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## Consultation Document

# Wales and the EU: Partnership for Jobs and Growth

## European Structural Funds 2014-2020: East Wales

Date of issue: 14 January 2013

Responses by: 23 April 2013

## Overview

This consultation invites comments on the Welsh Government's strategy and priorities for future European Structural Funds Programmes (2014-2020). It has been developed following extensive engagement with partners and stakeholders in Wales. The consultation document contains a proposed programme strategy, investment priorities, cross-cutting themes, explores some of the key implementation and delivery issues and includes the evidence base.

These proposals for the new Structural Fund programmes have been developed with a clear focus on growth and jobs, which is very much in line with Welsh Government policy, and the **Europe 2020** goals of smart, sustainable and inclusive growth. A parallel consultation is being undertaken into the proposed Rural Development Plan for Wales.

## How to respond

Response forms can be emailed or posted to the address below by 23 April 2013

## Further information and related documents

Large print, Braille and alternate language versions of this document are available on request.

The consultation documents can be accessed from the Welsh Government's website and the WEFO Website at:

[www.wales.gov.uk/consultations](http://www.wales.gov.uk/consultations)

[www.wefo.wales.gov.uk](http://www.wefo.wales.gov.uk)

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## Data Protection

How the views and information you give us will be used.

Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.

The Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response. This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

## FOREWORD



prosperity.

The 2014-2020 Structural Fund programmes for Wales are being developed in very different and challenging economic circumstances to those which existed at the time our current programmes were being developed. These programmes have undoubtedly helped us through some very tough economic times, as well as addressing some of the long-term structural weaknesses our economy faces, but the recession has underlined how vulnerable Wales can be to economic shocks on the scale of the global financial crisis and how much more we need to do to put Wales on the path to sustainable economic

Against this background of continuing economic uncertainty, it is vital that our new Structural Fund programmes focus strongly on sustainable economic growth and jobs, in line with the Europe 2020 Strategy for *smart, sustainable and inclusive growth*. Our vision is that by 2020, we will see '*a confident, ambitious and entrepreneurial Wales, prospering from sustainable economic growth*' – a vision achieved with the support of the Structural Fund programmes, in alignment with our Programme for Government.

In order to achieve this vision, it is proposed that future Structural Fund programmes should be more focussed and concentrated around economic growth opportunities, investing in key strategic projects which will maximise impact and deliver a transformational effect on the Welsh economy. The Welsh Government is clear in its aim that this should be the last occasion in which any part of Wales should qualify for the highest level of Structural Fund support and that we should use the 2014 - 2020 funding period to ensure that all parts of Wales can complete their transition to becoming more developed regions of the European Union.

The Welsh Government is keen to maximise the impact of the various European Funds here in Wales, including by strengthening synergies between them. This consultation therefore also seeks views on opportunities for integration of the Structural Funds with the Rural Development and Fisheries funds, along with considering opportunities to align with other sources of EU funding such as Horizon 2020, LIFE and the Connecting Europe Facility. A consultation on the future Rural Development Plan will run in parallel to this consultation, and a forthcoming consultation on Maritime and Fisheries Programmes, will also be seeking similar views on the opportunities for further integration.

A central principle in developing these programmes has been partnership engagement. The Reflections Exercise undertaken earlier this year and the work of the European Programmes Partnership Forum and associated Advisory Groups underlines how our partners across the private, public and third sectors are working together to shape future programmes in Wales. This consultation is the next step in the on-going engagement process and I welcome and look forward to your views on

this document, which will help to inform the draft programmes which we will be submitting to the European Commission later this year.

A handwritten signature in black ink, appearing to read 'Alun Davies', with a long horizontal flourish underneath.

**Alun Davies AM**  
**Deputy Minister for Agriculture, Food, Fisheries and European Programmes**

# CONSULTATION ON EUROPEAN STRUCTURAL FUNDS 2014–2020: EAST WALES

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## INTRODUCTION

This consultation invites comments on the Welsh Government's strategy and priorities for the delivery of sustainable growth and jobs for businesses and people in East Wales over the period 2014 – 2020 with the support of the European Structural Funds – European Regional Development Fund (ERDF) and European Social Fund (ESF).

For the programming period 2014-2020 it is expected that East Wales will qualify for the lowest level of funding as a 'More Developed Region' (with a GDP of more than 90% of the EU27 average). The actual amount of EU funding that will become available during the next programming period is subject to the outcome of negotiations on the EU budget by the European Council and the European Parliament.

The anticipated 'more developed' status of the East Wales economy will require interventions targeted at building on strengths and increasing competitiveness. To achieve this, we must focus even more closely on investments which capitalise on opportunities for growth.

Our principle of concentration means focusing a greater amount of resources on a smaller number of strategic investments. This applies especially so in East Wales, where the funding likely to be available will be significantly smaller than that for West Wales and the Valleys. In the current programme period, the East Wales receives some £113m out of a total structural fund investment in Wales of circa £1.8bn.

The strategy included in this consultation document, is based on the region's needs and aspirations and has been developed in alignment with the Europe 2020 strategy for Smart, Sustainable and Inclusive growth, and the Welsh Government's Programme for Government, which sets out the key strategic direction for Wales.

The consultation builds on the extensive discussions that have taken place with a wide range of partners and stakeholders over recent months through the Ministerial Advisory Group on EU programmes, the European Programmes Partnership Forum and expert workstream groups. The aim is to ensure the widest possible engagement with individuals, organisations, businesses and communities in shaping the direction of the next round of European Structural funds. This is in addition to the reflection exercise, held in early 2012, which provided stakeholders with an early opportunity to help shape the strategic direction of the future programmes.

Future structural funds need to achieve meaningful integration and alignment with the Rural and Fisheries funds in pursuit of greater added value and impact. This consultation exercise is therefore being run in parallel with that for Rural Development and will be supported with a number of joint structural fund and rural development regional public consultation events over the coming weeks. However, due to structural and timing differences in the negotiations, the Maritime & Fisheries Programme in Wales will be consulted on separately in the Spring.

The consultation document comprises of four chapters which are:

- Chapter 1: the **Strategy**, changing economic conditions that exist going into the next funding round and contains a clear vision and aims for addressing the opportunities and challenges identified in the Analysis.
- Chapter 2: the **Priorities**, which details the programme's ERDF and ESF priorities;
- Chapter 3: the **Cross-cutting Themes**, which sets out the objectives and the strategy for ensuring that the commitment to Equal Opportunities and Gender Equality; Sustainable Development; and Tackling Poverty and Social Exclusion is mainstreamed across all aspects of the programmes;
- Chapter 4: **Implementation Arrangements**, which outlines some of the existing arrangements and explores the direction we might take in delivering the next round of programmes.
- Annexes to the consultation document including the **Analysis**, which summarises the region's current strengths, weaknesses and needs, as well as the opportunities, priorities and challenges ahead; **Policy Context**, **Thematic links between funds**, **Cross programme approach** and details of the **Programme intervention logic Framework**.
- The **consultation questions** and a template for responding are contained in a separate Annex to this document.

## CHAPTER 1: PROGRAMME STRATEGY

### Introduction

- 1.1 The purpose of this Structural Funds strategy for 2014-2020 is to set out how Structural Funds will support attainment of the key aims of the Welsh Government's Programme for Government as well as advancing the priorities set out in the Europe 2020 strategy.
- 1.2 Our **vision** is that Structural Fund programmes, properly aligned with the Programme for Government, **will help Wales become a confident, entrepreneurial and ambitious nation, prospering from sustainable economic growth**. Consistent with our vision, sustainable development and equality will, as in the current round of programmes, continue to be central guiding principles for all future EU programmes and projects, in addition to a strong focus on Tackling Poverty.
- 1.3 This strategy takes account of the evidence base, current regional policy practice, research findings and the views of partners and stakeholders in Wales. Its purpose is to focus future interventions to promote high quality, strategically aligned projects which are genuinely coordinated with wider domestic programmes. This approach will assist Wales to maximise the added value of future interventions and, through that, achieve its programme goals. We also need to generate, prioritise and develop an appropriate delivery framework through which to prioritise, develop and implement projects that offer the greatest return on future Structural Fund and domestic investments.
- 1.4 How we will measure progress against the goals set out in this draft strategy for future programmes is also a key consideration. Therefore, we provide an early indication of the headline outputs and measures, which link to specific objectives and programme priorities.
- 1.5 Our strategy is split into three distinct sections:
  - **Where we are now:** Here we highlight the challenges Wales faces and the opportunities we can exploit in pursuit of sustainable growth and jobs. We also indicate the important lessons learnt from the experience of developing and implementing previous programmes and projects.
  - **Where we want to be:** This section articulates our vision, aims and objectives for future programmes, and how those programmes will contribute to Welsh Government goals for sustainable growth and jobs, recognising the long-term, complex and multi-faceted issues associated with sustainable economic development.
  - **What we will do to get there:** Here we set out the considerations and principles that will determine our structural fund management and investment decisions in pursuit of our programme aims and objectives. This section also draws out how cross-cutting themes will ensure that all future interventions, supported by EU funds, will contribute to our core principles of



sustainable development, equality of opportunity and tackling poverty, in all its forms.

## **WHERE WE ARE NOW**

### **2007-2013 Structural Funds Programmes**

- 1.6 In the period immediately prior to the 2007 economic downturn and subsequent recession, Wales had begun to make clear progress in tackling some of its long-standing, structural, economic challenges. Two previous rounds of EU Structural Funds investments in 2000-6 and 2007-13 made an important contribution to this enhanced position.
- 1.7 The 2007-2013 Structural Funds programmes were developed at a time when the Welsh economy and labour market were growing. Historic gaps between Wales and the UK were narrowing and Welsh Government budgets were increasing year on year. The programmes focussed on some of the long-run challenges such as addressing the needs of those furthest from the labour market and on supporting our most deprived communities.
- 1.8 To mitigate the impact of the economic downturn in 2007, the programmes were re-appraised and realigned to shift focus onto more immediate challenges such as assisting those at risk of redundancy, youth unemployment and improving access to finance as bank funding reduced. The recession has further highlighted and reinforced our appreciation of the continued weaknesses in the Welsh economy and labour market.
- 1.9 Whilst the economic situation has impacted severely upon Wales, the earlier progress made in reducing gaps with the wider UK economy has not been lost entirely. Nonetheless, in preparing for a further round of Structural fund programmes (2014-2020), the current economic and labour market conditions in Wales are very different from those existing at the same stage of preparations for the current programmes.
- 1.10 The 2014-2020 programmes will therefore need to help address both the 'fall-out' from the double-dip recession, and the continued long-term structural weaknesses that are once again in sharp focus in Wales. The more strategic approach adopted for the current programme period has facilitated more robust and effective project development processes, introduced new and more collaborative ways of working, and introduced innovative financing mechanisms. It has also enabled better programme management and greater flexibility to respond to changing contexts, challenges and opportunities. In the 2014-2020 programme period, we will further refine and improve the effectiveness of this strategic approach to the management and implementation of future Structural Fund programmes in Wales.

### **Structural Funds and Regional Development**

- 1.11 Structural Funds exist to help to address regional disparities, through targeting structural weaknesses in an economy and labour market over the medium to

long term. Such weaknesses manifest themselves and can be measured in a number of ways. However, regional GDP (also expressed as GVA – the two are conceptually similar) offers the only consistent tool through which to measure and compare progress in addressing such weaknesses across Europe.

- 1.12 The annual GVA of Wales is circa £45 billion. The value of European Structural Funds made available to Wales over the seven year period 2007-2013 is circa £1.8 billion. Therefore, whilst this funding provides significant benefits to Wales and has enabled a wide range of important interventions (focused on economic development, environmental protection and social inclusion), Structural Funds in isolation cannot produce the significant change needed to rebalance the weaknesses present in the Welsh economy.
- 1.13 The only way to create the conditions which would lead to a significant, positive movement in GVA, is through coordinated, integrated and focussed action with Government, in all its forms, working with both the private and third sectors across Wales. To be effective, there is a need for devolved and non-devolved measures to link and add value in the targeting of deep seated problems if there is to be genuine and transformational change in our economy and labour market. This recognises that while the long-term levers for economic change are within the remit of the Welsh Government, UK government policy levers and the global economic environment will be the influences for change in the short to medium term. There is also a need for some flexibility to ensure that the programmes will continue to meet the opportunities and needs of the changing environment within which they operate.

### **Regional Development Success Factors**

- 1.14 Regional development depends on the interplay between physical capital, human capital and the business environment.
- 1.15 Human capital stands out as a key factor for regional growth performance, with higher performing regions having a highly educated workforce. High unemployment rates and low participation rates indicate structural weakness. Our programmes should seek to strengthen closer links between education and work.
- 1.16 A high level of innovation increases productivity and is a feature of successful economies. Innovation is market driven and is strongly influenced by region-specific factors (physical and human factors as well as on scientific, technological and industrial capacity). ‘Cluster’ policy or ‘smart specialisation’ can be effective where it is important to build on existing and emerging strengths.
- 1.17 High quality infrastructure is vital for a strong economy, enabling access to a wider pool of labour (and employment opportunities for individuals), improving access to markets, reducing transaction costs and enabling greater specialisation, as well as increasing the ability of a region to attract and retain companies. The impact of improved infrastructure will be much stronger if other

factors such as a dynamic and innovative business environment is present and if educational attainment is high.

## **Opportunities and Challenges in Wales**

1.18 The socio-economic and SWOT analyses that underpin this strategy (as set out in Annex A) identify a range of opportunities that can be exploited and challenges that need to be overcome if Wales is to see growth in its economy and through that, the creation of sustainable job opportunities for its people. The peripherality of Wales, and West Wales and the Valleys in particular, is a feature shared by many regions across Europe where similar economic disparities can be seen.

1.19 Analysis of the GVA gap in Wales indicates that the gap (and particularly the gap in WWV) is primarily accounted for by low value-added per job – broadly speaking, productivity. This is influenced by:

- an adverse industrial structure / mix,
- poor skills mix,
- lack of agglomeration effects (where firms gain benefits from proximity to other firms or a large urban economy), and
- lower levels of capital.

1.20 The socio-economic analysis and associated SWOT analysis of the current position in Wales have helped clarify future Welsh priorities and opportunities to support sustainable growth and jobs, which include:

- Building on and promoting excellence in innovation, to develop further the culture of innovation across Wales and in all sectors of the economy, seeking, where appropriate, new opportunities globally and to act digitally.
- Capitalising upon research excellence in key growth sectors, by establishing centres of world-class excellence through which to commercialise new and emerging technologies, thus attracting 'top-flight' researchers and businesses to Wales.
- Capitalising on Wales' existing assets as a basis for economic growth. For example, capitalising on Wales' natural assets, research base, technical expertise and existing infrastructure to establish a foothold in emerging and globally important sectors and markets including, for example, those for renewable energy and low-Carbon technology, production and maintenance; realising economic benefits from Wales' rich environment and unique heritage, through tourism.
- Increasing employment and reducing continuing high levels of unemployment through a continued emphasis on the reduction of levels of economic inactivity, youth unemployment and tackling the inequality facing

minority groups through improving equality of opportunity in employment, in particular gender equality<sup>1</sup>.

- Improving employer demand-led and responsive skills provision, in particular linked to sectors with growth potential, to make Wales a globally competitive and even more attractive place to do business.
- Improving agglomeration effects, supporting clusters and supply chains, and demonstrating an emphasis on joined-up working through continued investment in infrastructure where this improves access to labour markets and trading conditions for businesses.
- Accelerating the growth of a culture of entrepreneurship across Wales through stimulating aspiration and removing barriers that prevent businesses from growing and accessing new markets.
- Driving a more outward looking and internationally focused growth agenda which sees Wales and its companies capitalising on existing and new relationships with other EU regions as well as with emerging economies in the wider global market.

## Current Policy Response

1.21 The Programme for Government is the Welsh Government's plan for action, representing a commitment to deliver for the people of Wales. The document emphasises the outcomes the Welsh Government are working towards: healthy people living productive lives in a more prosperous and innovative economy; safer and more cohesive communities, with lower levels of poverty and greater equality; a resilient environment with more sustainable use of our natural resources and a society with a vital sense of its own culture and heritage.

1.22 Structural Funds will be aligned in particular with the following Programme for Government priorities:

**Growth & Jobs:** "To strengthen the conditions that will enable business to create jobs and sustainable economic growth."

Structural Funds actions will support targeted investments in infrastructure, skills, innovation and improving the business environment. Promoting greater levels of private sector investment and employment is a key priority. The programmes will also support the Programme for Government's aims of increasing the links between academia and businesses; and positioning Wales as a low carbon, green economy.

**Education:** "Help everyone reach their potential, reduce inequality, and improve economic and social well-being."

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<sup>1</sup> West Wales and the Valleys, 20–64 (2010): Employment 67.6%; unemployment 9.2%; economic inactivity 29.4%; and youth unemployment 26.8%. East Wales: employment 74.8%; unemployment 7.8%; economic inactivity 23.6%; and youth unemployment 20.8%.

Structural Funds actions will help to ensure that young people are not disadvantaged in the labour market in future, through investing in actions to improve attainment and engagement in education, and improving employability.

**Equality:** “Create a fair society free from discrimination, harassment and victimisation with cohesive and inclusive communities.”

Equality is a central principle of our programmes, and gender equality and equal opportunities is a theme that will run through the delivery of all EU programme investments (including Structural Funds), to ensure that project sponsors will build in actions to promote equality through their programmes.

**Tackling Poverty:** “Reducing poverty, especially persistent poverty amongst some of our poorest people and communities, and reducing the likelihood that people will become poor.”

Tackling Poverty will be an outcome of the collective actions we take across the Structural Funds and EU programmes by specifically targeting those living in poverty to ensure that they are able to access employment and training opportunities. This is also reflected as a cross cutting theme - project sponsors will be expected to demonstrate how their projects will contribute to Tackling Poverty.

**Sustainable Development:** “To become a “one planet nation”, putting sustainable development at the heart of government.”

Structural Funds actions will specifically focus on opportunities around Renewable Energy and Energy Efficiency which contribute to the sustainable growth and jobs agenda. The Welsh Government has committed to Sustainable Development as its central organising principle, and this is reflected in our approach to EU programmes. The programmes’ overarching focus on sustainable economic development and the specific cross-cutting themes on equalities and tackling poverty, mean that in line with EU requirements and the Welsh Government’s sustainable development approach, there is a need to ensure that environmental and long term aspects are fully considered. For this reason, the sustainable development cross cutting theme highlights the need for project sponsors to also demonstrate how their projects promote environmental sustainability.

1.23 These actions in the Programme for Government are entirely consistent with current European policy approaches, as outlined in the Europe 2020 strategy for Smart, Sustainable and Inclusive growth.

1.24 The Programme for Government is supported by a range of key policies, programmes and strategies, which are listed in Annex B. The Europe 2020 Strategy is translated through a new strategic architecture for future EU programmes, which is also described in Annex B.

## EU

- 1.25 The Welsh Government's Programme for Government and wider Economic Development policies are already in tune with existing and emerging EU policy approaches aimed at stimulating economic growth and at creating jobs.
- 1.26 Europe 2020 is the EU's 10 year strategy for smart, sustainable and inclusive growth. It outlines headline targets for employment, education, R&D spend, reducing poverty and social exclusion, climate change and renewable energy. Future EU programmes are focused on delivering this strategy.
- 1.27 The European Commission, in its draft regulations for 2014-2020 EU programmes, calls for concentration, integration and simplification of the kind referred to earlier. Under the provisions of the proposed Common Strategic Framework (CSF), there is an expectation that future funding available through the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD)<sup>2</sup> and the European Maritime and Fisheries Fund (EMFF) will be used in a more integrated way in pursuit of greater added value and impact.

## WHERE WE WANT TO BE

- 1.28 At the start of the new programme round in 2014, it is anticipated that the Welsh economy will still not have recovered to its pre-recession state and that several labour market problems, such as long-term unemployment and workless households will remain. Future Structural Fund programmes will therefore need to continue to address such problems, whilst also focusing on the creation of conditions conducive to economic growth. Against this background, the vision, aims and objectives below set out how Wales would deploy future Structural Funds in order to progress towards a more sustainable economic and labour market position by 2020:

### Vision

**'A confident, ambitious and entrepreneurial Wales, prospering from sustainable economic growth'.**

### Aims

- To stimulate investment and to create an environment supportive of a demand-led and market-driven shift in the current Welsh industrial mix; including through the creation and growth of small and medium sized businesses.
- To develop and exploit commercially, research excellence and innovation capacity in Wales.

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<sup>2</sup> This fund supports the Rural Development Programme, also known as the Rural Development Plan (RDP)

- To promote sustainable development, both horizontally in all actions and vertically through specific actions to support the transition to a high value-added and low-carbon economy.
- To improve agglomeration effects through targeted infrastructure investments to improve access to labour markets, customers and supply chains for businesses, and vice versa.
- To contribute to an improvement of the skills mix through investing in demand-led and work-relevant skills and removing barriers to accessing and progressing within the labour market.

1.29 The table below summarises the interrelationship between Wales' key challenges and opportunities, future programme aims as outlined above, and the objectives of the Structural Fund programmes.

<b>Opportunities</b>	<b>Aims</b>	<b>Objectives</b>
Innovation strengths	Develop and exploit commercially, research excellence and innovation capacity in Wales	develop research and innovation centres of excellence, clusters and hubs which combine industry and academia with supply chains
Research excellence		increase levels of innovation across Wales
Energy skills, infrastructure and natural assets	Promote sustainable development , both horizontally in all actions and vertically through specific actions to support the transition to a high value-added and low-carbon economy	increase generation and use of renewable energy by Wales' communities and businesses
		improve resource and energy efficiency by businesses, organisations and households across Wales
		develop the sector and supply chain for renewable energy in Wales, in particular the marine energy sector
		introduce technology and innovations supporting the transition to a low-Carbon economy
Employment for economically inactive, youth and under-represented groups	Contribute to an improvement of the skills mix through investing in demand-led and work-relevant skills and removing barriers to accessing and progressing within the labour market	increase employment levels, particularly for underrepresented groups and targeted actions for women
Demand-led skills and skills for growth		address barriers to employment for those furthest from the labour market
		Increase provision of higher level skills, particularly those linked to research and innovation or demand-led
		remove basic skills as barriers to employment and in-work progression
Agglomeration, clusters and supply chain opportunities	Improve agglomeration effects through targeted infrastructure investments to improve access to labour markets, customers and supply chains for businesses, and vice versa	increase the use of sustainable transport solutions
		improve access to labour markets and labour mobility
Culture of entrepreneurship, and specific barriers to growth	Stimulate investment and to create an environment supportive of a demand-led and market-driven shift in the current Welsh industrial mix; including through the creation and growth of businesses	increase the number of businesses in each programme area
		remove barriers to business growth and support economically important businesses



## WHAT WE WILL DO TO GET THERE

### Integrated Programming Approach

- 1.30 In order to be successful our EU programmes need to work in harmony with wider Government policy and programmes, which in turn are working with stakeholders across Wales and internationally. To help achieve this all our EU programmes must be designed to closely align with Welsh Government policy to maximise these links.
- 1.31 The Common Strategic Framework (CSF) encompasses the Structural Funds (ERDF and ESF), the Rural (EAFRD) and Fisheries (EMFF) funds. We are developing our CSF programmes side-by-side to increase complementarity, whilst recognising that each has its own distinctive aims and legal basis.
- 1.32 While all areas of Structural Funds have a potential overlap with interventions under the RDP and EMFF, the same is not necessarily true in reverse. There are significant areas of overlap where the RDP and EMFF can potentially duplicate activity eligible under the Structural Funds for the farming, forestry or fisheries sectors. A clear demarcation between the funds was a feature of the regulations for 2007-2013. This demarcation avoided any duplication in receipt of assistance by beneficiaries, but it also caused complexity.
- 1.33 There is no requirement for strict demarcation for 2014-2020 and we will seek to ensure we invest in growth opportunities, irrespective of fund, to reduce complexity and increase integration. We will seek to identify complementary areas of investment and clarify how investment in those areas will be supported. Areas of complementarity could include:
- Regeneration can involve community-level engagement, innovation, physical infrastructure, skills, local employment investment, sector development and other interventions that could draw on a range of funds.
  - The Energy and Environment sector is a key Welsh Government sector and an area of significant potential overlap. We need to be clear how the CSF funds will support the sector as a whole, as well as take advantage of specific opportunities.
  - The Farming and Fisheries sectors do not operate in isolation and our programmes need to recognise their role in the economy as a whole, which might mean widening access to Structural Funds in some areas where it adds value and meets legislative and state aid restrictions.
- 1.34 We will design and present our programmes as a coherent package. To enable a more joined-up approach to delivery we will seek to align our processes and procedures where possible.
- 1.35 Annex C maps the main EU programmes (ERDF, ESF, EAFRD, EMFF) and directly managed programmes against EU CSF Objectives. Annex D describes

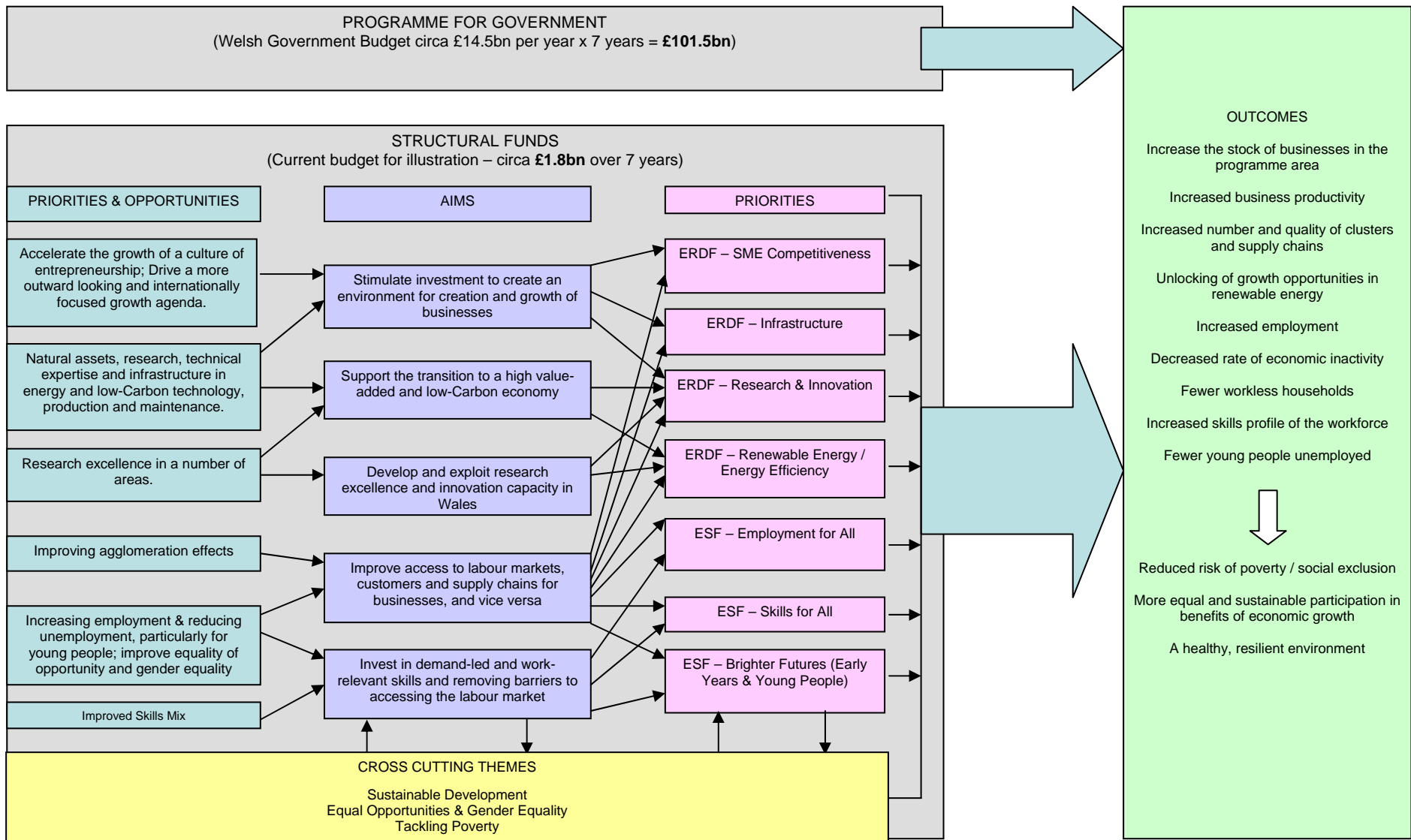
in more detail the cross-programme and priority approach that will be taken to deliver in specific thematic areas.

### **Structural Funds Integration**

- 1.36 The requirement for strict demarcation between the structural, rural and fisheries funds during the 2007-2013 programmes did not apply within the Structural Funds (i.e. between ERDF and ESF). In Wales we seized the opportunity to align our processes and procedures. The ERDF and ESF programming documents were developed together and a single Programme Monitoring Committee monitors progress of the programmes. There are lessons to be learned; for example the broad scope of activities (particularly for the ERDF) made it more difficult to strategically link programmes. There are also positive lessons; for example where higher-level skills projects are complementing investments in research and innovation capacity.
- 1.37 For the 2014-2020 programmes we will build on our progress to date and further integrate our investments in human capital with investments in the economic environment. We don't want to invest in people without also ensuring the right higher value-added jobs are being created in, or brought to, Wales. Similarly we don't want to invest in developing a region or sector without properly investing in the human capital to take advantage of that investment. To achieve this we need to ensure all projects demonstrate they are coordinated and integrated with wider investment. We do not want to see projects that operate in isolation without considering both supply and demand and how they fit into the local, thematic and spatial policy landscape.

### **Programme Content**

- 1.38 Priorities for the Structural Funds will be focused on actions which lead to the aims and objectives set out in this strategy, which intend to capitalise on Wales' opportunities for growth. The programming considerations will help to focus Structural Funds actions on those areas which are shown to have a clear impact as part of a wider regional economic development approach.
- 1.39 The diagram below demonstrates how the Structural Funds programmes aim to work together to deliver on the aims, objectives and opportunities identified in the socio-economic and SWOT analysis, and how they will contribute, alongside the Programme for Government, to improved economic outcomes for Wales.



## Future Investment Principles

1.40 We are clear that future EU programme resources will need to be more concentrated if they are to have a greater transformative effect on Wales' economy and labour market. There is also a need to achieve an appropriate balance between allocation of future EU funding to interventions that target growth opportunities, and those that seek to mitigate the harsh effects of the current economic downturn; insufficient focus and concentration on the long-term impact afforded by growth opportunities will fail to deliver our goal of progressing towards a more sustainable economic future.

1.41 Against these considerations, the following overarching principles will guide future project selection:

- There will be an unequivocal focus on supporting projects that contribute to the creation of sustainable jobs and growth and which facilitate the role of the third sector and private sector.
- We will continue to explore opportunities, including through the use of Financial Instruments, to achieve greater leverage from the deployment of EU funds, particularly with the private and third sector; we will also exploit opportunities to lever collaborative investments where these can add value and have greater potential to achieve desired outcomes.
- We will demand clear added value, when compared with other ways of supporting and delivering policy, based on sound evidence that demonstrates a clear contribution to sustainable jobs and growth.
- Evidence of opportunity will form the foundation of project design and delivery with investments in human capital delivering to and embedded with the future needs of enterprise and business.
- Place-based interventions, aimed at the strategic economic regeneration of communities and at community-led local development, should integrate physical, social and environmental elements, consistent with achieving outcomes of sustainable development, equality of opportunity and tackling poverty.
- We will prioritise key strategic projects, that underpin priorities and which deliver significant outcomes, early within the new programme periods.
- Projects will require realistic and clear exit strategies that fully consider the role of the third sector and private sector, build social resilience and tackle poverty within communities, promote equality, and achieve legacy effects.

## Targeting Options

1.42 Programmes and projects will need to consider a range of targeting mechanisms to provide a focus for investment. The degree of targeting will vary according to the intervention with some projects providing cross-economy

support while others will need to be much more targeted at specific growth opportunities. Targeting and prioritisation, where appropriate, should reflect:

- **growth sectors** (e.g. specifically the Welsh Government identified key sectors, Grand Challenge areas in Science for Wales and the emerging Innovation Strategy).
- areas of specific **geographical opportunity** (e.g. Enterprise Zones, any potential City region or other regional opportunity, Business Improvement District, Rural or Regeneration Area).

1.43 All projects might also be expected to include detail on how they are:

- Considering **other sources of funding** as alternatives or as an opportunity for joint financing of investments (e.g. UK Government funding, NHS, NESTA, Research Council, etc).
- Demonstrating and encouraging **innovation** in project design and supporting the development of a culture of innovation in implementation.
- Improving **resource efficiency**, particularly through the exploitation of digital technology and use of ICT, or new products, processes or services.
- Considering opportunities to contribute to planned **regeneration activity**, or help drive new regeneration activity, in specific geographical areas.
- **skills and training** needs to complement investments including links to existing / planned initiatives to meet those needs, including e-skills.
- Creating **networks**, developing **supply chains** and considering opportunities for exploiting opportunities outside the programme area, particularly **internationally**.

### **Cross-cutting themes**

1.44 In pursuing the vision and aims that we have outlined earlier, we must ensure that the benefits of economic growth are genuinely accessible to all, and not rely on 'trickle down' effects which risks creating inequalities. The pursuit of economic growth must also not have any adverse effect on the environment or society more widely. Future programmes will therefore be aligned with the Welsh Government's central organising principle of Sustainable Development, its Strategic Equality Plan and Tackling Poverty Action Plan.

1.45 Cross cutting themes of Equal Opportunities and Gender Equality; Tackling Poverty and Social Exclusion; and, Sustainable Development will be central to our programme priorities and will override our project selection and monitoring arrangements. We will expect project sponsors to demonstrate how these three cross-cutting themes are integrated within their projects, not only at the application and appraisal stage, but also throughout the delivery of any project.

## Welsh Language

1.46 In implementing the Structural Funds programmes, we will reflect the commitment to the Welsh Language (Wales) Measure 2011 (as outlined in Chapter 3 Cross Cutting Themes). The aim is to see the Welsh language thriving in Wales, and to treat Welsh no less favourably than English. We will look for ways to mainstream linguistic issues into the funding programmes, including the need to include appropriate conditions with regard to the use of Welsh as funding is awarded. In light of this, we intend to assess the linguistic impact of funding programmes, and consider ways of engaging Welsh speakers with relevant funding programmes. On reflection of the results of the 2011 Census, we will also consider whether European Structural Funds Programmes can support economic development in areas where the Welsh language is in decline.

## **Implementation**

1.47 In the 2000-6 programme period, programmes were delivered through a large number (around 3000) of projects, largely selected at a local level, through local and thematic partnerships. The Objective 1 programme was also delivered through a multi-fund approach, bringing together the ERDF, ESF, EAGGF (Agriculture) and FIG (Fisheries) programmes.

1.48 The complexity of managing such a large number of projects, including potential for project duplication during this programming period, led to big changes for the 2007-13 programmes, with the ambition of creating even greater impact through EU funding. The Welsh Government elected to adopt a more strategic approach; 're-engineering' its EU funded programmes and processes, resulting in a greatly reduced number of projects in this round (anticipated to be circa 300), which is a tenth of the number of projects supported during 2000-2006.

1.49 Wales has therefore already taken important steps to concentrate EU funding to focus on the achievement of key outcomes. However, the impact of a double-dip recession and the depth of current global economic uncertainties mean that there is now a need to take an even sharper look at how, in a constrained public funding environment, EU funds can be best deployed in pursuit of conditions conducive to future economic growth.

## Guilford Review of Implementation Arrangements

1.50 The Deputy Minister for Agriculture, Food, Fisheries and European Programmes has commissioned Dr Grahame Guilford to review current arrangements for the implementation of EU funds in Wales and to make recommendations on how future arrangements can be made more effective. Dr Guilford's recommendations will inform the development of these new arrangements. The Review will be undertaken in two phases with the final phase reporting early in 2013. It will take account of the lessons learned from implementing the 2007-2013 suite of Programmes and the findings and recommendations of the inquiries by the National Assembly for Wales Finance Committee into the Effectiveness of European Structural Funds in Wales. It will

also consider whether the role of the Welsh European Funding Office should encompass responsibility for promoting and facilitating access to a broader range of EU funding opportunities as a way of exploring the potential for future interventions to be more cohesive and integrated.

- 1.51 Wales benefits from a considerable body of expertise in the management of EU Programmes and needs to build on this strength. There will undoubtedly be a need for those involved in the delivery of EU funds, both internally to Welsh Government and within its wider partnerships to adapt to new methodologies if future programmes are to be implemented yet more effectively. This issue will require further consideration as the shape of new implementation arrangements develop, following on from publication of Dr Guilford's review and from analysis of responses received following this and other planned consultation exercises on future programmes.

### **Measuring Success**

- 1.52 A balanced portfolio of investments is required under future programmes. In addition to targeting short-term issues through securing improvements against key indicators such as employment outcomes, qualifications, and job creation, interventions must also seek to achieve longer term, transformational outcomes. This will require interventions that, for example, target the hardest to reach whilst there will also be a need to support far-sighted investments that may not deliver significant measurable impacts until many years into the future.
- 1.53 We propose to adopt a multi-faceted approach to measuring progress and understanding our achievements. At the highest level, we will track Wales' progress against the EU 2020 indicators through the National Statistics datasets. The monitoring and evaluation system will reflect the contribution that Structural Funds can make to these targets whilst acknowledging its role as part of a wider contribution.
- 1.54 At the UK level, set within the new Partnership Agreement between the Commission and the UK Government, there will be a selection of core Commission indicators which will reflect the overall aims and objectives of the Structural Funds. Wales will make a direct contribution to the selection of indicators. Within the individual programmes, we have included our own programme level indicators as well as the relevant Commission core indicators. These will enable us to demonstrate the success of programmes and projects across Wales. Priority level targets will eventually be developed and set out in each of the Priority chapters. However these cannot realistically be determined until financial allocations have been decided.
- 1.55 In addition to the monitoring information that the above arrangements will generate, a comprehensive evaluation programme, building on the knowledge gathered in the 2007-13 programmes, will be implemented to capture and calculate the impact of the programmes and assess the lessons learned from implementation.

1.56 This approach to monitoring the success of the programmes at a number of different levels will allow the Welsh Government to understand the impact it is having from grass roots level through to its contribution to the Europe 2020 indicators. Where it is not possible to routinely collect certain types of information, the monitoring system will be complemented by a comprehensive programme of evaluation.



## CHAPTER 2: ERDF AND ESF PRIORITIES

### SME Competitiveness: East Wales

#### 2.1 Aim

To support the creation and growth of sustainable small and medium-sized enterprises in Wales.

#### 2.2 Rationale for Intervention

SMEs contribute 58% of the total value added created by businesses in the EU and provide two out of three private-sector jobs<sup>3</sup>. In Wales around a third of private sector employment is in micro-businesses (up to 9 employees), with a further 27% in other SMEs. The remaining 40% are employed in large companies<sup>4</sup>. This is similar to the UK average of around 41% for large businesses, showing that business structure in Wales is broadly similar to the UK.

An analysis of the industrial mix in Wales shows manufacturing is still important, representing of 15% of GVA in 2009 (compared to 10% for UK as a whole)<sup>5</sup>. Public administration, education, health and social services (which includes private sector activity) represents 27% of GVA in Wales compared to 20% in the UK. Higher value added sectors such as Financial and Business services account for only 20% of Welsh GVA (UK just under 30%), highlighting a possible structural issue. The Welsh Government's key sectors approach will help to target those economically important and potential growth sectors.

There are around 3,000 organisations carrying out social enterprise activity in Wales with a combined turnover of £2.2 billion (07/08 estimate). Welsh social enterprises operate in most industries across Wales, though the majority are involved in training and education, arts and Welsh language, business support, health and social care, and sports. Social enterprises are more likely to seek specialist and tailored business support<sup>6</sup>.

High levels of growth and jobs are generally created from a relatively small number of the SMEs: around 2-4% of high-growth businesses are estimated to be responsible for the majority of employment growth in the UK private sector and a substantial proportion of economic growth<sup>7</sup>. It is very difficult to identify those businesses, especially when they are first formed. A balanced risk portfolio is often adopted whereby start-up support is available for all (though with some targeting on growth sectors and graduates) to avoid excluding potential growth companies; but more expensive / risky loans or equity investments might be more targeted.

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<sup>3</sup> Eurostat, structural business statistics, October 2012

<sup>4</sup> Statistical bulletin "Size analysis of Welsh Business, 2011", 25 October 2010

<sup>5</sup> Office for National Statistics, Regional Gross Value Added, 2010

<sup>6</sup> Mapping social enterprise activity in Wales, October 2009. Available at:

<http://wales.gov.uk/topics/housingandcommunity/regeneration/publications/110803socialmapping/?lang=en>

<sup>7</sup> BERR economic paper No. 3 "High growth firms in the UK: Lessons from an analysis of comparative UK performance", November 2008

Evidence on the economic benefits of direct support to businesses by government is mixed. Resources need to be concentrated where the most value can be added and address issues of market failure or significant demand, such as the key stages of business growth (creation, export, expansion). Businesses are best placed to advise other businesses and procurement offers a tool to enable support designed by businesses to be targeted for businesses through businesses.

Levels of entrepreneurship in Wales have underperformed those in the UK, with Wales experiencing the largest fall in enterprise births in the UK and the second lowest rate amongst the UK countries and English regions (2010)<sup>8</sup>. Enterprise birth rate in East Wales in 2010 was 44 per 10,000 population aged 16-64 years. This compares with a birth rate of 36 in West Wales and the Valleys, 39 in Wales on average and 58 in the UK. Early stage entrepreneurial activity in Wales has risen through the recession tracking the UK average: Wales has seen an increase in the number of early-stage younger (18-29) and women entrepreneurs compared to the UK average (GEM2011); though women remain under-represented in Wales and across the UK as a whole. Start-up support schemes have had some success in removing barriers to entrepreneurship.

Barriers to achieving high business growth<sup>9</sup> include a lack of: management skills and experience; business innovation; access to finance; serial entrepreneurs; effective networks; and business relationships. Access to finance is identified as the primary barrier to growth and has emerged as a priority to increase business competitiveness.

Welsh exports have increased over the year (end June 2012) by 0.6%, though Wales had one of the smallest increases in UK (UK average 4.8% increase). This suggests Welsh organisations may be underperforming and facing specific barriers to increasing their profile overseas and specific actions could help provide a competitive advantage for Welsh businesses. Since 1999 there has been a 106.0% increase in Welsh exports (UK average 70.5%)<sup>10</sup>. The majority of growth is demonstrated in markets outside of the EU reflecting both the weakness of the EU economy and the potential for growth in emerging markets. Exploitation of ICT and globalisation has enabled SMEs to act in new markets, no matter what their size.

Exploitation of ICT plays a vital role in the internationalisation of businesses and as a way to improve resource efficiency. The ERDF programmes will seek to improve the exploitation of ICT and improve access to the digital economy both horizontally (in all projects) and vertically (specific interventions). Complementary measures to tackle e-crime need to occur in parallel to increase business security and confidence. Estimates for the cost of e-crime suggest it could cost the UK economy around £27 billion every year<sup>11</sup>.

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<sup>8</sup> Statistical bulletin "Business Demography: enterprise births and deaths, 2010", 19 Jan 2012

<sup>9</sup> Covered in a number of reports. This list from BERR economic paper No. 3 "High growth firms in the UK: Lessons from an analysis of comparative UK performance", November 2008

<sup>10</sup> Welsh Exports, 2012 Quarter 2, 4 October 2012

<sup>11</sup> The Cost of Cyber Crime, Detica and Cabinet Office, 14 February 2011

## 2.3 Policy Context

Policies relevant to the programme as a whole can be found at Annex B. The following section includes policies with specific relevance to this priority.

### EU Policy Context

- *An Industrial Policy for the Globalisation Era*

This Europe 2020 flagship initiative argues that the core of EU industrial policy must be promoting the creation, growth and internationalisation of SMEs by ensuring appropriate infrastructure is in place; smarter regulation; targeting innovation support; and improving access to finance.

- *European Commission - Country Specific Recommendations for the UK*

The Commission recommends that UK improve the access to finance for SMEs through leveraging private sector investment; especially for small, innovative companies.

### Welsh Government Policy Context

- *Economic Renewal: a new direction*

*Economic renewal* sets out the role of the Welsh Government in support of business as that of an enabler, investing in infrastructure, research & development and improving the conditions within which businesses operate. Direct support for business is targeted where it can help Wales gain competitive advantage and primarily on the nine key sectors<sup>12</sup>. Each sector has its own sector panel made up of business representatives which advise on opportunities within their sector through sector strategies.

- *Micro Business Task and Finish Group*

In response to the January 2012 recommendations of the Group, the BETS Minister has drawn up an implementation plan to deliver on its recommendations including: developing proposals on creating a business support brand; promoting awareness of and access to business support for micro-businesses; prioritising access to finance; developing a network of One Stop Shops across Wales and establishment of a mentoring scheme for businesses.

- *Other Key Policies*

*Delivering a Digital Wales*, the *Youth Entrepreneurship Strategy* and the *Innovation Strategy* (currently in development) are other key Welsh Government policies which will guide the implementation of this Priority.

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<sup>12</sup> The nine Welsh Government Key Sectors are: Creative industries; ICT; Energy and Environment; Advanced materials and manufacturing; Life Sciences; Financial and Professional services; Food and Farming; Construction; and Tourism (Aug 2012)

## 2.4 Indicative Activities / Areas for Intervention

The scope of the priority provides for a range of financial support to businesses but the emphasis will be on repayable forms of finance. Specific measures related to encouraging innovation, and the use of grant funding for innovation, are included under the Research and Innovation Priority. Complementary investments will also be made across both the ERDF (Research & Innovation and Infrastructure) and ESF (Skills for All, Employment for All and Brighter Futures) priorities.

Eligibility for this priority is limited to SMEs in line with EU policy and the regulations. SMEs include community and social enterprises, which will be able to access all interventions across the priority. The term businesses is used to cover all SMEs as recognition many businesses do not identify with the term SME. Interactions with larger companies, particularly as part of developing supply chains, should be a key consideration of support for SMEs under this priority and essential to provide the right environment for significant private sector investment, particularly from larger organisations.

Activities are split into two themes: *Access to Finance* (addressing the main barrier to growth and increasing private sector investment in Welsh businesses); and *Entrepreneurship* (support from the creation of a business through to help in removing barriers to growth).

### ***Theme 1 - Access to Finance***

#### Interventions:

- Access to debt, equity and mezzanine finance
- Micro-finance investment vehicle
- Tailored business finance schemes (e.g. for key sectors or specific geographic areas)

### ***Theme 2 - Entrepreneurship:***

#### Strategic interventions:

- Financial support, advice and mentoring for start-ups
- Tailored support for economically important and growth businesses (e.g. to address specific barriers to growth or supply chain development)
- Capacity building to support Welsh businesses to access procurement opportunities (including internationally)
- Support for the internationalisation of businesses and increasing exports
- Supporting the exploitation of ICT and the Digital Economy

### Complementary Interventions:

- Customised delivery of support for social enterprises (e.g. to promote innovative business models and address barriers to growth)

### **Interventions we do not expect to fund:**

- Grant support for businesses
- Activity which might duplicate/displace support already available from the private/third sector
- Awareness raising projects with no other direct measurable benefits for businesses

## **2.5 Proposed indicators**

The following proposed indicators for this priority include a combination of European Commission core indicators as well as programme specific indicators. A priority level intervention logic table is included at Annex E.

<b>Indicator</b>	<b>Measure</b>
<b>Outputs</b>	
Number of enterprises receiving support <sup>[1]</sup>	Number*
<i>Of which</i>	
receiving grants	Number*
receiving financial support other than grants	Number*
receiving non-financial support	Number*
Individuals assisted to set up a new enterprise	Number
Individuals financially supported to set up a new enterprise	Number
<b>Results</b>	
Number of new enterprises supported	Number*
Private investment matching public support to enterprises	Euro*
<i>Of which</i>	
Grants	Euro*
Non-grants	Euro*
Employment increase in supported enterprises	FTE*
Increase in level of export	GBP

<sup>[1]</sup> Community and social enterprises will be captured under these indicators through category breakdown information recorded on project delivery profiles

\* Denotes Commission Core indicator

## **2.6 Horizontal Issues**

### (A) Targeting and Investment Principles

Programme targeting and investment principles are described in Chapter 1. This Priority will reflect an emphasis on the nine key sectors identified by the Welsh Government and areas of specific geographical opportunity (e.g. Enterprise Zones, city region, regional opportunity, Business Improvement District, Rural or Regeneration Area). It is expected that whatever approach is adopted to generate and select projects, that those projects will have significant elements delivered through procurement processes utilising existing business expertise.

We expect the access to finance theme of this priority to make use of Financial Instruments (investment vehicles like JEREMIE).

### (B) Cross-Cutting Themes

In line with the Welsh Government's clear commitment to sustainable development, including equality and inclusion, and tackling poverty the programme should be implemented in a way which ensures opportunities are not lost to exploit and strengthen economic, social and environmental outcomes.

The Energy and Environment sector is identified as a key sector and it is anticipated that this priority will ensure potential environmental benefits are exploited and that resource efficiency measures are integrated horizontally across the priority as well as including vertical provision in the activities.

It is also expected that this priority will address specific barriers that discourage women and under-represented individuals from starting and progressing in business.

### (C) Links to other funds and programmes

Better links and complementarity will be sought between, and across, programmes both in programme design and delivery mechanisms which will facilitate the creation of those links. Examples of links with other programmes and priorities are shown at Annex C.

The specific links with this priority are in providing complementary support for research-intensive and innovative businesses and the energy sector under the Research and Innovation and Renewable Energy and Energy Efficiency priorities. Complementarity will also be sought at a spatial level to ensure ERDF complements investments under the RDP and the ESF. Financial Instruments will need to consider how they fit with proposed EU-wide funds (e.g. COSME).

## Research and Innovation: East Wales

### 2.7 Aim

Improve the capacity for, and economic exploitation of, innovation and research.

### 2.8 Rationale for Intervention

A comparatively low productivity rate, or GVA per job, has been identified as one of the key reasons for the gap in GVA per head between Wales and the rest of the UK and EU. Research and Innovation, in products, services, and processes, are essential components in the drive for increased productivity and competitiveness, with the exploitation of new technologies also of critical importance in boosting productivity.

The development of new products, processes and services can be significant drivers of competitive advantage and there are strong links between R&D, technical change, the knowledge capabilities of firms, various types of innovation and downstream impacts on the growth, productivity and competitiveness of economies.

Investment in R&D in Wales is comparatively low however. As a percentage of GVA, Welsh investment in R&D has risen from 0.76% in 1995 to 1.36% in 2009. For East Wales, this figure is 1.83% of GDP, close to the UK average and the EU 27 average (which is 2.01%), but still a long way off the EU's investment target of 3% of GDP. Spending by business on R&D is relatively low in the programme area owing largely to the industrial structure of its economy with, for example, relatively low representation of intensive R&D sectors (such as pharmaceuticals) and of the larger organisations within those sectors which can often drive overall R&D investment levels and support supply chains.

Investing in research, especially applied research or experimental development with a clear link to economic outcomes, and building the capacity and addressing other barriers to Welsh institutions successfully bidding for other research funding from the UK and the EU, such as Horizon 2020, can contribute to growth and productivity in the programme area while also supporting the continued development of the Welsh research base; which in turn will help encourage inward investment and the development of research-intensive and innovative clusters.

Access to UK, EU and global research funding is becoming more competitive and there is an increasing focus on excellence. Some progress has been made in Wales to improve access to other research funds and it is essential Welsh organisations (principally universities and businesses) build on this, rising to the challenge to develop areas of world class excellence. Wales-level support should be careful not to simply substitute domestic funds for competitive funds and should look to identify opportunities to co-invest with other organisations, such as the TSB or NESTA, where possible.

Both within the Welsh Government and across Europe a focus is being placed on research addressing the Grand Challenges (such as climate change, energy security, food security, health, and an ageing population) to both mitigate the economic

implications if they are not tackled and to take advantage of the new market opportunities that they offer. European Innovation Partnerships aim to bring together public and private actors at EU, national and regional level to tackle each of these challenges.

Research infrastructure has the potential to catalyse the knowledge creation process and facilitate the networking of researchers and stimulate knowledge flows generally. It can act as the catalyst for inward investment, co-location of research-intensive industry, development of supply chains and the exchange and transfer of innovation and knowledge. Further benefits from supply chains can be accrued if opportunities are identified and exploited to develop and retain advanced manufacturing capabilities (e.g. production of Key Enabling Technologies).

Whilst R&D is often seen as having a key influence on business growth and jobs, the role of innovation could be an even greater driver. In Wales, as in the UK and indeed other developed economies, the large majority of innovation and growth has taken place in sectors with little or no R&D spending. Other factors such as skill levels and the level of competition may well play a much greater role over the long term. The 2012 *Global Innovation Index Report* rated the UK as fifth amongst 141 countries on level of innovation, while the UK lags behind many developed countries in terms of R&D spend.

There is a growing recognition that innovation can occur in all organisations, across all sectors and in every sphere of life (for example the third sector might develop innovative service delivery models in a local area where the market will not intervene). Innovation in all its forms will help contribute to increased productivity, resource efficiency and more sustainable jobs and growth. To encourage a culture of innovation across Wales the right conditions need to be supported and barriers removed; for example innovative businesses can face particular problems in accessing finance as they are not entering markets in a traditional way or are unknown quantities. Innovative environments are conducive to encouraging others to innovate and could be supported through clusters and supply chains.

It is in the successful exploitation of research and innovation through new products, processes or services that benefits for the economy and labour market are realised. Success cannot be guaranteed and failure is an essential part of innovation; a balanced portfolio of investments should be sought that encourages pilot activities with a high risk of failure alongside those with clear market exploitation potential.

Creating new innovative businesses and growing those in existence is essential in creating sustainable jobs and growth. High-growth firms tend to be a small proportion (3-5%) of SMEs (usually founded by graduates) and are usually highly innovative. These businesses alone account for a large proportion of overall economic and jobs growth. Access to finance is one of the most significant constraints on business-led innovation and on the start-up and the continued growth of innovative companies. Venture capital in the form of share capital (equity) is generally more suitable than loans for new and fast growing innovative businesses.

ICT infrastructure has been shown to promote the wider use of new technologies and as essential to business competitiveness and growth. Investments in ICT connectivity



and mobile networks will need to take account and complement the significant investments in this area under the 2007-2013 programmes, whilst also considering demand stimulation.

## 2.9 Policy Context

Policies relevant to the programme as a whole can be found at Annex B. The following section includes policies with specific relevance to this priority.

### EU Policy Context

- *Innovation Union*

This *Europe 2020* flagship initiative seeks to ensure more demand-side measures to support innovative ideas being turned into products and services through: more investment in education, R&D, innovation and ICTs; more cooperation between science and business; improved links between EU and national RD&I systems; and achievement of excellence in research. This will be delivered in part through *Knowledge Innovation Centres* and the *European Innovation Partnerships*, as well as dedicated funding instruments such as Horizon 2020.

### Welsh Government Policy Context

- *Science for Wales*

*Science for Wales* builds on the approach towards smart specialisation set out in *Economic Renewal: a new direction*. The strategy recognises that Government can create the conditions under which research and innovation can thrive, investing to build capability in the long term and using influence to remove barriers for innovators and promote change.

Three Grand Challenges, aligned with European priorities, have been identified as a focus for research efforts in Wales: Life sciences and health; Low carbon, energy and environment; and Advanced engineering and materials. These will be targeted through a £50m investment in *Ser Cymru* (Star Wales) teams, bringing outstanding academics to Wales to carry out world-class research, improve the Welsh research base and build capacity.

- *Innovation Strategy for Wales*

An Innovation Strategy for Wales is under development in partnership with industry and academia, and which will undergo international peer-review. This will complement Science for Wales in providing Wales with a smart specialisation strategy and both will act together to help provide a focus for future structural funds support.

- *Other Key Policies*

*For our Future*, the Higher Education (HE) Strategy and Plan for Wales. *Digital Wales*, which seeks to maximise the benefits of the digital economy, and the *Wales*

*Infrastructure Investment Plan* are also key thematic policies that will guide this Priority's implementation.

## **2.10 Indicative Activities / Areas for Intervention**

The European Commission<sup>13</sup> defines Research and Innovation as inter-related but independent concepts (essentially research to improve our knowledge base and innovation as new ways of doing things that may include use of research). By having separate themes for "Research and Development" and "Innovation for All" we recognise that innovation can be carried out by any organisation (e.g. private, third and public), and is not only linked to science and technological research by academia and business. We want to be able to encourage innovation in all areas, in particular where they can help address the grand societal challenges (for example eco-innovation).

Research and Innovation are two elements of the "knowledge triangle", with education as a third element. All three will need to work in concert to maximise impact. Projects that combine elements of all three pillars will be encouraged. As a minimum projects will need to be coordinated with one another across both themes of this priority and with the rest of the ERDF and ESF programmes (in particular skills elements of the ESF). The possibility of joint investments should be explored.

The scope of this priority provides for specific challenges of innovative and research intensive businesses to be addressed and for the possibility of research infrastructure investment. There will also be complementary investments possible in the Renewable Energy and Energy Efficiency priority.

### ***Theme 1 - Innovation for All***

#### Strategic interventions:

- Support businesses to undertake innovation (e.g. demand-led or eco-innovation) and improve innovation supply chains between businesses and with academia<sup>14</sup>.
- Piloting of initiatives to test innovative approaches, products or services in areas with commercial potential.

#### Complementary Interventions:

- Development of low-cost hubs or clusters for innovative businesses and sectors (e.g. virtual hubs for ICT, Creative or Tourism sector)

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<sup>13</sup> Innovation Union - A rationale for action [http://ec.europa.eu/research/innovation-union/pdf/rationale\\_en.pdf](http://ec.europa.eu/research/innovation-union/pdf/rationale_en.pdf) describes research and innovation as:

**Research:** investment of resources in attempts to expand scientific and technological knowledge base, often in order to solve particular problems that confront different sectors of society.

**Innovation:** creation of value via the introduction of new products, processes, services and ways of doing things; requires knowledge inputs not only from scientific and technological research, but also from other sources such as non-technological, user-driven and social innovation.

<sup>14</sup> For example through the use of an innovation voucher scheme or equivalent. Could link to management skills and mentoring to help businesses to develop and take advantage of innovations in processes and products.

- ICT and mobile communications networks (e.g. specific opportunity or as enabler for renewable energy or energy / resource efficiency)

## ***Theme 2 - Research and Development***

### Strategic interventions:

- Commercialisation, protection and exploitation of research (including applied research to improve market readiness)
- Building research capacity (both physical and people-related), with a focus on areas with potential for developing or strengthening world-class excellence (e.g. identified in *Science for Wales*)<sup>15</sup>
- Access to risk-capital finance and support for the creation and growth of research-intensive and innovative businesses, such as spin-outs

### Complementary Interventions:

- Capacity building directly linked to improving access to wider research funding (e.g. support to develop more competitive bids for Horizon 2020)

### **Interventions we do not expect to fund:**

- Mainstreaming of public sector innovations (the programme will still be able to support piloting and demonstration)
- Projects with primary focus being networking
- Basic<sup>16</sup> research where there is little opportunity of commercial exploitation (for exploration of knowledge with no commercial outcome in mind)
- Support for the protection of IP without a clear route to market and plan for exploitation
- Projects without links to industry or business involvement

## **2.11 Proposed indicators**

The following proposed indicators for this priority include a combination of European Commission core indicators as well as programme specific indicators. A priority level intervention logic table is included at Annex E.

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<sup>15</sup> Activities might include applied research, technology transfer, industrial and international links, prototyping, physical infrastructure, cluster development, supply chain development, access to finance, capital investment, skills, etc

<sup>16</sup> "Basic" as defined in the Frascati manual (2002): "*Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view.*"

<b>Indicator</b>	<b>Measure</b>
<b>Outputs</b>	
Number of enterprises receiving support*	Number
<i>Of which</i>	
receiving grants*	Number
receiving financial support other than grants*	Number
receiving non-financial support*	Number
Number of enterprises cooperating with supported research institutions*	Number
Individuals assisted	Number
Individuals financially supported	Number
Innovation centres and R&D facilities developed	M <sup>2</sup>
<b>Results</b>	
Number of new enterprises supported*	Number
Private investment matching public support in innovation or R&D projects*	Euro
Employment increase in supported enterprises*	FTE
Number of new researchers in supported entities*	FTE
Number of researchers working in improved research infrastructure facilities*	Number
Number of enterprises supported to introduce new to the market products*	Number
Number of enterprises supported to introduce new to the firm products*	Number
Products, processes or services registered	Number
Enterprises accommodated	Number

\* Denotes Commission Core indicator

## **2.12 Horizontal Issues**

### (A) Targeting and Investment Principles

Programme targeting and investment principles are described at Chapter 1. This Priority will place a particular emphasis on the grand challenge areas, National Research Networks, Ser Cymru (Stars Wales) teams, and priority areas identified in *Science for Wales* (for Research and Development theme) and the Innovation Strategy for Wales (for the Innovation for All theme). National Research Networks to be established under Science for Wales might provide a natural spatial focus for investment, with links expected to be made (where relevant) to European Innovation Partnerships, the European Research Area, Knowledge and Innovation Communities, Catapult Centres or other key networks or clusters. Opportunities for eco-innovation should be identified and prioritised, particularly where they

complement investments under the Renewable Energy and Energy Efficiency or SME Competitiveness priorities.

Access to finance parts of this priority should make use of Financial Instruments (investment vehicles like JEREMIE). Projects should also consider how they might contribute towards supporting behavioural change where relevant (e.g. if addressing climate change or resource efficiency objectives).

#### (B) Cross-Cutting Themes

In line with the Welsh Government's clear commitment to sustainable development, including equality and inclusion, and tackling poverty the programme should be implemented in a way which ensures opportunities are not lost to exploit and strengthen economic, social and environmental outcomes.

The opportunities for investments to support sustainable development through addressing environmental and social societal challenges will be a key feature of this priority and gender equality measures would be expected in complementary higher-level skills investments.

#### (C) Links to other funds and programmes

Better links and complementarity will be sought between, and across, programmes both in programme design and delivery mechanisms which will facilitate the creation of those links. Examples of links with other programmes and priorities are shown at Annex C.

The major links with this priority are to higher-level skills under the ESF, the entire Horizon 2020 programme, complementary activity under the Renewable Energy and Energy Efficiency Priority, and business support under SME Competitiveness.

## Renewable Energy and Energy Efficiency: East Wales

### 2.13 Aim

To support the sustainable development of a low-carbon economy and the delivery of climate change objectives.

### 2.14 Rationale for intervention

The challenge for the new EU Programmes is to maximise the impact of investments in Renewable Energy & Energy Efficiency (RE&EE) on job creation and the economy as part of a fundamental and sustainable shift towards a low-carbon economy. It will be important to balance low-risk, short-term job creation activity with investment into higher-risk, longer-term industrial development.

Investments in energy efficiency schemes are highly likely to deliver immediate impacts in terms of job growth and supply-chain development – as well as cost-effective reductions in greenhouse gas emissions. While riskier investments, for instance those related to research into, and the development and demonstration of new technologies, processes and services, have great potential for transformational impacts on the economy in the longer term, despite not necessarily delivering significant measurable short-term outcomes.

Wales' housing stock has poor energy efficiency in comparison with the rest of Europe, and many households in Wales face issues of fuel poverty. Investing in energy efficiency has clear employment benefits in terms of installation which is labour intensive, and manufacturing. Wales has developed a comprehensive energy efficiency supply chain to take advantage of the opportunities offered by the promotion of energy efficiency (for example over 80% of the businesses that delivered phase 1 of Arbed operated primarily, or solely, in Wales). Given the scale of the challenge – the number of properties where energy efficiency improvements are required – this could provide ongoing opportunities to further develop the sector.

Investments in energy and resource efficiency in businesses will naturally contribute to the cost efficiency and competitiveness of those businesses, something business support measures (e.g. under the SME Competitiveness priority) should be promoting. Energy intensive industry operations are particularly sensitive to high energy prices. The manufacturing and the petrochemical sectors are key contributors to the Welsh economy.

Wales has significant natural resources and assets which indicate major growth potential in this area: renewable energy sources (marine; solar; bio-energy; hydro; energy from waste; combined heat and power); key infrastructure assets such as deep ports and transmission and distribution grids; research expertise in businesses and universities (e.g. the Low Carbon Research Institute); and employers with skilled workforces that can take advantage of supply chain opportunities, as has been demonstrated by the Arbed-stimulated energy efficiency sector during the past three years, from manufacturing to installation.

There may also be scope to use Structural Funds to optimise the re-use of community benefits accrued from energy developments in order to multiply benefits through energy infrastructure, generation and efficiency actions.

The Welsh Government wants to maximise the long-term economic benefits of all forms of renewable energy particularly through R&D and investments in the supply chain. Structural funds can also assist where there is a clear case to intervene in the market, particularly in unlocking opportunities for business and universities and in providing communities with access to advice, expertise and funding to harness proven renewable energy technology. Structural Funds may also be able to assist in the provision and smartening of grid transmission and distribution infrastructure where there is demonstrable market failure and where it proves to be a major constraint to the development of specific energy schemes.

The interface between buildings, distributed energy generation and smart infrastructure (smart meters, energy storage facilities and smart grids) is a major focus for government, industry and academia around the world. It is also a major market opportunity, and significant investment is going into the development and demonstration of new building technologies and next-generation smart infrastructure. The Welsh Government is committed to its smart living agenda and to making Wales as attractive a location as possible for investment, innovation and demonstration. New building technologies allied with the development of smart grids could help future-proof Wales' energy system against external shocks. They will enable Wales to make the most of its indigenous energy sources – increasingly distributed – and enable Wales to generate wealth from exporting cutting edge products and services, knowledge and expertise as well as supporting the export of energy.

## **2.15 Policy Context**

Policies relevant to the programme as a whole can be found at Annex B. The following section includes policies with specific relevance to this priority.

### EU Policy Context

- *Europe 2020*

Europe 2020 headline targets for climate change are by 2020 to: reduce greenhouse gas emissions by 20% compared to 1990 levels; increase the share of renewables in final energy consumption to 20%; and seek a 20% increase in energy efficiency. In the longer term the EU aims to cut greenhouse emissions by 80%-95% by 2050 compared with 1990 levels. These are EU-wide targets, so national targets will differ according to baseline and ability to contribute, and for the UK reference should be made to nationally defined targets.

- *A Resource-efficient Europe*

The Flagship Initiative sets out the key challenges faced across the EU and suggests a range of actions that need to be undertaken in order to address them. A key EU tool to support energy infrastructure will be the competitive €50 billion *Connecting Europe Facility* (CEF).

## Welsh Government Policy Context

- *Programme for Government*

The Programme emphasises both the opportunities for economic growth and green jobs and the importance of making the best possible use, in the wider public interest, of Wales' natural resources.

- *Energy Wales: A Low Carbon Transition*

This strategy sets out the Welsh Government's ambition to create a sustainable, low carbon economy for Wales. This will be achieved through redesigned energy markets, greater energy efficiency, widespread deployment of a diverse range of low carbon technologies, the use of gas as a transitional fuel, carbon capture and storage, greater electrification of overall energy consumption and investment in energy infrastructure. *Energy Wales* also highlights key energy developments in Wales such as the Anglesey Energy Island Programme, which will act as a catalyst for wider economic benefit to the region, and key opportunities such as the development of marine energy and smart living, and harnessing the tidal power of the Severn Estuary.

- *Other key policies*

The Welsh Government is responsible for promoting the *Climate Change Strategy*, *National Energy Efficiency and Savings Plan* and *Fuel Poverty Strategy*. Underpinning these strategies is an energy programme which will prioritise, plan and co-ordinate the energy agenda. The *Climate Change Strategy*, published in 2010, commits Wales to a 3% annual reduction in greenhouse gas emissions in areas of devolved competence from 2011 and achieving at least a 40% reduction in all emissions in Wales by 2020 against a 1990 baseline. The *Fuel Poverty Strategy*, published in 2010, reaffirms the Welsh Government's commitment to eradicate fuel poverty<sup>17</sup> as far as is reasonably practicable by 2018.

## UK Government Policy Context

There is a range of different UK legislation and schemes that have been established to contribute to meeting UK targets for climate change, renewable energy and energy efficiency including the *Climate Change Act 2008*, the *UK Carbon Plan*, the *Renewable Energy Directive* and the UK and Devolved Governments have published a *Renewable Energy Roadmap*. It sets out a programme of targeted actions to tackle the barriers to renewables deployment, enabling the level of renewable energy consumed in the UK to grow in line with ambitions for 2020 and beyond.

- The Roadmap is complemented by a number of finance mechanisms to support renewable energy deployment including Feed in Tariffs, the Renewable Heat Incentive, Renewable Heat Incentive Premium Payments and the Renewables Obligation.

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<sup>17</sup> Households spending more than 10% of income on energy to achieve adequate warmth



- Following the agreement of the new *Energy Efficiency Directive*, the UK Government is developing a new *Energy Efficiency Strategy*.
- The UK Government has placed obligations on energy companies to deliver energy efficiency programmes. *The Carbon Emissions Reduction Target* (CERT) and *Community Energy Saving Programme* (CESP) will be replaced by the *Energy Company Obligation* (ECO) later this year.
- *Green Deal*<sup>18</sup> will complement ECO and aims to remove the upfront costs to the consumer of energy efficiency, with the cost being recouped through savings on their energy bills. In parallel, it is intended to deploy Smart Meters to every home to support consumers in managing their energy.

## **2.16 Indicative Activities / Areas for intervention**

This priority is limited to supporting renewable energy and, while the Welsh Government recognises Nuclear energy as a source of low carbon energy, the structural funds regulations specifically disallow direct investment in Nuclear energy. It is anticipated that research and development investments in Renewable Energy and Energy Efficiency will be funded through this priority, with complementary investments, direct links and common processes with the Research and Innovation priority. SMEs in the Energy and Environment sector will be eligible for business support and finance under the SME Competitiveness priority.

The priority is divided into two themes: Energy Efficiency which aims to support the delivery of climate change objectives and the sustainable development of a low-carbon economy; and Low Carbon Transition, which aims to support the broader transition to a low carbon economy through smart living, developing technologies and renewable energy sources and their use by business and communities.

### ***Theme 1 - Energy Efficiency***

#### Strategic interventions:

- Energy conservation and efficiency measures in existing housing and public buildings
- Advice, guidance and loans for businesses to improve energy efficiency and competitiveness

#### Complementary Interventions:

- Low-carbon strategies for urban areas

### ***Theme 2 - Low Carbon Transition***

#### Strategic interventions:

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<sup>18</sup> The Green Deal, UK Government Department for Energy and Climate Change. Further information available at: [http://www.decc.gov.uk/en/content/cms/tackling/green\\_deal/green\\_deal.aspx](http://www.decc.gov.uk/en/content/cms/tackling/green_deal/green_deal.aspx)

- Smart living<sup>19</sup> innovation and demonstration projects
- Targeted development and deployment of emerging and transition technologies and renewable energy sources
- Renewable energy generation schemes to improve business competitiveness in key areas (e.g. Enterprise Zones or regeneration areas)
- Alleviation of urban congestion (e.g. traffic management, developing low-carbon transport systems, promoting urban mobility)

#### Complementary Interventions:

- Support for district heating, community renewable energy schemes and low-carbon strategies in urban areas (potential to use financial instruments and align with community benefit funding)
- Smart infrastructure (e.g. grid and digital) improvements to accelerate markets and/or address market failure where a specific opportunity is identified

#### **Interventions we do not expect to fund:**

- Significant investments where the market is already established and where increases in the domestic share is not likely (e.g. most traditional on-shore wind)
- Activities which duplicate existing or legislative domestic schemes (e.g. feed-in tariffs or Green Deal)

### **2.17 Proposed indicators**

The following proposed indicators for this priority include a combination of European Commission core indicators as well as programme specific indicators. A priority level intervention logic table is included at Annex E.

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<sup>19</sup> The interface between building technologies, distributed energy sources, smart grid, smart meter and energy storage facilities. Might also include considering role for supporting integrated low carbon transport systems.

<b>Indicator</b>	<b>Measure</b>
<b>Outputs</b>	
Number of enterprises receiving support*	Number
<i>Of which</i>	
receiving grants*	Number
receiving financial support other than grants*	Number
receiving non-financial support*	Number
Number of enterprises cooperating with supported research institutions*	Number
<b>Results</b>	
Number of new enterprises supported*	Number
Number of enterprises supported to introduce new to the market products*	Number
Number of enterprises supported to introduce new to the firm products*	Number
Private investment matching public support to enterprises*	Euro
<i>Of which</i>	
Grants*	Euro
Non-grants*	Euro
Employment increase in supported enterprises*	FTE*
Private investment matching public support in innovation or R&D projects*	Euro
Additional capacity of renewable energy production*	MW
Number of new researchers in supported entities*	FTE*
Number of households with improved energy consumption classification*	Number
Decrease of primary energy consumption of public buildings*	kWh/year
Number of additional energy users connected to smart grids*	Number
Estimated decrease of GHG*	Tons of CO <sup>2</sup> eq
Energy saved	GWh

\* Denotes Commission Core indicator

## **2.18 Horizontal Issues**

### (A) Targeting and Investment Principles

Programme targeting and investment principles are described in Chapter 1. In addition to these, all projects will be expected to include detail on how they will consider: contributions to the development of supply chains and the capacity of

indigenous business to meet demand; and the potential to incorporate activities seeking behaviour change as a means to increase the impact and sustainability of investments. Eco-innovation should be a key feature of projects under this priority.

### (B) Cross-Cutting Themes

In line with the Welsh Government's clear commitment to sustainable development, including equality and inclusion, and tackling poverty the programme should be implemented in a way which ensures opportunities are not lost to exploit and strengthen economic, social and environmental outcomes.

There are clear opportunities for this priority to make significant contributions to sustainable development goals through promoting renewable energy generation and energy efficiency measures and addressing fuel poverty.

### (C) Links to other funds and programmes

Better links and complementarity will be sought between, and across, programmes in programme design and delivery mechanisms. Examples of links with other programmes and priorities are shown at Annex C.

This priority in particular will be expected to demonstrate close links with the Research, Development and Innovation priority, the Infrastructure Priority and the Rural Development Plan actions to promote renewable energy and energy efficiency. There will also be links with the Horizon 2020 research programme as one of the grand challenge areas.

## **Skills - East Wales**

### **2.19 Aim**

To invest in targeted skills interventions for workforce development, supporting progression in employment and helping tackle in-work poverty.

### **2.20 Rationale for Interventions**

Investing in skills continues to be a key driver in the development of a modern knowledge-based economy, helping economies achieve sustainable growth and a flexible and adaptable workforce. Ensuring that employers have a suitably qualified workforce now and in the future, and that skills development and attainment levels are aligned with growth activity is a key driver for sustainable economic development.

Higher levels of qualification are associated with higher levels of employment, and higher wages. The labour market demand for employees with higher skills is likely to grow as more high skilled jobs are created within the economy. Individuals with higher skills can also be insulated from impacts of economic fluctuations and have improved labour market mobility. The proportion of people of working age with NQF level 4 and above is relatively high in East Wales compared to West Wales and the Valleys and has been steadily increasing.

There are however significant numbers of people in East Wales with no qualifications. These individuals are much more likely to be unemployed or become unemployed due to economic fluctuations than those with qualifications, even if the qualifications are not at a high level. The socio-economic analysis shows that unemployment has increased more amongst those with a low level or no qualification as a result of the recession than those with qualifications at level 4 or above. The employment rate for those with skills at level 4 or above has remained broadly constant, despite the recession.

As is suggested above there is a link between skills and sustained employment. This link suggests that qualifications offer employees a form of protection from external economic influences. This has been referred to as the 'insulation effect', With the programme period more likely than not to cover a period of economic turbulence, it is arguably more important than ever that the insulation effect is available to as many in the workforce as possible, so as to maintain (at least) or improve (at best) the East Wales employment rate through an uncertain economic landscape

In addition to the 'insulation effect', improving the skills of the work force will give those employed in entry level posts opportunities to progress and earn more money, helping to alleviate in work poverty for those individuals and increasing vacancies at entry level for the unemployed, reducing unemployment. To achieve maximum impact the interventions in skills must be aligned to the needs of the business and labour market intelligence. Given the limited nature of the resources available for East Wales, it is particularly important that a demand led, sector based approach is taken to the provision of skills.

To achieve the 'insulation effect' for the highest number of people, basic skills remain a priority, to improve workers' abilities along with employer adaptability and to aid progression within the workplace. A balance will need to be struck between the needs of individuals to improve basic skills at a more general level and the delivery of higher level and subject specific skills. All projects will be encouraged to aspire to NQF level 2 or above, whilst recognising the importance of basic skills within the workplace as a key first stage in an individual's development.

Progression through skills development can improve income levels and help address in-work poverty. Poverty also has a negative correlation with educational attainment and skills. Children from poorer or disadvantaged backgrounds and whose mothers have no qualifications have lower educational and occupational outcomes than other children. Interventions should look to exploit the opportunities skills investments can bring to tackle poverty, especially in-work poverty, and increase inclusion into the labour market.

Skills development of a workforce offers significant benefits to the employer, providing greater flexibility to adapt to short term issues such as annual leave or sickness and long term challenges such as emerging markets and sectors or economic change. Other benefits include improved productivity and improved staff retention.

Women continue to be underrepresented in senior positions and in growth sectors and large proportions earn below two thirds of the average national income. Women are more likely to be economically inactive than males and women are more likely to have caring or childcare responsibilities. Interventions will address gender inequalities, to target non traditional employment options. Efforts should be made to help address gender segregation in the workplace and achieve greater equality of opportunity at work. Employers should be supported to achieve a cultural change to a more diverse, inclusive and flexible workforce. Specific actions will continue to be required to support the opportunities for women and men in the workforce, especially in support of equality of opportunity and progression to senior levels.

Evidence has shown that gaps in attainment amongst some recognised equality groups continue in the programme area. Appropriate measures will need to be taken to address the needs of those who are, or are at risk of, social exclusion such as lone parents, people with caring responsibilities, people with disabilities, people from BME backgrounds, recognised equality groups, marginalised communities and groups and individuals from disadvantaged backgrounds.

## **2.21 Policy Context**

Policies relevant to the programme as a whole can be found at Annex B. The following section includes policies with specific relevance to this priority.

### EU Policy Context

- *Europe 2020*

The Europe 2020 strategy includes a European Union (EU) wide target for participation in tertiary education (that 40% of EU citizens aged 30-34 will have participated in tertiary education), and a number of other Europe 2020 targets on employment, poverty and Research and Development (R&D). Skills at all levels underpin any strategies to address these targets within Wales.

- *New Skills for New Jobs.*

This Europe 2020 flagship initiative outlines an agenda to modernise labour markets by facilitating labour mobility and the development of skills with a view to increase labour participation and better match labour supply and demand.

### Welsh Government Policy Context

- *Priorities for Skills*

The Welsh Government's Skills Delivery Narrative, revises provisions within *Skills that Work for Wales*, to take account of changes in the policy landscape, including the Programme for Government, and the economic climate which has seen an increase in unemployment and economic inactivity, particularly amongst young people.

- *Tackling Poverty Action Plan*

The Welsh Government has committed to tackling poverty in Wales and within the context of the Poverty Action Plan this priority will encourage the development of broader initiatives to target issues of in-work poverty encouraging and supporting progression to both increase income levels amongst participants and free up entry level jobs for those who are unemployed.

- *Strategic Equality Plan*

This priority will encourage the development of initiatives which help to address and combat inequality of groups covered by the Equality Act 2010.

*Delivering a Digital Wales, Science for Wales and the Innovation Strategy* (currently in development) are other key Welsh Government policies which will guide the implementation of this Priority.

## **2.22 Indicative Activities / Areas for Intervention**

The Skills priority for East Wales will invest in sector based and employer driven approaches to skills interventions in the workforce to support economic growth and progression in employment. Investments will provide a focused response to the needs of business across Wales, maximising the impact of limited resources to deliver workforce skills interventions and to support the development of a strong and vibrant economy.

The levels of funding available to East Wales will require significant focus on a small number of actions to support employers and individuals in East Wales. To achieve

the sustainable impact required interventions must align with areas of growth and other investment.

The Skills priority will form a coherent strategy with the Youth Employment priority for the delivery of a targeted response to the needs and opportunities in East Wales with business orientation as an overarching principle.

Strategic interventions:

- Apprenticeships and actions to encourage entry to apprenticeships.
- Targeted interventions to improve access to basic and functional skills provision (numeracy and literacy) and vocational skills for employees within and outside the workforce, with a focus on progression to NQF level 2 or above, in order to support skills development of the workforce.

Complementary interventions:

- Interventions which promote gender equality in the workplace, tackle gender stereotypes and address the gender pay gap and career progression opportunities especially among women and women at senior levels.

**Interventions we do not expect to fund:**

- Training which is geared to compliance requirements of the employer rather than the development of the individual.
- Interventions which are purely social in nature with little prospect of delivery of improved skills outcomes.
- Learning which relates to personal interests and leisure pursuits, rather than to the workplace.

**2.23 Proposed indicators**

The following proposed indicators for this priority include a combination of European Commission core indicators as well as programme specific indicators. A priority level intervention logic table is included at Annex E.

<b>Indicator</b>	<b>Measure</b>
<b>Outputs</b>	
Participants*	Number
<i>Of which</i>	
Employed, including self-employed*	Number
Above 54 years*	Number
With primary (ISCED 1) or lower secondary education	Number



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(ISCED 2)*	
With upper secondary (ISCED 3) or post-secondary education (ISCED 4)*	Number
With tertiary education (ISCED 5 to 8)*	Number
Migrants, minorities (including marginalised communities such as the Roma)*	Number
Disabled*	Number
Other disadvantaged*	Number
Number of projects implemented by social partners or non-governmental organisations*	Number
Number of micro, small and medium-sized enterprises supported*	Number
<b>Results</b>	
Participants in education/training upon leaving*	Number
Participants gaining a qualification upon leaving*	Number
Progression schemes for women	Number
<b>Impact</b>	
Participants with an improved labour market situation 6 months after leaving*	Number

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\* Denotes Commission Core indicator

N.B. WEFO are required to report Gender breakdown data for all the above Participant indicators

## 2.24 Horizontal Issues

### (A) Targeting and Investment Principles

Programme targeting and investment principles are described in Chapter 1. This priority will also reflect an emphasis on:

- Responding to the workforce needs of businesses and sectors across Wales.
- Encouraging all participants to aspire to NQF level 2 or above whilst recognising the importance of basic skills within the workplace and as a key first stage to an individuals' development.

### (B) Cross-Cutting Themes

In line with the Welsh Government's clear commitment to sustainable development, including equality and inclusion, and tackling poverty, the programme should be implemented in a way which ensures opportunities are not lost to exploit and strengthen economic, social and environmental outcomes.

All projects will need to assess the implications of interventions on both men and women, and recognised equality groups ensuring that promoting equality is an integral part of project design and delivery. Projects supported through this priority will support gender mainstreaming actions through gender specific activities and affirmative action, whenever men and women are in a particular disadvantaged position.

#### (C) Links to other funds and programmes

Both the European Commission and Welsh Government have recognised the significant potential to add value and increase the effectiveness of the future programmes through encouraging better links and complementarity between, and across, programmes. Consideration will also be given to adopting delivery mechanisms which will facilitate the creation of those links. Skills will play an important role in underpinning much of the economic growth and development aspirations within the wider Structural Funding programmes. Examples of links with other programmes and priorities are shown at Annex C.

## Youth Employment - East Wales

### 2.25 Aim

To address rising levels of youth unemployment, encourage inclusion and engagement and address drivers of poverty in our young people.

### 2.26 Rationale for Interventions

The economic downturn of the last few years has had a significant impact on youth employment. Young people are finding it harder to access work and move from education into employment in a highly competitive labour market which is becoming more congested as people work later in life. Work experience can be a key factor in supporting this transition. Competition in the labour market puts a sharper focus on the need to address the issues of those who are disabled or disadvantaged and for those who are NEET, or at risk of becoming NEET, to increase attainment levels, reduce early school leaving and prevent further disadvantage. Europe 2020 sets a target to reduce the share of early school leavers to below 10%. Early School leaving in Wales is at 18.2% (where only lower level secondary education is completed).

Youth unemployment (16-24), at 20.8%, is higher in East Wales than the UK and EU27 averages. The unemployment rate in East Wales (16-64) is 7.8%. There is clearly a need to focus investment to tackle this issue in order to prevent the high levels of youth unemployment leading to longer term labour market challenges. Tackling youth unemployment as part of a wider approach to addressing the future opportunities of our children and young people will support actions to prevent poverty through worklessness.

The definition of 'young people' has been extended to 24 years of age (from 19) to avoid artificial cut off points in interventions as an individual moves from education into sustainable employment, reducing the risk of becoming NEET and ensuring interventions can tackle the key transition points to achieve sustained employment.

Young people growing up in poverty are vulnerable in a number of different ways. They are at risk of poor educational attainment, are more likely to have poor health outcomes, and are likely to have lower skills and aspirations. They are more likely to be low paid, become unemployed and become welfare dependent in adulthood<sup>20</sup>. However, it is recognised that there are many highly complex and interdependent factors which influence development. ESF interventions, structured within a wider policy context, to reduce poverty and enhance social inclusion will support wider approaches to tackling deprivation and enhancing the developmental outcomes for our young people.

The Welsh Index of Multiple Deprivation (WIMD, 2011) shows there are 62 areas in East Wales which fall within the top 10% most deprived areas of Wales, 37% of the 'top 10 most deprived' group. Targeting areas of deprivation within the 'more developed region' of East Wales alongside wider deprivation focused interventions

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<sup>20</sup> 2011 Children and Young People's Wellbeing Monitor for Wales

will help to target resources to areas of greatest need such as the Flying Start and Community First areas.

The European Commission Youth Opportunities Initiative aims to support young unemployed people to return to school or enrol in vocational training for in demand skills and help graduates get first work experience. Whilst the focus of this initiative is mainly around the 18-24 age group, it is the Welsh Government's view that many underlying issues which affect young people's attainment and employability need to be addressed at an earlier age, such as poor aspirations, attainment fall-off at transition points and low uptake of STEM (Science, Technology, Engineering and Mathematics) subjects, particularly amongst girls. A case can be made that indicators for those at risk of becoming NEET can be detected as early as age 7.

The approach to this priority is in line with the UK country specific recommendations on the Europe 2020 objectives, which recommend that we, as the government, should take steps to; ensure that a higher share of young people enter the labour market with adequate skills; improve the employability of 18 to 24-year-olds, particularly those who left education or training without qualifications; and, address skill shortages by increasing the numbers attaining intermediate skills in line with labour market needs.

A key challenge will be the effective use of interventions to respond to labour market demands to identify and exploit growth opportunities and continue to enhance the competitiveness of the area. Projects will be responsive to the needs of the economy, enhance the utilisation of labour market information and improve links with employers to ensure that skills and career aspirations of our young people are consistent with employer demand and emerging growth opportunities.

Helping young people shape their future offers an opportunity, not only to support future growth and prosperity but to positively reinforce choices and actions which help to break down traditional gender stereotypes in employment and learning and broaden horizons for non traditional job roles or employment sectors.

Evidence shows that gaps in employment and attainment amongst young people from recognised equality groups continue in the programme area. Appropriate measures will need to be taken to address the needs of those who are, or are at risk of, social exclusion such as teenage mothers and lone parents, people with caring responsibilities, people with disabilities, people from BME backgrounds and recognised equality groups, marginalised communities and groups and individuals from disadvantaged backgrounds.

Ongoing changes in the UK Government Welfare system will bring challenges to the implementation of the youth employment agenda within this priority. Interventions will need to complement mainstream delivery whilst avoiding duplication. This will require a certain amount of flexibility to adapt to the changing environment.

## **2.27 Policy Context**

Policies relevant to the programme as a whole can be found at Annex B. The following section includes policies with specific relevance to this priority.

## EU Policy Context

### EU 2020 Flagship Initiatives

- *New Skills for New Jobs.*

An agenda to modernise labour markets by facilitating labour mobility and the development of skills with a view to increasing labour participation and to better match labour supply and demand.

- *Youth on the Move.*

A comprehensive package of policy initiatives on education and employment for young people in Europe.

- *Youth Opportunities Initiative.*

The Initiative is a set of measures, planned for 2012 and 2013, to reduce youth unemployment. It is part of the EU's Youth on the Move education and employment initiative.

## Welsh Government Policy Context

- *Tackling Poverty Action Plan*

In the context of the Tackling Poverty Action Plan, this priority will encourage the development of broader initiatives which support young people to achieve their full potential breaking the cycle of poverty and preventing the adults of the future falling into the poverty trap.

- *Youth Engagement and Employment Action Plan*

This outlines the Welsh Government's approach to preventing children and young people from disengaging from learning and supporting them with entry to the labour market. The overall aim of the plan is the reduction of the number of young people who are, or at risk of becoming, not in education, employment or training in Wales.

- *Strategic Equality Plan*

This priority will encourage the development of initiatives which help to address and combat inequality of groups covered by the Equality Act 2010

*Delivering a Digital Wales, Science for Wales and Priorities for Skills* are other key Welsh government policies which will guide the implementation of this priority.

## **2.28 Indicative Activities / Areas for Intervention**

Ensuring our young people have the skills and opportunities to achieve sustainable employment will be the driving principle throughout this priority.

The priority provides a focused framework for the investment of ESF funding in the educational attainment and employment opportunities of our young people. Young people will become the adults of our future. Investing the limited level of funding for East Wales in this future will ensure a sustainable impact and help break cycles of poor attainment, rising youth unemployment and poverty. Prioritisation must clearly target this investment where the need is greatest and must link delivery with wider interventions targeting young people.

The main focus of the priority will be to address the rising levels of youth unemployment in East Wales, supporting young people to gain the skills and competencies required to achieve sustainable employment. The priority will also deliver early action to combat disaffection and tackle the incidence of NEETs. This will have a geographic focus on areas of need, preventing young people from falling out of education and re-engaging them where this has already happened.

The Youth Employment priority will form a coherent strategy with the Skills priority for the delivery of a targeted response to the needs and opportunities in East Wales.

This priority will invest in young people as a catalyst for sustainable efforts to address long standing societal issues of attainment and poverty where it is most needed. Concentration of resources in this way will maximise the limited resources available in East Wales to achieve a sustainable and long term impact on poverty. For this to be achieved interventions will have to work with wider ESF, Welsh Government and societal actions to address poverty in Wales.

#### Strategic interventions:

- Actions to help those who are, or at risk of becoming, NEET to continue or re-engage with education, to develop their skills and attainment, to make more effective career decisions and to gain access to the alternative curriculum.
- Actions to assist young people to gain the skills, competencies and experience required to access sustainable employment (including self-employment, and compete in a competitive work environment.

#### Complementary interventions:

- Interventions which remove the barriers to learning, help create independence, and provide individual mentoring and advocacy advice to young people from specific groups including young offenders, young people from Black and Minority Ethnic (BME) communities, teenage mothers and young disabled people or with special educational needs or care leavers.

#### **Interventions we do not expect to fund:**

- Statutory or well established activities of education, youth and other mainstream services.

- Programmes for large cohorts which fail to tailor interventions to the assessed needs of individuals.

## 2.29 Proposed indicators

The following proposed indicators for this priority include a combination of European Commission core indicators as well as programme specific indicators. A priority level intervention logic table is included at Annex E.

<b>Indicator</b>	<b>Measure</b>
<b>Outputs</b>	
Participants*	Number
<i>Of which</i>	
Unemployed, including long-term unemployed*	Number
Long-term unemployed*	Number
Inactive*	Number
Inactive, not in education or training*	Number
Below 25 years*	Number
With primary (ISCED 1) or lower secondary education (ISCED 2)*	Number
With upper secondary (ISCED 3) or post-secondary education (ISCED 4)*	Number
With tertiary education (ISCED 5 to 8)*	Number
Migrants, minorities (including marginalised communities such as the Roma)*	Number
Disabled*	Number
Other disadvantaged*	Number
Number of projects implemented by social partners or non-governmental organisations*	Number
Number of micro, small and medium-sized enterprises supported*	Number
Employers collaborating with education/training providers	Number
Systems developed	Number
<b>Results</b>	
Inactive participants engaged in job searching upon leaving*	Number
Participants in education/training upon leaving*	Number

Participants gaining a qualification upon leaving*	Number
Participants in employment, including self-employment, upon leaving*	Number
Participants gaining other positive outcomes	Number

### **Impact**

Participants in employment, including self-employment, 6 months after leaving	Number
Participants with an improved labour market situation 6 months after leaving*	Number

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\* Denotes Commission Core indicator

N.B. WEFO are required to report Gender breakdown data for all the above Participant indicators

## **2.30 Horizontal Issues**

### (A) Targeting and Investment Principles

Programme targeting and investment principles are described in Chapter 1. This priority will emphasise:

- The development of projects as part of wider strategies, actions and approaches which target young people, poverty, inclusion and deprivation at a thematic or geographic level.
- Encouraging all participants to aspire to NQF level 2 or above whilst recognising the importance of basic skills as the first step for those furthest from the labour market.

### (B) Cross Cutting Themes

In line with the Welsh Government's clear commitment to sustainable development, including equality and inclusion, and tackling poverty, the programme should be implemented in a way which ensures opportunities are not lost to exploit and strengthen economic, social and environmental outcomes.

All projects will need to ensure equality issues, such as tackling the gender imbalance in take up of STEM subjects, challenging traditional employment roles for both men and women and assisting both to take up and retain employment in non-traditional areas, are mainstreamed within project delivery

### (C) Links to other funds and programmes

Both the European Commission and Welsh Government have recognised the significant potential to add value and increase the effectiveness of the future programmes through encouraging better links and complementarity between, and across, programmes. Consideration will also be given to adopting delivery



mechanisms which will facilitate the creation of those links. Examples of links with other programmes and priorities are shown at Annex C.

Early years interventions must be delivered as part of more holistic family based interventions within the ESF programme and wider Welsh Government strategies.

## CHAPTER 3: THE CROSS CUTTING THEMES

### Introduction

- 3.1 The General Regulations for the 2014 – 2020 Programmes stipulate that a more consistent approach to the cross cutting themes (CCTs) must be adopted across the four funds that fall within the scope of the new Common Strategic Framework (ERDF / ESF/ EAFRD/ EMFF). The aim is to engender a consistent, coordinated approach across each of these instruments. The draft regulations indicate that the Cross Cutting Themes that must be supported in future programmes are **Equal Opportunities** (Article 7 Promotion of equality between men and women and non-discrimination) and **Sustainable Development** (Article 8).
- 3.2 Article 7 contains a description of specific actions required to promote equal opportunities and to prevent discrimination based on sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation during the preparation, design and implementation of the operational programme. There is a requirement to take account of the needs of the various target groups, at risk of discrimination: for example the need to ensure accessibility for disabled persons. There is also a need for programmes to describe how equality between men and women is to be promoted and where appropriate, the arrangements that will be put in place to ensure the integration of gender perspectives.
- 3.3 Sustainable Development is derived from the globally accepted original Brundtland Report from 1987, which defines the concept as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". For the programmes, Article 8 of the draft Regulation 2011/0276 explicitly requires the Welsh Structural Funds to be "pursued in the framework of sustainable development" whilst emphasising the need to "ensure that environmental protection requirements, resource efficiency, climate change mitigation and adaptation, disaster resilience and risk prevention and management are promoted in the preparation and implementation of programmes".
- 3.4 The Programme of Government sets out the Welsh account of sustainable development, namely "an emphasis on social, economic and environmental well-being for people and communities; embodying our values of fairness and social injustice. We must also look to the longer term in the decisions we make now, to the lives of our children's children as well as current generations".
- 3.5 In addition to the CCTs identified within the General Regulations, the 2014 Programmes will also need to ensure that other horizontal principles are embedded into project activity. The EU Platform Against Poverty & Social Exclusion (Europe 2020 Flagship Initiative) includes a commitment that EU programmes will increase their focus on **Poverty and Social Exclusion** with the goal of reducing the number of people in poverty / social exclusion by 20 million by 2020. The commitment to promote social inclusion and combat poverty is reflected as a thematic objective across EU Common Strategic

Framework funds in the draft EU programme regulations and is a key commitment made by the Welsh Government through its Tackling Poverty Action Plan. The requirement to consider an integrated approach to tackling poverty and social exclusion is also contained within the Member State Partnership Agreement and the Operational Programmes will also be required to demonstrate how they contribute to this integrated approach.

- 3.6 The following section introduces the two mandatory CCTs of equal opportunities and sustainable development and the proposed third Welsh CCT, tackling poverty. The section outlines the rationale for intervention; the current policy and legislative context; the key CCT objectives for Wales and the strategy for implementation, monitoring and evaluation of the cross-cutting themes in the 2014–2020 programmes.

## **Overview**

- 3.7 Since the start of the Structural Funds programmes 2000–2006 the cross-cutting themes have been set within an evolving policy context. The Welsh Government has developed policies across the range of its statutory responsibilities including tackling poverty and equality of opportunity. Each of these link directly to the cross-cutting themes in the Structural Fund programmes. The commitment to promote social inclusion and combat poverty is reflected as a key commitment made by the Welsh Government through its Tackling Poverty Action Plan.
- 3.8 The CCTs, (also referred to as horizontal themes) touch on general principles such as democracy, equality, sustainability and good governance. They require action in multiple fields and as such need to be integrated into all areas of the programmes and be addressed in the dialogue on development of the programmes.
- 3.9 It is important to identify and address issues in an integrated way, since it is less effective to tackle issues in isolation e.g. capital projects such as a road development, where there is the obvious need to mitigate adverse impacts but also to consider the opportunities to add value to the project through the CCTs, for example by promoting the use of utilization plans with contractors.
- 3.10 The aim of the CCTs is to improve the quality and legacy from each project and to add value to the European Union as a whole. The nature of the cross-cutting themes means there is nearly always more that can be achieved to further their implementation.
- 3.11 The picture of integrating the themes in Wales is one of steady progression and improvement over previous programmes. Increased awareness, positive developments in legislation and policy, matched by changes in attitudes, has combined with lessons learned and a clear focus from the European Commission to push the agenda forward.

## Equal Opportunities and Gender Equality for Women and Men

3.12 The European Community has a long-standing commitment towards equal opportunities, and equal treatment between men and women, aiming to eliminate all forms of discrimination through a variety of instruments; joint declarations, resolutions, directives and action programmes. *Europe 2020: Inclusive Growth* is the European Commission's strategy to deliver a 'high employment economy delivering economic, social and territorial cohesion' and aims to: raise Europe's employment rates – more and better jobs for women, young people and older workers, invest in skills and training. Across Europe this seeks to achieve a 75% employment rate for women and men aged 20-64, reduce school drop-out rates to below 10%, have at least 20 million fewer people in or at risk of poverty and social exclusion and at least 40% of 30-34 year olds completing third level education.

### Rationale

- 3.13 The principles of an equal opportunity for all citizens and ensuring that no groups are excluded from society are central to Welsh Government and UK Government Policy, not least in relation to the labour market. The Welsh Government launched its Strategic Equality Plan (2012-16) and equality objectives on 2 April 2012. These highlight how in Wales the Government is fulfilling its legal obligations as well as its strong commitment to equality and inclusion. The objectives are reflected in the programme for Government and dovetail closely with the Welsh Government's Anti-Poverty Action Plan.
- 3.14 The integration of equal opportunities (in Wales the equal opportunities CCTs agenda also includes the Welsh language) is important not only for legal reasons, but also because overcoming inequalities between men and women in the labour market contributes to the overall effectiveness of the Structural Fund programmes. Developing strategies to tackle the gender pay gap and occupational segregation alongside actions to increase the numbers of entrepreneurs especially women, are key issues.
- 3.15 In addition to the need to promote gender equality in employment, there is also the need to tackle the barriers, often multiple, which many individuals experience in accessing and retaining employment. These are complex and diverse and can relate to a range of issues which include: health, ethnicity, language, (including the Welsh language) being a disabled person or older worker, having sole or primary caring responsibility for a child/children or caring for other family members, being a young person disengaged from the education system, issues concerned with sexual orientation or religious beliefs, along side the more generic issues such as lack of skills, experience, confidence, geographical location / transport issues and job opportunities.
- 3.16 It is crucial that the benefits of the Structural Funds Programmes are spread equitably to the people and communities within the region. Raising the levels of educational attainment, skills and innovation is critical to securing a successful and vibrant economy where there are high levels of economic activity with good quality sustainable jobs. Tackling the high levels of economic inactivity in the region by enabling those who face barriers (often multiple) to access

employment, and supporting those who are alienated from the employment culture to benefit from the opportunities the programmes afford, will enhance the lives of individuals, families and communities.

3.17 Ensuring people have lifelong contact with the labour market and develop the skills to progress, and working with employers to develop structures and policies that enhance the work environment for all, are key actions.

### **Policy context**

3.18 The Welsh Government launched its Strategic Equality Plan (2012-16) and equality objectives on 2 April 2012. These highlight how the Welsh Government is fulfilling its legal obligations as well as its strong commitment to equality and inclusion. The Strategic Equality Plan was developed in-line with the general duties of the Equality Act 2010, that public authorities, including the Welsh Government must have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

3.19 In developing the equality objectives, the Welsh Government engaged with individuals and organisations across Wales and the objectives are reflected in the programme for Government and dovetail closely with the Welsh Government's Anti-Poverty Action Plan.

3.20 On 1 March 2012, the Welsh Government published a new five year Welsh Language Strategy – *A Living Language: a Language for Living*. It will cover the period up to 31 March 2017 and replaced *Iaith Pawb: A National Action Plan for a Bilingual Wales* (Welsh Assembly Government, 2003). This is the Welsh Ministers' strategy for promoting and facilitating the use of Welsh. Adopting a Welsh Language Strategy is a requirement placed on Welsh Ministers by Section 78 of the Government of Wales Act 2006. This strategy confirms that the Welsh Government's vision and long-term aim is to see the Welsh language thriving in Wales. Six strategic aims were identified for the strategy:

- to encourage and support the use of the Welsh language within families;
- to increase the provision of Welsh-medium activities for children and young people to increase their awareness of the value of the language;
- to strengthen the position of the Welsh language in the community;
- to increase opportunities for people to use Welsh in the workplace;
- to improve Welsh language services to citizens;
- to strengthen the infrastructure for the language, including digital technology.

- 3.21 *The Economic Renewal*: a new direction published in 2009 sets out the Welsh Government's role in providing the best conditions and framework to enable the private sector to grow and flourish. Two of its five key priorities are: 'Making Wales a more attractive place to do business' by improving health of our working age population and getting the right balance between environment, social and economic objectives and 'Broadening and deepening the skills base' of the working population which acts as the foundation to any economy and is vital for economic growth.
- 3.22 *Tackling Poverty Action Plan 2012 - 2016*: argues that the Welsh Government's commitment to social justice and equality of opportunity makes it essential in the current climate that we continue to drive forward tackling Poverty by prioritising the needs of the poorest and protecting those most at risk of poverty and exclusion. Particular emphasis is placed on providing good quality, affordable childcare and targeted action to help people improve their skills and qualifications, recognising that the best route out of poverty is through employment.
- 3.23 The statutory Sustainable Development Scheme, *One Wales: One Planet* sets out the Welsh Government's vision of a sustainable Wales and the priority it attaches to sustainable development. This encompasses enhancing the economic, social and environmental wellbeing of people and communities in ways which promote social justice and equality of opportunity.
- 3.24 Other related policy documents and strategies include:
- Childcare Policy: Nurturing Children, Supporting Families (Feb'2011)
  - Flying Start (April 2012)
  - Getting on Together - a Community Cohesion Strategy for Wales (April 2012)
  - Violence Against Women Strategy and Action Plan 'Right to be Safe' (2010) - 6 year strategy
  - Refugee and Inclusion Strategy (April 2012) and Action Plan (June 2012)
  - Travelling to a better future: Gypsy and Traveller Framework for Action (June 2012)

## **Legislative Framework**

- 3.25 The *Equality Act* came into force in October 2010, its primary purpose to consolidate the complicated array of Acts and Regulations, which formed the basis of anti-discrimination law in Great Britain. This legislation has the same goals as the four major EU Equal Treatment Directives, (see EU Directive 2000/78/EC, 2000/43/EC, 2006/54/EC) whose provisions it mirrors and implements. It requires equal treatment in access to employment as well as private and public services, regardless of the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, race, religion or belief, sex, and sexual orientation. In the case of gender, there are special protections for pregnant women.

3.26 The Welsh Government was the first part of Great Britain (GB) to regulate to create specific duties under the 2010 Equality Act. Public sector bodies in Wales, including the Welsh Government have a statutory duty to publish Equality Objectives by 2 April 2012 and to have developed a Strategic Equality Plan as soon as possible thereafter. Wales is also unique in being the only GB Government that has a statutory obligation to carry out Equality Impact Assessments (EIAs) on all our policies, processes and practices, including our Budget.

3.27 In line with the equality principles enshrined within the Amsterdam Treaty, the Welsh Government and the National Assembly for Wales have a duty to promote equality of opportunity, as stipulated under Sections 35(2) and 77(1) of the Government of Wales Act (GOWA) 2006:

*s35(2): 'The Assembly must make appropriate arrangements with a view to securing that Assembly proceedings are conducted with due regard to the principle that there should be equality of opportunity for all people.'*

*s77(1): 'The Welsh Ministers must make appropriate arrangements with a view to securing that their functions are exercised with due regard to the principle that there should be equality of opportunity for all people.'*

3.28 The Welsh Language (Wales) Measure 2011 confirmed the official status of the Welsh language in Wales and created a new legislative framework for the Welsh language. The Measure established the office of the Welsh Language Commissioner with a general power to promote and facilitate the use of Welsh and to work towards ensuring that Welsh is treated no less favourably than English. The range of services available to the public in Welsh will be improved as a result of the Measure. This will be achieved by creating Welsh Language Standards which will impose duties on organisations who fall within the scope of the Measure.

### **Key Equality Objectives for Wales**

- Reduce the numbers of young people not in education, employment or training (NEET), including action tailored to reduce the over-representation of certain ethnic groups, care leavers and of disabled young people among those who are NEET.
- Support older workers, and those with health issues, to remain in work and continue to learn new skills which aid adaptability.
- Identify and test solutions to the pay and employment differences in Wales through which to overcome the negative impact that these have, in particular on women, disabled people and people from ethnic minority groups.
- Explore ways of reversing the under-representation of women in Science, Technology, Engineering and Mathematics (STEM) courses and the subsequent consequences arising i.e. limiting opportunities in emerging 'green' sector jobs.

- Challenge occupational segregation by increasing the numbers of women and men training or retraining in non-traditional areas, focusing on areas where there are skills shortages.
- Create an environment which supports inclusive work places, which promotes equality of opportunity for staff through improved employee engagement and for reconciliation of work and private life.
- Explore the potential for entrepreneurship and business start-up initiatives to encourage more take up from young people, women, minority ethnic and disabled people.
- Ensure access to technology is available to all, opening up employment and training opportunities and supporting independent living, particularly for people in rural areas.
- Provide affordable, quality childcare which meets the need of a modern economy and its workforce.
- Identify and support opportunities to promote and facilitate the use of the Welsh language.
- Recognise health and wellbeing as one of the corner stones of a healthy, vibrant economy.

## **Sustainable Development**

3.29 Substantial emphasis has been placed on future sustainability in the Structural Funds Regulations. *Europe 2020: Sustainable Growth* is the European Commission's strategy for a resource efficient, greener and more competitive economy and aims to: build a more competitive low-carbon economy, protect the environment, develop new green technologies, introduce smart electricity grids, harness EU-scale networks, improve the business environment and help consumers.

3.30 The European Union has set out in its Sustainable Development Strategy, how it will achieve a continuous long-term improvement of quality of life. The strategy recognises the need to move towards a better integrated approach to policy making, and the approach is based on a set of key principles of sustainable development, which include social equity and cohesion, economic prosperity, intra and intergenerational equity, involvement of citizens and policy integration.

3.31 The *Programme for Government* sets out the Welsh Government's account of sustainable development, namely:

*“an emphasis on social, economic and environmental well-being for people and communities, embodying our values of fairness and social justice. We must*



*also look to the longer-term in the decisions we make now, to the lives of our children's children as well as current generations"*

3.32 Sustainable development is at the heart of the *Programme for Government*, which is further re-enforced by a commitment that all policies and programmes exemplify this approach. In addition, it also commits to legislating to make Sustainable Development the central organising principle of the Welsh Government and public bodies in Wales; and to create an independent Sustainable Development body.

### **Rationale**

3.33 Inclusion of sustainable development as a cross-cutting theme will help to ensure that the programmes deliver the maximum possible long term benefits to the economic, social and environmental wellbeing of Wales, whilst keeping within environmental limits. It will also highlight economic development opportunities linked to the potential of the environment as an economic driver.

3.34 Along with the overarching economic objective for a sustainable economy and our social aims, a healthy environment is essential for the quality of life of the people of Wales and for a healthy economy. A high quality, attractive environment will play a key role in attracting and retaining people to live and work in Wales. It underpins Wales' tourist industry and the jobs in Wales associated with the use, management and appreciation of the natural environment. The direct and indirect effect of this employment and other spin-off jobs generates goods and services and links the environment inextricably to the economic health of Wales.

### **Policy Context**

3.35 In terms of environmental sustainability, *Sustaining a living Wales* is the Welsh Government's new approach to natural resource management in Wales and is based on the ecosystem approach. An ecosystem being defined as all the living things, in an environment, including their interactions, with each other and their environment.

3.36 In terms of Climate Change, the *Europe 2020* strategy includes: reducing greenhouse gas emissions by 20% compared to 1990 levels by 2020, increasing the share of renewables in final energy consumption to 20% and moving towards a 20% increase in energy efficiency. *The Climate Change Strategy for Wales* - October 2010, sets out how Wales intends to reduce greenhouse gas emissions and adapt to the impacts of climate change. In particular, the Strategy outlines the actions to be taken to deliver 3% annual reductions in carbon reduction-equivalent emissions in areas of Welsh competence from 2011.

### **Legislative Framework**

3.37 Currently under the *Government of Wales Act 2006* the Welsh Government has a legal duty to promote sustainable development. Welsh Ministers must report

each year on how they implemented sustainable development in their work and after every election they must also publish a report assessing how effective they have been in promoting sustainable development.

3.38 The *Programme for Government* builds on the current legislative framework by committing the Welsh Government to bringing forward A Sustainable Development Bill in the autumn of 2013. The Bill will strengthen the existing commitment by placing it on a statutory footing. The proposed legislation will make sustainable development the central organising principle of not only the Welsh Government but also the devolved public service in Wales.

3.39 The Welsh Government has also committed to bringing forward an Environment Bill in the legislative programme, to deliver against the contents of the consultation on *Sustaining a Living Wales*.

### **Key Sustainable Development Objectives for Wales:**

- Reducing greenhouse gas emissions – aim for a 30% reduction by 2020 (2011 baseline) and help to deliver the Climate Change Strategy;
- Increasing the level of renewable energy produced and reducing our dependency on fossil fuels as an energy source. By 2025, the aim is for Wales to be energy neutral, producing as much electricity from renewable sources as we consume;
- Reducing the amount of waste produced with an aim of recycling 70% of all waste by 2025 and be 'zero waste' by 2050;
- Improving water quality by reducing diffuse pollution from agriculture, acid precipitation and other sources;
- Improving the sustainability of fisheries by reducing pollution and unsustainable fishing practices;
- Promoting the sustainable management of the land, sea and inland waters;
- Improving the quality of the local built environment and opportunities to access green space;
- Better environmental management, minimising the risk of pollution and other environmental hazards, thereby safeguarding the environment and the health of communities;
- Enhance the natural and cultural environments and respect their limits – using only our fair share of the earth's resources whilst sustaining our cultural legacy
- Promote social justice and equality of opportunity through the overall sustainable development framework.

- Recognise and promote health and wellbeing as one of the corner stones of a healthy, vibrant economy.

## **Tackling Poverty and Social Exclusion**

- 3.40 The EU Platform Against Poverty & Social Exclusion (Europe 2020 Flagship Initiative), includes a commitment that EU programmes will increase their focus on Poverty and Social Exclusion with the goal of reducing the number of people in poverty / social exclusion by 20 million by 2020. The commitment to promote social inclusion and combat poverty is reflected as a thematic objective across EU Common Strategic Framework funds in the draft EU programme regulations.
- 3.41 Additionally, the Welsh Government has been clear about its expectation that integrated action would be taken in the next round of European programmes to promote social inclusion and combat poverty, contributing simultaneously to the 2020 initiative and the Welsh Government's Tackling Poverty Action Plan.
- 3.42 Actions will not be undertaken which are solely aimed at addressing the effects of poverty (such as physical or social regeneration which is not linked to economic growth, or interventions which do not lead to employment / progression outcomes). Instead, through focusing on actions which will create employment and progression opportunities, and which help people to access those opportunities, we will be focusing on tackling causes of poverty.
- 3.43 The Tackling Poverty Action Plan argues that the Welsh Government's commitment to social justice and equality of opportunity makes it essential in the current climate that we continue to drive forward tackling poverty by prioritising the needs of the poorest and protecting those most at risk of poverty and exclusion. Particular emphasis is placed on providing good quality, affordable childcare and targeted action to help people improve their skills and qualifications, recognising that the best route out of poverty is through employment.

## **Rationale**

- 3.44 Wales' 2014-2020 EU programmes will be focused on actions which are aimed at promoting economic growth, creating jobs and increasing skills. Promoting access to sustainable employment is seen as the main route for tackling poverty and social exclusion and there are also substantial economic benefits from increasing employment rates and tackling economic inactivity. Individuals in workless households are also more likely to experience persistent poverty, so actions which support this group in particular will be important, as will actions which support people to remain in work. Many other longer term benefits can also be realised from sustainable employment, for example improved health and well being and tackling disadvantage and deprivation.
- 3.45 Through supporting those in low paid, low hour or temporary jobs, together with working with employers on workforce development, employee progression and opportunities for part time workers, the issue of in-work poverty can be tackled.

The creation of high-skilled jobs and progression opportunities in an area can potentially have wider employment benefits, for example in the service sector, and have the potential to free up entry level jobs for the unemployed.

3.46 Addressing certain barriers women face in respect of employment and skills such as occupational segregation, lack of flexible employment and increased reliance on public transport to reach places of work, will contribute to addressing specific poverty risk factors for women, linked to the increased tendency of women to be in low paid, low hours jobs.

#### **Policy Context** (additional to those previously mentioned)

3.47 Tackling Poverty is a key commitment for the Welsh Government, and the Tackling Poverty Action Plan 2012 -2016, sets out how this commitment will be translated into Welsh Government action under the following headings:

- preventing poverty;
- helping people into work and;
- mitigating the impact of poverty

3.48 All Welsh Government departments are required to consider and demonstrate how their policies contribute to tackling poverty.

3.49 Wales' EU programmes will be aligned to the Welsh Government's Tackling Poverty Action Plan, contributing most directly to the "Helping People Into Work" element and, by supporting increased levels of skills and retention in employment, "Preventing Poverty".

#### **Key Tackling Poverty Objectives for Wales**

- Focus on the creation of jobs and growth providing employment opportunities for those who are out of work;
- Tackling barriers to employment such as poor skills, lack of childcare or limited transport options helping more people to access employment opportunities;
- Focusing on growth, particularly in key knowledge-based sectors - aligned with skills development interventions, enabling those experiencing in-work poverty to access more highly-skilled, better paid jobs.

#### **Implementation of the Cross Cutting Themes Strategy for the Structural Funds Programmes**

3.50 Each priority will use these objectives within the context of the activities to be funded. There is a clear opportunity for the programmes to make a significant contribution, linking a thriving economy with social welfare, gender equality, provision for disabled people and tackling barriers to work, life, balance and developing integrated approaches to assisting people who face barriers to participation; Promoting access to sustainable employment, as the main route

for tackling poverty and social exclusion along side actions which support people to remain in work and enhancing the environmental assets within Wales, while promoting the sustainable use of the environment for social and economic benefit.

3.51 Specific activities within the cross cutting theme strategy include:

- cross cutting theme targets will be set at the level of activities to be supported by the programme, providing an important driver to encourage projects to address the programmes cross cutting theme objectives;
- cross cutting theme assessment at all stages of project development;
- ongoing specialist advice will be made available to projects from WEFO and through arrangements being developed for the implementation of projects. A key objective will be to provide the specialist input at an early stage in the process to maximise take-up of the opportunities to promote the cross cutting themes;
- a programme of awareness raising and training will be provided to WEFO staff and project sponsors on how to integrate the cross cutting themes;
- activity level guidance will be prepared together with best practice case study examples that will provide specific information on how sponsors can address the cross cutting themes within their project plans;
- regular monitoring of progress, allowing for early intervention if necessary;
- update reports to PMC and other stakeholders;
- WEFO will encourage key equality, social inclusion and sustainable development organisations to be involved in an attempt to establish an effective network of specialist support.

3.52 In implementing the Structural Funds programmes, we will reflect the commitment to see the Welsh Language thriving in Wales, and to treat Welsh no less favourably than English. We will look for ways to mainstream linguistic issues into the funding programmes, including the need to include appropriate conditions with regard to the use of Welsh as funding is awarded. In light of this, we intend to assess the linguistic impact of funding programmes, and consider ways of engaging Welsh speakers with relevant funding programmes. On reflection of the results of the 2011 Census, we will also consider whether European Structural Funds Programmes can support economic development in areas where the Welsh language is in decline.

## **Monitoring and Evaluation**

3.53 There will be specialist input to the development of projects, which will provide information on how well projects are proposing to integrate the cross cutting themes. In addition, individual projects will contribute to the programmes cross cutting theme targets. These will be monitored through 'forecast' data (the targets set by projects at the outset) and 'actual' achievement (what projects actually achieve monitored through the quarterly return system). Information on appraisals and targets will provide the basis for annual reports to the PMC on progress with meeting the cross cutting theme objectives. In addition systems will be used by WEFO to monitor the soft outcomes which projects achieve in a more meaningful way, including the use of evaluation.

## **The Potential Impact of the Programmes on the Cross Cutting Themes**

- 3.54 Wales is unique in being the only GB Government that has a statutory obligation to carry out Equality Impact Assessments (EIAs) on all our policies, processes and practices, including the budget. A full Equality Impact Assessment (EIA) will be carried out to identify the potential for the programmes to have an adverse impact on any groups as identified under the 2010 Equality Act. Likewise the potential to promote further equality of opportunity will be identified through the EIA's along with an analysis of the impact on social inclusion and poverty.
- 3.55 Environmental assessment is an important tool for integrating environmental considerations into the preparation of the programmes. Directive 2001/42/EC of Article 175(1), places a statutory obligation on the Welsh Government to complete a Strategic Environmental Assessment (SEA) where the implementation of a plan or programme is likely to have a significant effect on the environment.

### **Lessons Learned**

- 3.56 Wales has made significant headway in the way it has integrated the CCTs, especially in relation to the European Structural (SF) Funds and has received very clear acknowledgement from the European Commission, that the approach taken to integrate the CCTs into the Structural Funds Programmes is commendable.
- 3.57 Likewise a number of evaluations, including the Programme Implementation Evaluation (2011) have indicated that at the headline level the integration of the CCTs is advanced. However, the delivery picture is more mixed with external factors such as the economy and a stated lack of expertise to take forward planned integration activity, cited as having led project sponsors to focus on other aspects of delivery.
- 3.58 The model used to integrate the CCTs in Wales by WEFO, has relied on early intervention with specialist staff working directly with project sponsors to realize opportunities for CCTs integration and minimise adverse impacts.
- 3.59 We now need to determine how best the model for integration used in the current funding round can be adapted and used consistently across the CSF Funded programmes for the three CCTs detailed above.

## **CHAPTER 4: IMPLEMENTATION ARRANGEMENTS**

### **Introduction**

4.1 The Programme Strategy chapter outlines the vision and aims that will underpin the future Structural Fund Programmes (2014-2020). The European Commission and our own experiences of the current round of Programmes have produced a focus on three strategic principles in order to maximise the impact of EU funding; those of concentration, integration and simplification. It is therefore crucial that these three principles direct the process of implementing the new Structural Fund programmes. The programme strategy also identifies the overarching principles that will guide future project selection. This chapter outlines some of the existing arrangements and suggests the direction we might take in some areas.

### **Lessons learned from the current Programmes 2007-2013**

4.2 In moving into the new round of Structural Fund programmes, it is important that we learn the lessons from the management and delivery of the current West Wales & the Valleys Convergence and East Wales Regional Competitiveness & Employment Operational Programmes. To this end, the Guilford Review has been commissioned to assess the current arrangements for the implementation of EU funds in Wales and to make recommendations on how future arrangements can be made more effective. Dr Guilford's final report will be produced in early 2013 which, combined with this consultation exercise, will help inform the development of the new arrangements. Given the pending Guildford Review, this chapter deliberately avoids proposing specific implementation models or options.

### **Concentration**

- 4.3 Under the current Structural Fund programmes, there has been a focus on larger, more strategic projects than those previously funded. Lessons-learned exercises have highlighted that this has produced greater alignment with Welsh Government policies, which in turn has delivered a greater concentration of EU spending on those priorities deemed key for Wales.
- 4.4 The draft new Structural Fund regulatory framework provides a strong steer for concentration through its proposal for ring fenced budgets for key Europe 2020 goals. This focus on concentration was reflected in the Deputy Minister's statement on 8<sup>th</sup> May 2012 when he emphasised the need to make difficult choices in order to achieve greater economic impact from our investments. Potential options to help achieve this could include:
- The early identification, development and implementation of key strategic projects, to underpin priorities and to deliver significant outcomes;
  - The use of focussed action plans to increase the ability of Structural Funds to concentrate funds spatially and/or by business sector in order to maximise the impact on jobs and growth.

## Integration

- 4.5 The current programming round has witnessed an increased integration between the Structural Funds. The ERDF and ESF programmes were developed together and a single Programme Monitoring Committee (PMC) was introduced, with responsibility across the West Wales & the Valleys ERDF & ESF Convergence Programmes, as well as the East Wales ERDF & ESF Regional Competitiveness Programmes. This has helped to achieve consistency across all programmes and reduced duplication.
- 4.6 The European Commission, through its proposals around the CSF, aims to promote the integration of the associated funds – Structural, Rural and Fisheries – wherever this can add value. Wales' EU programmes will be designed to work together and to be aligned with existing domestic programmes to contribute in a holistic way to the Welsh Government's strategic outcomes, as outlined in the Programme for Government. We anticipate that there will be a need for strategic project applications which will require EU investment support from across a number of CSF funds. We also wish to better integrate all European funding streams (including the EU sectoral Funds such as Horizon 2020, Connecting Europe and LIFE+) in order to maximise the potential for future interventions to produce a transformational effect in relation to jobs and growth.
- 4.7 Potential options to help achieve greater integration include:
- Development of the WEFO website to encompass all the Common Strategic Framework funds;
  - Greater integration of payment, first level control and audit systems across the Structural Funds and the Rural Development Programme where possible;
  - Early identification of areas of opportunity and innovative options for delivering on common goals across funds (e.g. through more pro-active commissioning of projects, programmes or plans);
  - Coordinating investments in geographical areas where specific growth opportunities are identified (e.g. via Sector-related developments, Enterprise Zones, City Regions etc ) to achieve greater integration and added value from planned investments and to help target other potential thematic investments;
  - Challenge mechanisms (e.g. as early part of the project prioritisation process) to ensure that considerations such as rural impact, and opportunities for transnationality & innovation are fully incorporated.



## **Simplification**

4.8 There have been numerous developments under the 2007-2013 Structural Fund Programmes designed to provide simplification. These include the harmonisation of different processes for the ERDF and ESF funds through the implementation of a new multi fund web based IT system (PPIMS). This has led to common processes, the improved exchange of documentation together with efficiency gains and quicker processes and payments to beneficiaries. Another initiative to improve simplification under the current programmes was the establishment of the Project Development Officer model. This has involved a single officer as the primary point of contact for project sponsors throughout the application, development and post-approval stages which has been widely welcomed by stakeholders.

4.9 There are a number of areas where we could continue to look to simplify processes. These include:

- The introduction of a single access point for Common Strategic Framework funds with clear signposting to relevant detailed information.
- Further enhancement of our IT systems to incorporate rural programmes;
- The continued use of the Project Development Officer “cradle to grave” model;
- Extended use of Financial Instruments & repayable grants in order to reduce potential impacts of State Aid considerations, while allowing potentially reduced budgets (such as those available for the East Wales Structural Fund programmes) to provide a longer term sustainable impact.
- Simplified cost options: It is possible that WEFO may allow or even require projects to apply flat rates, unit costs or lump sum costs for certain spend categories, such as indirect costs. Unit costs or lump sum costs would have to be agreed upfront with projects on an ex ante basis.

## **Allocation of resources between ERDF and ESF**

4.10 Wales’ Structural Fund allocations are divided between ESF and ERDF in different proportions, depending on region. The balance and values for ESF and ERDF are as follows in the current programme:

- West Wales & Valleys – ERDF 60% / ESF 40%
- East Wales – ERDF 54% / ESF 46%

4.11 The draft regulations specify that in more developed regions (i.e. East Wales), at least 52% of the overall Structural Funds allocation is required to be focused on the ESF. The minimum threshold for ESF in less developed regions (i.e. West Wales and Valleys) is 25% which is significantly exceeded in the current programmes.

4.12 Future considerations in determining the balance between the ERDF and ESF programmes will include:

- The focus of activities and the balance to be struck between skills interventions and job creation
- Intervention rates
- Final requirements in European Commission regulations – e.g. minimum proportion of ESF, State Aid regulations.

4.13 Cross-fund flexibility between the ERDF and ESF could also be used to greater effect, for example when considering skills interventions (ESF), which have a strong link to business (ERDF). The draft regulations allow for 10% of ERDF funding to be spent on complementary ESF activities within a project (and vice versa) and as negotiations on the regulations continue this flexibility might be extended across the EAFRD and EMFF.

### **Allocation of resources across West Wales and the Valleys and East Wales Programmes**

4.14 In the current programme period, East Wales' Structural Funds allocation is around £113 million, about 7% of West Wales and Valleys' Structural Funds allocation of around £1.7 billion. Assuming a broadly similar EU budget is agreed for the next programming round, and given the anticipated future categorisation of regions (West Wales – less developed, East Wales – more developed) we could see a similar scale of funding for Wales' two regions post 2013.

4.15 However, the Structural Funds element of the EU budget is likely to come under pressure during negotiations, meaning a possibility of even less funding available in the 2014-2020 programmes. It is therefore possible that the funding available in East Wales could be extremely limited.

4.16 Thematic concentration prescribed in the draft regulations means that any future ERDF programme will face particular pressures in East Wales. Of the total funding made available for East Wales, a minimum of 52% would need to be allocated to the ESF, and 80% of the remaining ERDF allocation would have to be ring-fenced on the priorities of SME Competitiveness, Low Carbon Economy and Research & Innovation: leaving extremely limited resources available for any activity outside the scope of these priorities (potentially as little as circa £10 million over a 9 year period).

4.17 Investments made through the East Wales programme will therefore inevitably need to be more focused and limited in number. Funding multiple projects would also result in incurring administrative and management costs for every project, further depleting a small programme budget.

4.18 Potential options to consider in deciding where to best focus/concentrate the East Wales programme resources might include:

- Focusing all resources on extending one or two West Wales & Valleys projects each for ERDF and ESF, to create pan-Wales projects.
- Focusing on specific geographical areas of opportunity or need – e.g. Enterprise Zones, a potential City Region, or a limited number of deprived areas.
- Achieve concentration by further limiting the proposed number of interventions contained within the ESF and ERDF programmes in East Wales.

4.19 The draft regulations make provision for resources to be transferred between categories of region (i.e. between more and less developed regions) of up to 3% of the regional allocation. If applied from West Wales and Valleys to East Wales, based on current allocations, this could increase the East Wales budget by around £50m. This is significant given the funding constraint anticipated and detailed above. Opting to do this would however require careful consideration in respect of:

- The outcomes which would be arise from this additional resource; and
- Impact on West Wales and Valleys programme and area if resources are moved to East Wales

### **Programme Monitoring Committees**

4.20 The Structural Fund regulations require that programmes have a Programme Monitoring Committee (PMC), while also allowing for a single Monitoring Committee to be set up for several operational programmes or a single Committee for all funds supported by the CSF.

4.21 The core role of the PMC is to have oversight of the effectiveness and quality of the operational programmes. The PMC reviews implementation of the programmes and progress towards achieving objectives. They must also examine issues that affect programme performance and must be consulted and issue an opinion on any amendment of the programmes.

4.22 In the current programming round, a single All-Wales PMC serves all four Structural Funds programmes. A separate PMC is established for the cross-border programme with Ireland. There are around 20 PMC members and they have been chaired by an Assembly Member nominated by the Deputy Minister for Agriculture, Food, Fisheries and European Programmes.

4.23 PMC Membership is composed of representatives of the managing authority (WEFO) and representatives of key partners, including representation from the public, private and voluntary sectors. All PMCs have full members and alternates with gender balance as a key aspiration.

4.24 It is possible to set up a single monitoring committee for all 2014-2020 Welsh managed programmes co-financed by the CSF. The Welsh Government is committed to exploiting opportunities to harmonise the implementation, integration and impact of CSF funds in Wales and will therefore consider

stakeholder's views on whether a single PMC is beneficial or whether a Structural Funds PMC – as in 2007-2013 programmes – continues to be the best option.

- 4.25 It is proposed that the new PMC, if established, will take on residual responsibility for the management of the 2007–2013 Structural Funds programmes.

### **Partnership Arrangements**

- 4.26 In accordance with the requirements of the draft Regulations, future programmes will be developed, implemented and monitored in partnership with key stakeholders. There has been extensive engagement with partners in the development and drafting of the West Wales and Valleys and East Wales structural fund programmes. Four workstreams comprising policy experts in a range of fields have been operational since the spring of 2012, alongside the European Programmes Partnership Forum representing the main stakeholder interest groups. Experts from the workstreams have contributed to the proposals in this document and to the programme management arrangements, including future guidance, monitoring and audit arrangements. Similar arrangements exist for the rural programmes led by the RDP Advisory Group.
- 4.27 Local partnerships have played an important role in supporting the implementation of the current programmes. We intend to look to extend this partnership arrangement in a more way joined up way by considering the role that existing groups and others can play in helping to facilitate the integration of funding streams.

### **Communications, Information and Publicity**

- 4.28 Regulations require a Communications Strategy and associated Implementation Plan for the Structural Funds programmes agreed by the European Commission. The Implementation Plan for the Communications Strategy will set out the overall aims and target audience; a programme of information and publicity activity; available resources and methods of delivery; the responsibility for delivering the activity and ways in which the activity will be monitored and evaluated.
- 4.29 Communications activity will explain the funding opportunities offered by the 2014–2020 Structural Fund programmes, together with raising awareness of how they will benefit West Wales and the Valleys, and the role of the European Union in regional development in Wales. In line with the guiding principles of better integration of the EU funds and simplifying access to funds, communications activities will also seek ways of co-ordinating the publicity and achievements of EU investments. Technical Assistance funds will be accessed to support WEFO's work on the dissemination of information, publicity and communications.
- 4.30 WEFO will also ensure that adequate Publicity Guidelines are available for project sponsors. WEFO will work with project sponsors to ensure that they are

meeting the requirements to publicise the funding received from Structural Fund programmes placed on them by Regulations.

## **Monitoring and Evaluation**

- 4.31 The performance of the CSF Funds will be monitored by the relevant teams within the European Programme Group, with WEFO acting as Managing Authority for the Structural Funds, and assisted by the PMC. Progress will be monitored against the objectives and targets set for individual priorities, grossed up to programme level.
- 4.32 As well as the outcome indicators WEFO will also use some tracking indicators to accompany the monitoring of individual priorities to ensure that broader trends in economic performance and structural changes in the economy are taken into account in the evaluation of the effectiveness of the Programmes.
- 4.33 At priority level, a range of indicators will be used to monitor both outputs (activity) and results. These indicators have been selected carefully to reflect the intention of individual priorities, focusing on key outputs and results and using the Commission's core indicators as appropriate. The proposed indicators have been developed taking into account the relevant guidance from the various Directorates within the European Commission.
- 4.34 Building upon the improvements made to the 2007-13 monitoring system, there is recognition that fewer but better indicators will improve the quality of the data and reflect the concentration of resources within the programmes. Guidance has also been developed on indicator definitions and data collection methods.
- 4.35 The Managing Authority will undertake programme-level evaluations which will help to improve the quality, effectiveness and consistency of the assistance from the funds. These evaluations will assist with the implementation of the programme, taking account of sustainable development and relevant environmental legislation. The ex-ante evaluation will be completed before the start of the next round of programmes and the ex-post afterwards. During the programming period European Programmes Group will undertake evaluations of both a strategic and operational nature to assess the impact of the programme through a series of evaluations. Technical Assistance will be used to facilitate research and evaluation. All evaluations will be guided by an Evaluation Advisory Group consisting of internal and external partners.

## **Audit Arrangements**

- 4.36 The programmes will receive considerable European and domestic public funds and accountability for these funds is paramount. The European Commission is required to report to the European Parliament and, in turn, will require assurances from the Welsh Government on how the money is spent. Part of the arrangements for management of the programme is the designation of an independent Audit Authority that will carry out audits of the Managing and Certifying Authorities, alongside audits of projects. The results of these audits will be reported to the Commission.

- 4.37 The Audit Authority will be the Welsh Government Corporate Governance and Assurance Division, who carried out the same role for the 2007-2013 Welsh Structural Funds programmes.
- 4.38 Over the period of the new programmes, the Audit Authority will carry out a series of audits. These will fall broadly into two types. One will focus on the management and control systems for administering the programme. These will concentrate on WEFO's central role, but it will also involve any other bodies that are significant in the administration.
- 4.39 The second type will cover how well grant recipients are complying with European Commission and UK regulations. These will involve on-site visits to grant recipients and will cover a wide range of areas, including publicising the European funding, arrangements for achieving value for money, verifying that project outcomes have been achieved and compliance with rules on expenditure.

### **Technical Assistance**

- 4.40 Technical Assistance is an essential resource for supporting the effective delivery of the Programme. Much progress has been made in the 2007-2013 programmes to enhance Wales' reputation and ability to deliver structural funds effectively and strategically, and in the development of internationally recognised robust administration systems. Going forward it is proposed that Technical Assistance will continue to be utilised in the effective delivery of programmes.
- 4.41 Technical assistance actions in the 2007-13 programmes supported a shift to a more strategic approach to project delivery. The delivery of the 2014-2020 programmes requires a greater alignment of Structural Funds investments through the concentration of resources to achieve sustainable outcomes for jobs and growth. The European Commission are calling for greater integration of CSF funds and wider domestic and European investments. Technical Assistance in the new programmes will continue to support key parts of the implementation process to build on the current systems and ensure the new programmes achieve the integration, concentration and focus required.
- 4.42 Integration of funds will bring new administrative challenges for Managing Authorities. In Wales there are a number of key areas which will be developed further to support the wider integration agenda which will include:
- Strengthening financial appraisal capacity and compliance controls
  - Better use of external expertise to inform project appraisal
  - Enhanced integrated ICT systems
- 4.43 Technical assistance will play a role in supporting this integration generally and wider integrated approaches to delivery in Wales.

4.44 The draft regulations allow for Technical Assistance to support the preparation, management, monitoring, evaluation, information and communication, networking, complaint resolution, and control and audit activities for an operational programme as well as actions to reinforce the administrative capacity for implementing the funds.

4.45 It is proposed that Technical Assistance (2014-2020) actions will be delivered within the following broad areas;

- Programme Management
- Monitoring and Control
- Technical Input to Implementation
- Research, Monitoring and Evaluation
- Information and Publicity
- Control Activities and Reinforcing Administrative Capacity