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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Welsh Government Financial Support for Business



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SWYDDFA ARCHWILIO CYMRU



This report has been prepared for presentation to the National Assembly under the Government of Wales Act 2006.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

Contents

	Summary	5
	Recommendations	11
1	The Welsh Government did not fully translate its vision for economic renewal into a co-ordinated programme of financial support to businesses	13
	The Welsh Government put a sector team structure in place but, for a number of reasons, did not fully implement other aspects of its economic renewal vision relating to providing financial support to businesses	14
	There has been a lack of clarity for businesses in what Welsh Government financial support is available and how they can access it	18
	The Welsh Government has not yet implemented an approach to balancing potential risks and benefits that would inform overall programme management and individual project selection	21
2	The Welsh Government has monitored individual projects separately but has not managed financial support to businesses as a programme	25
	Management information about financial support to business is held on different systems and contains gaps and errors; making it difficult to produce a timely, accurate and comprehensive picture that would support programme-level monitoring	26
	The Welsh Government's Sectors and Business team has improved some aspects of financial management of individual projects but for its programme of financial support to business, budget forecasts and actual spending comparisons are still unclear	28

3	The Welsh Government has not demonstrated clearly how its financial support for business has contributed to the economic renewal objectives it set in 2010	30
	The Welsh Government has not put in place systems and processes to produce information for publicly reporting on whether overall, its financial support for business contributed to achieving its intended outcomes	31
	The Welsh Government focussed on creating and safeguarding jobs but did not monitor wider economic outcomes against the broad framework of indicators it undertook to report against	32
4	The Welsh Government has a new economic strategy and is now beginning to overhaul its approach to providing financial support to business	34
	Recently, the Welsh Government launched a new economic strategy framework for providing financial support to business	35
	The Welsh Government has identified three national thematic and four foundation sectors to help focus its proactive work with businesses	37
	The Welsh Government intends to deliver broad, long-term economic benefits through its new approach to providing financial support to business	38
	The Welsh Government’s budget for financial support to business has been revised to take account of projects under its ‘Economic Action Plan’, but it is still only based on known commitments	39
	Appendices	
	Audit methods	42
	Sector analysis of commitments of financial support	44
	Project case studies	46
	Economic Renewal: A framework for measuring success	50

Summary report

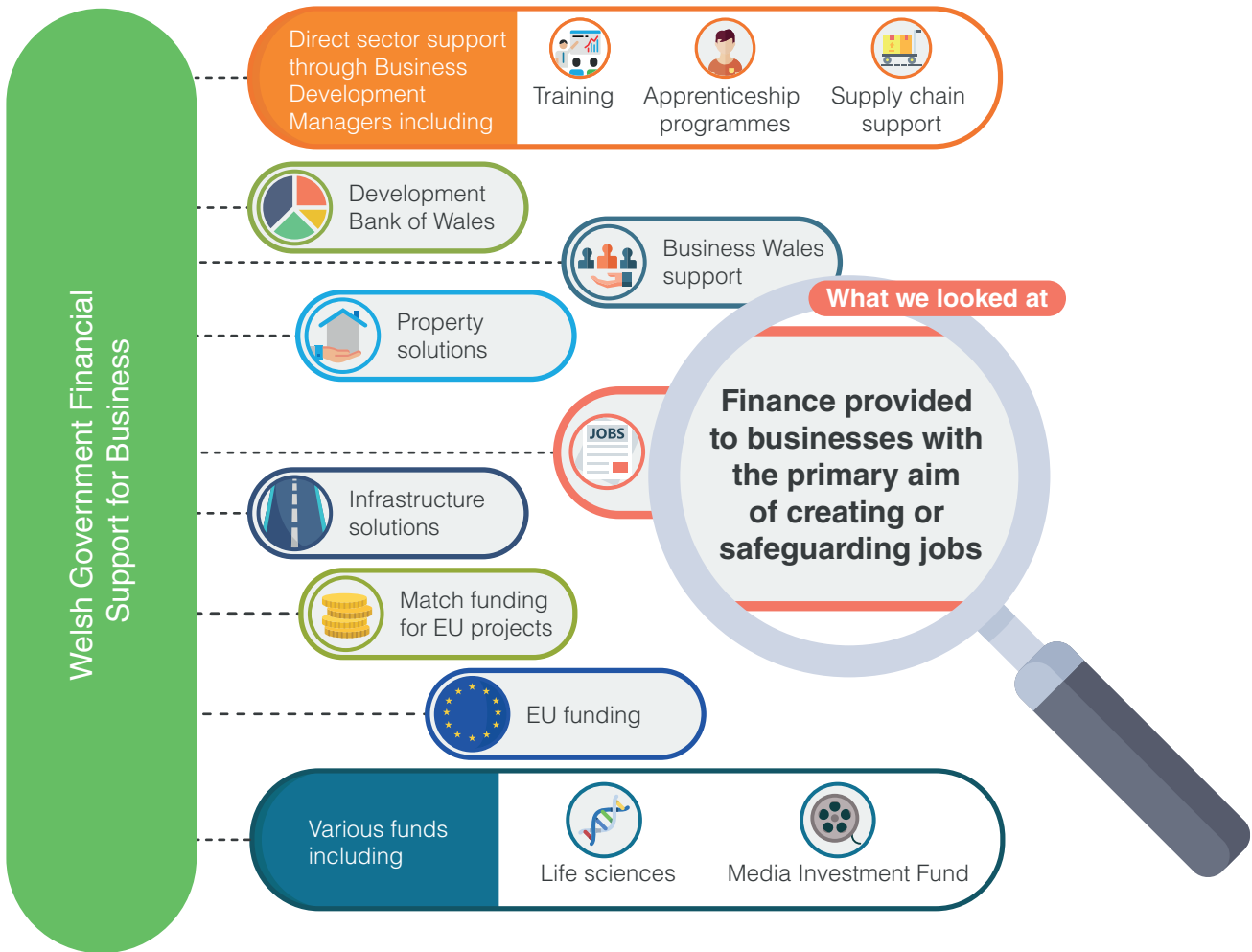
Summary

- 1 The Welsh Government published **Economic Renewal: a new direction** ('Economic Renewal') in July 2010. 'Economic Renewal' outlined the Welsh Government's wider approach to the Welsh economy and, within this, its strategic approach to providing financial support to businesses. The Welsh Government would target public grant, and increasingly loan, funding at companies it identified as having potential for achieving significant impact in nine key economic sectors.
- 2 Over recent years, the Welsh Government has highlighted specific projects it has provided funding to, which have successfully created or safeguarded jobs in Wales ([Appendix 3](#)). However, the Auditor General, the National Assembly's Public Accounts Committee (PAC) and the media have highlighted examples of projects that received Welsh Government financial support but did not deliver the intended benefits¹. Such individual cases have prompted the Auditor General to undertake a broader audit review, to give an overall picture of how well the Welsh Government provides financial support to businesses.
- 3 Various parts of the Welsh Government provide different forms of financial and other support to businesses for a range of purposes² ([Figure 1](#)).

1 In the course of our routine audit work we will follow up previous recommendations and may undertake specific work to test how measures to address them are working in practice. This report does not follow up previous recommendations made by the Auditor General or by the PAC because the Welsh Government is revising its approach to providing financial support to businesses.

2 The Auditor General has reviewed and reported on various aspects of Welsh Government and EU funding provided to Welsh businesses for different purposes. Most recently, the Auditor General has published a report on EU funding, **Managing the impact of Brexit on EU Structural Funds**, August 2018.

Figure 1: different ways in which the Welsh Government provides financial support to business.



Note:

During the course of our work, the Welsh Government rebranded Finance Wales as The Development Bank of Wales. The Development Bank of Wales supports the economy of Wales by providing investment funds to support businesses through a number of financing options. More information can be found at www.developmentbank.wales

Source: Wales Audit Office analysis

- 4 The Sectors and Business team within the Welsh Government's Economy Skills and Natural Resources (ESNR) Group team administers much of the project finance that the Welsh Government provides directly to individual businesses to create or safeguard jobs. We focused our audit work on this team and reviewed:
- a what the Welsh Government wanted to achieve and how much financial support the Sectors and Business team gave to businesses;
 - b how this financial support to businesses is managed and which types of businesses were supported;
 - c what the financial support achieved and what the Welsh Government has reported about its impact; and
 - d what the Welsh Government is going to do next in making changes to support its new economic strategy.

Of the financial support we reviewed, we identified that during the period April 2014 to March 2017, the Welsh Government agreed nearly £219 million of new support to businesses for jobs, and spent just over £167 million with the aim of creating or safeguarding jobs ([Figure 2](#)).

Figure 2: financial commitments and payments made by the Sectors and Business team to business to support jobs during the period April 2014 to March 2017

Commitments

£218.65M



Total value of offers committed



443

projects committed

404

(approx.)

unique businesses with projects committed



Spend



£167.5M

Amount spent on businesses

530

(approx.)

unique businesses paid



Notes:

1. New commitments are where the Welsh Government approves project funding and a business accepts the offer. The project may extend beyond 2017.
2. Spend is the actual expenditure during the period, some of which is on projects that started before 2014.
3. Unique businesses supported are included as an approximation, as the information provided by the Welsh Government did not enable us to establish exactly how many unique businesses had received financial support.

Source: Welsh Government data

5 We concluded that:

To date, the Welsh Government has focussed upon managing individual projects that support businesses and has not fully translated its vision for economic renewal into a co-ordinated programme, supported by comprehensive information, which clearly demonstrates its contribution towards the vision's objectives. However, the Welsh Government is beginning to overhaul its approach to how it will provide financial support to business in future.

6 In 'Economic Renewal' the Welsh Government set out its vision for supporting and stimulating the Welsh economy and its intent to target public resources on economic priorities, including by providing support to businesses. The Welsh Government undertook to report publicly on its progress towards the vision it set out in 'Economic Renewal', using a range of measures and indicators to show the impact of what it achieved.

7 We found that the Welsh Government has not reported on its financial support for business, across economic sectors and funding mechanisms, against the broad economic renewal objectives set out in 'Economic Renewal'.

8 The Welsh Government did not fully implement the arrangements it identified as necessary to deliver financial support to businesses in the context of the vision it set out in 'Economic Renewal'. Welsh Government officials have suggested that changes in Ministerial priorities and the continued impact of the economic downturn required a different approach in some respects, including less emphasis on repayable finance. The Welsh Government specified priority industry sectors towards which it would target support. However, it also provides financial support to businesses outside these areas and businesses have been unclear about what Welsh Government support is available to them and how to access it.

9 The Welsh Government does not gather the information which we expected to be able to review. Their current information systems do not easily provide a comprehensive total or a consistent breakdown of financial support provided by the Sectors and Business team which would give a full picture of how much financial support is given, how it is given, and what it achieves. Such a picture would inform routine management, support effective scrutiny and accountability, and also aid external reporting.

- 10 At present, evaluating the impact of the Welsh Government's programme of financial support to business, other than at the level of individual projects, is hindered by:
- a information held on incompatible systems that cannot easily be aggregated to produce timely, accurate and comprehensive reports;
 - b budgeting processes that provide flexibility across sectors but do not facilitate routine monitoring and reporting at sector and programme levels or of individual project spend to date; and
 - c the need to implement an approach to managing risk at a programme level, which the Welsh Government is in the process of developing.
- 11 The Welsh Government has replaced 'Economic Renewal' with a new economic vision for Wales, **Prosperity for All**, supported by a new action plan³. As part of this new approach, the Welsh Government intends to implement a revised framework to deliver financial support to businesses, involving streamlined funding mechanisms and fewer priorities.
- 12 The Welsh Government's initial four-year budget, set in 2016-17 was based purely on known commitments, which reduce as existing projects are completed. It does not include estimated future spend. The Welsh Government published a draft revised budget in October 2018, although this is still based only on known commitments.

3 In September 2017, the Welsh Government published **Prosperity for All: the National Strategy** (<https://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>) to support its key policy priorities for the rest of the current Assembly term. Its accompanying **Prosperity for All: Economic Action Plan** contains a new approach for delivering economic regeneration. (<https://gov.wales/docs/det/publications/171213-economic-action-plan-en.pdf>).

Recommendations

- 13 The recommendations below reflect that the Welsh Government is developing a revised approach to how it delivers financial support to businesses in response to 'Prosperity for All' and its accompanying 'Economic Action Plan'. The recommendations are intended to inform the Welsh Government's 'Economic Action Plan' implementation.
- 14 During our audit we encountered difficulties in obtaining timely, comprehensive and accurate information about financial support provided by the Sectors and Business team to create or safeguard jobs. These difficulties highlight the importance of having information management systems and processes that enable the Welsh Government to report on the costs of and contribution made by its financial support to business (and also other funding mechanisms not covered by this audit review) towards achieving the aspirations of 'Prosperity for All' and the objectives of the new 'Economic Action Plan.'

Exhibit 1: recommendations

Recommendations

R1 Risk management

Currently, the Welsh Government's Sectors and Business Team only assesses risk for individual projects in isolation and does not have a defined risk appetite across its programme of providing financial support to businesses. However, the Sectors and Business Team have informed us that they have been developing an approach to risk management with the Welsh Government's Internal Audit Service.

We recommend that the Sectors and Business Team confirm and implement an approach to its risk management and risk appetite to inform overall programme management and individual project selection.

Recommendations

R2 Systems

The Sectors and Business Team uses multiple systems to manage its programme of financial support to business through its sector teams. However, these systems have a number of inherent weaknesses and it is difficult to trace information on the programme of financial support through all of them to create a single comprehensive record.

We recommend that the Sectors and Business Team produce regular and timely comprehensive management information, reconciled to all systems, to support the delivery of its programme of financial support to business. This management information should include:

- Projects with approval information
- Original budgeted allocation
- Expenditure to date
- Current year forecast expenditure
- Current year expenditure
- Outcome information

R3 Financial Management and Forecasting

The Welsh Government's Sectors and Business Team has improved some aspects of financial management. However, there are still areas for improvement relating to overall budget forecasting and spend comparisons.

We recommend that the Sectors and Business Team develop future budgets to provide greater clarity on anticipated expenditure, including both known commitments and estimates of the additional funding available to support new projects.

R4 Reporting outcomes

The Welsh Government's Sectors and Business Team has not yet put in place the framework for measuring and reporting the impact of its financial support to business and how this contributes to its new strategic aims.

We recommend that the Sectors and Business Team produce comprehensive and timely performance reports that facilitate internal and external monitoring and scrutiny at both project and programme level.

Part 1

The Welsh Government did not fully translate its vision for economic renewal into a co-ordinated programme of financial support to businesses



The Welsh Government put a sector team structure in place but, for a number of reasons, did not fully implement other aspects of its economic renewal vision relating to providing financial support to businesses

- 1.1 In 2010, the Welsh Government published 'Economic Renewal: a new direction' setting out its intent to support and stimulate the Welsh economy in response to the economic downturn resulting from the banking crisis of 2008. 'Economic Renewal' sought to meet the challenges facing the Welsh economy by focussing public resources on a number of key economic priorities; one of which was targeting support to business, including providing finance and advice intended to:
 - a reduce the amount of direct financial support;
 - b move to an investment culture based around repayable rather than grant funding;
 - c adopt a sectoral approach focused on priority industries;
 - d build strategic relationships with 'anchor' companies⁴;
 - e offer limited specialised support to businesses; and
 - f improve the way the Welsh Government works with businesses.
- 1.2 The Welsh Government aimed to deliver its economic renewal vision by focussing support on high impact businesses in nine key sectors⁵ (Figure 3).

⁴ Anchor companies' are described in 'Economic Renewal' as high growth firms with the potential to increase employment dramatically and major companies which are important national companies or local employers with extensive supply chains in Wales.

⁵ 'Economic Renewal' identified six key sectors that the Welsh Government felt would have the most impact on the Welsh economy; three further sectors were added subsequently.

Figure 3: Welsh Government sectors



Source: Welsh Government

- 1.3 The Welsh Government's organisation structures and allocations of areas of responsibility have changed several times since 'Economic Renewal' was published and continue to evolve. The Economy, Skills and Natural Resources Group had primary responsibility for 'Economic Renewal'. This document is no longer 'live' but structures and processes to support its replacement, 'Prosperity for All', are not yet in place (Part 4). The Sectors and Business team still has a key role in managing the Welsh Government's financial support to businesses in the priority industry sectors.
- 1.4 Dedicated teams for each sector perform a business development role. These teams demonstrate good operational knowledge and experience of their sectors and develop relationships with businesses. Each sector team has a strategy, developed with advisory panels⁶ setting out how the teams aim to support growth within their respective sectors. However, the sector strategies lacked detail about how financial support is targeted within the sectors. As a result, actual financial support provision to businesses within the sectors has been more responsive than proactive and strategic, as envisaged by 'Economic Renewal'.
- 1.5 The Welsh Government never intended all funding for businesses to be channelled through the sector teams. However, it is difficult to present a full and accurate picture of the Sectors and Business financial support to businesses in a given period. For example:
 - a some projects are funded through the Sectors and Business team's financial allocation but are not managed by the Sector and Business team. For example, some loans are given to businesses through the team, but the Development Bank of Wales undertakes the quarterly reporting on behalf of the sector teams.
 - b some funding awards to businesses in the industry sectors are channelled through a separate Business Solutions team, which provides support to the sector teams, particularly in relation to loans.

6 Each of the sectors had an independent advisory panel. The panels comprised business representatives and worked with sector teams to set strategic direction and provide independent expert advice. The Welsh Government has now replaced the nine sectoral panels with a single panel providing advice.

1.6 The Welsh Government has not implemented all of its priorities in its 'Economic Renewal' vision for targeting its support to business. **Box 1** sets out the extent to which the Welsh Government has implemented the priorities within 'Economic Renewal'. Welsh Government officials have suggested that changes in Ministerial priorities soon after publication of that strategy and the continued impact of the economic downturn required a different approach in some respects. For example, the need to provide finance to businesses on a non-repayable basis. However, the Welsh Government is unable to provide any documents that record the change in policy focus away from some aspects of 'Economic Renewal'.

Box 1: Welsh Government progress against priorities in Economic Renewal

Priority	Progress
Reduce the amount of direct support ⁷	Direct support to business has fluctuated. Expenditure over the three-year period 2014-15 to 2016-17 was as follows: <ul style="list-style-type: none"> • 2014-15: £106 million • 2015-16: £126 million • 2016-17: £117 million
Move to an investment culture	During the period 2014-15 to 2016-17 most of the finance provided to businesses was awarded on a non-repayable basis. Therefore, the Welsh Government has not fully implemented this priority.
Adopt a sectoral approach	The Welsh Government has adopted a sectoral approach. However, it supports projects that do not fit into the sectors and also provides support outside the sector team structure to projects in sector industries. This approach is pragmatic but undermines the rationale for the sectors.
Build strategic relationships with 'anchor' companies	Sector teams have developed relationships with 'anchor' companies.
Offer limited specialised support to businesses	Some specialised support is offered to key businesses through the sector teams' relationships with them.
Improve the way they work with businesses	The Welsh Government has not fully evaluated whether its approach to 'Economic Renewal' has improved how it works with businesses.

⁷ In the context of 'Economic Renewal' direct support refers to financial support provided to business through grants, repayable finance and loans, not all of which are within the scope of this review.

- 1.7 In ‘Economic Renewal’ and the accompanying implementation plan, the Welsh Government made a commitment to publish reports showing progress towards its vision and the impact it achieved against a framework of indicators. To date, the Welsh Government has not done so comprehensively (paragraphs 3.1 to 3.3). The absence of a clear programme for delivering financial support and of comprehensive reporting, ‘weakens accountability for financial support to business’ contribution towards achieving the Welsh Government’s economic objectives.

There has been a lack of clarity for businesses in what Welsh Government financial support is available and how they can access it

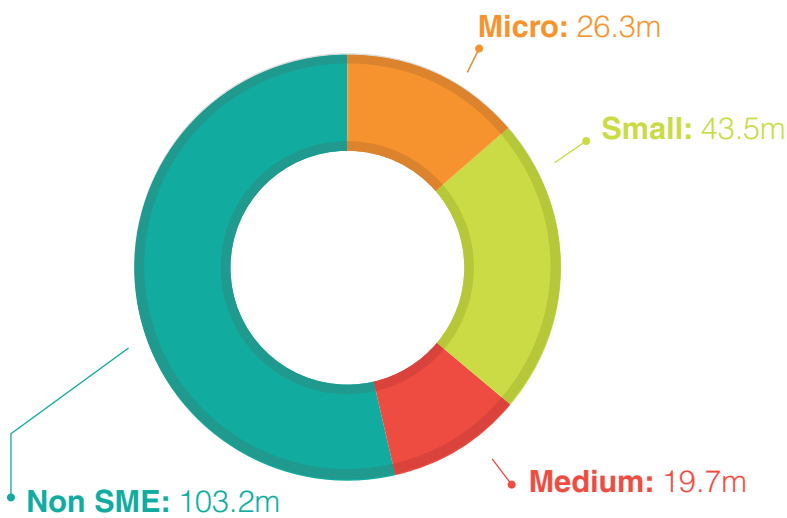
- 1.8 In 2013, the Federation of Small Businesses (FSB) identified a lack of awareness of Welsh Government financial support amongst its Welsh members⁸. However, the FSB’s information does not compare levels of businesses’ awareness within and outside the Welsh Government’s industry sectors. The Welsh Government itself has not evaluated whether its approach to ‘Economic Renewal’ has improved engagement with and awareness within its target industry sectors and businesses.
- 1.9 Supporting high impact businesses in priority economic sectors was a key component of the Welsh Government’s vision set out in ‘Economic Renewal’. Sector teams engage with their industry sectors, working primarily with Anchor Companies and Regionally Important Companies⁹. The Welsh Government’s Sectors and Business team provides a large proportion of financial support to businesses with whom it has an existing relationship. Businesses that do not have an existing relationship with the Welsh Government have less easy access to Welsh Government financial support through the Sectors and Business Team.

⁸ Small Businesses in Priority Sectors, Federation of Small Businesses. Published in 2013.

⁹ A regionally important company is considered to be of significant importance to the region of Wales in which it is located because of, for example, number of employees, commitment to a skilled workforce, development of the supply chain and investment in a Welsh site. (For ‘anchor companies’ see Footnote 5).

1.10 Around half of the new finance awarded by the Welsh Government’s Sectors and Business team in the financial year April 2014 to March 2017 was to businesses meeting the European Commission’s definition of small and medium sized enterprises (SMEs)¹⁰. **Figure 4** sets out the commitments for financial support for business throughout the period April 2014 to March 2017, analysed by company size¹¹.

Figure 4: commitments for financial support for business throughout the period April 2014 to March 2017, analysed by company size



Note:

1. Figures exclude open access funding; Welsh Economic Growth Fund and the Growth and Prosperity Fund.

Source: Wales Audit Office analysis of Welsh Government data

1.11 The proportion of businesses meeting the European Commission’s definition of SME varies across the sector teams. Smaller sectors (for example Tourism) predominantly work with SMEs and larger sectors (for example Advanced Materials and Manufacturing) with Non-SMEs. **Figure 5** shows the distribution of financial commitments to businesses between April 2014 and March 2017 by sector.

10 The European Commission User Guide defines micro, small and medium-sized enterprises (SMEs) as enterprises with under 250 employees and an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

11 In respect of Figures, 4 and 5 the Welsh Government also funded two projects relating to business that were classed as either pre start-up or sole trader. The Welsh Government requested that pre-start businesses be included in the medium category (with funding of £128,913) and sole traders into the micro category (with funding of £1,676).

Figure 5: commitments for financial support to businesses April 2014 to March 2017, analysed by sector and company size



Note:

Figures exclude open access funding; Welsh Economic Growth Fund and the Growth and Prosperity Fund.

Source: Wales Audit Office analysis of Welsh Government data

- 1.12 The Welsh Government does not actively promote financial support to business that is available through the sector teams. However, it does occasionally advertise openly in order to invite applications from businesses to access specific funding schemes; for example, the Welsh Economic Growth Fund and the Growth and Prosperity Fund. However, such schemes represent only a small proportion of the total financial support which the Welsh Government provides.
- 1.13 The Public Accounts Committee of the National Assembly (PAC) issued its own report¹² following the Auditor General's review of Welsh Government funding for Kancoat Limited¹³ (**Appendix 3, Figure A4**). In its report, the PAC recommended greater clarity for businesses in relation to the types of finance offered; and for Welsh Government officials in terms of guidance for when finance should be repayable or non-repayable. The Welsh Government's revised approach to providing financial support to businesses should address previous PAC recommendations, but this is still being developed (**Part 4**).

The Welsh Government has not yet implemented an approach to balancing potential risks and benefits that would inform overall programme management and individual project selection

- 1.14 Providing publicly funded financial support to business inevitably involves an element of risk. Decisions about which businesses to support involve balancing political and commercial risks against potential benefits. When supported projects deliver policy outcomes that would not have been achieved otherwise, without support, Welsh Government financial support has added value¹⁴.

12 Public Accounts Committee – National Assembly for Wales, **The Welsh Government's funding of Kancoat Ltd**, February 2017.

13 Auditor General for Wales, **The Welsh Government's funding of Kancoat Ltd**, 14 July 2016.

14 EU law prevents member states' governments providing anti-competitive subsidies to businesses (unlawful State Aid). At present, the extent to which these regulations will continue to be applied by the UK Government following exit from the EU is unclear.

- 1.15 The level of acceptable risk to public funding may be different for business start-ups, expansion, relocation or retention and also different for grants, repayable finance or loans. It is common for private banks and investors to take a programme approach to risks across their investment portfolio in order to manage their overall risk exposure. A coherent approach to taking risks across sectors and funding mechanisms, which is related to the Welsh Government's strategic priorities and objectives, can help the Welsh Government to ensure that at a programme level, loan repayments and project benefits mitigate project failures and financial losses within a reasonable time frame.
- 1.16 The Welsh Government's decisions about funding individual projects are informed by assessments of relevant risks during the application process. These assessments are kept under review because risks can change during the course of a project for reasons beyond the control of the business concerned. However, at present, the Welsh Government assesses risk at an individual project level. There are no processes in place to review individual project risk against a framework or to aggregate this information at a programme level. Therefore, the Welsh Government is unable to articulate levels of acceptable risk for each sector, for types of project, for different funding mechanisms or for the entire business finance programme.
- 1.17 During an audit of financial support for business in May 2016 the Welsh Government's internal auditors issued a report on business finance, with a rating of limited assurance¹⁵. The report found that: 'There is no established risk appetite¹⁶ for individual investment schemes to set clear strategic directions and tolerances around the controls in place.' In response to this finding, the Welsh Government's Sector and Business team agreed an action to: 'develop an appropriate risk appetite template and consider how to further embed the assessment of risk within each funding scheme' by August 2016. The PAC review of Kancoat also considered the need for the Welsh Government to strengthen its approach to risk¹⁷. To date, there is no defined risk appetite in place for the Welsh Government's financial support to business. However, the Sectors and Business team informs us that they are currently developing an approach to risk management with the Welsh Government's Internal Audit Service.

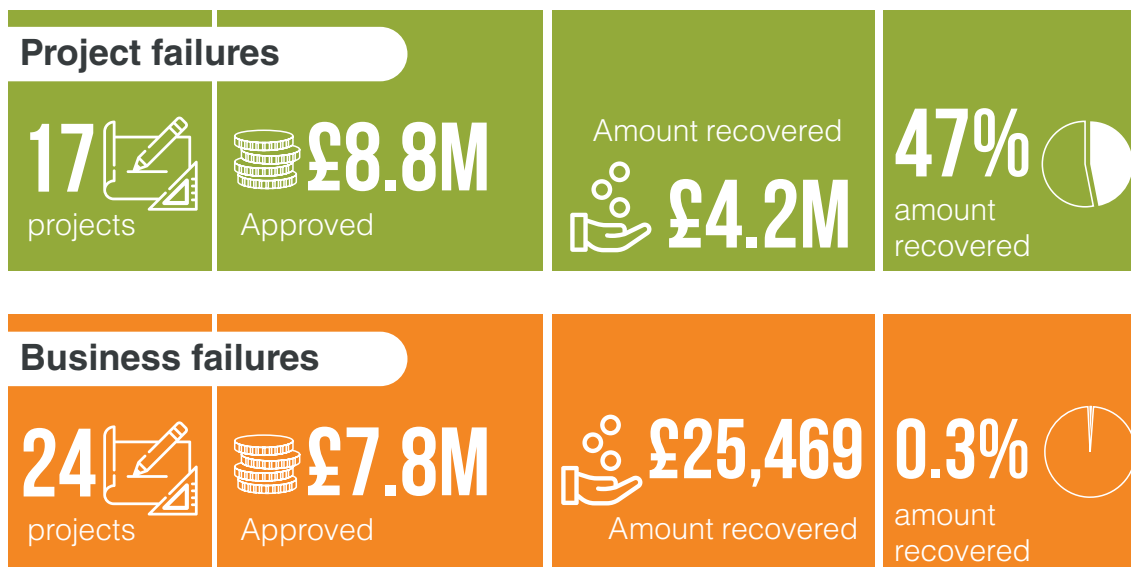
15 Defined as: management can take limited assurance that arrangements to secure governance, risk management and internal control, within those areas under review, are suitably designed and applied effectively. Some significant matters require management attention, with moderate to high risk exposure until resolved.

16 Level of tolerance for exposure to risk. For example, banks' decisions about lending to individual businesses are informed by a broader view of risk exposure.

17 See also paragraph 1.13.

- 1.18 Despite the absence of an overall risk appetite, the Welsh Government's figures show that overall, the failure rate for projects or businesses that have received Welsh Government financial support during the period from 2014 to 2017 is low. The proportion of total funding involved is also relatively low. The number of projects that received financial support from the Welsh Government (530) and were successful is far greater than the number of projects or businesses that failed (Figure 6). Appendix 3 sets out examples of successful projects that received financial support from the Welsh Government.
- 1.19 Of the projects and businesses that failed during 2014-2017, the Welsh Government had approved some during this period and others prior to this period. The totals for project and business failures, and unrecovered funding are small compared with total support provided during this period (Figure 2). Between April 2014 and March 2017, the Welsh Government recovered 47% of the finance it paid to projects that subsequently failed, and 0.3% of the finance it paid to businesses that subsequently failed (Figure 6). During this same period, the Sectors and Business team, in total, committed £218.65 million to 443 new projects and spent £167.5 million across approximately 530 businesses.

Figure 6: projects and businesses that failed in the period April 2014 to March 2017



Note:

Business failure is a collapse of business. In such circumstances, the Welsh Government is unlikely to recover unsecured debt. Project failure is where a project does not achieve its objectives and does not necessarily involve business failure.

Source: Welsh Government data

1.20 Defining risk appetites across the programme of funding support for businesses may increase the level of risk the Welsh Government accepts for certain types of project, the industry sector or funding mechanism, thereby actually increasing the failure rate and the amounts lost by such higher risk projects. However, risks must be balanced by opportunities and benefits; some risks may be worth taking. By managing risk at a programme level and limiting the Welsh Government's overall financial exposure to high risk projects within a portfolio, any such losses may be outweighed by the positive economic impacts achieved by other successful projects across the programme as a whole.

Part 2

The Welsh Government has monitored individual projects separately but has not managed financial support to businesses as a programme



Management information about financial support to business is held on different systems and contains gaps and errors; making it difficult to produce a timely, accurate and comprehensive picture that would support programme-level monitoring

- 2.1 The Sectors and Business team is unable to easily generate timely, comprehensive and accurate management reports that relate the total amount of financial support provided to businesses to the outcomes achieved, at project and programme levels. This is because the Welsh Government uses various, separate systems to manage information relating to its financial support for businesses. Consistent codes or identifiers are not applied across all of these systems, and they do not interface with each other; requiring extensive manual reconciliation between them.
- 2.2 **Box 2** sets out the systems used by the Welsh Government to manage information in relation to financial support provided to businesses, along with their weaknesses.

Box 2: the Welsh Government uses several different systems to manage financial support provided to businesses

Business Account System (BAS)

BAS is the Sectors and Business team's Customer Relationship Management (CRM) system.

BAS is a bespoke CRM system procured in 2016 by the Sectors and Business team to support their interaction with businesses that receive financial support. BAS holds information about businesses and projects, but it does not interface with the Welsh Government's financial systems to produce comprehensive data in relation to businesses and projects.

The Sectors and Business team lacks confidence in management reports generated from information held on BAS and has not routinely used it to produce reports containing comprehensive management information, as requested during our study. The team has now recognised the benefits of improving the information and of generating more detailed management reports.

Box 2: the Welsh Government uses several different systems to manage financial support provided to businesses

Pay Grants

Pay Grants is the Welsh Government's bespoke grants payments approval system used by the Sectors and Business team to approve grant, and some loan, payments to businesses.

The Welsh Government's Grants Centre of Excellence recommends that different funding schemes are set-up separately on the Pay Grants system. However, the Sectors and Business team do not do this consistently, which hinders accurate scheme monitoring.

R-Drive

The Sectors and Business team's primary tool for recording project financial information is an annual Excel spreadsheet for each sector, referred to as the R-Drive.

For each project, the spreadsheets contain the anticipated spend for that year and actual payments made. Although the R-Drive records the number of jobs created by individual projects, it does not contain the total funding awarded or cumulative expenditure amounts. Therefore, the R-drive does not provide information that relates job creation to total project funding and does not generate programme level management reports.

The spreadsheets do not update automatically with information from other systems and require manual input. The Sectors and Business team told us they maintain the separate R-Drive spreadsheets because of the limitations of the SAP and PayGrants systems.

SAP

SAP is the Welsh Government's corporate financial accounting system, used by the Sectors and Business team to make payments to businesses.

SAP uses a coding system to identify and track payments. However, the coding system operated by the Welsh Government does not consistently link payments to individual projects, or different funding mechanisms. Therefore, SAP does not provide programme level management reports.

The Welsh Government's Sectors and Business team has improved some aspects of financial management of individual projects but for its programme of financial support to business, budget forecasts and actual spending comparisons are still unclear

- 2.3 There is a lack of clarity about budgets and forecasts for financial support to businesses and also about actual expenditure totals across financial periods. Financial planning and reporting in relation to providing financial support to businesses can be complex because:
- a the application process can extend over financial periods;
 - b an approved project may take several years to complete;
 - c an existing project can experience unforeseen delays and so funding payments may not be made as expected;
 - d payments may extend past practical project completion to ensure funding conditions are met and the intended benefits are achieved before funds are released; and
 - e unforeseen opportunities might emerge.
- 2.4 Managing these complexities effectively requires accurate and comprehensive information as well as robust but flexible systems and processes. However, we found:
- a inaccuracies and gaps in information provided to us;
 - b weaknesses in the Welsh Government's information systems ([paragraph 2.2](#)); and
 - c a lack of clear interaction between information systems.
- 2.5 In 2017-18, the Sectors and Business team had an indicative four-year allocation to 2020-21 for its overall programme delivery, based on receiving £110 million for 2017-18. The amount within this allocation, available for financial support to businesses can be flexed in-year depending upon the availability of additional funds within other areas of the Economy and Transport division's budget.

- 2.6 The Sectors and Business team's financial planning for providing support to businesses is based on existing commitments to approved projects in any given year. The Sectors and Business Team also maintains a list of future 'pipeline projects'. However, these 'pipeline' projects are not included in the budgets for future expenditure (paragraph 4.9).
- 2.7 In July 2017, a Welsh Government Internal Audit review of business finance forecasting concluded 'reasonable assurance on the controls in place over the Business Finance Forecasting process'. However, the report identified a lack of evidence to support budget monitoring and forecasting processes. Internal Audit also identified errors in records, and that in some instances, information was not up to date¹⁸.
- 2.8 Following the July 2017 Internal Audit review, the Sectors and Business team introduced additional budget monitoring and forecasting processes. The Sectors and Business team, via their local finance leads, now updates the R-Drive regularly with information from Business Development Managers, and monthly meetings with the relevant Head of Sector. The Sectors and Business team also holds a more formal half-year review process, where a meeting is held between the operations team, the Head of Sectors and Business, and finance and performance officials. Each significant project is discussed to compare actual project expenditure with forecast spend as well as those that are deemed to be 'at risk'¹⁹, in order to determine probable outcomes for the projects, and whether corrective action is required. Although this half-yearly review process strengthens monitoring and forecasting for individual projects, information systems still do not easily support accurate and timely programme management (see Box 2).

18 Welsh Government Internal Audit Service, Business Finance Forecasting, July 2017.

19 The Sectors and Business team identifies a project as being 'at risk' if it is unlikely to achieve its forecast spend profile.

Part 3

The Welsh Government has not demonstrated clearly how its financial support for business has contributed to the economic renewal objectives it set in 2010



The Welsh Government has not put in place systems and processes to produce information for publicly reporting on whether overall, its financial support for business contributed to achieving its intended outcomes

- 3.1 The Welsh Government's commitment to report publicly on progress against its economic renewal objectives was supported by **A Framework for Measuring Success** published in March 2011. This framework set out a range of indicators and measures for tracking and reporting progress, supported by an implementation plan. However, systems and processes to support monitoring and reporting against the framework were not put in place. Because the Welsh Government has not reported against the framework, it is unable to demonstrate whether its financial support to businesses is contributing towards achieving the overall economic regeneration objectives it set out in 'Economic Renewal.'
- 3.2 In 2015, the Welsh Government published the most recent edition of what it described as an 'annual statement' of a range of activities aimed at supporting businesses for the period 2014-15²⁰. The Welsh Government informed us that that the 'annual statement' was produced each year from the start of the Welsh Government's 2011-2016 Programme for Government. However, the report in 2015 is the only one currently publicly available. The 'annual statement' report was intended to represent a snapshot in time. The 2015 annual statement was supported with sector performance reports for the same period. However, this report did not report progress against 'A Framework for Measuring Success' and was not intended to do so.
- 3.3 The Sectors and Business team cannot easily aggregate information it holds on individual projects to provide an overview of its overall programme of financial support to businesses. The team cannot easily reconcile information drawn from different systems and lacks confidence in the accuracy of information that would enable routine reporting on financial support to business at a programme level. As a result, the Welsh Government is unable to easily produce timely, complete and accurate programme reports of financial support to businesses for the period 2014-2017, that link funding provided to the outcomes achieved ([paragraphs 2.1 to 2.2](#)).

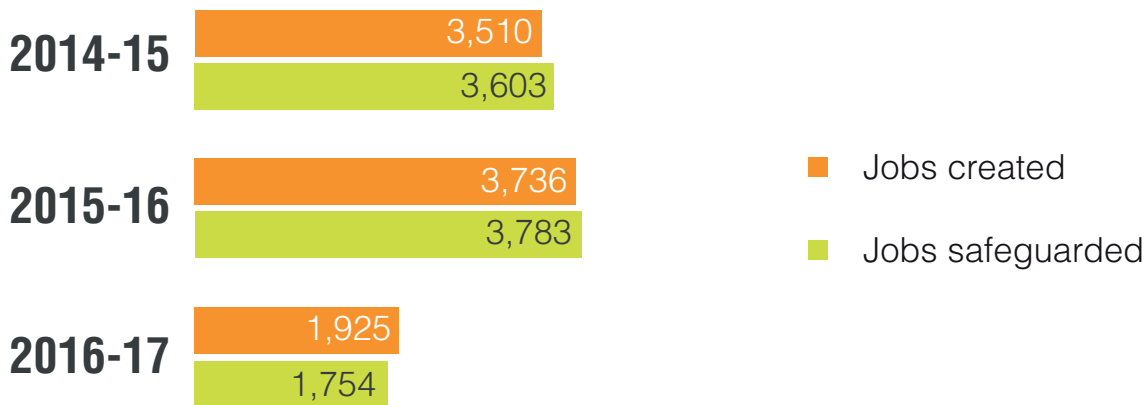
20 **Supporting Business and the Economy, Annual Statement from the Welsh Government 2015**. A report produced to meet an indicator that was part of the Welsh Government's 2011-2016 Programme for Government.

The Welsh Government focussed on creating and safeguarding jobs but did not monitor wider economic outcomes against the broad framework of indicators it undertook to report against

- 3.4 The Welsh Government's 'A Framework for Measuring Success', contains a range of indicators and measures for whether the economic priorities within 'Economic Renewal' are being delivered ([Appendix 4](#)). In practice, the Welsh Government has focussed its approach to providing financial support to business within 'Economic Renewal,' more narrowly, on creating and safeguarding jobs. The process for approving funding awards to individual projects considers whether, in addition to direct jobs, a project can deliver wider economic benefits to the applicant or within related businesses (for example, developing new technologies and skills).
- 3.5 The Welsh Government monitors the number of jobs created or safeguarded by individual projects because businesses are required to provide evidence of doing this to the Welsh Government when they submit claims for funding payments. However, the Welsh Government has not formally reported total jobs created or safeguarded since the last 'Annual Statement on Support to Business' in 2015²¹, and as part of that report did not analyse jobs by funding mechanism. Welsh Ministers do make public announcements on job figures, but these relate either to specific projects or to overall Welsh Government activities. The Welsh Government does not classify such figures as 'official statistics' because they are not compiled by its statistics team.
- 3.6 The lack of specific targets or formal reporting against Economic Renewal makes it difficult to assess how different funding streams contribute to the Welsh Government's strategic aims. [Figure 7](#) shows what the Welsh Government produced for us in a bespoke report to show total jobs created and safeguarded by the Sectors and Business team over the three-year period 2014-2017.

21 2015 was the last year in which the Welsh Government published its Annual Statement on Support to Business, containing information about numbers of jobs created or safeguarded across all areas of the Welsh Government.

Figure 7: approximate total jobs created and safeguarded relating to the financial support considered in this review (paragraphs 3 and 6) for the period April 2014 to March 2017



Note:

The jobs in Figure 7 are approximate as the numbers were calculated manually, and may include some jobs created or safeguarded through funding mechanisms not covered in this review. Figure A2 (Appendix 2) provides more detailed information relating to jobs created and safeguarded analysed by sector.

Source: Welsh Government data

3.7 The Sectors and Business senior management team monitors totals of jobs created and safeguarded through business finance. However, the Sectors and Business team compiles this information manually because it cannot generate it from any of the systems it uses to manage its financial support to business (Box 2).

Part 4

The Welsh Government has a new economic strategy and is now beginning to overhaul its approach to providing financial support to business



Recently, the Welsh Government launched a new economic strategy framework for providing financial support to business

- 4.1 To support its programme for government for the remainder of the current Assembly term²², the Welsh Government published 'Prosperity for All'. To complement this and inform the delivery of its economic goals of growing the economy and reducing economic inequality, the Welsh Government has published an 'Economic Action Plan' and established a steering group to oversee its implementation.
- 4.2 Through its 'Economic Action Plan' the Welsh Government has introduced a new operating model for providing financial support to businesses and is aiming to establish a different relationship with the businesses it supports, which it refers to as its Economic Contract (Box 3). Businesses seeking financial support from the Welsh Government must demonstrate a minimum number of general business practices set out in the Economic Contract and must align proposals for financial support to at least one of five areas, referred to as 'Calls to Action' (Figure 8).

Box 3: definitions on Economic Contract and Calls to Action

Economic Contract	The Economic Contract is the Welsh Government's commitment to continue to provide public investment to enable business growth alongside an expectation that business will make a contribution to its objectives in return for financial support. It sets a new relationship between business and government. Business will have clarity on where government will provide support to prepare people and business for the future.
Calls to Action	Businesses seeking financial support from the Welsh Government will be expected to contribute to at least one of its five Calls to Action, which are designed to support them to overcome the challenges of the future. Business will be able to see clearly where government will seek to provide support and people will be able to benefit from businesses that are preparing for future change.

22 Taking Wales Forward is the Welsh Government's Programme for Government for 2016-2021, outlining the commitments it intends to deliver over that period. The 'Prosperity for All' strategy and 'Economic Action Plan' set out how the Welsh Government's commitments relating to the economy will be delivered.

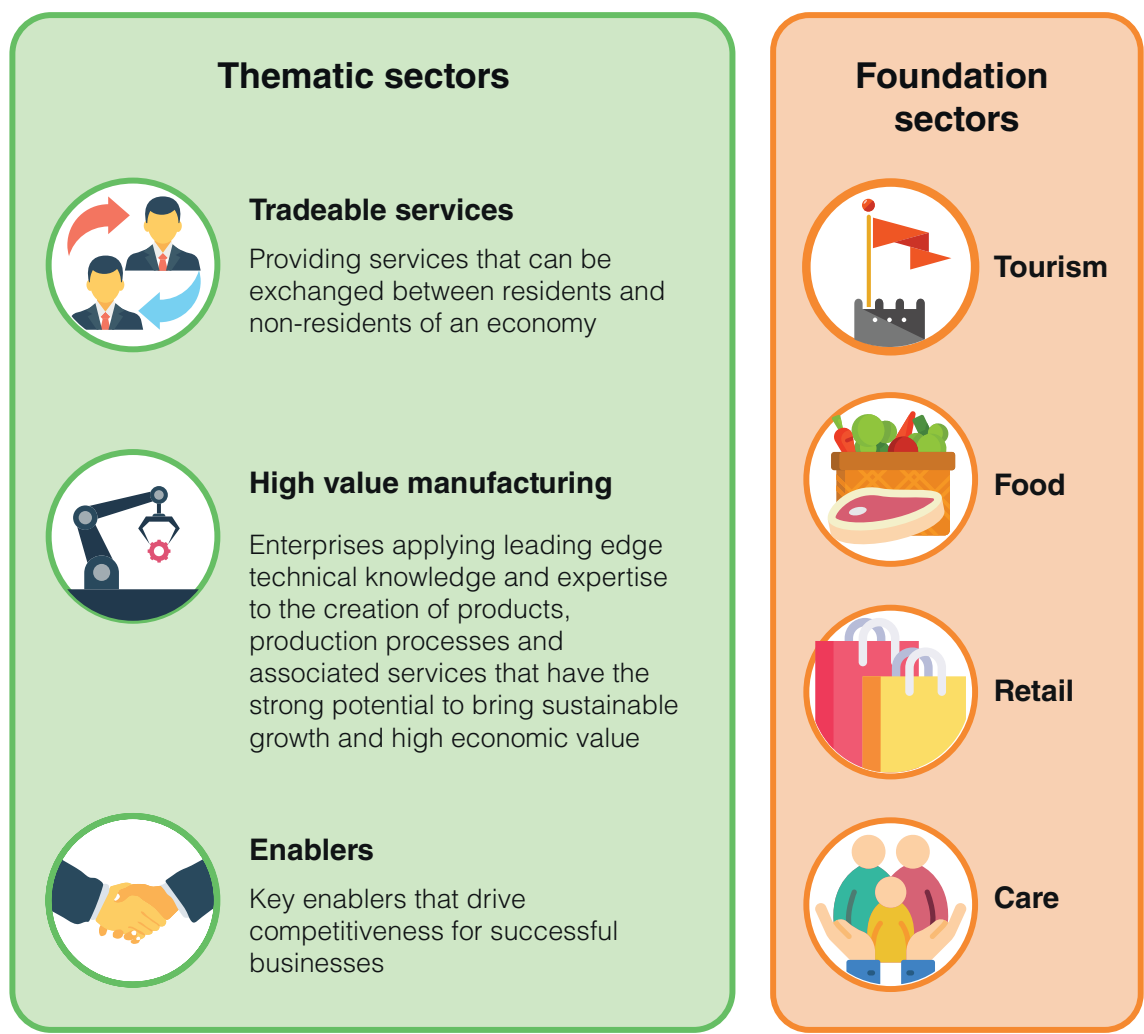
Figure 8: the Welsh Government’s planned operating model for considering financial support to businesses, under its ‘Economic Action Plan’



The Welsh Government has identified three national thematic and four foundation sectors to help focus its proactive work with businesses

4.3 The new operating model is open to all businesses in all sectors. However, the Welsh Government has identified three national thematic sectors and four foundation sectors to help channel and focus its support for business. (Figure 9). Although some initial work has been undertaken, at present, the Welsh Government has not yet changed its internal structure and is still operating through the previous sector teams. The Welsh Government has set an indicative timescale for organisational change to be in place by spring 2019.

Figure 9: the Welsh Government’s national and thematic and foundation sectors for funding support to businesses



Source: the Welsh Government’s Prosperity for All: Economic Action Plan

4.4 The Welsh Government is simplifying how it provides financial support to businesses by replacing various grant-funding streams, with a single fund, the Economy Future Fund (EFF). The fund underpins the new operating model of the 'Economic Contract' and 'Calls to Action' (see [Figure 8](#)). The Welsh Government will also continue to offer repayable forms of finance, such as loans; retaining a flexibility over which mechanism to use, taking account of general economic factors. However, it intends to develop a clearer rationale for whether financial support is channelled through its own direct funding or via the Development Bank for Wales.

The Welsh Government intends to deliver broad, long-term economic benefits through its new approach to providing financial support to business

4.5 For the Welsh Government to meet its long-term aspirations, it is important for the focus of financial and non-financial support to businesses to widen beyond simply numbers of jobs. The Welsh Government will need to more fully consider ethical employment and business practices, not only in the businesses it supports directly, but also in their supply and delivery chains. Issues such as where profits are declared and taxes are paid are also increasingly important to the public.

4.6 Under the Welsh Government's Economic Action Plan, job creation and safeguarding will no longer be the primary objective of its programme of financial support to business. The Welsh Government intends to focus on broader target outcomes as set out in the 'Calls to Action', and indicators to measure success. At present, the Welsh Government has not yet determined how it intends to monitor and report on programme delivery.

4.7 The Welsh Government acknowledges that it needs to ensure that financial support to business is not narrowly focussed and secures wider benefits for businesses in Wales, and the Welsh economy as a whole. The Welsh Government's 'Economic Action Plan' highlights its long-term aspiration for economic growth in Wales, recognising the need to consider the impact on future generations. The introduction of the 'Economic Contract' and the 'Calls to Action' ([Figure 8](#)) are designed to help businesses develop inclusively and to future-proof themselves so as to contribute to the Welsh Government's vision of a sustainable and growing Welsh economy.

4.8 The Welsh Government's 'Economic Action Plan' also sets out how it has had regard to the Well-being of Future Generations (Wales) Act 2015 and used seven of its wellbeing objectives (Box 4) in shaping its new vision for economic growth in Wales. The Welsh Government's vision is 'facilitating an economy that delivers sustainable and inclusive growth, opportunities for all and which promotes individual and collective well-being'.

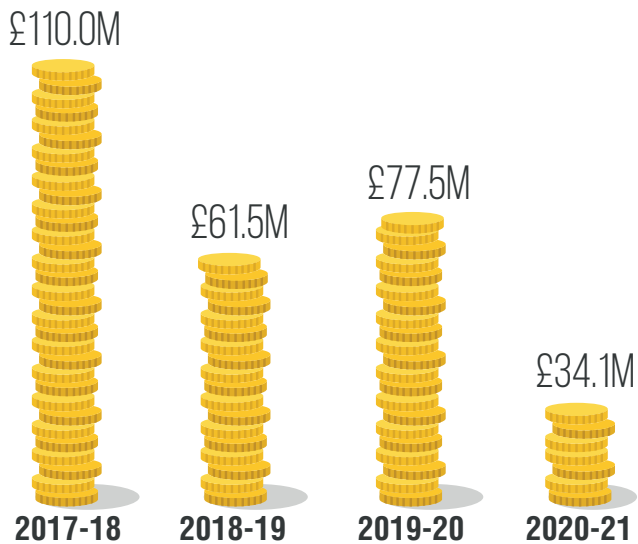
Box 4: Welsh Government Well-being Objectives used to shape its vision for economic growth in Wales

- Support people and businesses to drive prosperity
- Tackle regional inequality and promote fair work
- Drive sustainable growth and combat climate change
- Build ambition and encourage learning for life
- Equip everyone with the right skills for a changing world
- Deliver modern and connected infrastructure
- Promote and protect Wales' place in the world

The Welsh Government's budget for financial support to business has been revised to take account of projects under its 'Economic Action Plan', but it is still only based on known commitments

4.9 In 2017-18, the Welsh Government set a four-year budget for the provision of financial support to business under its previous strategic approach, 'Economic Renewal'. However, this budget only took account of projects where funding had been committed, and did not take account of potential future commitments (paragraph 2.6). In reality, the 'budget' is simply a schedule of projected payments, rather than a budget that can be allocated to delivering new priorities. Figure 10 sets out the four-year budget approved in 2016-17.

Figure 10: Welsh Government four-year Sectors and Business team budget from 2017-18



Source: Welsh Government data

4.10 The Welsh Government published a revised budget for providing business finance in October 2018. This revised budget includes known commitments made since the launch of the Welsh Government's Economic Action Plan, but it does not take account of future commitments. In the meantime, there are some specific sources of additional funding which the Sectors and Business team may be able to draw upon if the project meets the funding requirements of these schemes. Where a worthwhile project does not fit within existing schemes or budgets, the Welsh Government will explore ways to find the funds necessary to support it. Funding flexibility in-year for new projects may arise from existing projects with committed funding falling behind their expected schedule.

Appendices

Appendix 1 – Audit methods

Appendix 2 – Sector analysis of commitments of financial support

Appendix 3 – Project case studies

Appendix 4 – Economic renewal: A framework for measuring success



Appendix 1 – Audit methods

Existing audit knowledge

We reviewed existing information including relevant reports by the Auditor General for Wales, the National Assembly's Public Accounts Committee and the Welsh Government's Internal Audit Service.

Data analysis

We analysed financial and performance data information generated from a number of Welsh Government systems across the three-year period 2014-15, 2015-16 and 2016-17. However, the extent of our analysis was restricted to a narrow data set because of limitations of the Welsh Government's systems which could not produce timely, accurate and comprehensive data (paragraphs 2.1 and 2.2)²³.

In addition, the Welsh Government has focussed on jobs without monitoring wider economic outcomes against the broad framework of indicators in relation to 'Economic Renewal' which it undertook to report against in 2010.

Document review

We reviewed a wide range of documentation including:

- Welsh Government strategy and policy documents relating to providing financial support to business
- Welsh Government guidance documents for the systems used to manage its financial and performance information
- Minutes from various meetings including the Welsh Government's investment panel, the Welsh Industrial Development Advisory Board (WIDAB), and the Sectors and Business Senior Management Team meetings
- Applications for financial support from businesses

Interviews

We have discussed the Welsh Government's provision of business finance through a series of interviews with a range of officials.

23 When we began the audit, 2016-17 data was the most up-to-date available. However, because of difficulties encountered in obtaining and validating the data supplied to us by the Welsh Government, we did not extend the period to include 2017-18 data, which has now become available, prior to publishing this report.

Observations

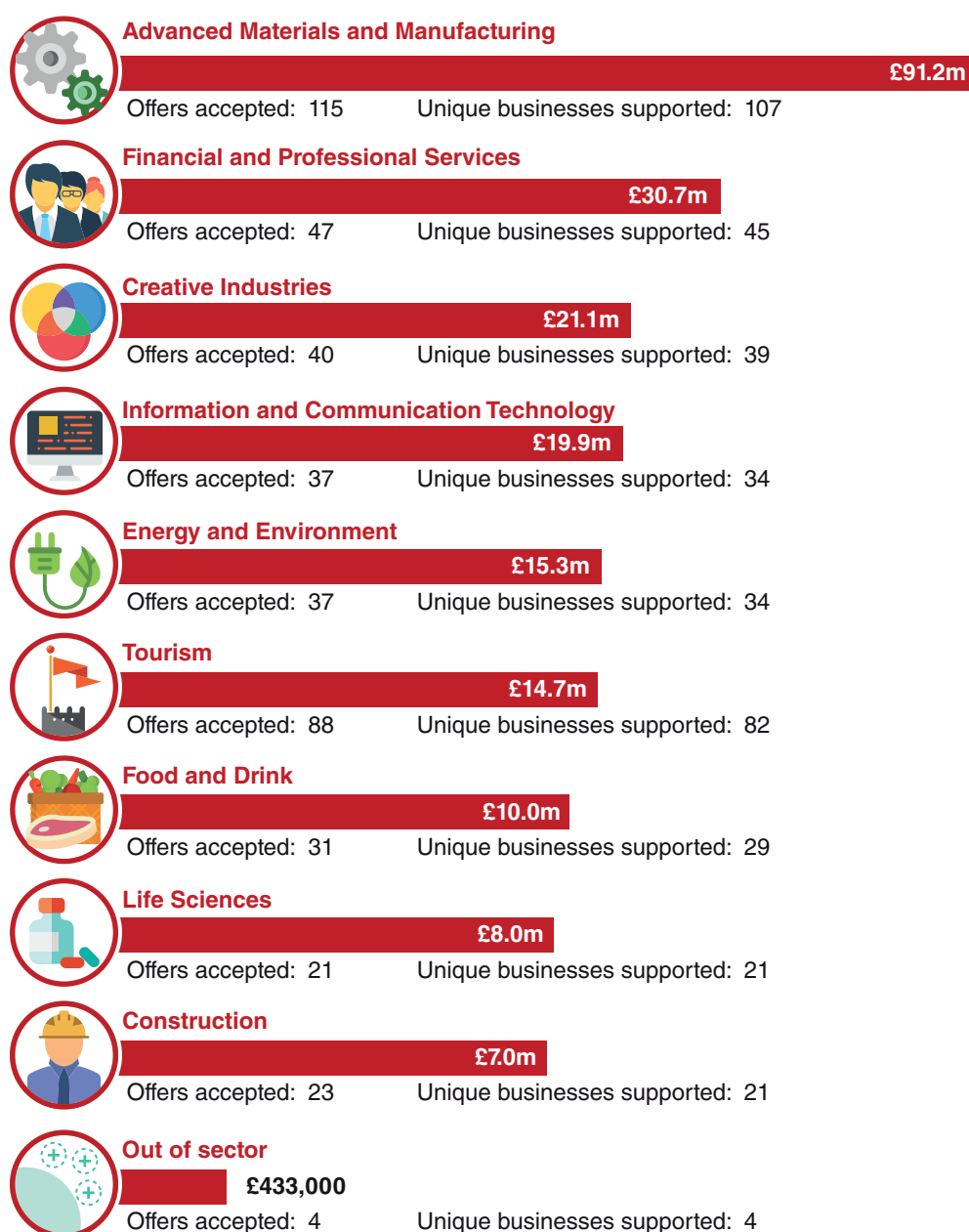
We attended and observed the following meetings:

- The Welsh Government's investment panels on 1 August 2017 and 26 September 2017.
- WIDAB on 5 September 2017.
- The Sectors and Business Senior Management Team meetings on 26 September and 24 October 2017.

Appendix 2 – Sector analysis of commitments of financial support

Figure A1 sets out the amount of financial support offered and accepted by businesses over the three-year period 2014-15, 2015-16 and 2016-17, analysed by sector. Unique businesses refer to the number of individual businesses receiving financial support, as some businesses receive support for more than one project. The Welsh Government deems an offer of financial support to be accepted by a business when a signed letter of acceptance is received.

Figure A1: financial support offered and accepted over the three-year period 2014-15, 2015-16 and 2016-17

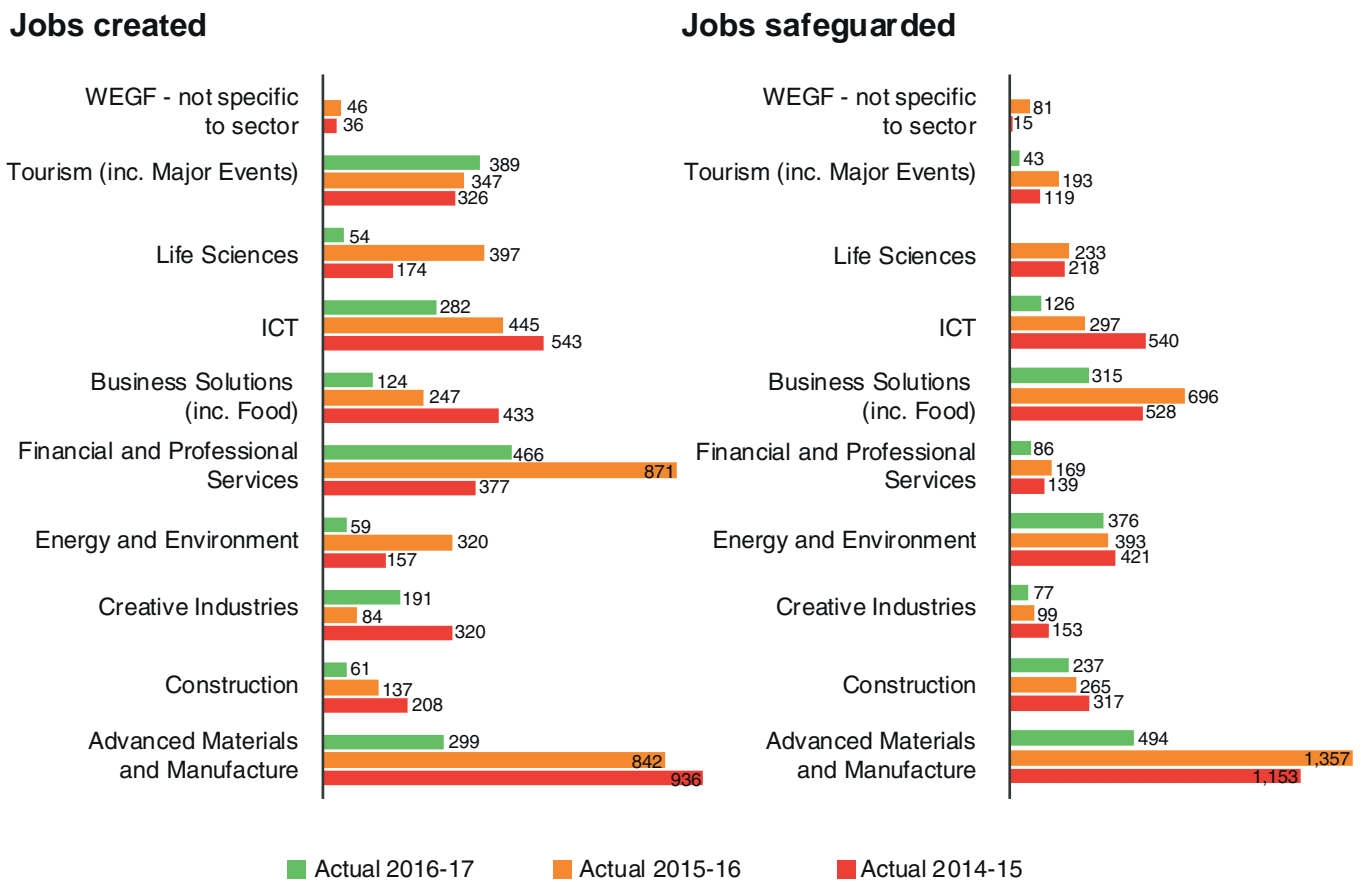


Source: Welsh Government data

Jobs created and safeguarded by sector for the three years 2014-15, 2015-16 and 2016-17

Figure A2 expands on the overall jobs created and safeguarded as set out in Figure 7, paragraph 3.6, analysing jobs by sector.

Figure A2: jobs created and safeguarded



Source: Welsh Government data

Appendix 3 – Project case studies

Figures A3 and A4 are examples of successful and unsuccessful projects (respectively) that received financial support from the Welsh Government through its Sectors and Business team. Successful projects are those that delivered in line with expectations and created or safeguarded jobs as anticipated. Unsuccessful projects are those that did not create or safeguard jobs as intended. In some cases the companies undertaking the projects went into administration or liquidation.

Figure A3: successful projects

Dr Beynon's Bug Farm Ltd.



Dr Beynon's Bug Farm is a tourist attraction, research centre, and working farm based in St David's, Pembrokeshire. The farm hosts a range of activities that aim to educate the public about insects.

The company received  **£36,400** from the Tourism Investment Support Scheme in June 2015, with a view to create/safeguard six full-time jobs.



The project was completed satisfactorily, and the business has gone on to be highly successful with significant **media coverage** and a number of **industry awards**.

TrakCel Ltd.



TrakCel Ltd. is a medical technology company based in Cardiff, providing software platforms for managing and tracking clinical supply chains within the cell-based therapies industry.

The company received two separate offers of funding: **£125,000** repayable business finance in 2014 for development and conducting trials, and **£125,000** non-repayable business finance in 2015 for commercialisation.

The company exceeded its targets by creating **29 full-time** equivalent jobs, and has now expanded its operations in the USA to become a leading provider of software for cell-based therapy supply chain management.

Festive Productions Limited (FPL)



FPL is a design led company offering a range of products to the Christmas decorations market. Notable customers include ASDA, Sainsbury's, John Lewis, House of Fraser, and Harrods. The company's head office is based in Cwmbran, where it employs 60 people full-time and 130 annual temporary workers.

A **£150,000** repayable business finance grant to contribute towards the cost of repair work at the company's Cwmbran site. The site's damaged roof threatened the viability of the company's Welsh operation, therefore the repairs would safeguard the **60 full-time** and **130 temporary jobs** based in Cwmbran.

The project was completed satisfactorily, with the site's jobs successfully safeguarded. The company **began repaying** the grant in **May 2017**.



Tenneco



Tenneco Inc is one of the world's largest designers, manufacturers and distributors of clean air products, ride performance products, and systems for automotive and commercial vehicles and large engines.



£3.7M non-repayable business finance awarded in December 2013. The grant contributed towards the opening of a new facility at Dowlais Top, Merthyr Tydfil, with the site being developed into a production and warehousing facility. Production at the site would supply notable automotive companies including Jaguar, Renault, GM and Nissan. A total of 224 new jobs were to be created and a further 36 safeguarded.

The project funding was completed and Tenneco exceeded its job targets, creating **226 new jobs** and **safeguarding 36**.

Source: Welsh Government

Figure A4: unsuccessful projects

Griffin Place Communications Ltd.



Griffin Place Communications Ltd. was a contact centre established in 2014 in Cwmbran. The company provided outsourced customer services, utilising sophisticated cloud software to maximize data security.

The company was awarded **£600,000** business finance (£100,000 of this was repayable) to create 121 jobs in Cwmbran.

The company was paid just under **£589,000** and created **127 jobs**. However, reports were received that staff were not being paid. Attempts to contact the company were unsuccessful, and the company eventually **ceased trading and entered liquidation**. There is no independent information to verify the reason for this business failure.

At the time of this report the Welsh Government is awaiting the final liquidator report, but is not expecting any recovery.

Mainport Engineering (1990) Ltd.



Mainport Engineering (1990) Ltd was a fabrication and engineering company based in Pembroke Dock.

The company was awarded **£650,000** from the Wales Economic Growth Fund (WEGF) to expand its operation by building a new facility, creating 30 new jobs and safeguarding 140 existing jobs.

The jobs target was narrowly missed with **27 new jobs created and 140 safeguarded**. The company's revenue was negatively affected following the **closure of a major client**. Replacement contracts to mitigate the shortfall in revenue did not materialise, and the company's base costs could not be covered. Combined with an ongoing dispute with HMRC, this led to the company entering into administration in October 2016.

At the time of this report the Welsh Government is awaiting the final liquidator report, but is not expecting any recovery.

Oysterworld Ltd.



Oysterworld Ltd was a developer and distributor of online digital and downloadable games.


The company received two rounds of business finance for separate projects: i) **£1 million repayable** business finance (repayable on condition that annual turnover exceeded £25 million) for the establishment of a hub to develop and publish a multiplayer online game for children, and ii) **£415,000 non-repayable** business finance to develop children's puzzle games. These projects combined were forecast to create 85 full-time equivalent jobs at a site in Treforest.

The company met its target of **85 jobs created**, however, it began to experience substantial **cash flow difficulties**. This was compounded by a number of factors, including severe delays on gaming projects and failure to secure new contracts. The company was unable to pay its creditors or staff, and **entered into administration** in August 2016.

At the time of this report the liquidation process is ongoing and is anticipated to last for a further 18 months. The liquidator has informed the Welsh Government that it is uncertain whether there will be any money available to recover.

Figure A5: our previous findings in relation to the Welsh Government's funding of Kancoat Limited

Kancoat Ltd



Kancoat Ltd was a limited company set up in early 2012 to take over the operation of a metal-coil-coating production line at the Alcoa site on the Waunarlydd estate in Swansea

The Welsh Government provided a funding package of **£3.4 million to Kancoat Ltd** in order to purchase and operate a metal-coil-coating production line, with a view to creating growth and sustainable jobs. Kancoat Ltd asserted that the Welsh Government's assistance **would help it create 32 jobs over three years** and safeguard one further job in an economically important area. The funding package was provided through a combination of grant, loans and property support.

The venture failed and the company went into administration in September 2014, **owing the Welsh Government £2.6 million**, with **only 12 jobs** having been **created**.

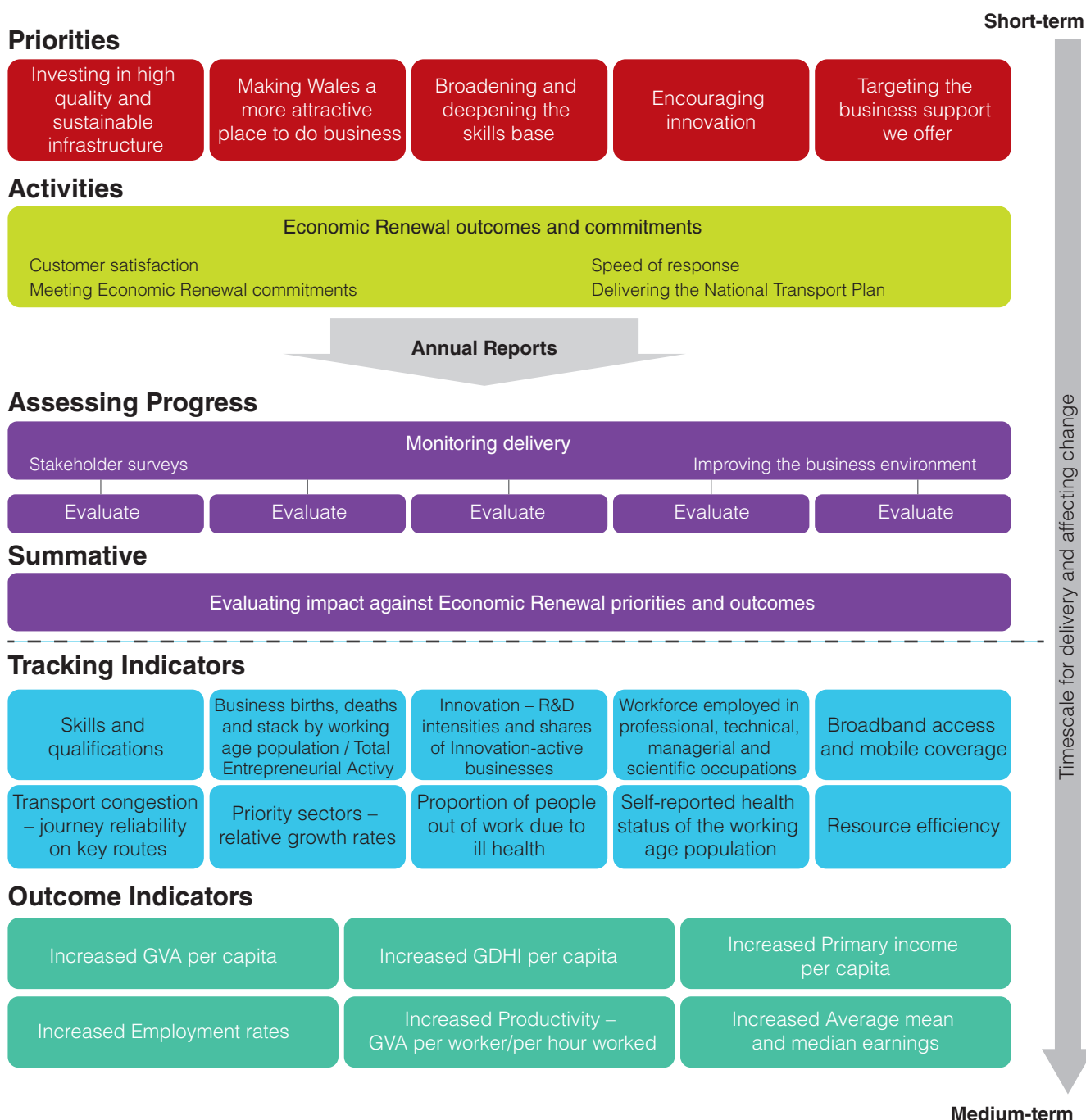
Kancoat Ltd was dissolved on 11 March 2018, and the Welsh Government has actioned a write-off for the money it is owed.

Source: Welsh Government

Appendix 4 – Economic renewal: A framework for measuring success

Figure A6 is the Welsh Government’s Framework for measuring success as part of ‘Economic renewal’. The Welsh Government document further sets out a more detailed supporting rationale for each priority contained within it.

Figure A6: economic renewal: A Framework for measuring success



Note:

Economic renewal: A Framework for measuring success contains a supporting rationale for each of its priorities.

Source: Welsh Government.

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