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Dea Darren

TECHNIUM PROGRAMME

You predecessor, Jonathan Morgan AM, asked me to consider a request from Andrew Davies AM that I should undertake a full value for money study of the technium programme in light of the concerns that Mr Davies expressed in his evidence to the Committee last October. There has been considerable criticism from several sources about the management and performance of the programme, and the Deputy Minister for Science, Innovation and Skills announced last November that six of the ten techniums in Wales would be removed from the programme. I agreed that now would be an opportune time for me to consider whether a full value-for-money study was justified, and my officials have carried out a comprehensive review of the current position with the programme. I am writing now to advise you of the outcome of my review.

My view is that it would not be right to undertake a full examination of the technium programme at this time. There has been extensive review and scrutiny of the programme already, and it is now subject to major change following the policy review in 2010 that led to the decision to remove six of the ten techniums from the network. A project is currently underway to manage the transition of these techniums out of the programme, and to establish a revised operating model for the remaining techniums that is intended to substantially address any remaining concerns.

An internal audit is currently in progress and will report shortly on the extent to which the recommendations of previous internal audits have been implemented. The Assembly Government commissioned a study by consultants DTZ to assess the performance of the programme and to recommend a suitable methodology for a full evaluation, and this study will inform a review of the programme's evaluation arrangements. Taken together, this work covers most of the ground I would cover in a value for money study, and it would be too early to assess the impact of any significant changes to the programme at this stage. As such, there is a high risk that a study at this stage would be premature and add little value to work that has already been done or is underway. I attach a briefing that sets out the reasons for this conclusion in more detail (Annex A).

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Of course, much will depend on the outcome of the review that are currently in progress. I will review the position again when these reviews are complete and write to you if I have any concerns that important issues are not being addressed.

Please do let me know if you would like to discuss this matter with me.

A handwritten signature in black ink, appearing to read 'Huw', written in a cursive style.

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: Annex A: Technium Programme – Briefing Paper

TECHNIUM PROGRAMME – BRIEFING PAPER

1. The technium programme is a publicly-funded scheme to generate innovation, income and employment in Wales. The programme involved the building of technium centres, each designed to house several small companies assessed as having outstanding growth potential. The programme aims to incubate innovation and economic success at each centre by housing these small companies under one roof, providing an integrated support package that provides accommodation, access to shared facilities and a range of business support to help them grow.
2. The first Technium centre opened in Swansea in 2001 and involved a partnership arrangement between the University of Wales, Swansea, the Welsh Development Agency and others. Plans to roll out the programme across Wales were announced by the Welsh Assembly Government (the Assembly Government) in 2002.¹ The programme was projected to cost £150 million over three years. Since then, ten techniums have been built and there are some other innovation centres similar to techniums that are not officially in the programme (Appendix 1).
3. There has been considerable criticism of the technium programme's performance and management from a range of sources. The Assembly Government's Internal Audit Services (IAS) issued a critical report in summer 2008. The Assembly government sought to address many of the recommendations in that report through a new project to strengthen the programme, announced in September 2009 with a budget of £17 million, part-funded by the European Regional Development Fund (ERDF). The Economic Renewal Programme acknowledged the mixed performance of the techniums when it was launched in 2010 and committed the Assembly Government to a policy review. This review was completed in November 2010 when the Deputy Minister for Science, Innovation and Skills announced the removal from the programme of six of the ten techniums.
4. Andrew Davies AM explained his misgivings about the programme to the PAC on 23 October last year, and other Assembly Members voiced their concern about the performance of the programme at a plenary debate that followed the Deputy Minister's announcement in November. As a result of these concerns about the programme's performance, I have been asked to consider whether I should undertake a full examination of the technium programme.
5. I have concluded that it would not be right to undertake a full value for money (VFM) study at this time. The programme has been subject to several audits and reviews, including an external evaluation, that have covered most of the issues I would wish to cover in a VFM study. The programme is now subject

¹ *Wales for Innovation – the Welsh Assembly Government's Action Plan for Innovation (2002)*

to major change following the decision to remove (and possibly close) six of the techniums. The Assembly government is preparing a revised business plan for the Technium programme to implement the closure decision, scale back public funding and address the remaining concerns about the management of the programme. There is a high risk that a study at this stage would be premature and duplicate current and planned work.

The scrutiny of the Technium programme has covered most of the ground that we would be likely to cover in a VFM study, and has yielded consistent findings and recommendations

6. The Assembly Government has undertaken or commissioned the following audits and reviews of the Technium programme:
 - a) An internal audit of the technium programme in 2008, producing a pan-Wales report and four subsidiary reports covering the four regional divisions of the Department of Economy and Transport (DE&T) that administer the techniums. Internal Audit has also examined the @Wales media centre in Cardiff Bay, which performs a similar function and which yielded similar findings.
 - b) Ongoing scrutiny of the internal audit recommendations by the Department of Economy and Transport's corporate governance committee (CGC) from late 2008.
 - c) An "initial scoping and review study" of the programme by DTZ consultants, in 2009, to provide an initial view on the operation and performance of the programme and to recommend an approach to a full evaluation. The evaluation was commissioned in 2008 but did not report until November 2010 pending the completion of a separate policy review by the Assembly Government.
 - d) An external review of the business plan for the EU-funded project to strengthen technium marketing and management by The Innovation Partnership in June 2009. The review considered whether the business plan adequately reflected the results of previous reviews (including the internal audit work) and whether any major risks were evident.
 - e) A full policy review in 2010, which led to the decision to remove six of the ten techniums from the programme.
 - f) A review by senior officials, supported by internal audit, is currently under way to assess the extent to which officials have fully implemented the recommendations of previous reports and how far their actions have addressed the main risks.
 - g) An internal review by officials in the Assembly Government, the Technium Network Transitional Arrangements project, is currently underway to manage the removal of the six techniums that are leaving the network and to develop a new operating model for the remaining techniums going forward. The project is expected to result in a revised

business plan for the EU-funded project by July 2011, which the Welsh European Funding Office (WEFO) will need to approve.

7. The key messages of the completed reviews include:
- a) **There was a clear rationale for the first technium, but not for subsequent centres.** The first technium was established on the basis of strong demand for an existing innovation centre, whereas the demand for many later techniums was much more uncertain. In several cases, full feasibility studies were not carried out.
 - b) **The development of the network was not guided by a clear national strategy** setting common standards. The resulting diversity in objectives, delivery models, exit strategies, selection criteria and administrative practices has created inconsistencies across the network and a risk to the technium brand.
 - c) **There was a regeneration aspect to the programme.** This was appropriate for the first technium in Swansea, which helped to drive forward the SA1 development, but it has not worked so well for other techniums.
 - d) **A property-based model has developed** with a landlord-tenant relationship and insufficient emphasis on mentoring and other forms of intensive business support. But, research suggests that it is this business support that is key to the success of innovation centres.
 - e) **Unclear division of roles and responsibilities** between the individual techniums and the division of the Assembly Government responsible for overseeing the programme.
 - f) **Financial information and output information was not regularly reported** on a programme wide basis, so that management was not aware of net costs and likely outcomes. Internal Audit could not confirm the full capital and running cost of the programme, and found no evidence of action by programme managers on techniums that were performing poorly. Furthermore, tenants were not contractually obliged to provide essential information about their turnover and profit.
 - g) **Low occupancy rates**, estimated at 46% across the whole network compared with an internationally recognised benchmark for innovation centres of 85%. There was wide variation across the network, with some techniums being very popular and others almost empty.
 - h) **The programme has broadly met its activity targets, but there has been less success in achieving results targets.** The programme exceeded the targets for new patents and trademarks and jobs created, but failed to meet those for increases in turnover, new companies formed in high tech sectors and jobs safeguarded. There was doubt about the actual impact of the technium programme creating links between tenants and academic organisations. However, two-thirds of jobs created by tenants were for graduates, well above the Welsh average

8. The purpose and emphasis of the reviews were different, but their messages are remarkably similar and we did not detect any inconsistencies between them during our review. They cover most of the ground we would be likely to cover in a VFM study: the programme's rationale and strategic objectives, its implementation, the management of programme, its performance and the monitoring and evaluation arrangements.

The Assembly Government has acted on the reviews and plans to address the remaining risks

The CGC has subjected the technium programme to ongoing scrutiny and is now broadly satisfied with progress in implementing the recommendations of the internal audit reports

9. The DE&T corporate governance committee took a close interest in the findings of the internal audit reports and received progress reports at each of its meetings in 2009 and 2010. The committee was concerned about the seriousness of the findings held two special meetings specifically to discuss the techniums, but by September 2010 the Chair of the committee was broadly satisfied with progress. A report on the impact of the internal audit reports, prepared by DE&T's compliance unit in December 2010, stated that only one of the 53 accepted recommendations in the technium reports was outstanding. The report noted that there had been some slippage in implementing the agreed recommendations in accordance with the timetable agreed at the time the reports were published; some of this was due to external factors such as the Economic Renewal Programme and uncertainty about the EU funding bid. Nevertheless, many of the issues had been taken forward as part of the EU-funded project and financial and performance information had significantly improved, although there was still only limited data available for some of the facilities.

The technium programme has been subject to initial evaluation

10. The internal audit reports are largely compliance-focused, although many of the observations and recommendations are highly relevant from a VFM perspective. The DTZ evaluation provides a more in-depth assessment of the rationale and performance of the techniums and the issues that need to be resolved going forwards. In particular, the review suggests a methodology for a full evaluation of the technium programme against the objectives of the first technium (in the absence of common national objectives when the techniums were built). The suggested approach would assess the economy, efficiency, effectiveness and net impact of the programme. An evaluation of this nature would cover most of the ground of a VFM study.
11. The Assembly Government has not yet decided whether to proceed with a full evaluation. The Economic Research Unit is waiting for more clarity on the extent and nature of the programme in the future before committing to any particular evaluation approach. This is understandable given the major changes that are currently being considered.

12. The business plan for the EU-funded project includes a commitment to evaluate the project at mid-term (three years after approval, in 2012) and at completion in 2015. The plan also committed to an initial evaluation to select additional performance indicators to the core indicators specified by WEFO, because DTZ had concluded that these core indicators were not the most appropriate ones for judging the success of a technium. The evaluation was to have been done and revised targets agreed with WEFO by November 2010, but this has been delayed by the policy review. The approach to evaluation will be reviewed as part of the Transitional Arrangements project and proposals will be incorporated into the revised business plan for the EU-funded project.

The EU-funded project aims to address many of the issues raised in previous audits and evaluations

13. Many of the recommendations in the internal audit reports were to be taken forward through the EU-funded project. The total budget is currently £16.3 million over 6 years, of which £7.3 million is funded by the ERDF; the project had claimed £2.7 million of ERDF grant as at 31 December 2010. The project aims to strengthen the programme by:
- a) integrating the existing facilities into a coherent technology incubation network to ensure businesses receive the same high level service and support wherever they are based in the network;
 - b) creating a robust pipeline of next generation tenants to populate the network;
 - c) creating common ICT and marketing support activities across the network to deliver value for money and ensure consistency of operation;
 - d) further developing new innovative support mechanisms previously piloted to support the growth of businesses throughout the network;
 - e) building on relationships with partners, including the higher education, further education and private sectors, so that businesses have access to the expertise and facilities necessary for their growth; and
 - f) ensuring that businesses within the Technology Incubation Network access the full range of business support provided through other schemes run by the Assembly Government.
14. The original business plan for the project envisaged funding £7.3 million of ICT infrastructure for tenants, an ongoing training programme for network managers so that they became increasingly focussed on their core role of supporting technium tenants, and a programme-wide marketing and communications strategy. This would help to address the need for stronger pre-incubation and pre-tenant engagement activity.

15. The technium programme manager commissioned the Innovation Partnership, a firm of consultants, to assess the extent to which the business plan fitted the requirements and needs highlighted in the various reviews of the programme and make comments and recommendations on the content of the business plan. The review was broadly supportive of the bid for funding, finding that it addressed the key recommendations in the pan-Wales internal audit report, adopted the correct approach of moving away from physical infrastructure and towards business support, reflected the findings of reviews and evaluations, and had incorporated the lessons of previous successes and failures. The report concluded that *“the technium programme as a whole can be seen to be delivering significant returns, and value for money, even though some of the individual techniums are operating below optimal level.”* The report did suggest that several of the targets could be more ambitious and that a strategy was needed to address under-performance of some techniums.

The current review of the programme will result in further changes

16. The policy review carried out in 2010 resulted in the removal from the programme of six of the ten techniums. The Deputy Minister attributed the decision to the mixed performance of the techniums, the need to achieve better value for money and to re-focus the programme to support of the aims of the Economic Renewal Programme.
17. The current review (called the Technium Network Transitional Arrangements project) has two objectives has two primary objectives:
- Objective 1: to design and implement an effective governance structure for the technium network to enable it to become a leading element of the innovation/R&D infrastructure in Wales and strengthen its role as part of an incubation system that has close links to the Economic Renewal Sectors.
 - Objective 2: to manage the smooth transition of the removal of the six buildings from the technium network ensuring relevant professional support and guidance is provided for tenants on alternative options and business continuity is maintained.
18. Objective 1 will result in a revised business plan for the EU-funded project, preceded by a consultation with stakeholders. The project aims to produce new strategic objectives for the technium network until 2015; a revised governance framework and management structure; consistent and transparent business processes; service level agreements between the Assembly Government and technium tenants requiring them to provide robust management information and performance outputs; a new set of performance indicators / measures of success; and a programme of activity to strengthen links with academic institutions and other sectors.

19. The review is clearly comprehensive and likely to address many of the issues raised in the various preceding audits, studies and evaluations.

Ben Robertson
11 March 2011

APPENDIX 1

TECHNIUMS AND SIMILAR CENTRES IN WALES

There are ten centres that are officially in the programme. Note that Techniums 1 and 2 are treated as a single technium by the Assembly Government.

TECHNIUM	SECTORAL FOCUS	YEAR OPENED	PLANS
Technium 1 (Swansea waterfront)	No specialist sector	2001	Keep in programme
Technium Digital (Swansea University)	Digital and software technologies	2003	Keep
Technium 2 (Swansea waterfront)	No specialist sector	2004	Keep
Technium OptIC (St Asaph)	Opto-electronics Expanded in 2009 - link	2004	Keep
Technium Aberystwyth (Aberystwyth)	Biological, environmental and computer sciences plus digital technology and new media	2004	Remove
Technium Springboard (Cwmbran)	No sectoral focus. Entered Technium network in December 2008. Owned by Torfaen CBC	2005	Keep
Technium Digital@SONY (Pencoed)	Satellite to Digital technium at Swansea	2005	Remove
Technium Sustainable Technologies (Baglan)	Low carbon and sustainable technologies	2005	Remove
Technium CAST [Centre for Advanced Software Technology] (Bangor)	Advanced software	2005	Remove
Technium Performance Engineering (Llanelli)	Technologies for automotive, motorsport, aerospace and marine industries	2007	Remove
Technium Pembrokeshire (Pembroke Dock)	Renewable and sustainable resources	2007	Remove