinions I have gathered during the review has been by face to face discussion as I believe that allows for a more thorough examination of issues. However, I have supplemented this at various points through the issue of documents setting out a range of proposals and questions and inviting written responses. In this section, I provide a brief summary of those responses

Responses were received from the Local Authority, HE, third and small business sectors. The responses showed relatively little cross sectoral difference and in the main echoed the key points that were raised in my verbal discussions. The two main, and consistent themes were that a future round of Structural Funds should draw on the large amount of experience gained in the current round, both in terms of projects and delivery mechanisms and that efforts should continue to mitigate the administrative and regulatory burdens where ever possible.

6. Appendices

6.1. Terms of Reference

Independent review of arrangements for implementation of European Structural Funds programmes post-2013

Background

As part of our preparations for the next round of European Structural Fund Programmes, Dr Grahame Guilford will lead an independent review of the arrangements for implementing European Structural Fund programmes post 2013. The first part of this review will focus on WEFO's project application and management processes and is aimed at promoting continuous improvement. This part of the review will take into account:

- a) the European Commission's draft legislative proposals for the next round of Structural Fund programmes for the period 2014-2020 and the National Assembly Enterprise & Business Committee's inquiry report into these proposals (February 2012);
- b) the lessons learned from implementing the 2007-2013 and previous programmes, including the findings and recommendations of the on-going inquiry by the National Assembly for Wales Finance Committee into the 'Effectiveness of European Structural Funds in Wales'; and
- c) the ongoing work of the Post 2013 European Programmes Partnership Forum and the workstreams established by WEFO to support the development of the next round of programmes.

The second part of the review will consider the appropriateness of WEFO's current governance and reporting arrangements in fulfilling its role as both managing and certifying authorities for Structural Fund 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 EU funding opportunities.

Terms of Reference

Part One

To review arrangements for implementing current European Structural Fund programmes to assess their suitability for the next programme period, with a particular emphasis on:

- the streamlining of application, monitoring and reporting processes;
- the use of alternative delivery approaches such as direct commissioning and competitive grants;
- the use of procurement in project implementation;
- facilitating the role of the private sector;
- strengthening the integration of EU funding streams; and
- promoting sustainability of investments, including the potential for greater use of financial engineering instruments.

Part Two

In light of Part 1 of the Review, to consider the future role and responsibilities of WEFO with a particular emphasis on:

- governance and reporting arrangements, including arrangements for safeguarding fair and open access to EU funds;
- WEFO's potential role in promoting and facilitating access to a wider range of EU funding opportunities, including the various sectoral programmes aligned with the Europe 2020 strategy for smart, sustainable and inclusive growth; and
- the opportunities and potential for development of common programmes processes and ICT platforms across the wider suite of European investment funding streams.

Deliverable outputs

The aim will be to deliver an initial report with recommendations on Part One by end November 2012 and on Part Two by end February 2013.

6.2. Methodology

In undertaking this review, I have used a range of research methods, including a literature review, semi-structured stakeholder interviews, two open discussion exercises and an analysis of quantitative WEFO performance and management data. My review has drawn upon both quantitative and qualitative data from a range of sources, including reports from the European Commission, WEFO and the wider Welsh Government and external stakeholders across different sectors who are delivering projects using Structural Funds. I have also drawn upon reports prepared by National Assembly for Wales Scrutiny Committees, specifically the Enterprise and Business Committee and the Finance Committee.

A key element of my review has been semi-structured interviews with a range of stakeholders. These have provided a helpful view of the overall shape of the current programme and of current opinions on priorities for future implementation arrangements. They have also examined options for potential future enhancements to the delivery of key economic objectives. During the latter part of my review, I have conducted focused interviews with senior officials from organisations representing key project sponsors. These interviews have focused on discussing the feasibility of specific models for delivery and have directly informed the conclusions and recommendations set out in this report.

In order to provide the opportunity for a wide range of stakeholders to contribute their views to my review, I have held two open discussion exercises. I held an initial open and unstructured discussion exercise during late August 2012. Written comments on topics relating to my review were submitted by a number of external stakeholders. I then issued a Discussion Paper in October 2012, inviting contributions on specific management and implementation issues being considered as part of my review. Responses to the Discussion Paper were received from key stakeholders across the local authority, higher education, third and private sectors.

I have underpinned the above exercises by undertaking a vertical review of specific “case study” projects and their experiences of the project development, appraisal and operational processes. This has been helpful in identifying and scrutinising a number of generic operational issues. Complementing this, performance and management data held by WEFO has enabled analysis of the overall shape of the current programmes in terms of sectoral, geographical and activity distribution.

6.3. List of Interviewees

Jeff Andrews	Specialist Policy Adviser, Welsh Government
Graham Benfield	Chief Executive, WCVA
Ann Beynon	BT
Professor David Blackaby	Deputy Head of School of Business and Economics, Swansea University
Sean Bradley	Senior Lawyer, Welsh Government
Barbara Burchell	Conwy County Borough Council Specialist European Team
Tracey Burke	Director, Strategy, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Jeff Collins	Director, Delivery, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Ken Cook	Head of Spatial Support and Regeneration, WEFO
Dr Alastair Davies	Head of Innovation Policy, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Alun Davies AM	Deputy Minister for Agriculture, Food, Fisheries and European Programmes
Neville Davies	Welsh Local Government Association European Adviser, Carmarthenshire County Council
Nick Davies	Wales Audit Office
Peter Davies	Wales Commissioner for Sustainable Futures
Gail Dervish	Economic Inactivity Initiatives Manager, WCVA

Mark Drakeford AM	Chair of the European Programmes Partnership Forum (2014-2020) and the All-Wales Programme Monitoring Committee 2007-2013
Gwyn Evans	Pembrokeshire County Council Specialist European Team
Owen Evans	Director General, Department for Education and Skills (from December 2012), Welsh Government
Andy Falley	Deputy Director, Infrastructure Delivery (Transport), Welsh Government
John Francis	Director of Business Development, University of Glamorgan
Dave Gilbert	Deputy Chief Executive and Director of Regeneration & Leisure, Carmarthenshire County Council
Jeff Godfrey	Director of Legal Services Department, Welsh Government
Geraint Green	Head of Business and Innovation, WEFO
Lowri Gwilym	Team Manager, Europe and Regeneration, Welsh Local Government Association
Rob Halford	Head of Planning and Strategy, WEFO
Gareth Hall	Energy Island Programme - Strategic Manager Strategic Infrastructure, Isle of Anglesey County Council
Duncan Hamer	Deputy Director, Entrepreneurship & Delivery, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Edwina Hart MBE OStJ AM	Minister for Business, Enterprise, Technology and Science
Dr Adrian Healy	Research Associate, Cardiff School of Planning and Geography, Cardiff University
Kate Hearnden	Former Strategic Co-ordinator for the Innovation, R&D and Technology Strategic Framework, Welsh Government

Michael Hearty	Director General for Strategic Planning, Finance and Performance, Welsh Government
Rob Hunter	Director, Finance and Performance, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Mark James	Chief Executive, Carmarthenshire County Council
Catherine Jenkins	Deputy Director, Employment and Skills, Department for Education and Skills, Welsh Government
Derek Jones	Permanent Secretary, Welsh Government
Gareth Jones	Director General, Sustainable Futures, Welsh Government
Peter Jones	Head of Finance (Local Government and Communities), Welsh Government
Jane McMillan	Head of Programme Management ESF, WEFO
Phil McVey	Director, vlasska limited
June Milligan	Director General, Local Government and Communities, Welsh Government
Peter Mortimer	Welsh Local Government Association European Adviser, Rhondda Cynon Taf County Borough Council
Clare Naylor	Programme Manager, University of Glamorgan
Damien O'Brien	Chief Executive, WEFO
Ian Owen	Head of European Funds Audit Team, Welsh Government (until January 2013) / Deputy Director of Finance, WEFO (from January 2013)
Michael Parkinson	Head of Skills and Economic Activity, WEFO

James Price	Director General for Business, Enterprise, Technology and Science (BETS), Welsh Government
Jonathan Price	Chief Economist, Welsh Government
Sue Price	Head of Programme Management ERDF, WEFO
Chris Pugh	Wales Audit Office
Dr Peter Quantick	European Projects Director, Cardiff Metropolitan University
Emyr Roberts	Director General, Department for Education and Skills Welsh Government (until November 2012)
Phil Roberts	Corporate Director (Regeneration and Housing), City and County of Swansea
Ben Robertson	Wales Audit Office
David Rosser	Director of Anchor Companies / City Regions and Innovation, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Peter Ryland	Deputy Director, Programme Performance and Finance, WEFO
Andrew Slade	Director, EU Policy and Funding, Department of Business, Enterprise, Technology and Science (BETS), Welsh Government
Alison Standfast	Deputy Director, Procurement, Value Wales, Welsh Government
Rachel Stephens	Senior Policy Manager, Department for Education and Skills, Welsh Government
Arwel Thomas	Deputy Director, Corporate Governance and Assurance, Welsh Government
David Thomas	Post 2013 Programme Implementation Manager, WEFO
David Thornley	Project Development Manager, WEFO

Derek Vaughan MEP	Labour Party Member of the European Parliament for Wales
Councillor Bob Wellington	Leader, Welsh Local Government Association / Leader, Torfaen County Borough Council
Rob Wellington	Torfaen County Borough Council Specialist European Team
Amanda Wilkinson	Director, Higher Education Wales
Julie Williams	Senior External Funding Officer, Innovation Swansea University
Dylan Williams	Energy Island Programme - Strategic Manager for Policy & Consents, Isle of Anglesey County Council
Gareth Williams	Managing Director, Old Bell 3 Ltd
Members of the European Programmes Partnership Forum (2014-2020)	
Members of the All-Wales Programme Monitoring Committee 2007-2013	

6.4. List of Case Studies and Interviewees

Case Studies:

The following projects were reviewed as case studies

- Business ICT for SME Principals (BICT2)
Computeraid Limited
- COASTAL
City and County of Swansea, in partnership with
Pembrokeshire County Council, Carmarthenshire County Council, Ceredigion
County Council, Bridgend County Borough Council, Neath Port Talbot County
Borough Council
- Energy Sector Skills
Pembrokeshire College
- Gateway
WCVA
- New Business Start Up Support
Welsh Government led pan Convergence project
- Skills Growth Wales
Welsh Government led pan Convergence project
- Steel Training Research and Innovation Partnership (STRIP)
Swansea University

Individuals interviewed as part of the case study process:

Simon Cartwright	Senior Manager, Skills Growth Wales, Welsh Government
Vanessa Davies	Project Development Manager, WEFO
Phil Fiander	Director of Programmes, WCVA
Geraint Green	Head of Business and Innovation, WEFO
Amanda Hayman	Project Development Manager, WEFO
Nicky Howells	Pembrokeshire College
Jane McMillan	Head of Programme Management ESF, WEFO

Natalie Owen	Project Development Officer, WEFO
Michael Parkinson	Head of Skills and Economic Activity, WEFO
Dr Dave Penney	Swansea University
Margaret Rowlands	Project Development Officer, WEFO
David Thornley	Project Development Manager, WEFO
Mark Watson	Project Development Officer, WEFO
Tessa White	Engagement Gateway and Grants Manager, WCVA
Professor Dave Worsley	Swansea University
Nadine Young	Project Development Officer, WEFO

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6.6. Glossary

Additionality	Additionality is one of the principles driving the workings of the Structural Funds. This principle stipulates that contributions from the Structural Funds must not replace public or equivalent structural expenditure by a Member State.
All-Wales Programme Monitoring Committee (PMC)	A body responsible for monitoring the implementation of the 2007-2013 Structural Funds Programmes in Wales. It comprises a chair of the Managing Authority, a panel of 10 expert members appointed via the public appointments process and 14 members nominated on a representative basis from partners and statutory bodies. The European Commission, the European Investment Bank (EIB) and WEFO participate in an advisory capacity.
Anchor Companies	A company which is a global or international organisation and has Welsh headquarters or significant corporate presence in Wales.
Backbone of Activity	Priority activities that address identified strategic priorities and which form the core of the interventions funded by Structural Funds programmes.
Backbone Project	A project which forms part of the Backbone of Activity.
Beneficiaries	Organisations who have been awarded Structural Funding to deliver projects / activities.
Business Planning Stage	The second stage of the WEFO two-stage project development and appraisal process. In this stage, the project sponsor prepares detailed business plan for the project, which is used by WEFO to formally appraise the project.
Business Risk	In the context of this report, a risk relating to the efficiency or effectiveness of a project funded by, or seeking support from, Structural Funds.
Cohesion Policy	The European Union's strategy to promote and support the "overall harmonious development" of its Member States and regions. Enshrined in the Treaty on the Functioning of the European Union (Article 174), the EU's Cohesion Policy aims to strengthen economic and social cohesion by reducing disparities in the level of development between regions.

Cohesion Fund	Provides support for the poorer regions of Europe and to stabilise their economies with a view to promoting growth, employment and sustainable development. Member States with a Gross National Income per inhabitant below 90% of the EU average are eligible for funding from the Cohesion Fund. The Fund contributes to financing environmental measures and trans-European transport networks and may also be used to finance the priorities of the EU's environmental protection policy.
Commitment	Structural Funds allocated to, but not yet claimed by, project.
Competitive Grants	The award of grants by a project sponsor to end beneficiaries on a competitive basis on an assessment of which proposals best meet the project targets and outcomes.
Compliance Risk (or Regulatory Risk)	In the context of this report, a risk relating to the eligibility or compliance with regulations of a project funded by, or seeking support from, Structural Funds.
Connectivity	The quality or condition of being connected or connective i.e. the provision of infrastructure to enable the effective communication or movement between different points.
Convergence Funding	Supporting the least developed Member States and regions that are lagging behind to close the gap more quickly in relation to the EU average by improving conditions for growth and employment. It is the 2007-2013 Structural Funds programme for West Wales and the Valleys.
Converging	The Cohesion Policy aim of assisting the least developed European Commission Member States and regions that are lagging behind to close the gap more quickly in relation to the EU average by improving conditions for growth and employment.
Critical Mass	A number of activities or interventions that is sufficient to generate further growth.
Critical Success Factor	The term for an element that is necessary for an organization or project to achieve its objectives. It is a critical factor or activity required for ensuring the success of a company or an organization.

Decommitment	The making of as yet unpaid money unavailable to a project or programmes. This can result from a variety of factors, including failure to meet expenditure targets or the re-scoping of activities due to changes in the external policy and economic environment.
Default Mechanism	The term used in the report to denote a systematic default to specific considerations, to the exclusion of others, in the course of the undertaking of a specific process or procedure.
Demand Drivers	Strategic growth opportunities, many of which may be regionally based.
Direct Commissioning	The direct commissioning, via open and competitive procurement, of identified priority interventions by the Managing Authority.
Economic Activities	The key elements required by a developed economic in order to maintain growth: a knowledge base, a business sector that can exploit that knowledge base, a workforce that supplies the skills required by business and infrastructure to facilitate connectivity.
Economic Activity Classification: Infrastructure - Knowledge	Activities that develop knowledge infrastructure such as the development of research and SME support facilities.
Economic Activity Classification: Infrastructure - Physical	Activities that develop physical infrastructure, such as transport or urban regeneration
Economic Activity Classification: Business Support	Activities that support the development of businesses.
Economic Activity Classification: Individual Support	Activities that support individuals to develop their skills and to equip them to enter the workplace.
Economic Prioritisation Framework (EPF)	A framework that identifies the specific areas in which Structural Funds can contribute in the most effective and synergistic way to overall Welsh Government economic development policy.
Economic Renewal Programme	A 2010 Welsh Government economic development policy review and initiative in order to respond to the global recession.

Economic Selection Criteria	Selection criteria which assess the extent to which a project contributes to defined policy or strategic priorities.
European Agricultural Fund for Rural Development (EAFRD)	Supporting European policy on rural development and financing rural development programmes.
European Commission (EC)	The executive body of the European Union.
European Council	Defines the general political direction and priorities of the European Union.
European Investment Bank (EIB)	The European Union's Bank, owned by and representing the interests of European Union Member States.
European Maritime and Fisheries Fund (EMFF)	Supporting the European fishing aquaculture sector, fisheries areas and inland fishing.
European Parliament	Directly elected parliamentary institution of the European Union.
European Programmes Partnership Forum (2014-2020)	Provides advice to Welsh Government Ministers on the development of 2014-2020 European funding programmes in Wales.
European Regional Development Fund (ERDF)	Supporting the development and structural adjustment of regional economies, economic change and enhanced competitiveness.
European Social Fund (ESF)	Supporting national policies that seek to increase employment and employment opportunities, improve quality and productivity at work, and reduce social exclusion and regional employment disparities.
European Structural Funds (SF)	European Commission Funds being utilized to deliver European Commission Regional Policy. The Structural Funds have two components: ERDF and ESF.
European Territorial Co-operation (ETC)	Funds initiatives to strengthen cross-border, transnational and interregional cooperation.
European Union	Economic and political union of 27 Member States located primarily in Europe.
Europe 2020	The European Union's ten-year growth strategy.

Expression of Interest	The first stage of the WEFO two-stage project development and appraisal process, whereby potential project sponsors submit high level information on their proposed project.
FE	Further Education.
Finance Instruments	Financial Instruments or Financial Engineering Instruments: either cash; evidence of an ownership interest in an entity; or a contractual right to receive, or deliver, cash or another financial instrument.
Gateway Function	Referring to the assessment of the eligibility of a project as functioning in a similar way to a Gateway Review. Gateway Reviews are focused reviews of a programme or project which are carried out in advance of the key decision points within a programme or project's lifecycle in order to inform these key decisions.
Gross Domestic Product (GDP)	The value of a country's overall output of goods and services (typically during one fiscal year) at market prices, excluding net income from abroad.
Gross Value Added (GVA)	A measure in economics of the value of goods and services produced in an area, industry or sector of an economy.
HE	Higher Education.
Horizon 2020	Horizon 2020 is the EU's new programme for research and innovation and is part of the drive to create new growth and jobs in Europe. It will run from 2014 to 2020 with an €80bn budget.
Impact	A longer term consequence, result or benefit derived from a project or activity.
Innovation Strategy	The Welsh Government is currently developing a strategy to identify ways in which innovation could help improve the well being and economic prospects of the people of Wales.
Input	Products or resources e.g. time, money, utilised in order to deliver an activity or project.

Intellectual Property (IP)	<p>Creations of the mind. IP is divided into two categories:</p> <ol style="list-style-type: none"> 1. industrial property, which includes inventions (patents), trademarks and industrial designs 2. copyright, which includes literary and artistic works.
Ireland-Wales Programme	<p>A 2007-2013 European Territorial Co-operation programme, linking the west coast of Wales with the south-east of Ireland. WEFO is joint partner in this €70m programme which is utilizing €52m ERDF to strengthen economic links on both sides of the Irish Sea.</p>
Key Sectors	<p>The Welsh Government supports industry-led investment in nine key business sectors.</p>
Knowledge Base	<p>An information repository that provides a means for information to be collected, organized, shared, searched and utilized.</p>
Latent Capability	<p>An area in which strength exists in three key areas - resources, expertise and people - and that strength is broad enough to be capable of exploitation in ways that offer potential involvement for all of the key elements of the Welsh economic ecosystem.</p>
Managing Authority	<p>Under the auspices of the EU's Cohesion Policy for 2007-13, a managing authority is responsible for the efficient management and implementation of an Operational Programme.</p>
Market Feedback	<p>Feedback from, or the reaction of a market to, a project initiative or intervention.</p>
Market Knowledge	<p>Knowledge of the market within which a project, initiative or intervention will operate.</p>
Mobilisation Phase	<p>A phase at the start of a project where no project activity occurs but during which the appropriate resources are assembled, any operational issues are clarified and reporting and monitoring mechanisms are agreed.</p>
N+2 targets	<p>Financing rules for the annual allocation of money from the European Union's Structural Funds. If the funding has not been spent by the specified date, the EC can decommit future budget allocations. Automatic decommitments are made if funding is not spent, or requests for payments are not made, by the end of the second year (n+2).</p>

Objective 1 Programme	The 2000-2006 Structural Funds Programme for West Wales and the Valleys, comprising both ERDF and ESF, which aimed to help reduce differences in social and economic conditions within the European Union, where prosperity, measured in GDP, was 75% or less of the European average.
Objective 2 Programme	A 2000-2006 ERDF Structural Funds Programme for East Wales, which covered the areas hardest hit by industrial decline, where traditional industries such as coal and steel, textiles and shipbuilding could no longer compete successfully, causing major social and economic hardship and dislocation for the local workforce.
Objective 3 Programme	A 2000-2006 ESF Structural Funds Programme for East Wales, which aimed to combat long term unemployment; assisted young people and those at risk from exclusion from the workforce; promoted equal opportunities and improved women's position in the workforce; promoted adaptability and entrepreneurship in the workforce; and improved training, education and counselling for lifelong learning.
Operational Programmes	Planning documents which show how the funding will be spent in the region. The documents outline the Priorities for each programme, which have been based on social, economic and environmental analyses of the needs and opportunities of the region, and eligible areas of activity in line with European Commission and Council Regulations.
Outcome	A final product or end result of a project.
Output Activity	The products created by projects, either physical products, such as a road, or service products, such as business support services or training.
Participants	Individuals participating in an ESF-funded project, for example attending a training course.
Physical Infrastructure	Physical structures needed for the operation of a society or enterprise, or the services and facilities necessary for an economy to function. It can be generally defined as the set of interconnected structural elements that provide framework supporting an entire structure of development.

Portfolio Management Approach	An approach where an overall objective, such as a return on investment, is delivered through a mixture of projects / activities. This approach measures success at the overall portfolio level, recognising that individual projects / activities may under or over-perform.
Priorities' Classification	The thematic priorities for funding for the Convergence and Regional Competitiveness and Employment programmes in Wales, as set out in the Operational Programme documents.
Process Activity	The main activities involved in managing and implementing Structural Funds: planning, project selection, project delivery and compliance with rules and regulations.
Project Development Officer (PDO)	A WEFO official assigned to provide a cradle-to-grave account management service to a portfolio of projects. This includes provides advice and guidance, co-ordinating the project development and appraisal process and co-ordinating post approval monitoring activities.
Project Sponsor	An organisation which has been awarded Structural Funds to manage a project.
Regional Competitiveness and Employment	Aims to strengthen the competitiveness and attractiveness of, and employment in, regions not included in the Convergence Objective (which covers the most disadvantaged regions). It is designed to help pre-empt economic and social changes, promote innovation, entrepreneurship, environmental protection, accessibility, adaptability, and the development of inclusive labour markets. It is the 2007-2013 Structural Funds programme for East Wales.
Research Councils UK (RCUK)	A strategic partnership of the UK Research Councils responsible for investing public money in research in the UK to advance knowledge and generate new ideas which lead to a productive economy, healthy society and contribute to a sustainable world.
Return on Investment	A performance measure used to evaluate the efficiency or effectiveness of an investment.
Risk	A set of circumstances or events that can influence the outcome of a particular activity and which must therefore be assessed and managed.

Smart Specialisation	A European Commission innovation policy concept designed to promote the efficient and effective use of public investment in research. Its goal is to boost regional innovation in order to achieve economic growth and prosperity, by enabling regions to focus on their strengths.
SME	Small and Medium Enterprise.
Stakeholder	A <u>person</u> , group or <u>organization</u> that has <u>interest</u> in an initiative, activity or organization, such as the SF system.
State Aid	Forms of assistance from a public body, or publicly-funded body, given to selected undertakings (any entity which puts goods or services on the given market), which has the potential to distort competition and affect trade between member states of the European Union. The European Commission monitors and controls State Aid in the EU.
Strategic Frameworks	Strategic Frameworks focus on the types of interventions that will best deliver on the Priorities and Themes of the Operational Programmes, and are defined as 'plans to achieve a particular strategic purpose by means of interventions that are strategically linked'.
Structural Funds System (SF System)	The overall partnership responsible for the implementation of Structural Funds in Wales, including the Welsh Government, WEFO and stakeholders, and their interactions and responsibilities in terms of planning, delivering and monitoring the use of Structural Funds in Wales.
Supply Chain	In the context of this report, this term is used to refer to organisations appointed by and delivering services or activities to end participants / beneficiaries on behalf of sponsors of Structural Funds projects in order to achieve the aims and outputs of those projects.
Synergy	Seeking complementary and mutually supportive activities.
Technology Strategy Board (TSB)	An organisation that stimulates technology-enabled innovation in the areas offering the greatest scope for boosting UK growth and productivity. It promotes, supports and invests in technology research, development and commercialisation.

Third Party Delivery	Referring to the model of organisations being appointed by and delivering services or activities to end participants / beneficiaries on behalf of sponsors of Structural Funds projects in order to achieve the aims and outputs of those projects.
Turnkey Delivery Model	A model for considering the high level operation of the delivery mechanism for Structural Funds through using the model of a typical private sector turnkey project. In this model, there is a client (the Welsh Government), a main contractor (WEFO), which employs sub contractors (project sponsors), who in turn have a supply chain (organisations appointed by the sub contractors / project sponsors to directly deliver services and activities).
Turnkey Project	A project operating on the structure outlined in the Turnkey Delivery Model.
UK Government Work Programme	Provides tailored support for benefit claimants who need more help to undertake active and effective jobseeking.
Wales Infrastructure Investment Plan	The Plan outlining the Welsh Government's key infrastructure priorities for the next decade.
War Room	A war room is a meeting room for the purpose of discussing project management. The room is a place where project managers discuss the development of a plan to specifically and successfully accomplish the project. In addition, they may discuss resources, the budget, the timeline and possible challenges.
Welsh European Funding Office (WEFO)	Part of the Welsh Government and manages the delivery of EU Structural Funds programmes in Wales.
Worthwhile Activity	Activity that makes a synergistic contribution towards an overall objective.
Venture Capital	Money made available for investment in innovative enterprises or research, especially in high technology, in which both the risk of loss and the potential for profit may be considerable.

6.7. Further Examples of Data

Project Title	Sponsor Name	Total Project Cost
High Performance Computing Wales	High Performance Computing Wales	40.0 million
Nantgarw 3	Coleg Morgannwg	39.3 million
LCRI	Cardiff University	34.3 million
Blaenau Gwent Learning Zone	Blaenau Gwent County Borough Council	31.8 million
Institute For Life Sciences 2	Swansea University	28.8 million
SEACAMS	Bangor University	23.6 million
Swansea Bay Innovation Hub	Swansea University	22.2 million
Centre For Nanohealth	Swansea University	21.6 million
Knowledge Exploitation Capacity Development	WAG The Economic Development Group within DEandT	20.2 million
BEACON v2	Aberystwyth University	20.1 million

Table: Top 10 Knowledge Infrastructure projects by Committed Value. Source WEFO December 2012.

Project Title	Sponsor Name	Total Project Cost
Next Generation Broadband for Wales Convergence	WAG DEandT Transport	294.0 million
A465 Head of the Valleys Dualling Scheme	WAG DEandT Transport	150.2 million
Harbour Way	Neath Port Talbot County Borough Council	96.5 million
JESSICA Wales Urban Development Fund (UDF)	Regeneration Investment Fund for Wales LLP	40.4 million
Wales Station Improvement Programme	WAG DEandT Transport	39.9 million
Physical Regeneration In North West Wales	WAG DESH Regeneration	37.8 million
A40 Penblewin to Slebech Park Improvements	WAG DEandT Transport	37.2 million
The Waterfront City	City and County of Swansea	32.2 million
Next Generation Broadband for Wales Competitiveness	WAG DEandT Transport	24.5 million
Merthyr Tydfil Town Centre Regeneration Programme	Merthyr Tydfil County Borough Council	24.2 million

Table: Top 10 Physical Infrastructure projects by Committed Value. Source WEFO December 2012.

Project Title	Sponsor Name	Total Project Cost
Modern Apprenticeship World Class Skills For A Knowledge Economy	WAG DCELLS Lifelong Learning and Skills	97.8 million
Skills Growth Wales	WAG DCELLS Lifelong Learning and Skills	75.8 million
All Age Skillbuild for the Unemployed Inactive and NEET	WAG DCELLS Lifelong Learning and Skills	60.0 million
Genesis Cymru Wales 2 Convergence	WAG DCELLS Lifelong Learning and Skills	55.8 million
ReAct ESF Convergence P2	WAG DCELLS Lifelong Learning and Skills	50.8 million
COASTAL	City and County of Swansea	48.8 million
Pathways to Apprenticeships	WAG DCELLS Lifelong Learning and Skills	44.7 million
Skills Growth Wales Competitiveness	WAG DCELLS Lifelong Learning and Skills	38.0 million
Work Based Learning Strategies	University of Glamorgan	34.0 million
Knowledge Economy Skills Scholarships	Bangor University	33.0 million

Table: Top 10 Individual Support projects by Committed Value. Source WEFO December 2012.

Project Title	Sponsor Name	Total Project Cost
JEREMIE Fund (P2 Conv)	Finance Wales Jeremie	75.8 million
JEREMIE Fund (P2 Comp)	Finance Wales Jeremie	40.8 million
Arbed Phase 2 Convergence	WAG DESH Climate Change	36.6 million
New Business Start Up Support	WAG The Economic Development Group within DEandT	30.3 million
Advanced Sustainable Manufacturing Technologies	Swansea University	26.8 million
Enterprise Networks	WAG The Economic Development Group within DEandT	25.4 million
Knowledge Transfer And Collaborative Industrial Research	WAG The Economic Development Group within DEandT	25.3 million
Customer Engagement	WAG The Economic Development Group within DEandT	22.6 million
JEREMIE Fund (P1 Conv)	Finance Wales Jeremie	21.7 million
SE Wales Local Investment Fund	Rhondda Cynon Taf County Borough Council	20.9 million

Table: Top 10 Business Support projects by Committed Value. Source WEFO December 2012.

6.8. Biography of Dr Grahame Guilford

Dr Grahame Guilford has been involved in both the current and previous programmes of European funding in Wales and is, at present, a member of the All-Wales Programme Monitoring Committee responsible for the monitoring of the 2007-2013 European Structural Funds programmes and of the European Programmes Partnership Forum 2014-2020, which is considering how Wales can make best use of potential future European funding.

Dr Guilford has a business background, having worked in the Life Science sector for 30 years with Amersham International, now GE Healthcare. He has been closely involved in economic development in Wales for nearly 15 years through interactions with the Welsh Government and the former Welsh Development Agency. He was a member of the CBI Wales Council from 2001-2007 and is a previous Chair, and current Executive member, of the South East Wales Economic Forum. He is also a member of the Welsh Government Advisory Panel on the Life Sciences sector and the Governing Council of Cardiff University.

Since his retirement in 2007, Dr Guilford has set up a consultancy working with universities and small companies in Wales on the commercialisation of their expertise.

