

Maximising EU Funding – the Structural Funds Programme and the Rural Development Programme

June 2023



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Key messages

Context

- 1 Wales has long been a recipient of EU funds. While there have been other programmes, the two largest components of EU funding have been:
 - **the Structural Funds Programme** – made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF); and
 - **the Rural Development Programme** – which is divided into ‘Measures’ that address EU priorities.
- 2 The Welsh Government manages both programmes in Wales, each covering a wide range of projects/activities. In practice, the Welsh European Funding Office (WEFO)¹ manages Structural Funds and the Welsh Government’s directorate for rural affairs manages the Rural Development Programme. Welsh Government departments are the main recipients of Structural Funds, managing projects approved by WEFO. The Rural Development Programme generally awards funding to farmers, businesses, and external organisations. Both programmes must be co-financed by domestic funding alongside EU grant (**Exhibit 1**).

1 WEFO is part of the Welsh Government and is responsible for the shared management of Structural Funds in Wales, in partnership with the European Commission. As ‘Managing Authority’, WEFO is responsible for the efficient management and implementation of the programme. Where we refer at the same point to both WEFO and the Welsh Government, it is to distinguish between the responsibilities for managing Structural Funds and the Rural Development Programme.

Exhibit 1: summary of the coverage and value of the Structural Funds Programme and the Rural Development Programme¹

Programme	Examples of activities supported	EU grant	Total value with domestic co-financing
Structural Funds Programme	Major transport schemes, large work-based learning programmes, smaller local schemes addressing poverty and exclusion.	£2.1 billion ²	£3.2 billion
Rural Development Programme	The programme aims to promote strong, sustainable rural economic growth and community-led development in Wales. It supports projects within the food, farming and forestry industries to improve productivity, diversity, and efficiency.	£562 million	£842 million

Notes:

¹ EU funding is provided in Euros. For this report, we have quoted values in £s which are calculated by WEFO and the Welsh Government by applying a planning conversion rate. The current conversion rate is £1: €1.17. The overall programme values would change with any fluctuations in the planning conversion rate, but grant already drawn down is not affected by any future fluctuations.

² For Structural Funds, ERDF accounts for around £1.2 billion of the EU grant allocation and ESF £878 million.

Source: Audit Wales summary

- 3 Both programmes follow the EU seven-year budget cycles. This report covers the 2014-2020 cycle. In practice, the programmes can spend until 31 December 2023. However, there are some key differences in the deadlines for the two programmes (**Exhibit 2**). There will also be programme closure activity well beyond 2023.

Exhibit 2: key differences in the deadlines for the Structural Funds Programme and the Rural Development Programme

Structural Funds Programme projects have until 31 December 2023 to incur expenditure. All projects must submit final claims to WEFO 21 days after project end dates for WEFO to process. WEFO then has until July 2024 to claim the final remaining EU grant.

Under the **Rural Development Programme**, expenditure must be incurred by a beneficiary and paid by the Welsh Government by 31 December 2023. To allow time for checks and processing, the Welsh Government has set a deadline of 7 July 2023 for most beneficiaries to submit their final claims. The exception is a small number of agri-environment capital works schemes.

Source: Audit Wales summary

- 4 Following the UK's departure from the European Union, Wales is not participating in the 2021-2027 EU funds programme. The UK Government has launched the Shared Prosperity Fund as a replacement for Structural Funds. The UK Government is managing the Shared Prosperity Fund itself.
- 5 In April 2022, the Welsh Government announced a £227 million, three-year, funding allocation to ensure continuity for some areas previously supported by the Rural Development Programme. The Welsh Government has established its Sustainable Farming Scheme which sets out its post-Brexit agricultural support for farmers and is expected to be in place for 2025. The Welsh Government intends that the scheme will reward farmers for actions that address nature and climate emergencies as well as food production, and that it will support wider land management improvement.

- 6 This narrowly scoped report examines whether Wales is on track to maximise use of the remaining EU funding from the Structural Funds Programme and the Rural Development Programme. We focus on the position with commitment and expenditure at the start of 2023, and how key risks are being managed. We updated our analysis as we were finalising this report to show the position at the end of March 2023.
- 7 We have prepared this report to provide insight for those with an interest in the programmes and to support scrutiny. However, given the short time remaining and limited scope for changes to the management or delivery of the programmes, and having identified relevant issues for both programmes to manage in previous reports, we are not making any specific recommendations as part of this report.
- 8 **Appendix 1** provides more detail about our work leading to this report, and about our previous work. **Appendix 2** provides further information about programme structures.

Key findings

- 9 Overall, we have concluded that WEFO and the Welsh Government have committed all the EU funding and more to projects but still had significant sums available to spend during 2023. They are managing some significant risks to maximising the drawdown of the funding, some of which are no longer in their control.
- 10 Despite some challenges, including delays caused by the COVID-19 pandemic, WEFO and the Welsh Government managed to commit all the EU grant and more to projects and beneficiaries (**Exhibit 3**). They nonetheless had just under £650 million of EU grant available to spend in 2023. The rate of spending by beneficiaries and projects in both programmes needs to be higher in the final year of the programme than in earlier years. If all the projects and beneficiaries deliver as planned and claim all the committed funding, expenditure over the 100% EU grant will need to be funded by the Welsh Government.

Exhibit 3: levels of commitment and spend across the Structural Funds Programme and Rural Development Programme

	Structural Funds Programme (December 2022)	Rural Development Programme (January 2023) ¹
EU grant	£2.1 billion	£562 million
% EU grant committed	102%	104%
EU grant spent ²	£1.5 billion	£488 million
EU grant available to spend ³	£576 million	£73 million
Value of over-commitment	£48 million	£20 million

Notes:

¹ Commitment and spend are up to January 2023 for the Rural Development Programme rather than December 2022 as we used the information available at the time of our field work. The Welsh Government publishes details about commitment and spend on its website for both the [Structural Fund Programme](#) and the [Rural Development Programme](#).

² The EU grant spent figure covers funding that has been approved and distributed to projects and beneficiaries.

³ EU grant spent and available to spend does not tally to the overall EU grant total due to rounding.

Source: WEFO and Welsh Government data

- 11 WEFO and the Welsh Government have made further progress in the early part of 2023. At the end of March 2023, there was £504 million of EU grant left to spend (£446 million Structural Funds Programme, £58 million Rural Development Programme). Overall spending for each programme in the early part of 2023 was broadly in line with the trajectory needed to maximise drawdown. WEFO also committed a further £22 million of EU grant to Structural Funds projects, taking the over-commitment from £48 million to £70 million.
- 12 Nonetheless, WEFO and the Welsh Government are managing some significant risks, some of which are no longer in their control:
 - WEFO and the Welsh Government are continuing to adapt the programmes to ensure that funding remains committed and maximise the prospects for spending the EU grant. However, with little time left, there is limited scope to extend or set up new schemes or projects and deliver them. WEFO and the Welsh Government are now reliant on projects and beneficiaries delivering on time and to budget.
 - WEFO and the Welsh Government are closely monitoring the exchange rate, but the impact of any fluctuations lessens over time.
 - WEFO and the Welsh Government are continuing to carry out checks on claims to manage the risk that funding is subsequently reclaimed by the EU due to ineligibility or errors.
 - WEFO and the Welsh Government are reminding projects and beneficiaries of the need to ensure good record keeping beyond 2023. This is a particular risk because with no replacement funding, some external organisations may no longer exist and may not be able to engage in the closure processes as required by the EU.
 - WEFO and the Welsh Government are considering options to boost and retain their own staffing capacity to process claims, carry out the required checks before the end of the programmes, and support the post-2023 closedown processes.



I do not underestimate the challenge of trying to maximise the spend of the remaining EU funds. Landing the programmes short involves a loss of money to Wales but landing in the other direction would mean a potentially substantial bill for the Welsh Government. Despite difficult circumstances, it is encouraging to see that WEFO and the Welsh Government have committed all EU funding and that there is a positive trajectory for programme spending. That progress needs to be sustained while also managing significant risks and ensuring value for money.

Adrian Crompton
Auditor General for Wales





WEFO and the Welsh Government have committed all of the EU funding and more to projects but still had significant sums available to spend during 2023

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- 13 This part of the report sets out progress with committing EU funding to projects and spending. **Exhibit 4** sets out the meaning of ‘commitment’ and ‘spend’ for each programme.

Exhibit 4: definitions of commitments and spend for the Structural Funds Programme and the Rural Development Programme

	Structural Funds Programme	Rural Development Programme
Commitment	Approved project funding and a signed contract with the beneficiary.	Approved project funding and signed acceptance of grant offer by beneficiary.
Spend	Amount paid to beneficiaries following approval of claims.	Amounts paid to beneficiaries following the receipt and processing of a valid claim.

Note: in response to our 2018 report on the impact of Brexit on the Rural Development Programme, the Welsh Government has clarified its definition of ‘commitment’ for the programme.

Source: Audit Wales summary

WEFO and the Welsh Government have faced some significant challenges in progressing the programmes

- 14 WEFO and the Welsh Government and have faced challenges in progressing the programmes. The COVID-19 pandemic in particular caused disruption with some projects being delayed or having to be cancelled and an impact on the pace of spend. The programmes have also faced recent challenges due to high inflation, which has impacted the costs of materials. Supply chain issues and labour shortages have also impacted on project delivery. Our 2018 reports on the impact of Brexit on the programmes highlighted several challenges to committing funding, including early delays on the programmes and uncertainty associated with Brexit, even before the pandemic and recent economic pressures.

WEFO and the Welsh Government have managed to fully commit all the EU funding and more to projects and beneficiaries

- 15 Both WEFO and the Welsh Government consider the fact that they have managed to over-commit all funding to be a significant success, given the challenges encountered through this programme period. WEFO and Welsh Government data shows that:
- as of December 2022, WEFO had committed 102% of the EU grant for the Structural Funds Programme. This means all the grant had been allocated and it had over programmed by around 2% (£48 million). The £48 million overcommitment was split almost equally across the ESF and ERDF; and
 - as of January 2023, the Welsh Government had committed 104% of the EU grant for the Rural Development Programme. This means all the grant had been allocated and it had over programmed by 4% (£20 million).
- 16 Over-committing funding is a common practice in programme management. It provides a buffer for some projects under-delivering and therefore not being able to draw down their grant funding. Predicting the right level of over programming is difficult and not without risk. If all the projects and beneficiaries deliver as planned and claim all the committed funding, expenditure over the 100% EU grant will need to be funded by the Welsh Government.

- 17 WEFO has been more cautious about over commitments than in previous rounds. Under previous rounds², WEFO had a degree of comfort that elements of funding could transition between one programme and the next if it looked like there would be an overspend. As Wales is not participating in the 2021-2027 Structural Funds Programme, this mitigation is not available. The Shared Prosperity Fund is being administered by the UK Government and provided directly to local government, and across City and Growth Deal Areas³, so the Welsh Government is not able to use that funding to mitigate these risks. The situation is different for the Rural Development Programme, where the Welsh Government retains control over the replacement programme's design and funding.

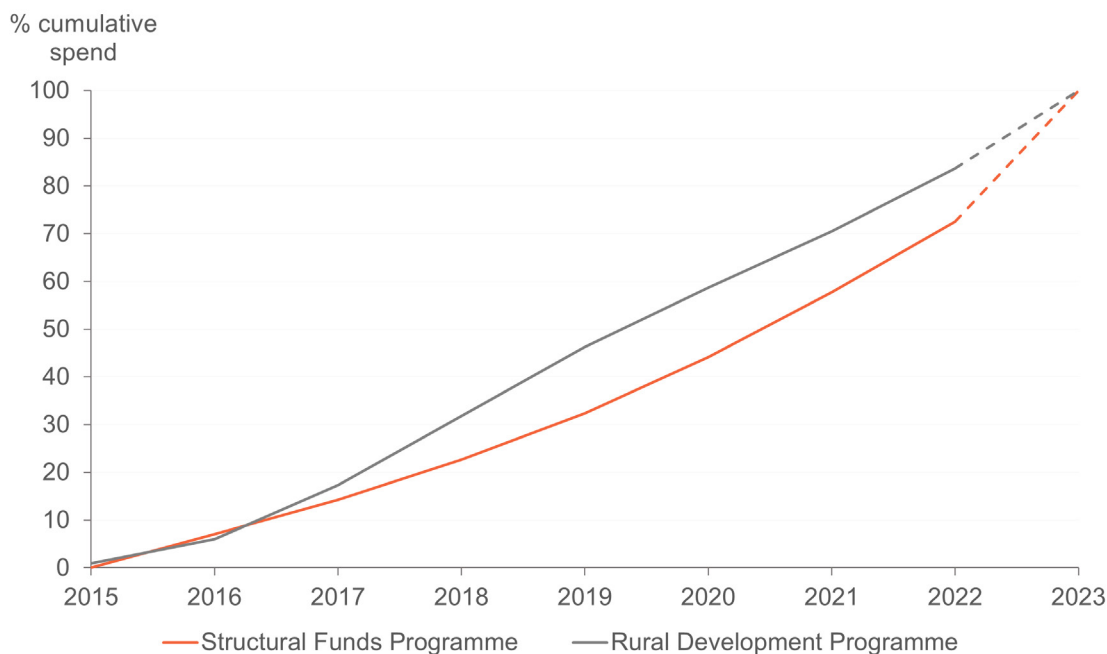
WEFO and the Welsh Government had around £650 million of EU funding available to spend during 2023

- 18 Although all the EU funding and more is committed for both programmes, there were significant sums of money left to spend during 2023.
- as of December 2022, £576 million (27.5%) of the EU grant for the Structural Funds Programme was still to be spent before 31 December 2023. This included £355 million from ERDF and £221 million for the ESF.
 - as of January 2023, £73 million (13%) of the EU grant for the Rural Development Programme was still to be to be spent.
- 19 Both programmes need to increase the rate of expenditure over the final year. **Exhibit 5** shows that if all the funding is to be drawn down, Structural Funds need to be spent at a substantially faster rate than in previous years. The rate of spend for the Rural Development Programme looks steadier when mapped to the end of December 2023. However, the timetable and rules (**Exhibit 2**) mean that spending by beneficiaries needs to increase substantially if most are to submit final claims by July 2023.

2 The Welsh Government was unable to provide us with information on the level of over-commitment in previous rounds of the Rural Development Programme for comparison.

3 The City and Growth deals receive regional funding. They are the Cardiff Capital Region Skills Partnership, Swansea Bay City Deal, Ambition North Wales, and the Growing Mid Wales Regional Partnership.

Exhibit 5: cumulative percentage of available EU grant spent across the Structural Funds Programme and Rural Development Programme and left to be spent, 2015 to 2023^{1,2}



Notes:

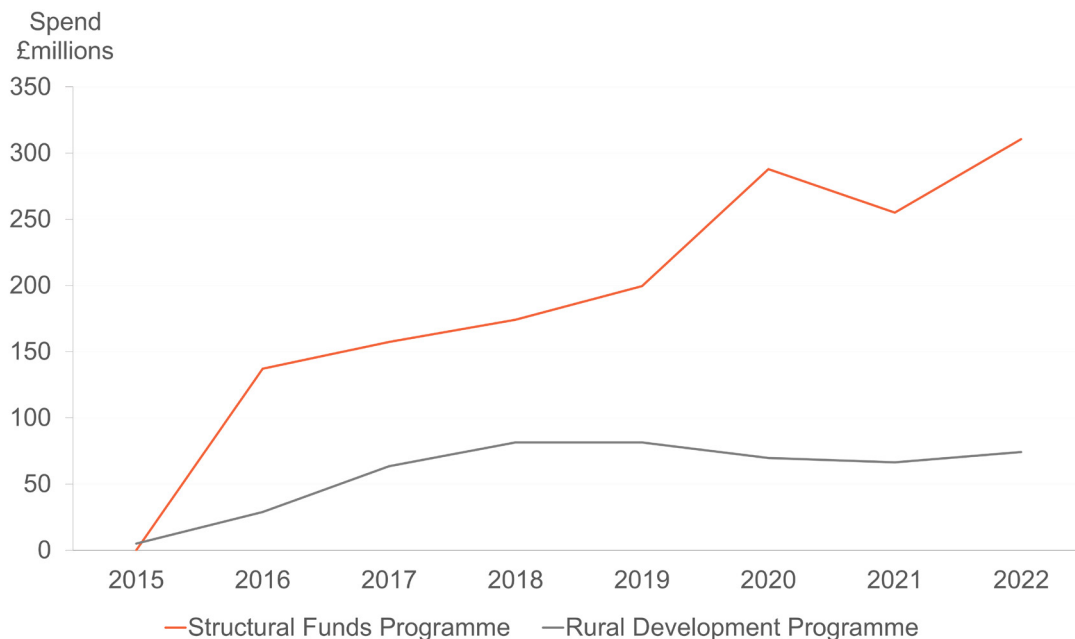
¹ **Exhibit 2** explains the different rules for the two schemes. Structural Funds projects have until 31 December 2023 to keep spending. Within the Rural Development Programme most beneficiaries have been asked to submit final claims by 7 July 2023, so that the Welsh Government can check and pay them by 31 December 2023.

² 2015-2022 spend is cumulative spend. 2023 is remaining spend to be claimed.

Source: Audit Wales analysis of WEFO and Welsh Government data

20 The pattern of higher spend late in the programmes has been a feature in previous rounds. However, the situation is more challenging in the current round due to disruption caused by the events which led to many projects being delayed and spending later than initially expected (**paragraph 14**). In particular, the COVID-19 pandemic contributed to a drop-off in EU grant spending on the Rural Development Programme in 2020 and 2021 (**Exhibit 6**). While annual EU grant spend on the Structural Funds Programme increased for 2020, it dropped back slightly in 2021 before increasing again in 2022.

Exhibit 6: annual EU grant expenditure across the Structural Funds Programme and Rural Development Programme, 2015 to 2022



Source: Audit Wales analysis of WEFO and Welsh Government data

21 In previous programming rounds, WEFO and the Welsh Government have not spent all the available EU grant funding. Achieving full spend is complicated by the issue of fluctuation in the exchange rate. For the two previous Structural Funds rounds – 2000-2006 and 2007-2013 – WEFO spent around 97% of the EU grant. The previous round of the Rural Development Programme spent around 93% of the EU grant⁴. Outcomes equivalent to those in the previous round would leave around £102 million of EU grant unspent overall (£63 million for the Structural Funds Programme and £39 million for the Rural Development Programme). Across the two programmes combined, every 1% of grant not spent equates to just under £27 million.

4 We do not have a figure for the Rural Development Programme for 2000-2006.

WEFO and the Welsh Government have made further progress in early 2023 and by the end of March the amount of EU grant left to spend fell to £504 million

- 22 WEFO and the Welsh Government provided us with updated information on spending to the end of March 2023 as we were finalising this report. It shows that the total amount of grant left to spend fell from £650 million to £504 million.
- 23 The amount of EU Structural Funds left fell by £130 million, from £576 million at the end of December 2022 to £446 million at the end of March 2023. WEFO also committed a further £22 million of EU grant, mainly to ERDF projects, taking the over-commitment from £48 million to £70 million. Overall, the rate of expenditure early in 2023 was broadly in line with the trajectory needed to maximise drawdown. However, there was significantly more progress in spending ESF grant. The remaining ERDF fell from £355 million to £304 million (-14%) while ESF fell from £221 million to £142 million (-36%). **Paragraph 31** sets out the challenges around having several large projects due to complete later in the year, many of which are in the ERDF programme.
- 24 For the Rural Development Programme, the remaining EU grant fell from £73 million at the end of January 2023 to £58 million at the end of March 2023. The overall rate of spending during February and March is broadly in line with the trajectory needed to maximise drawdown. **Paragraphs 32 and 33** explain the particular challenges around the balance of the remaining projects as at the end of January, with socio-economic schemes having historically tended to underspend against their allocation. The Welsh Government data available to us, up to the end of March 2023, did not include an update on the amount of EU grant remaining across the different types of projects.



WEFO and the Welsh Government are managing some significant risks to maximising the drawdown of the funding, some of which are no longer in their control

- 25 This part of the report sets out the key risks that WEFO and the Welsh Government face as they seek to maximise the use of the remaining available EU funding.

WEFO and the Welsh Government are continuing to adapt the programmes to ensure all the funding remains committed

- 26 It is inevitable on large programmes that plans will change: some projects under-deliver or do not come to fruition and funding needs to be moved around. This movement of funding has been a feature of previous rounds in the Structural Funds and Rural Development Programme. For this round, the challenges have been compounded by the delays caused by the COVID-19 pandemic, which have required some projects to be dropped and new projects introduced to replace them or for other projects to be extended. For both programmes there are strict, although different, rules governing any changes from the plans approved by the EU (**Exhibit 7**).

Exhibit 7: rules relating to adapting the programmes

For the **Structural Funds Programme**, grant funding cannot be moved between ERDF and ESF nor between the two geographical regions of West Wales and the Valleys and East Wales (**Appendix 2**). For both ERDF and ESF, the EU signs off on the total funding available at a priority level for each region. In the final year of the programme, WEFO has flexibility to overspend up to 15% of the agreed amount for any priority in a region and fund it through underspends in other priorities within that region, without needing EU approval.

For the **Rural Development Programme**, the Welsh Government sets the allocations against the various Measures and this is approved by the EU. Unlike Structural Funds, there is no flexibility to move funds between Measures without further EU approval through a programme modification. The Welsh Government can, however, flexibly manage schemes within the limits set for the Measure.

- 27 For the Structural Funds, the COVID-19 pandemic has had the biggest impact on ERDF projects where some projects have been delayed, reduced in scope, or cancelled. Some projects, especially capital projects, have also faced cost pressures because of inflation and labour shortages. In March 2023, WEFO obtained EU approval for a formal Programme Modification. This has largely involved moving funding from projects upgrading roads and railway stations that were delayed, and reinvesting into a priority area supporting small and medium enterprises. WEFO anticipates that if any further changes are needed to move money between Priorities, it can be accommodated within the 15% flexibility it has under EU rules (**Exhibit 7**).
- 28 The Welsh Government has made several programme modifications to the Rural Development Programme to date. These have been needed for reasons such as project underspends, unsuccessful projects, and penalties for non-compliance with scheme rules. Although the Programme is more than fully committed overall, several individual Measures are over-committed, while several others are under-committed. The Welsh Government intends to make a final programme modification on 30 September 2023. After that point, it cannot make any further modifications. As noted in **paragraph 16**, the Welsh Government would need to cover any overspend against the EU grant allocations for each Measure from domestic funding. Any underspends for each Measure will be lost to Wales.

With little time left, there is limited scope to extend or set up new schemes or projects so WEFO and the Welsh Government are reliant on existing projects and beneficiaries delivering on time

- 29 The impending deadlines mean there is limited scope for WEFO and the Welsh Government to make changes to the programmes. It takes time to go through the process of setting up projects and schemes and then delivering the activity and benefits. WEFO and the Welsh Government recognise that while they can work closely with projects and schemes and help where they can, they are now heavily reliant on the projects and schemes delivering to agreed timescales.

- 30 As of 31 December 2022, there were 224 Structural Funds projects categorised as ‘active’, 54 of which had passed their due date. In principle, there was £624 million of EU grant committed to these projects and left to spend, including £48 million of over-commitment. After accounting for claims already submitted by projects but not yet paid by WEFO, the amount of funding left to claim was £470 million (**Exhibit 8**).

Exhibit 8: number of active Structural Funds Programme projects as at the end of December 2022 and the amount of EU grant left to claim

	Number of active projects	Committed EU grant left to claim (including over-commitment)
Projects past end date at 31 December 2022	54	£37 million
End date 1 January 2023 to 31 December 2023	170	£433 million
Totals [of which]	224	£470 million
End date 1 October 2023 to 31 December 2023	41	£153 million
End date 1 December 2023 to 31 December 2023	18	£68 million

Note: The £ figures here represent the amounts left to claim but excluding claims submitted to WEFO that had not been processed and paid out at the end of December 2022.

Source: Audit Wales analysis of WEFO data

- 31 Many of the active projects will run close to the deadline for spending. There are 41 projects that are due to end in the final quarter of 2023, with 18 of those due to end in the final month. Several of the projects finishing in 2023 are large schemes, funded through the ERDF, where the Welsh Government is the lead organisation. These include the A40 road improvement project and broadband infrastructure projects.
- 32 In principle, as at the end of January 2023, there was £93 million of committed EU grant funding remaining under the Rural Development Programme, including £20 million of over-commitment. Of the £93 million, £25 million related to Measures containing agri-environmental schemes and £50 million related to Measures containing socio-economic style schemes. The remainder was a mix of the two. Agri-environment schemes generally deliver in line with anticipated spend profiles and the Welsh Government is therefore more confident that they will spend in line with profiles.
- 33 The socio-economic style projects are generally more difficult to reliably forecast. Historically, they have been prone to under-delivery. The Welsh Government has been monitoring these socio-economic projects. As at the end of January 2023, there were still over 100 socio-economic projects expected to run to the end of June 2023. Any extensions to these projects would put at risk the Welsh Government's timetable to support the processing of claims (**Exhibit 2**).

WEFO and the Welsh Government are closely monitoring the exchange rate, but the impact of any fluctuations lessens over time

- 34 A fluctuating exchange rate has always been an ongoing risk that both programmes have had to carefully manage. The maximum level of funding available to Wales is set in Euros at the beginning of the programming period. Any drop in the value of the pound would mean that the expected value of the EU funding in pounds would increase and vice versa. A drop in the value of the pound happened earlier in the programmes, resulting in the overall EU grant funding allocations being considerably higher than first thought.

- 35 Despite earlier fluctuations in the exchange rate, it has remained relatively stable in recent years. The risk remains, albeit small, that an unforeseen event triggers a substantial shift in the rate before the programme ends. However, the closer to the end of the programme, the less the impact, as there would be less money remaining to be drawn down at the changed rate. While the risk is diminishing, WEFO and the Welsh Government will continue to monitor the exchange rate through to programme closure.

To manage the risk of the EU reclaiming funding, WEFO and the Welsh Government need to keep checking the eligibility of claims and work with projects and beneficiaries to ensure good record keeping beyond 2023

- 36 WEFO and the Welsh Government undertake a series of validation and management checks on claims prior to payment to ensure expenditure claimed is in line with the scheme rules and complies with EU regulations. These checks are important to minimise the risk that the EU claims back funding at some later point because it is ineligible or due to errors.
- 37 Our 2018 report on managing the impact of Brexit on the Structural Funds found that WEFO had strengthened the checks it carried out to ensure that projects only spend EU money in line with strict criteria. As a result, it had a very low error rate. We understand that those strengthened controls remain in place for the Structural Funds. The most recent Annual Control Report by the Welsh Government's European Funds Audit Team – covering the accounting period 1 July 2021 to 30 June 2022 – identifies an extremely low error rate of 0.046%.
- 38 Our financial audit work on the Rural Development Programme since 2016 has concluded that, in general, the Welsh Government complied with the EU control standards. However, there was one area for improvement where officers were making administrative mistakes in interpreting scheme rules and determining the eligibility of claims for funding. In response, the Welsh Government has revised guidance and implemented refresher training and guidance for officers. In 2022, we found fewer mistakes compared to previous years, but still a notable number. The financial impact of the issues was not material⁵.

5 Materiality is calculated as 2% of gross expenditure. If extrapolated audit errors exceed this amount the audit opinion would be modified.

- 39 As the programmes move towards key milestones, it remains essential for WEFO and the Welsh Government to continue to carry out robust checks. There is a risk that in a rush to spend, the checks and oversight get relaxed. We have seen no evidence that either WEFO or the Welsh Government intend to relax their checks, but they will need to guard against this risk.
- 40 There will be further checks and audits on expenditure after the programme end date. WEFO and the Welsh Government will need to retain a full audit trail and have staff in post with the required knowledge to close the programmes appropriately and address audit queries, mitigating the risks of non-compliance with scheme or EU rules. WEFO and the Welsh Government are grappling with staffing issues and recognise the need to manage this risk (**paragraphs 43 to 46**).
- 41 Both WEFO and the Welsh Government are concerned about record keeping and access to some projects and beneficiaries as part of the closedown and audit process. In previous programme rounds, the European Union has asked to review documentation for projects after they have stopped receiving funding from a particular programme round. Because projects often continued into the next programme round, that process has been quite straightforward.
- 42 However, with this being the last programme, organisations that have relied heavily on EU funding for their work may simply no longer exist. This is largely outside of the control of WEFO and the Welsh Government, but they will need to continue working with projects and beneficiaries to do what they can to mitigate this risk. As part of its management of programme closure, WEFO has issued guidance on record retention. WEFO also told us they are having ongoing informal discussions with projects regarding the importance of record retention. The Welsh Government told us that its communications to date with beneficiaries under the Rural Development Programme have focussed more on the need to retain and make available data to support the checks prior to final payment, including on-site visits.

WEFO and the Welsh Government have identified staff capacity as a risk to robustly processing and checking claims in time and managing the closure of the programmes

- 43 Both WEFO and the Welsh Government have identified staff resourcing pressures as a risk to checking and processing claims in a timely manner, to ensure full drawdown of the remaining EU funding. They also need staff in place through the full closure process beyond 2023. The teams responsible for both programmes report that they are carrying vacancies in key areas. However, the staffing challenges are different for the two programmes.
- 44 For the Structural Funds Programme, WEFO is concerned that as the end date approaches some key staff will be looking for alternative employment. WEFO is mitigating this risk through a transition project. The project involves helping WEFO staff to stay in their WEFO post as the programme winds down, while planning for new roles after the end of the programme. WEFO also plans to ensure there is a legacy team after 2023 to deal with the closedown but has not decided on its size and structure.
- 45 WEFO reported that it is finding it difficult to recruit internally to fill gaps. It is concerned that WEFO roles are not perceived as attractive due to the impending closure of the programme. It has considered procuring external contractor support for some work but ruled this out due to the procurement timescales involved. WEFO is considering other external options for addressing staff capacity issues, including hiring agency staff if necessary.
- 46 For the Rural Development Programme, the Welsh Government has identified staff capacity as a risk due to vacancies and competing priorities. At the time of drafting this report, the Welsh Government was conducting an external campaign to recruit up to 15 new temporary staff, and extending existing temporary promotions for the duration of 2023. However, there remains a risk around key officers needing to balance working on the transition schemes and the future replacement schemes for the Rural Development Programme (**paragraph 5**), as well as managing the last year and closing-down of the current programme.



Appendices

- 1 About our work
- 2 About the Structural Funds Programme and the Rural Development Programme

1 About our work

Audit scope

Focusing specifically on the Structural Funds Programme and the Rural Development Programme, we considered whether Wales is on track to maximise use of the remaining available EU funding.

Key areas that we considered for both programmes in this narrowly scoped examination included:

- the current level of commitment and expenditure;
- the prospects for spending the full allocation;
- [where available] the track record of spend against commitment in previous programmes; and
- how risks to delivery are being managed.

Areas that this examination has not included in scope are:

- the history of how the 2014-2020 programmes have been managed overall;
- the performance of the programmes against their wider objectives;
- the robustness of arrangements in place to manage risks to delivery; and
- the successor schemes to EU funding.

We have reported previously on matters relating to the overall management of both programmes. For the 2014-2020 programming period, these included two reports in 2018 that considered the impact of Brexit at a time when there was still the prospect of the UK's withdrawal from the EU on a 'no-deal' basis⁶. Had the UK left the EU without a deal, EU funding to Wales would have stopped immediately with the UK Government only guaranteeing that it would replace funding for projects that had been 'signed before the UK leaves the EU'.

We also reported in June 2020 on the Welsh Government's processes and controls for Rural Development Programme grants awarded between January 2016 and January 2019⁷. We have not considered the Welsh Government's response to the recommendations in that report as part of this latest examination.

6 Auditor General for Wales, [Managing the impact of Brexit on EU Structural Funds](#), July 2018 and [Managing the impact of Brexit on the Rural Development Programme in Wales](#), November 2018

7 Auditor General for Wales, [Ensuring value for money from Rural Development Grants made without competition](#), June 2020

Audit methods

Financial analysis

We carried out a range of analysis including:

- reviewing current commitment and spend levels compared with the EU grant allocation based on current values;
- reviewing current commitment and spend levels compared with the same point in the previous programme;
- reviewing ineligible expenditure in current programmes in comparison with the previous programme;
- reviewing cumulative and annual expenditure trends over the lifetime of the programme; and
- reviewing project end dates in the final year of the programme.

Document review

We reviewed a range of documentation. This included Programme Monitoring Committee⁸ papers, Welsh Government management control and monitoring information and reports, and risk control and mitigation documents.

Audit Wales undertakes the Annual Certification audit of expenditure for the European Agricultural Fund accounts, working on behalf of the National Audit Office for the EU. The audit work covers the completeness and accuracy of the accounts, assessing the control environment and the legality and regularity of expenditure. We reviewed the Audit Wales audit reports.

The European Funds Audit Team is part of the Welsh Government's Audit, Assurance and Counter Fraud Division. The Team acts as the Audit Authority for Structural Funds programmes in Wales. We reviewed their recent audit reports. Audit Wales has not had a direct role in the audit of the 2014-2020 Structural Funds Programme.

8 The Welsh Government established the Programme Monitoring Committee to monitor the Structural Funds Programme and the Rural Development Programme and to comply with legal and administrative provisions set out by the European Union.

Interviews and observations

We met with WEFO and other Welsh Government officials responsible for the Structural Funds Programme and the Rural Development Programme respectively.

We discussed issues relevant to the scope of our work with the Wales Council for Voluntary Action and the Welsh Local Government Association. We also observed the January 2023 Programme Monitoring Committee meeting.

2 About the Structural Funds Programme and the Rural Development Programme

Structural Funds Programme

The programme has two key components: the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Both ERDF and ESF are broken down into investment priorities, under which sit individual projects (**Exhibit 9**). The funding is also split between two geographical areas. West Wales and the Valleys gets a majority of the funding due to lower economic output, with the remainder for East Wales.

Exhibit 9: overview of the Structural Funds Programme

ERDF priorities	Examples of projects funded
Connectivity and urban development	<ul style="list-style-type: none"> • Upgrading of roads and railway stations. • Development of new employment sites. • Investment in key visitor attractions to drive growth in the tourism industry.
Research and innovation	<ul style="list-style-type: none"> • Research programmes at Welsh universities. • Research and development collaborations between academia and industry. • Assisting Welsh businesses to develop new products and services across a range of sectors.
SME competitiveness	<ul style="list-style-type: none"> • Financial and business support for small and medium-sized enterprises (including start-ups and social enterprises).
Renewable energy and energy efficiency	<ul style="list-style-type: none"> • Improving energy efficiency in low-income homes. • Small-scale renewable energy initiatives. • Supporting the development of leading marine energy industry.
Technical assistance	<ul style="list-style-type: none"> • Provides funding to help WEFO implement the programmes. • Includes audit and controls, research, monitoring and evaluation and information and publicity.

ESF priorities	Examples of projects funded
Skills for growth	<ul style="list-style-type: none"> Improving basic, technical and high-level skills in working people across Wales.
Youth employment and attainment	<ul style="list-style-type: none"> Projects to increase take-up and attainment of Science, Technology, Engineering and Medicine (STEM) subjects. Increasing the skills of early years and childcare workers.
Tackling poverty through sustainable employment	<ul style="list-style-type: none"> Increasing the skills and employability of economically inactive and long-term unemployed people.
Public services reform and regional working	<ul style="list-style-type: none"> Projects to stimulate new regional solutions, planning and service models. Helping organisations innovate and work together regionally.
Containing COVID through capacity	<ul style="list-style-type: none"> Projects to support the capacity of health and social care to respond to COVID-19.
Technical assistance	<ul style="list-style-type: none"> Provides funding to help WEFO implement the programmes. Includes audit and controls, research, monitoring and evaluation and information and publicity.

Source: Audit Wales summary

Rural Development Programme

The Rural Development Programme structure is more complex than Structural Funds. It is broken down into a range of 'Measures' to address six EU priorities. The six priorities are:

- fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
- enhancing the viability and competitiveness of all types of agriculture, and promoting innovative farm technologies and sustainable forest management;
- promoting food chain organisation, animal welfare and risk management in agriculture;
- restoring, preserving and enhancing ecosystems related to agriculture and forestry;
- promoting resource efficiency and supporting the shift toward a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors; and
- promoting social inclusion, poverty reduction and economic development in rural areas.

Under these six priorities are 'focus areas' and the programme includes target indicators against each area. The Welsh Government reports progress against these target indicators in an annual report to the EU and this information is also available to the Programme Monitoring Committee.

The day-to-day management of the programme is based on 'Measures'. Funding allocations were set at the outset and have been modified at points through the programme. The Welsh Government monitors the spend against these Measures. The Welsh Government has set up a range of schemes under each Measure (**Exhibit 10**). Each successful application from a farmer or organisation becomes a 'project' for EU rule purposes, although those receiving support are commonly referred to as beneficiaries.

Exhibit 10: overview of Rural Development Programme Measures and key schemes which contribute to them

Measure	Schemes
M1: Knowledge transfer and information actions	Knowledge Transfer and Innovation
M2: Advisory services, farm management and farm relief services	Rural Business Advisory Scheme
M4: Investments in physical assets	Farm Business Grant, Sustainable Production Grant, Food Business Investment, Glastir Capital Works, Glastir Small Grants
M6: Farm and business development	Rural Business Investment Scheme
M7: Basic services and village renewal in rural areas	Rural Community Development Fund
M8: Investments in forest area development and improvement of the viability of forests	Glastir Woodland Creation, Glastir Woodland Restoration, Glastir Woodland Management, Timber Business Investment Scheme, Forest Monitoring and Risk Management

Measure	Schemes
M10: Agri-environment-climate	Glastir Entry, Glastir Advanced, Glastir Commons
M11: Organic farming	Glastir Organics
M16: Co-operation	Enabling Wales's Natural Resources Scheme, Sustainable Management Scheme, Cooperation and Supply Chain Development Scheme, Cooperative Forest Planning Scheme, European Innovation Partnership
M19: Support for LEADER	LEADER
M20: Technical assistance	Technical Assistance

Note: Measure numbers and descriptions are set by the EU. The full list is included in Commission Implementing Regulation 808/2014. The Welsh Government decided which of these measures to take forward into its Rural Development Programme.

Source: Audit Wales summary



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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.