

ANNEX A – ANALYSIS

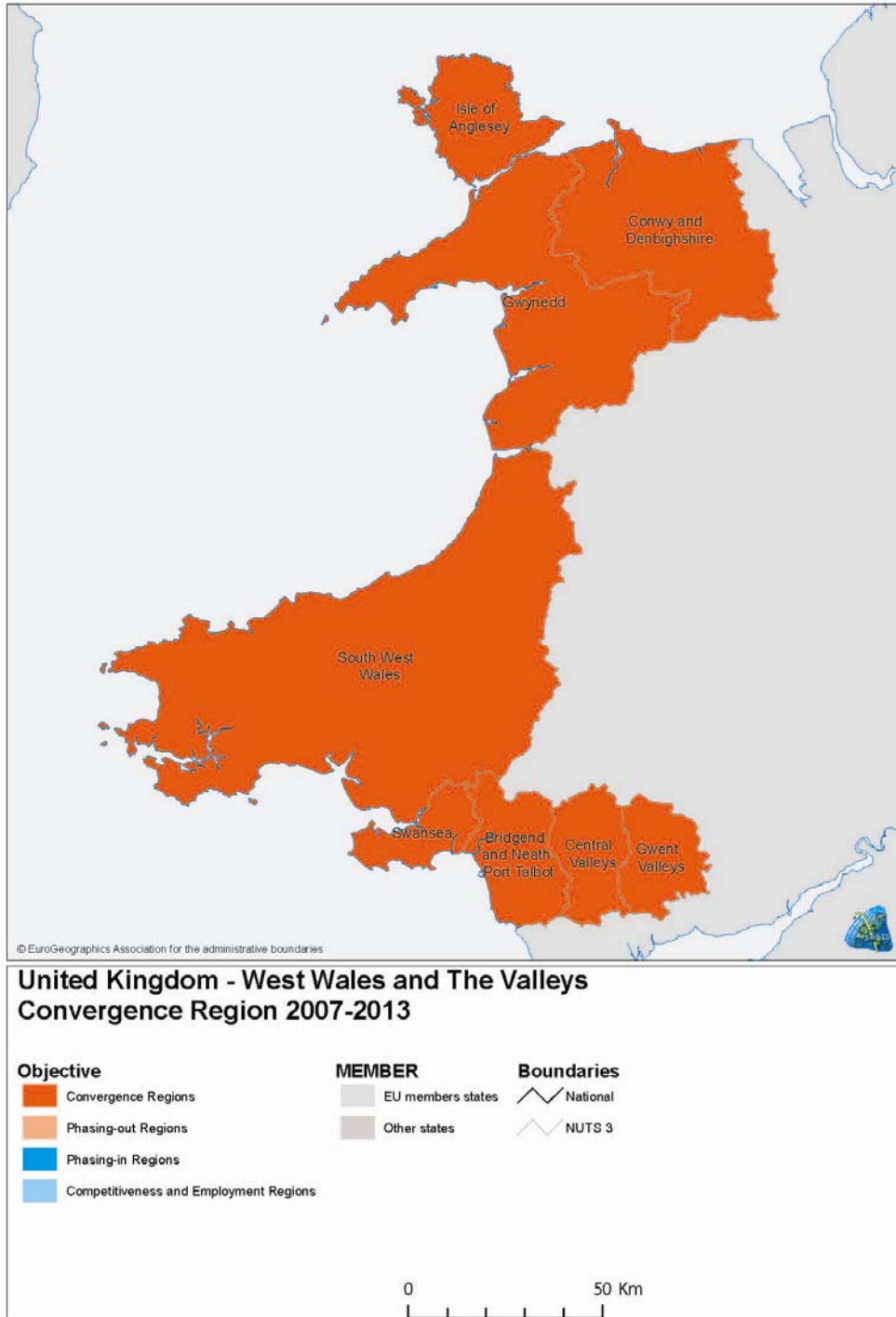
FULL ANALYSIS OF WEST WALES AND THE VALLEYS

AREA OVERVIEW

1.1 West Wales and the Valleys covers an area of 1.24 million hectares (around 12,400 km²) with approximately 1,150 km of coastline. Approximately 80% of the total area of West Wales and the Valleys is designated as Less Favourable Areas, which parallels closely the mountainous and upland areas. West Wales and the Valleys is a diverse area of Wales comprising a population of some 1.86 million (64% of the total population of Wales). The area includes the following local authorities:

- Isle of Anglesey;
- Gwynedd;
- Conwy;
- Denbighshire;
- Ceredigion;
- Pembrokeshire;
- Carmarthenshire;
- Swansea;
- Neath Port Talbot;
- Bridgend;
- Rhondda, Cynon, Taff;
- Merthyr Tydfil;
- Caerphilly;
- Blaenau Gwent; and
- Torfaen.

Figure 1. Map of the West Wales and the Valleys Convergence Programmes area



1.2 The following sections provide an overview of the socio, demographic, economic and environmental conditions across West Wales and the Valleys, and highlight areas where West Wales and the Valleys varies from Wales, the UK and the European Union as a whole using statistics from the Office for National Statistics, the Welsh Assembly Government and Eurostat (in particular the Regio database).

1.3 Table 1 below shows the population of West Wales and the Valleys by local authority according to the proportion of the total population living in the West Wales and the Valleys. As Table 1 shows, over 60% of the population of West Wales and the Valleys is concentrated in the South Wales Valleys.

Table 1. Population concentrations, West Wales and the Valleys

	Mid-2004 population (000s)	Percentage of total population of West Wales and the Valleys
Rhondda Cynon Taff	232	12%
Swansea	226	12%
Carmarthenshire	178	10%
Caerphilly	171	9%
Neath Port Talbot	136	7%
Bridgend	130	7%
Gwynedd	118	6%
Pembrokeshire	117	6%
Conwy	112	6%
Denbighshire	96	5%
Torfaen	90	5%
Ceredigion	78	4%
Blaenau Gwent	69	4%
Isle of Anglesey	69	4%
Merthyr Tydfil	55	3%
West Wales and the Valleys	1,864	100%
Wales	2,953	-

Source: Office for National Statistics
(Totals may not add due to rounding)

ECONOMIC OVERVIEW

1.4 The following analysis provides the evidence base for the development of the Structural Fund Programme for the Convergence area described above. The analysis does not cover all economic issues. It focuses on areas where market failures have inhibited the ability of West Wales and the Valleys to achieve acceptable levels of GDP per head and where improvements must be made if the sub region is to achieve the targets for economic growth and jobs as outlined in the Lisbon Agenda¹.

¹ European Commission, 2005, Common Actions for Growth and Employment: The Community Lisbon Programme, Communication from the Commission to the Council and the European Parliament. COM(2005) 330 final: http://europa.eu.int/growthandjobs/key/index_en.htm

1.5 The themes of the Lisbon Strategy run through the analysis with attention given to inter alia, research and development, innovation and education and skills in strengthening EU competitiveness and sustainable growth while ensuring social and territorial cohesion.

1.6 The Programme has been developed drawing on the analysis in this chapter, the ex-ante evaluation, the Strategic Environmental Assessment and the lessons learnt from the previous Structural Fund Programmes.

1.7 Since the turn of the Millennium, the economy of West Wales and the Valleys has shown significant improvement in several respects. Approximately 40,000 more people are in employment since 2001 and the unemployment rate has fallen to levels similar to the UK average.

1.8 Table 2 summarises the latest (i.e, the latest year that data is available) labour market conditions, comparing West Wales and the Valleys to the average for Wales, the UK and the European Union (EU25)². As Table 2 shows, West Wales and the Valleys and Wales as a whole perform well on the leading labour market indicators compared to the average for the EU25 and have shown significant improvement since 2001. Improvements in the labour market have been more marked than in Wales or the UK more generally, with these improvements coinciding with the period of the Objective 1 programme.

1.9 The lower unemployment rate across West Wales and the Valleys compared to the average for the EU25 is not matched by an equivalent difference in the employment rates. The explanation behind this lies in the relatively lower economic activity (or higher economic inactivity) across West Wales and the Valleys compared with the average for the EU25 is a key weakness of the economy, and one of the key drivers behind our programmes. It is explained further in the following sections.

² Care should be taken when comparing labour market data from Eurostat and UK Labour Force Survey sources due to differences in methodology applied. An overview of the methodology for the European Labour Force Survey is available at:

http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136184,0_45572601&_dad=portal&_schema=PORTAL&_screen=ExpandTree&open=%2Fpopul%2Flabour&product=EU_population_social_conditions&nodeid=71140&index=4&level=2&portletid=39994101_QUEENPORTLET_92281242&scrollto=0#LABOUR_MARKET

An overview of the UK labour market data sources is available at:

<http://www.statistics.gov.uk/about/data/guides/LabourMarket/default.asp>

Table 2. Labour market summary, EU25 comparison (percentage)

	2001	2005	Change over 2001
Employment rate (a)			
West Wales and the Valleys	63.1	66.4	3.3
Wales	65.4	68.3	2.9
UK	71.4	71.7	0.3
EU (15)	63.9	65.1	1.2
EU(25)	62.7	63.7	1.0
Economic activity rate (b)			
West Wales and the Valleys	67.4	70.0	2.6
Wales	69.5	71.5	2.0
UK	75.2	75.3	0.1
EU(15)	69.1	71.0	1.9
EU(25)	68.7	70.1	1.4
Unemployment rate (c)			
West Wales and the Valleys	6.3	5.1	-1.2
Wales	5.8	4.5	-1.3
UK	5.0	4.7	-0.3
EU(15)	7.5	8.2	0.7
EU(25)	8.6	9.0	0.4

(a) Employed persons are all persons aged between 15 and 64 who during the reference week (week when the data was collected) worked at least one hour for pay or profit, or were temporarily absent from such work. Family workers are included. Rate for those aged between 15 and 64;

(b) Economically active population comprises employed and unemployed persons. Rate for those aged between 15 and 64;

(c) Unemployment rate represents unemployed persons as a percentage of the economically active population. Rate for those aged 15 and over.

Source: Eurostat

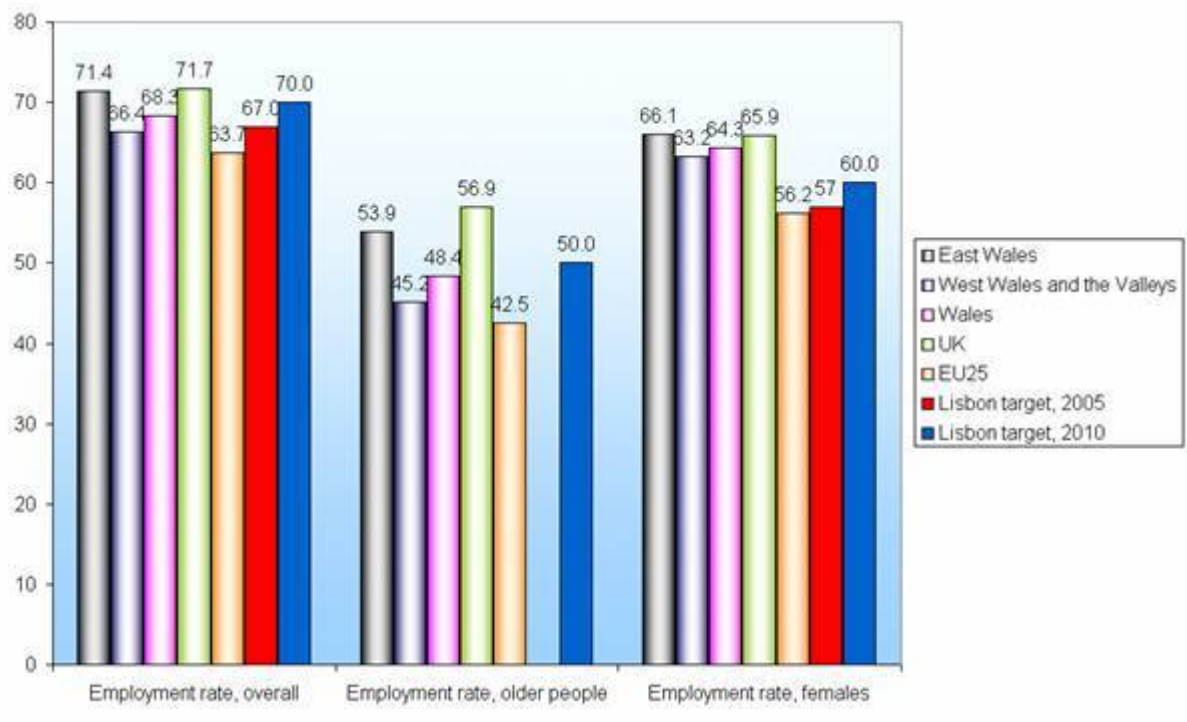
1.10 Figure 2 shows the progress that West Wales and the Valleys has made toward the headline Lisbon employment targets. In 2005 the region fell short of the main employment target for 2005. The female employment rate across West Wales and the Valleys in 2005 was above the 2005 and 2010 target rate. The employment rate of older workers was just below the 2010 target. The data uses the European definitions for employment for age ranges 15-64. The key difference with this definition and the data presented in the rest of this analysis is the UK definition for employment is for males aged 16-64 and females 16-59. Care should be taken when comparing data from Eurostat and data from UK sources³.

³ An overview of the methodology for the European Labour Force Survey is available at:

http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136184,0_45572601&_dad=portal&_schema=PORTAL&_screen=ExpandTree&open=%2Fpopul%2Flabour&product=EU_population_social_conditions&nodeid=71140&index=4&level=2&portletid=39994101_QUEENPORTLET_92281242&scrollto=0#LABOUR_MARKET

An overview of the UK labour market data sources is available at:

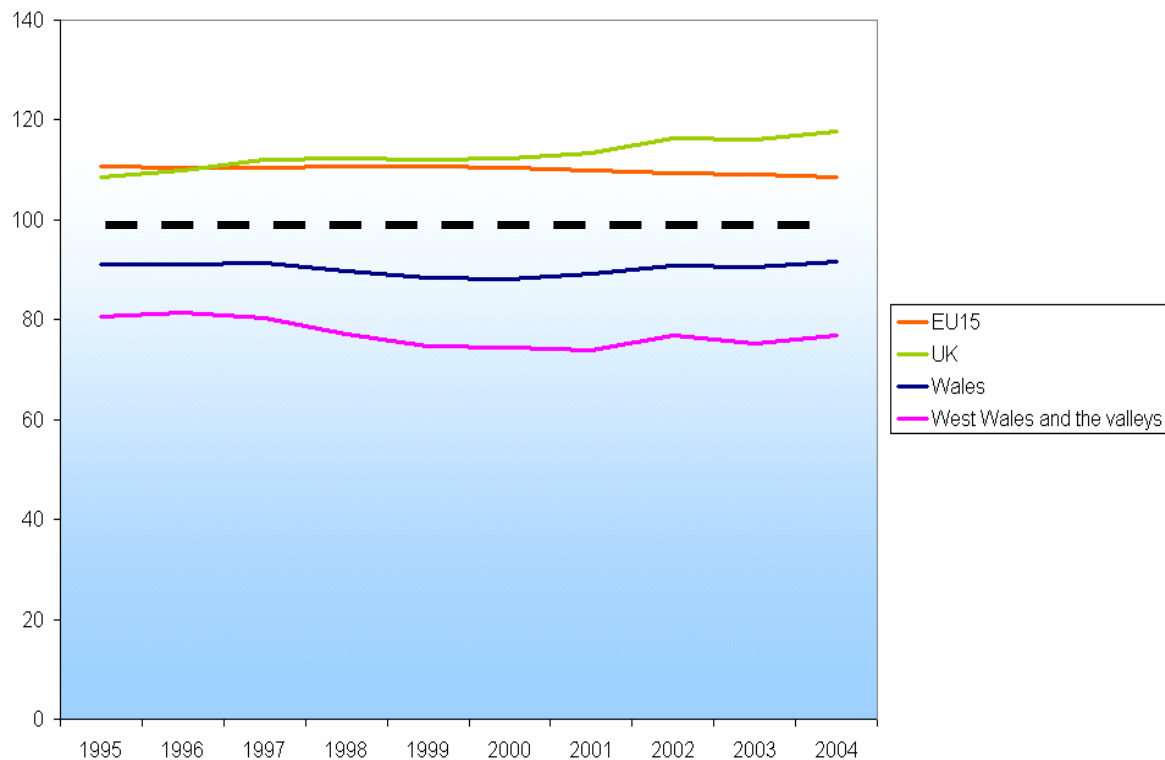
<http://www.statistics.gov.uk/about/data/guides/LabourMarket/default.asp>

Figure 2. Progress against Lisbon targets, 2005 and 2010

Source: Eurostat

1.11 Despite these improvements in the labour market, economic output (conventionally measured by Gross Domestic Product per head of population⁴) across West Wales and the Valleys remains below the average for Wales, the UK and the EU25 as a whole (see Figure 3). Overall, economic output in West Wales and the Valleys has also shown some improvement since 2000, and now stands at 77% of the average for the EU25.

⁴ It is widely recognised that GDP per head may not fully reflect wider welfare or quality of life factors. However, it does provide a useful measure of economic performance within each time period.

Figure 3. GDP per head (Purchasing Power Parities (a) EU25=100 (b)

(a) Purchasing Power Parities (PPPs) are currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies. In other words, they eliminate the differences in price levels between countries in the process of conversion;

(b) Figures are expressed as an Index. Index numbers compare individual observations against a benchmark, where the benchmark is given an index of 100. In this case the average GDP per head across the EU25 is the benchmark and is given an index of 100. Index values of less than 100 show where GDP per head is below the average for the EU25 and vice versa for index values above 100.

Source: Eurostat

1.12 Analysis of the gap⁵ in GVA⁶ per head shows that the relative under-performance of Wales and West Wales and the Valleys and provides a focus for how policy initiatives can be targeted to improve economic growth and reduce growth inequalities within Wales.

1.13 Overall variations in GVA per head can be decomposed principally into differences in:

- the proportion of the population that is of working age;
- the proportion of the working age population that is actually in work;
- the proportion of the working age population that work in a given area (reflecting commuting patterns); and

⁵ Gap is between the NUTS 3 and NUTS 2 areas of Wales compared to the average for Wales/UK as a whole.

⁶ GVA is calculated as GDP minus indirect taxation and subsidies. Data comparing Wales to the EU average is only available as GDP per head.

- the average output or value-added per job⁷.

1.14 Figure 4 compares the difference in GVA per head for the areas within West Wales and the Valleys compared to the average for Wales as a whole. This analysis is useful, as it not only helps to describe the overall gap for the programme areas, but also the breakdown of the overall gap for sub-programme area analysis.

1.15 Across West Wales and the Valleys, overall GVA per head between 2001 and 2003 was around £2,000 less than the average for Wales as a whole. As shown in Figure 4, approximately 50% of the overall gap can be explained by lower value-added per job. Approximately 25% of the overall gap is explained by the relatively low jobs to employment ratio⁸ (i.e. the proportion of employed individuals working in West Wales and the Valleys which reflects the location of jobs compared to residence). This is explained (in part) by the relatively high proportion of workers that commute out of West Wales and the Valleys for employment. The remainder of the overall gap (between 15% and 25%) is explained by the relatively low employment to working age ratio (employment rate).

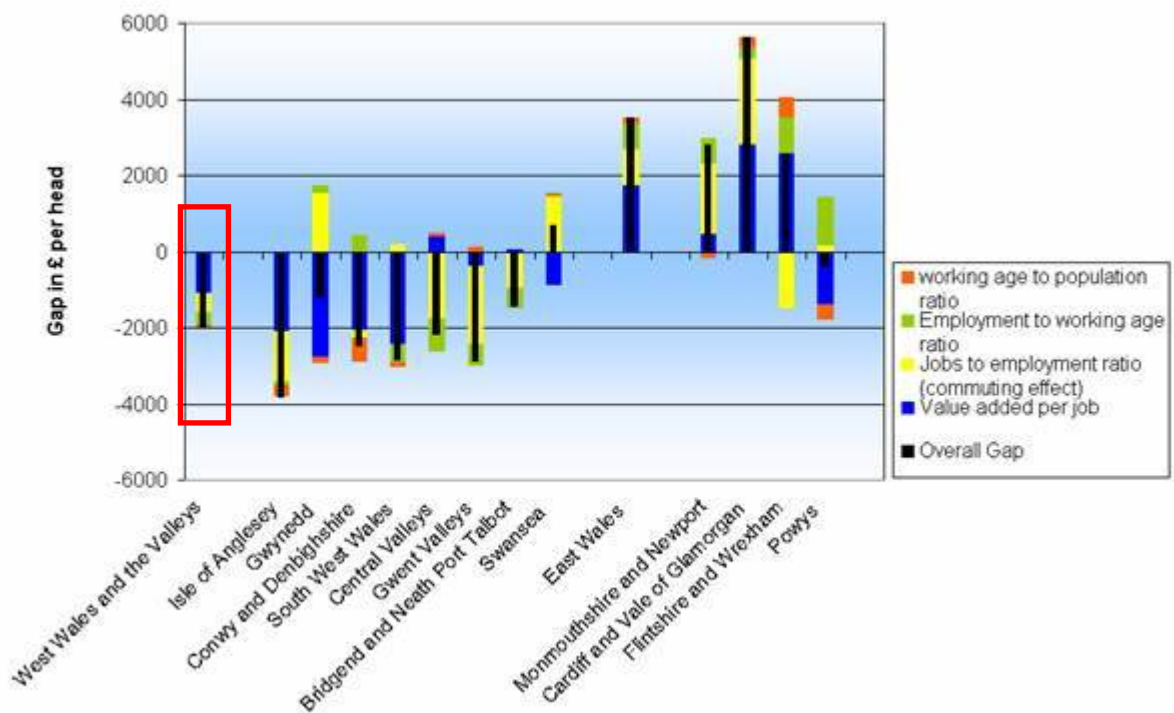
1.16 Within West Wales and the Valleys, Swansea is the only area that has higher GVA per head than the average for Wales as a whole. The overall gap between the other sub-regions varies from approximately £1,400 in Bridgend and Neath Port Talbot to over £3,800 in the Isle of Anglesey.

1.17 Of particular interest, however, is the variation in the contribution of each of the components that explain the relative gap in GVA per head. Across the western and northern areas (excluding Isle of Anglesey) of West Wales and the Valleys, it is lower value-added per job that explains the majority of the gap. However, across the central valleys lower employment rates and in particular a lower proportion of employed individuals working in these areas (low jobs to employment ratio) explain most of the overall gap.

⁷ Often referred to as productivity, although as illustrated later in the document, referring to productivity differences can be misleading, as productivity measures do not account for the industrial structure of the economy.

⁸ The jobs to employment ratio shows the proportion of jobs that are located in a locality compared to the employment rate within the locality. For example, a locality may have a high number of people in employment living in the locality (high employment rate), however, individuals may be working outside the locality; i.e. commuting for employment. Given this the locality may have a low jobs to employment ratio.

Figure 4. Analysis of GVA per head differences across West Wales and the Valleys compared to the Welsh average, 2001–2003 average



Source: Welsh Assembly Government based on ONS data

1.18 GVA per head in West Wales and the Valleys is approximately £5,300 lower than across the UK as a whole. The majority of this gap is explained by lower value-added per job. Labour market conditions (lower employment to working age ratio in particular) explain the majority of the remaining gap with the UK average. Overall, GVA per head in Wales is approximately £3,300 lower than the UK average. Just over 50% of this gap is explained by lower value-added per job, reflecting in part the industrial and occupational mix in Wales (see improving knowledge and innovation for growth for a full analysis). A further 25% is explained by a lower employment rate (employment to working age ratio) and the remainder explained by a combination of a lower jobs to employment ratio and a higher dependency ratio (working age to population ratio).

1.19 A further measure of prosperity is gross disposable household income (GDHI)⁹. GDHI in West Wales and the Valleys in 2004 was 86.0 per cent of the UK average compared to 88.0 per cent for Wales as a whole. GDHI in Wales is the third lowest in the UK when ranking English regions and devolved countries.

1.20 The above analysis (see Figure 4) demonstrates the relevance of the Lisbon Agenda for West Wales and the Valleys. Creating more and better jobs and improving knowledge and innovation for growth are key to improving the economic

⁹ GDHI is the amounts of money that individuals have available for spending or savings, hence 'disposable income'. This is the money available to individuals from all incomes less taxes, pension contributions, property costs (mortgage interest) and other interests (for example, bank loans, credit card interest).

prospects for West Wales and the Valleys. There is also a need to build on the progress that has been made in increasing the proportion of people working in West Wales and the Valleys by creating employment opportunities, and ensuring residents have the skills and opportunities to enter employment. This is reflected in the green bars in Figure 4. Creating better jobs in West Wales and the Valleys with higher value-added per job will help to alleviate the gap highlighted by the blue bars in Figure 4. An important driver for future growth will be to make sure that West Wales and the Valleys is an attractive place in which to invest and work.

1.21 This headline analysis shows that the priorities identified in the European Commission's Community Strategic Guidelines¹⁰ are highly relevant to the problems facing West Wales and the Valleys. The following sections therefore follow these priorities, namely:

- creating more and better jobs;
- improving knowledge and innovation for growth; and
- making Wales a more attractive place to invest in and work.

1.22 The following analysis has been undertaken with reference to the underlying principles of the Wales Spatial Plan¹¹.

CREATING MORE AND BETTER JOBS LABOUR MARKET ANALYSIS

1.23 Analysis of the gap in GVA¹² per head between West Wales and the Valleys and Wales as a whole (see Figure 4) shows that that approximately half of the overall gap in GVA per head is explained by unfavourable labour market conditions. Of the overall gap approximately 25% is explained by a relatively low employment rate (employment to working age ratio) with a further 20-25% explained by a relatively low proportion of individuals in employment working in West Wales and the Valleys (jobs to employment ratio¹³).

1.24 There have been strong increases in employment levels in West Wales and the Valleys, with the employment rate increasing at over twice the rate of growth in East Wales. Since 2001, employment in West Wales and the Valleys has increased

¹⁰ European Commission, 2005, Cohesion Policy in support of Growth and Jobs: Community Strategic guidelines, 2007-13., COM(2005) 0229:

http://europa.eu.int/comm/regional_policy/sources/docoffic/2007/osc/index_en.htm

¹¹ Welsh Assembly Government. The *Wales Spatial Plan*, November 2004:

<http://new.wales.gov.uk/about/strategy/spatial/?lang=en>

¹² GVA is calculated as GDP minus indirect taxation and subsidies. Data comparing Wales to the EU average is only available as GDP per head.

¹³ The jobs to employment ratio shows the proportion of jobs that are located in a locality compared to the employment rate within the locality. For example, a locality may have a high number of people in employment living in the locality (high employment rate), however, individuals may be working outside the locality i.e. commuting for employment. Given this the locality may have a low jobs to employment ratio.

by approximately 40,000. Correspondingly, the employment rate has increased by 2.4 percentage points to stand at 69.5% (Table 3). This increase in the employment rate accounts for just over two-thirds of the employment growth in Wales as a whole, although there is still further to go to reach the average employment rate for Wales as a whole (see Table 3). As discussed above it is relatively high rates of economic inactivity other than employment that explain the differential in employment rates.

1.25 Despite reductions, the rate of economic inactivity is one and a half percentage points higher across West Wales and the Valleys than Wales as a whole, and four and a half percentage points higher than across the UK. Places with high rates of economic inactivity can be found in all parts of West Wales and the Valleys but the problem is particularly concentrated in the Valleys (see Figure 6). Due to the relative importance of economic inactivity as a cause of lower employment (in West Wales and the Valleys and Wales as a whole), and thus lower prosperity, much of the analysis later in this section reviews the trends and causes of economic inactivity in West Wales and the Valleys.

1.26 Table 3 summarises the headline labour market situation in West Wales and the Valleys, Wales and the UK¹⁴.

¹⁴ Comparisons between Table 3 and Table 2 should not be made due to differences in methodologies applied to derive the figures. Summary details on the methodology for the European Labour Force Survey available at: http://europa.eu.int/estatref/info/sdds/en/regio/lmemp_r_sm.htm Summary details on the methodology for the UK Labour Force Survey are available at: <http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1537>

Table 3. Labour market summary

		2001	Year to March 2006	Change since 2001
Employment (a)				
West Wales and the Valleys	Level (000s)	756	796	40
	Rate (%)	(67.0)	(69.5)	(2.4)
Wales	Level (000s)	1,234	1,291	56
	Rate (%)	(69.1)	(71.0)	(2.0)
UK	Level (000s)	27,433	28,117	684
	Rate (%)	(74.1)	(74.1)	(0.0)
ILO Unemployment (b)				
West Wales and the Valleys	Level (000s)	48	45	-3
	Rate (%)	(6.0)	(5.3)	(-0.6)
Wales	Level (000s)	71	70	-1
	Rate (%)	(5.4)	(5.1)	(-0.3)
UK	Level (000s)	1,450	1,483	32
	Rate (%)	(5.0)	(5.0)	(-0.0)
Economic inactivity (c)				
West Wales and the Valleys	Level (000s)	312	293	-20
	Rate (%)	(28.6)	(26.5)	(-2.1)
Wales	Level (000s)	464	438	-26
	Rate (%)	(26.9)	(25.0)	(-1.9)
UK	Level (000s)	7,856	7,986	130
	Rate (%)	(21.9)	(21.9)	(-0.0)

(a) Levels are for those aged 16 and over, rates are for those of working age (males aged 16-64, females aged 16-59);

(b) Levels and rates are for those aged 16 and over. The rate is as a proportion of economically active (employment plus ILO unemployed). The International Labour Organisation (ILO) definition of unemployment covers those who are out of work and want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks; plus those who are out of work, have found a job and are waiting to start in the next two weeks;

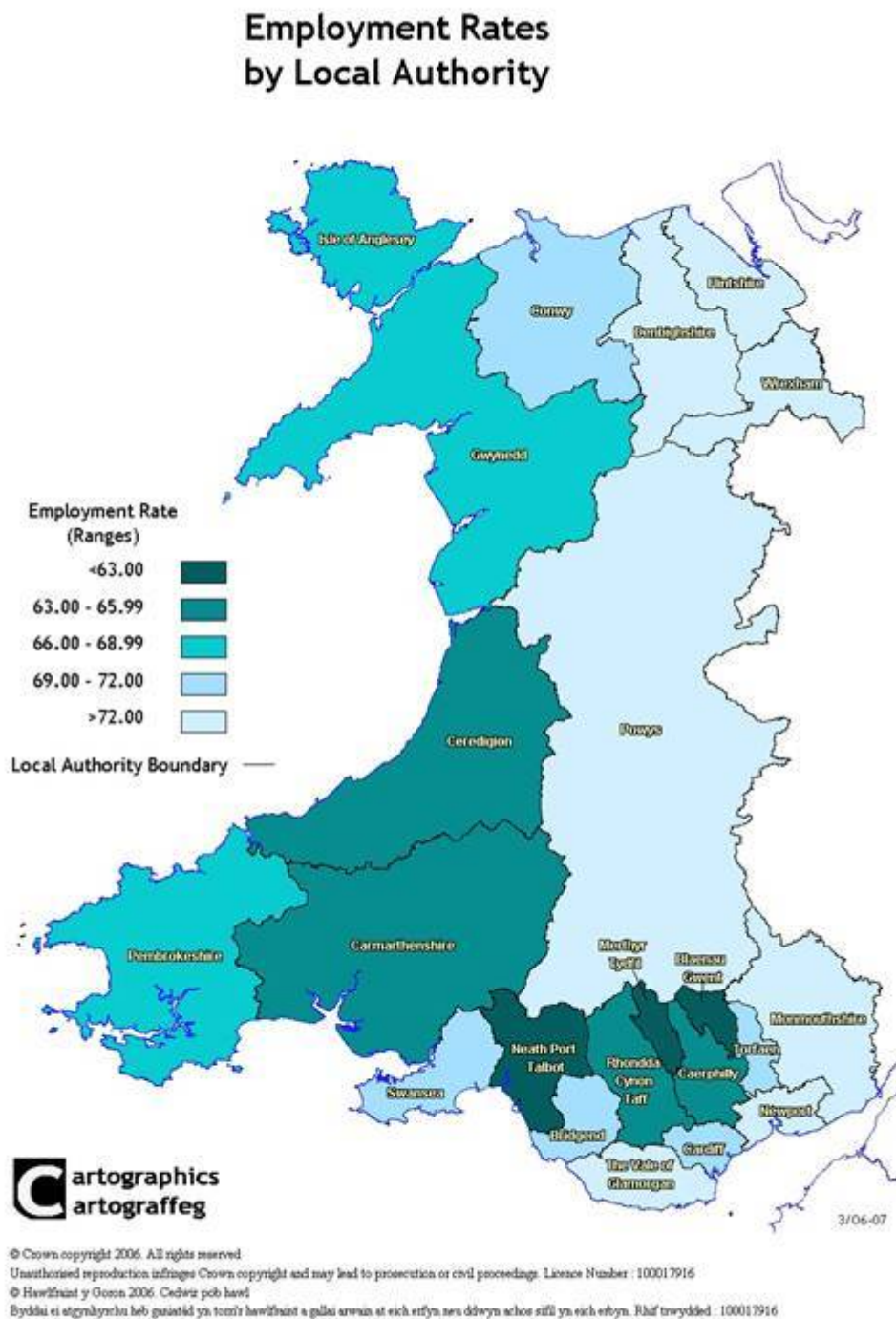
(c) Levels and rates are for those of working age (males aged 16-64, females aged 16-69).

Source: Labour Force Survey

1.27 Within West Wales and the Valleys considerable variations exist in labour market performance. Figure 5 shows the employment rate across Wales, with the darker shades showing where the employment rate is low and lighter shades showing higher employment rates.

1.28 Figure 5 highlights spatial variations in employment rates. The areas with the lowest employment rate are found in the Valleys areas, in particular in Blaenau Gwent, Merthyr Tydfil and Neath Port Talbot where the employment rates are below 63% of the working age population. Areas within West Wales also have a relatively low employment rate; only five local authorities (Swansea, Bridgend, Conwy, Denbighshire and Torfaen) across West Wales and the Valleys have an employment rate at or above the Welsh average.

Figure 5. Employment rates by local Authority



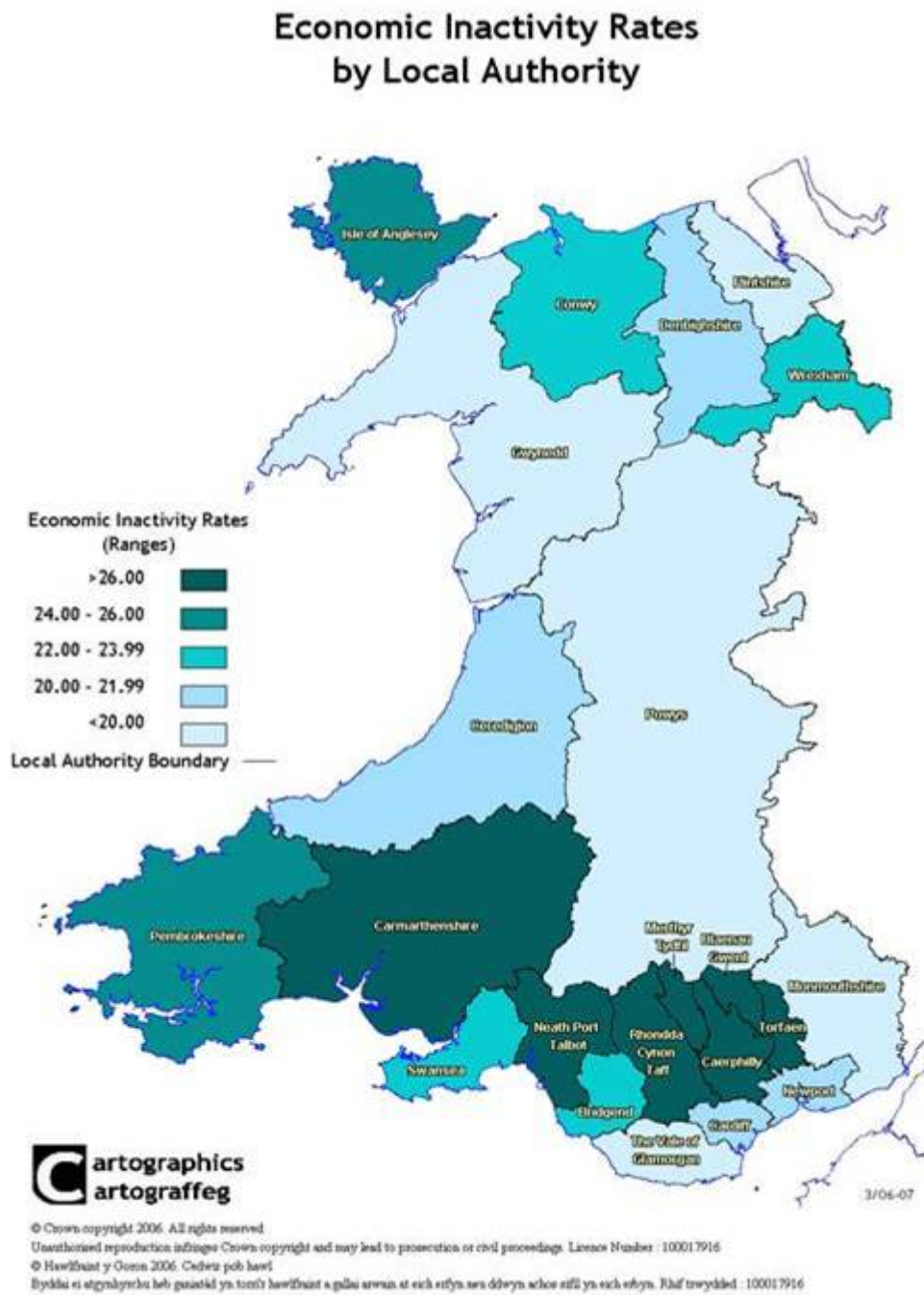
Source: Labour Force Survey

1.29 It is also within the South Wales Valleys where higher rates of economic inactivity are concentrated. Figure 6 shows the economic inactivity rates by local

authority. The darker the shade the higher the economic inactivity rates within the local authority.

1.30 All of the Local Authorities of the South Wales Valleys have an economic inactivity rate above 26%. Even Torfaen with an employment rate similar to Cardiff has a significantly higher economic inactivity rate. Across West Wales, Carmarthenshire and the Isle of Anglesey stand out as having a high economic inactivity rates. What is apparent from Figure 6, however, is that even across West Wales as a whole economic inactivity is higher than compared to the Eastern parts of Wales.

Figure 6. Economic Inactivity rates by local Authority



Source: Labour Force Survey

Labour market analysis by disability, ethnicity, gender and age

1.31 Table 4 shows the changes in the main labour market indicators disaggregated by disability and ethnicity. Table 4 shows that employment rates and economic activity rates for those with a disability¹⁵ across West Wales and the Valleys are significantly lower than for those without any disability. The definition of disability extends to include those individuals with self-reported work-limiting ill health, as defined in the Labour Force Survey¹⁶. Unemployment rates (which measures those able, willing and actively seeking employment) for those with a disability are considerably higher than for those without a disability. Recent research¹⁷ has highlighted that the employment rate for individuals with a disability but not work limiting are almost identical to those for individuals without a disability. It is therefore the work limiting component that lies at the heart of employment differentials between individuals with and without a disability.

1.32 Table 4 also shows that Black and Minority Ethnic (BME) individuals have worse labour market outcomes compared to the non-BME population across West Wales and the Valleys and Wales as a whole¹⁸. Recent evidence¹⁹ has investigated the differences in labour market outcomes of BME individuals in England and Wales and the reasons for these differences. Three main conclusions appear from this work. Firstly, BME individuals tend to live in disadvantaged areas and so face a labour market penalty (although the causality of this is unclear). Secondly, BME individuals have lower educational attainment than non-BME individuals. Finally, evidence suggests that religion is an additional source of variation in labour market behaviour in that after controlling for individual characteristics individuals with certain religious beliefs have adverse labour market outcomes.

¹⁵ Disability is defined as work limiting disabled or Disability Discrimination Act disabled or both.

¹⁶ Disability in the Labour Force Survey is defined as either (or both) work limiting disabled or Disability Discrimination Act disabled. Due to work limiting disabled component of disability classification employment is likely to be lower since work is limited due to disability.

¹⁷ JONES. M. K (2005) disability and the labour market: A review of the empirical evidence <http://www.swan.ac.uk/welmerc/pdf%20and%20cv/Disability%20and%20the%20Labour%20Market%20A%20review%20of%20the%20empirical%20evidence-%20DP.pdf>

¹⁸ However, some care should be taken when interpreting the figures for BME groups due to the small sample sizes involved. For example, the unemployment rate over the period 2001–2004 varies considerably from year to year, with the unemployment rate in 2002 being 16.8% and then falling to 7.6% in 2003. In addition, changes in unemployment, while large in percentage terms, are small in absolute. The rise in the unemployment rate between 2001 and 2004 represented an additional 700 individuals registered as unemployed across West Wales and the Valleys as a whole.

¹⁹ Clark. K and Drinkwater s. 2005. Dynamics and Diversity: Ethnic Employment Differences in England and Wales, 1991-2001. IZA Discussion Paper No. 1698 <http://www.econ.surrey.ac.uk/staff/sdrinkwater/dp1698.pdf>

Table 4. Labour market summary, disaggregated by disability (a) and ethnicity (percentage)

		Employment		Economic Inactivity		Unemployment (b)	
		2001	2004	2001	2004	2001	2004
Disability							
West Wales and the Valleys							
All Persons		67.0	69.6	28.6	26.5	6.1	5.4
Disabled		33.9	38.2	62.4	58.4	9.9	8.1
Not disabled		77.8	79.9	17.6	16.0	5.5	4.9
Wales							
All Persons		69.1	71.2	26.9	25.1	5.1	4.9
Disabled		37.1	41.3	59.3	55.5	8.9	7.2
Not disabled		78.4	80.8	17.4	16.2	5.1	4.5
Ethnicity							
West Wales and the Valleys							
All Persons		67.0	69.6	28.6	26.5	6.0	5.2
Ethnic	minority	62.6	59.0	31.7	32.9	8.2	12.1
population (c)							
Non-ethnic	minority	67.1	68.7	28.6	26.4	5.9	5.1
population							
Wales							
All Persons		69.1	71.2	26.9	25.1	5.4	4.8
Ethnic	minority	55.7	58.6	39.7	34.1	7.5	11.1
population (c)							
Non-ethnic	minority	69.3	71.5	26.6	24.9	5.4	4.6
population							

(a) Disability is defined as work limiting disabled or Disability Discrimination Act disabled or both;

(b) Unemployment rates broken down by disability are based on working age people only as disability question not asked to those in work but over working age. Therefore the all persons rate will differ to working age unemployment rates;

(c) All in BMEs.

Source: Annual Labour Force Survey / Annual Population Survey

1.33 One of the significant factors in the employment growth in West Wales and the Valleys (and across Wales as a whole) has been the increase in the employment rate amongst females (see Table 5). The female employment rate has increased for each age bracket, but has been particularly pronounced for those aged between 35-59 than compared to other age brackets for females. This is set against a fall in employment rates of prime working age²⁰ males across West Wales and the Valleys of some 1.0% between 2001 and 2004 compared to an increase of 1.4% for females within the same age bracket. Table 5 shows the employment rates for males and females for West Wales and the Valleys and Wales as a whole.

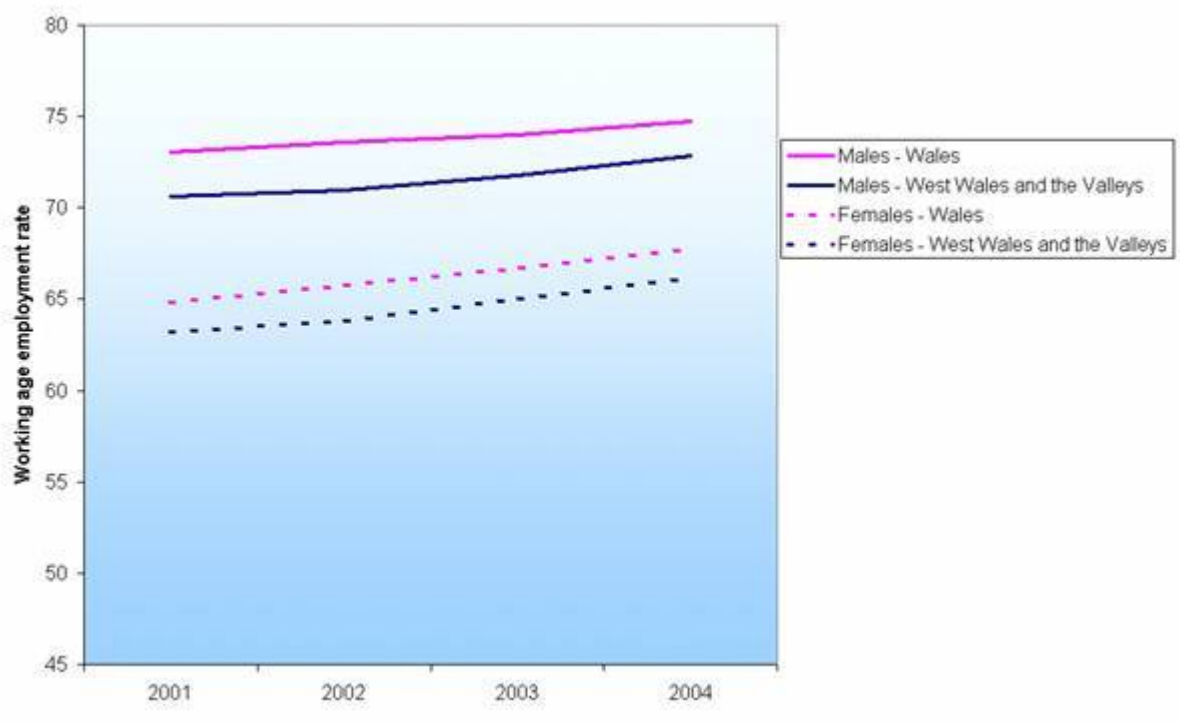
²⁰ Defined as those aged 25-34.

Table 5. Employment rates by gender (percentage)

	West Wales and the Valleys			Wales		
	2001	2004	Change 2001-04	2001	2004	Change 2001-04
Males						
16-24	56.5	60.5	4.0	58.0	59.7	1.7
25-34	84.6	83.6	-1.0	85.6	85.2	-0.4
35-49	82.1	85.8	3.7	84.3	87.3	3.0
50-64	57.8	60.9	3.1	61.6	64.5	2.9
65+	5.8	6.5	0.7	7.1	7.1	0.0
Working Age	70.6	72.9	2.3	73.1	74.8	1.7
Females						
16-24	51.3	54.8	3.5	52.7	56.7	4.0
25-34	68.8	70.2	1.4	69.2	70.9	1.7
35-49	70.7	74.4	3.7	72.7	75.3	3.3
50-59	56.1	59.6	3.5	58.5	62.9	4.4
60+	6.9	7.8	0.9	7.6	8.2	0.6
Working Age	63.2	66.2	3.0	64.9	67.8	2.9

Source: Labour Force Survey

1.34 Figure 7 shows the recent increase in the employment rates for men and females across West Wales and the Valleys and across Wales as a whole.

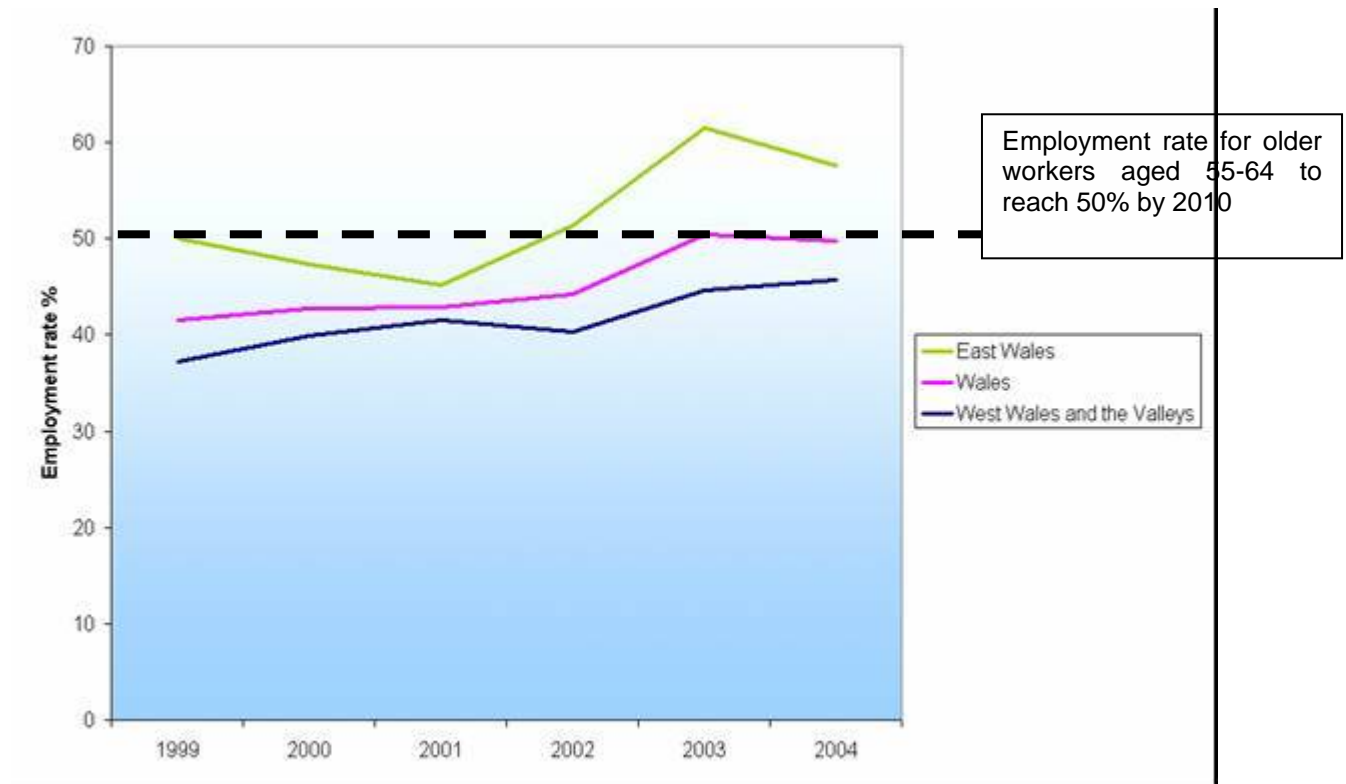
Figure 7. Employment rates, by gender

Source: Labour Force Survey

1.35 Female employment rates have increased across all age brackets. For older people, this is also true for male employment rates. A target set out in the Lisbon

Agenda is for the employment rate for those aged 55-64 to reach 50% by 2010. Figure 8 shows the employment rates for older workers are just below the Lisbon target of 50% for older workers across West Wales and the Valleys and Wales as a whole. In addition, 38% of individuals in the 50-59 (for women) and 50-64 (for men) age bracket currently are economically inactive. A more detailed discussion of barriers to employment for females in particular is available in the following analysis of economic inactivity.

Figure 8. Employment rates for older workers



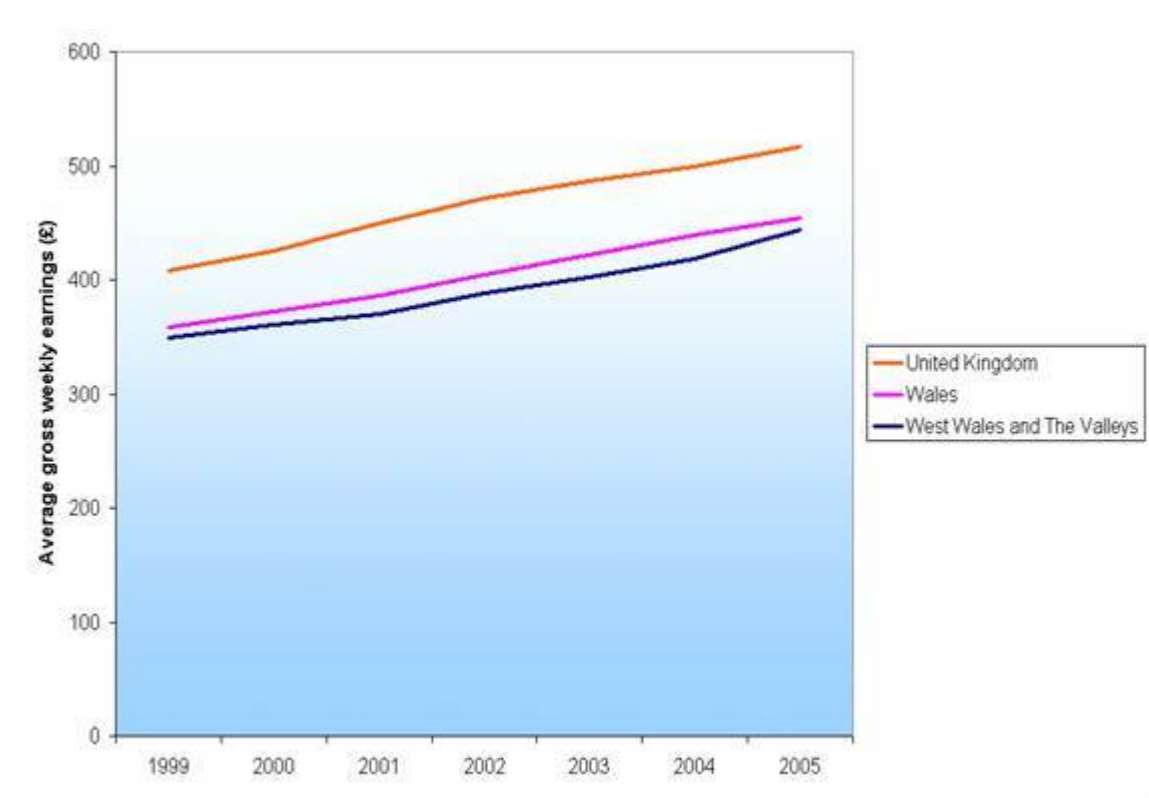
Source: Eurostat

1.36 Across West Wales and the Valleys approximately 56% of the rise in employment between 2001 and 2004 has been part-time compared to 50% across Wales as a whole. In total across West Wales and the Valleys, 65% of the rise in employment for men over this period was part-time, with 50% of the rise in female employment part-time. In total, 26% of all employees work part-time across West Wales and the Valleys. For females this figure is 44% compared to 11% for males.

Earnings

1.37 In addition to the increase in employment levels across West Wales and the Valleys, average earnings have also increased. Since 1999, average earnings have increased by 28% in nominal terms (13% in real terms²¹). Figure 9 shows that average earnings in West Wales and the Valleys have kept pace with the increase seen across Wales and the UK as a whole. Compared to the average for the EU25, average hourly earnings²² across the UK as a whole (Wales level data not available on a comparable basis) were nearly 23% higher according to the latest available data (2002).

Figure 9. Average gross weekly earnings (a)(b)



(a) Based on average gross weekly earnings (including overtime) for full-time adults whose pay was not affected by absence.

(b) Since the 2004 survey, supplementary information has been collected in order to improve coverage and hence make the survey more representative. This includes information on businesses not registered for VAT and for people who changed or started new jobs between sample selection and the survey reference period. Therefore there is some discontinuity in comparing data for 2005 with that of earlier years.

Source: Annual Survey of Hours and Earnings, Office for National Statistics

1.38 The earnings gap between men and women is narrower in West Wales and the Valleys than for Wales and the UK as a whole in terms of average hourly

²¹ Derived from applying GDP deflators. For more details please see: http://www.hm-treasury.gov.uk/economic_data_and_tools/gdp_deflators/data_gdp_index.cfm

²² Average hourly earnings have been used to control for differences in number of hours worked across the EU.

earnings²³. Female full-time hourly earnings (excluding overtime) in West Wales and the Valleys in April 2005 were 88% of the equivalent male figure. This was slightly above the average for Wales as a whole (87.9%) and 5.3 percentage points above the percentage for the UK as a whole (82.7%). Since 1999 relative earnings for women have improved across West Wales and the Valleys with a significant closing of the earnings differential²⁴.

1.39 The average difference between male and female earnings across the UK is greater than across the average for the EU25²⁵. In 2004, average gross hourly earnings for females were some 78% of the average male rate, compared to 85% across the EU25.

1.40 A recent study²⁶ that investigated the difference in pay for males and females across the UK highlighted labour market segregation as a factor that explained the relative earnings of males and females, in that women are generally working in a narrow group of occupations, mainly offering part time work, with pay below the average for the UK. The study did not, however, account for preferences in labour market choices and levels²⁷. Part of the lower gap in Wales is explained by relatively fewer higher paying jobs, particularly in financial services, than across the UK as a whole.

Economic inactivity

1.41 The employment rate in West Wales and the Valleys remains below that for Wales as a whole and is explained by high rates of economic inactivity rather than by unemployment. There have been significant reductions in economic inactivity across the whole of Wales for the last four years and particularly in West Wales and the Valleys. However, the rate of economic inactivity remains approximately five percentage points higher in West Wales and the Valleys than in the UK as a whole. As illustrated in Figure 4 a large proportion of the overall prosperity gap between West Wales and the Valleys and Wales as a whole is explained by unfavourable labour market performance.

1.42 To make further progress in this area it is important to understand the underlying causes of excess inactivity in West Wales and the Valleys. Figure 10

²³ A factor explaining the relatively small gender pay gap in Wales is the relatively low pay for men rather than higher than average pay for women.

²⁴ Annual Survey of Hours and Earnings, 2005, Office for National Statistics.

²⁵ The gender pay gap is given as the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. The gender pay gap is based on several data sources, including the European Community Household Panel (ECHP), the EU Survey on Income and Living Conditions (EU-SILC) and national sources. The target population consists of all paid employees aged 16-64 that are 'at work 15+ hours per week'. UK level data is based on data for employees aged 16-59/64, therefore care should be taken when comparing the data based on EU comparisons to that based on UK definitions.

²⁶ Women and Work Commission, 2005, Shaping A Fairer Future:

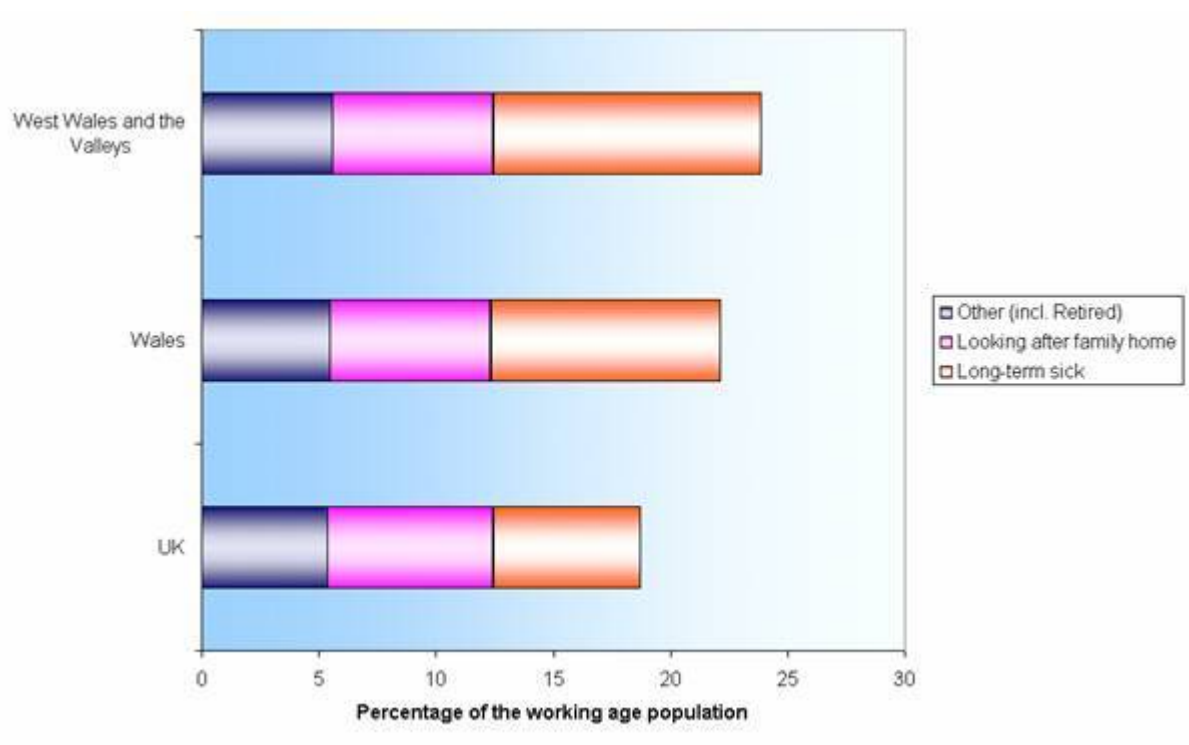
http://www.womenandequalityunit.gov.uk/publications/wwc_shaping_fairer_future06.pdf

²⁷ Jones and Sloane, 2003, Low Pay, High Pay and Job Satisfaction in Wales:

<http://www.swan.ac.uk/welmerc/Research.htm>

presents survey data on self-reported causes of economic inactivity. The factor most commonly identified by respondents, particularly men, was a long-standing work-limiting health condition. As Figure 10 shows, this accounts for much of the overall difference in economic inactivity between West Wales and the Valleys and the Valleys and Wales, and Wales to the average for the UK. Research²⁸ looking at the relationship between employment and disability (work limiting in particular) has highlighted that self reported ill health is partially determined by employment status so that individuals are more likely to report themselves as having a work limiting disability when their employment status changes (movements from employment to unemployment or economic inactivity).

Figure 10. Economic inactivity rate by reason given, 2004



Source: Labour Force Survey

1.43 Reported ill health is a complex area to analyse and it is more concentrated in some parts of Wales than in the UK as a whole. Table 6 summarises some results from the Welsh Health Survey on self-reported health assessments²⁹ for individuals of working age. Table 6 shows that in 2004–2005 there was a higher incidence of nearly all illnesses and conditions in West Wales and the Valleys than in East Wales for working age individuals³⁰.

²⁸ Bell and Heitmueller, 2005, The disability Discrimination Act in the UK: Helping or Hindering Employment Amongst the Disabled? IZA Discussion Paper Number 1476.

<http://www.iza.org/index.html?lang=en&mainframe=http%3A/www.iza.org/en/webcontent/personnel/photos/index.html%3Fkey%3D1051&topSelect=personnel&subSelect=fellows>

²⁹ Reflects people's own understanding of their health rather than a clinical assessment of their condition.

³⁰ To derive absolute incidence of ill health working age population estimates can be used. These are available at: <http://new.wales.gov.uk/topics/statistics/wales-figs/population/2005mye-la/?lang=en>

Table 6. Percentage of adults reporting selected illnesses/conditions (a)

Region	Currently being treated for									
	High blood pressure	Any heart condition (excl high blood pressure)	Asthma	Any respiratory illness (incl asthma)	Any mental illness	Arthritis	Back pain	Diabetes	Limiting long-term illness	Has fewer than 21 teeth
West Wales & the Valleys	10	4	10	11	10	8	10	3	21	17
East Wales	8	4	8	10	8	6	8	3	17	13
Wales	10	4	9	11	9	7	10	3	20	16

Source: Welsh Health Survey 2003/04

(a) Working age adults is defined as 16-64 for men and 16-59 for women
See Welsh Health Survey report and survey webpages for description of survey and full definitions.
<http://www.wales.gov.uk/keypublicationsforwales/content/publication/health/2005/hs2003-04/hs2003-04.htm>
<http://www.wales.gov.uk/keypublicationsforwales/datacollection/health/health-survey/health-survey.htm>

1.44 Male economic inactivity rates rose during the 1980s and 1990s at a time when objective measures (measures such as those highlighted in Table 6) for health improved. Extensive research³¹ in this area has led to an emerging consensus that a significant proportion of those with apparently work-limiting health conditions, including people on incapacity benefits, could, with the right help and support, play a more active role in the labour market.

1.45 There is a broad consensus that a change in the composition of the demand for labour explains key trends in the labour market over the last couple of decades. The demand for people with low skills has weakened across the developed world, with the effects taking the form of lower relative pay and/or lower employment rates³².

1.46 Employment rates for low skilled people tend to be higher where there are low concentrations of such people. (The clearest example of such a pattern is the South East of England outside London.) The changing composition of the demand for labour has therefore had its greatest negative effects where the supply of such labour is highest, including West Wales and the Valleys. Furthermore, as it is much more difficult for unskilled people than for skilled people to migrate to places where the demand for their labour is relatively high, such spatial disparities have become entrenched³³.

³¹ Welsh Assembly Government, Strategy and Communications Group, 2004. Review of Economic Inactivity: <http://www.wales.gov.uk/assemblydata/N0000000000000000000000000000023624.pdf>
Department for Work and Pensions, 2006, Impacts of the Job Retention and Rehabilitation Pilot. A research report carried out by the National Centre for Social Research and Urban Institute on behalf of the Department for Work and Pensions: <http://www.dwp.gov.uk/asd/asd5/rp005-2006/rrep342.pdf>

³² Faggio, G and Nickell, S, 2005. Inactivity Among Prime Age Men in the UK. *CEP Discussion Paper* 673: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

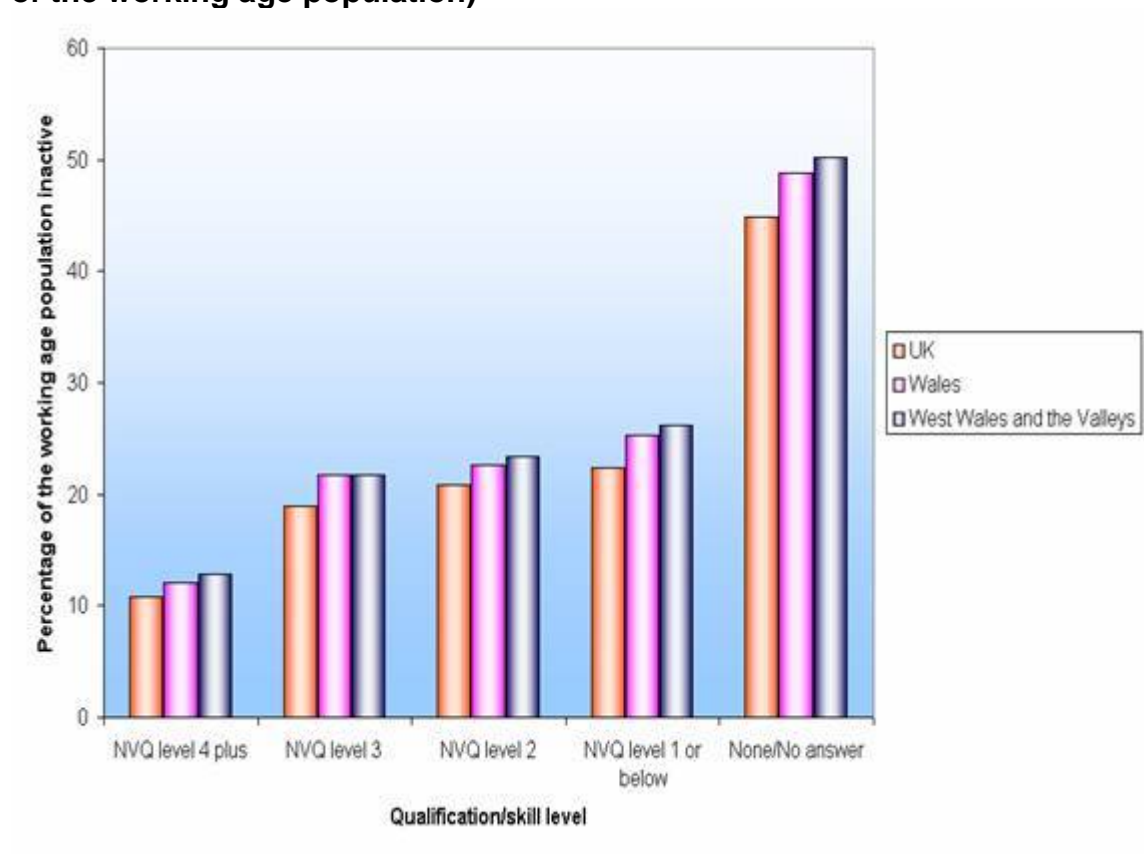
³³ Faggio, G and Nickell, S, 2005. Inactivity Among Prime Age Men in the UK. *CEP Discussion Paper* 673: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

1.47 Skill sets and educational qualifications are therefore crucial for understanding economic inactivity and labour market outcomes.

1.48 The weakening of the demand for less skilled labour across the developed world shows up in the respective rates of unemployment and economic inactivity among groups with different qualifications and skills set. This is illustrated for inactivity in Figure 11, which illustrates rates of economic inactivity in West Wales and the Valleys, Wales and the UK according to the individual's highest level of qualifications.

1.49 The major difference apparent in Figure 11 is the significantly increased rate of economic inactivity seen among groups with no formal qualifications. As we move to progressively higher qualification/skill levels (moving from right to left on Figure 11), the economic inactivity rate for individuals within each cohort decreases. This is most significant, however, between no qualifications and Level 1. Where there is a high relative concentration of individuals with no formal qualifications, a higher percentage of those individuals are economically inactive. This is shown for West Wales and the Valleys where economic inactivity for those individuals with no formal qualifications is higher than for Wales and the UK as a whole. This corresponds to the relatively high concentration of individuals with no formal qualifications resident in the area (see section on skills below).

Figure 11. Economic inactivity rates by highest qualification, 2004 (per cent of the working age population)



Source: Labour Force Survey

1.50 The rise in female employment in general across West Wales and the Valleys has focussed attention on the issue of childcare as a potential barrier to participation in the labour market³⁴. The Department for Work and Pensions (2001) finds the key determinant of the economic status of lone parents is employment status before becoming a lone parent. However, the most important factor cited as preventing work is access and affordability of childcare. As Figure 10 shows 'looking after home and family' accounts for a large proportion of the reasons given for being economically inactive. It has been argued that the UK has suffered both from poor accessibility to and affordability of childcare and that this helps to explain in part economic inactivity across the UK³⁵. Research³⁶ indicates that subsidising childcare and increasing availability leads to an increase in employment for females and in particular lone parents. However, the net impact is greatest when policies are

³⁴ Blackerby, D et al. 2003 Identifying Barriers to Economic Inactivity in Wales. A Report for the Economic Research Unit of the Welsh Assembly Government:
<http://newydd.cymru.gov.uk/docrepos/40382/40382313/293077/40382322021/403829/403821/part1-ch1-2-e.pdf?lang=cy>

³⁵ Duncan, A and Giles, C. 1996. Should we Subsidise Childcare and if so how? *Fiscal Studies*, Vol 17 pp. 39-61

³⁶ Duncan, A et al, 2001. Mothers' Employment and the use of Childcare in the UK, Institute of fiscal Studies WP01/23;
 Duncan, A and Giles, C. 1996. Should we Subsidise Childcare and if so how? *Fiscal Studies*, Vol 17 pp. 39-61.

targeted and means tested. In addition to childcare there is a body of evidence³⁷ that shows that the presence of elderly family members decreases participation in the labour market.

1.51 In addition to childcare, several other barriers to employment have been identified for those currently economically inactive. The importance of networks, both informal and formal, and access to public transport have been highlighted as potential barriers especially for individuals living in rural areas³⁸. This has obvious implications for West Wales and the Valleys given that a large proportion of the area is rural. Although individual barriers to activity have been identified, individuals often face several disadvantages, and a co-ordinated approach will be needed to raise the economic activity rates across West Wales and the Valleys³⁹.

Skills and Education

1.52 Analysis of the employment rate in West Wales and the Valleys (and indeed Wales as a whole) shows that skills are increasingly important in determining labour market outcomes. Table 7 shows the employment rate disaggregated by qualifications for 2001 and for the latest year available, 2004. In West Wales and the Valleys, while the overall employment rate has increased, the employment rate for those with no formal qualifications has fallen and their percentage share of total employment has fallen every year since 2001.

Table 7. Employment rate by qualification, West Wales and the Valleys

Highest Qualification Level	2001	2004
NVQ Level 4 and above	84.1	84.7
NVQ Level 1-3	69.7	72.2
No Qualifications	45.9	44.5
Total	67.0	69.7

Source: Labour Force Survey

Figure 12 shows the relative skills set for individuals in West Wales and the Valleys compared to the average for the UK as a whole. The chart is illustrated as a location quotient⁴⁰.

1.53 Compared to the UK as a whole, West Wales and the Valleys has a lower representation of individuals at the higher end of the skills spectrum, particularly

³⁷ Greenhalgh, C. 1980. Participation and hours worked of married women in Great Britain. *Oxford Economics Papers* Vol 32, pp. 296-318

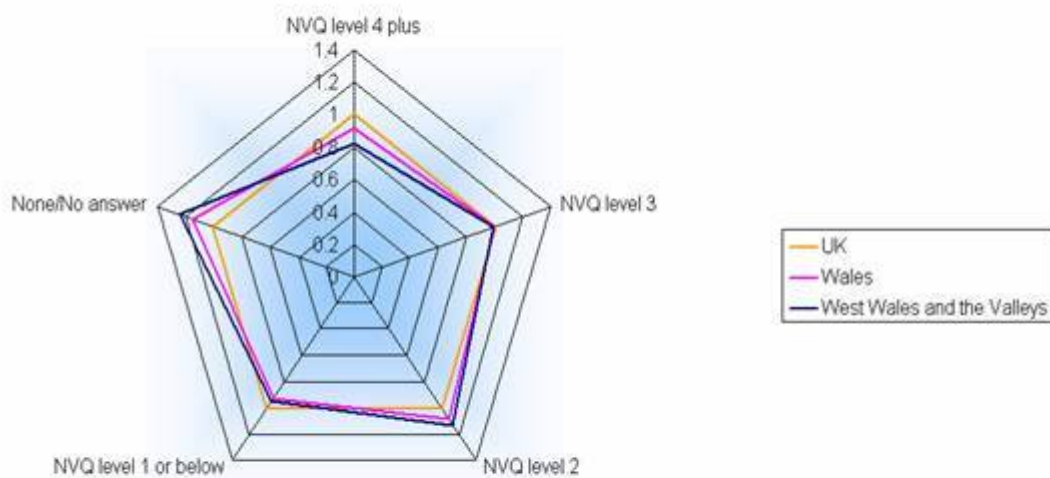
³⁸ Cartmel, F and Furlong, A, 2000. Youth Unemployment in Rural Areas. A Report for the Joseph Rowntree Foundation.

³⁹ Berthoud, R. 2003. Multiple Disadvantages in Employment: A Quantitative Analysis. A Report for the Joseph Rowntree Foundation.

⁴⁰ A location quotient measures the relative concentration of a variable compared to a benchmark area. In Figure 12 a score of 1 shows where the relative concentration of individuals with a given skill/qualification level is the same as for the UK average. A score of less than 1 shows where an area has a relative low concentration and a score of greater than 1 shows where an area has a relatively high concentration compared to the UK average.

Level 4 and above. Interestingly, West Wales and the Valleys and Wales as a whole has a relatively high concentration of individuals with NVQ Level 2 and a relatively lower representation of individuals with NVQ Level 1 qualifications. Most importantly, West Wales and the Valleys (and indeed Wales as a whole) has a higher representation of individuals without any formal qualifications. As an indication of the scale of the difference shown in Figure 12, across West Wales and the Valleys 18.9% of the working age population do not have any formal qualifications compared to 15.3% across the UK as a whole.

Figure 12. Qualification/skill set, West Wales and the Valleys (UK=1)



Source: Labour Force Survey

1.54 Table 8 shows the highest qualifications held by individuals across West Wales and the Valleys and Wales broken down by individuals with and without a disability and individuals from BME groups and those not from BME groups. As Table 8 shows individuals with a disability have lower levels of skill attainment than compared to individuals that are not disabled. The proportion of individuals from minority ethnic groups without any formal qualifications is lower in West Wales and the Valleys than those that are not from minority ethnic groups. This is contrary to the observations across Wales as a whole. The proportion of individuals from minority ethnic groups with level 4 and above qualifications is also higher in West Wales and the Valleys than for individuals from non minority ethnic groups. This again is contrary to the observation across Wales as a whole.

Table 8. Levels of highest qualifications held by persons of working age, percentage of working age population, 2004

		No Qualifications	Level 2 and above	Level 3 and above	Level 4 and above
Not disabled	West Wales and the Valleys	14.3	68.8	43.8	24.0
	Wales	13.4	69.8	46.3	26.4
Disabled (a)	West Wales and the Valleys	33.0	49.1	28.7	14.1
	Wales	31.0	51.2	30.5	16.0
Non ethnic minority population	West Wales and the Valleys	18.9	63.9	40.1	21.6
	Wales	17.3	65.8	42.8	24.0
Ethnic minority population (b)	West Wales and the Valleys	18.1	61.3	38.8	25.7
	Wales	22.1	56.9	39.1	27.4

(a) Disability is defined as work limiting disabled or Disability Discrimination Act disabled or both.

(b) All in ethnic minorities.

Source: Labour Force Survey

1.55 The level of qualification attainment for females across West Wales and the Valleys is similar to that for males. There are two main differences however. Firstly, females across West Wales and the Valleys and Wales as a whole have higher attainment rates at level 4 and above. Secondly, a higher proportion of females in West Wales and the Valleys and Wales as a whole do not have any formal qualifications. The differences however are small and only represent between 0.5 and 1 percentage point.

1.56 According to the latest survey of adult basic skills in Wales⁴¹, it is estimated that 25% of adults in Wales have entry level literacy skills and 53% of adults in Wales are estimated to have entry level numeracy skills. Compared to England, Wales has a higher percentage of adults with entry level numeracy and literacy skills, but the gap is particularly pronounced in literacy (see full report for details). Unsurprisingly, there is a strong correlation between education attainment and performance in both literacy and numeracy assessments. Overall males and females had similar scores in the literacy assessments, however males outperformed females in the literacy assessments with nearly 30% of men attaining level 2 compared to 14% for females.

1.57 Data on the qualifications held by pupils in the final years of formal education (Table 9) shows that pupils in West Wales and the Valleys tend to under-perform compared to the average for East Wales and Wales as a whole. On the plus side, the proportion of pupils that achieve no formal qualifications in West Wales and the Valleys is lower than for East Wales and Wales as a whole. However, across West Wales and the Valleys the percentage of pupils that achieve five or more GCSEs at grade A*-C or vocational equivalent is below that for East Wales. Pupils in West

⁴¹ BASIC SKILLS AGENCY FOR WALES, 2004, The National Survey of Adult Basic Skills in Wales. Available at: <http://www.basic-skills-wales.org/bsastrategy/resources/Survey%20of%20Adult%20Basic%20Skills%20in%20Wales.pdf>

Wales and the Valleys also under-perform in the core subjects (English or Welsh, Maths and Science). In addition, the average GCSE/GNVQ points score in West Wales and the Valleys is also below the average for East Wales and Wales as a whole.

Table 9. Attainment of pupils in final year of compulsory education (percentage) 2005/06 provisional results

Maintained schools in...	Percentage of pupils in final year of compulsory education who...					
	Achieved five or more GCSEs grade A*-C or vocational equivalent	Achieved five or more GCSEs grade A*-G or vocational equivalent	Achieved one or more GCSEs grade A*-G or vocational equivalent	Average GCSE/GNVQ points score	Achieved no GCSE, GNVQ or ELQ (a)	Achieved GCSE grade A*-C in each of the core subjects (b)
East Wales	54.7	87.1	93.5	42.4	3.6	40.8
West Wales and Valleys	52.0	85.5	93.2	40.1	3.9	37.6
Wales (c)	53.4	85.9	93.1	41.0	4.1	39.4

(a) Entry Level Qualification: Certificate of Educational Achievement or Certificate of Achievement.
(b) Core Subject Indicator: Achieved GCSE grade A*-C in each of English or Welsh, maths and science.
(c) Includes independent schools.

Source: Office for National Statistics

1.58 Linked to the above analysis, West Wales and the Valleys has a slightly lower proportion of pupils continuing in further education beyond the age of 16 than compared to East Wales and the average for Wales as a whole. In total 73% of pupils in West Wales and the Valleys continue in schools or further education institutions following the final year of compulsory education, compared to 74% across Wales as a whole and 76% across East Wales.

1.59 Table 10 shows the achievement of pupils entered for at least 2 A/AS Levels across West Wales and the Valleys, East Wales and Wales as a whole. As Table 10 shows, A/AS level achievement across West Wales and the Valleys is below the Welsh average.

Table 10. Attainment of pupils aged 17 at the start of the academic year, 2005/06 provisional results

Maintained schools in...	Percentage of pupils who entered 2 or more A/AS Levels or achieved vocational equivalent who...		
	Achieved 2 or more A/AS levels grade A-C or vocational equivalent	Achieved 2 or more A/AS levels grade A-E or vocational equivalent	Average points score per pupil
East Wales	69.0	94.1	20.7
West Wales and Valleys	66.2	93.3	19.3
Wales	68.2	93.8	20.2

Source: Office for National Statistics

1.60 The qualification levels⁴² of 16-18 and 19-21 year olds across West Wales and the Valleys (and Wales and East Wales) are much in line with the UK average

⁴² As measures through the Labour Force Survey/Annual Population Survey, ONS

with the exception of a higher proportion of 19-21 year olds not having any formal qualifications (10% for West Wales and the Valleys and 8% for the UK).

1.61 Following the changing composition for the demand for labour, resulting in falling demand for individuals with low skill levels⁴³, training throughout an individual's working life has increased in importance. Lifelong learning is the concept that 'it's never too soon or too late for learning' and covers all education and training for individuals of working age, although indicators typically include those aged 25-64.

1.62 Table 11 shows the percentage of adults aged 25-64 that are participating in lifelong learning; across West Wales and the Valleys the figure is marginally below the average for Wales as a whole. West Wales and the Valleys does have a higher percentage of adults aged 25-64 in lifelong learning than compared to European averages.

Table 11. Participation in lifelong learning, 2004 (a)

Percentage of adults aged 25-64 in education and training	
West Wales and the Valleys	14.3
East Wales	15.5
Wales	14.8
UK	15.5
EU(15)	9.3
EU(25)	8.6

(a) Life-long learning indicator refers to persons aged 25 to 64 who answered they received education or training in the four weeks preceding the survey (numerator). The denominator consists of the total population of the same age group, excluding no answers to the question 'participation to education and training'.

Source: Eurostat

1.63 As noted above, skills are very important in determining labour market outcomes, in particular employment and economic inactivity. However, the skills of the labour force also have implications for employers. The Future Skills Wales⁴⁴ survey aims to provide information on skills gaps amongst employers in Wales. Results from the latest survey show that 18% of employers in Wales reported a skills gap in 2005. This figure is broadly in line with surveys of previous years. The skills most commonly reported as lacking were generic skills, such as problem solving skills, customer handling skills, communication skills and team working.

1.64 Analysis⁴⁵ of skill shortages on a sectoral basis in Wales highlight that the occupations with the highest proportion of hard-to-fill vacancies reported were Skilled

⁴³ Faggio, G and Nickell, S, 2005. Inactivity Among Prime Age Men in the UK. *CEP Discussion Paper 673*: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

⁴⁴ The Future Skills Wales Partnership's collective aim is to provide reliable information on the skill deficiencies employers in Wales are experiencing which can be used to inform skills development policy and planning. The survey is far reaching and is based on information gathered from no fewer than 6,719 organisations across Wales between March and May 2005. Further details are available at: <http://www.futureskillswales.com/>

⁴⁵ Future Skills Wales, 2005, Future Skills Wales: Sector Skills Survey.

Trades, Associate Professional occupations and Elementary occupations. Amongst these hard-to-fill vacancies just over half were due to skill shortages in technical and practical skills.

1.65 Recent evidence⁴⁶ has highlighted further the importance of non-cognitive skills in determining individuals' outcomes in the labour market and to the wider social status of individuals. Non-cognitive skills such as communication skills, the ability to pay attention and problem solving skills are found to be important in determining labour market outcomes, although to a lesser extent than formal qualifications. Failure to address these skills deficits will continue to be a barrier to the development of a knowledge based economy as evidence from the OECD points to learning and investment in human capital being directly related to increased GDP. This was emphasised in the *Leitch Review of Skills (2005)* which identifies the need for radical change to skills training to enable the economy as a whole to compete in global markets. Starting from what is already a position of relative disadvantage, the challenge is even more stark for West Wales and the Valleys and calls for a radical redevelopment of the learning infrastructure to facilitate better access and better quality in training and learning provision.

<http://www.futureskillswales.com/eng/content.php?cid=5&pid=1&zid=100&nhid=136>

⁴⁶ Blanden, J et al 2005, Educational Inequality and Intergenerational Mobility in S Machin and A Vignoles (eds) What Can Education Do? Centre for the Economics of Education

IMPROVING KNOWLEDGE AND INNOVATION FOR GROWTH

ANALYSIS OF THE ADDED-VALUE GAP IN WEST WALES AND THE VALLEYS

1.66 Added-value or productivity is the main determinant of national living standards. It refers to how well an economy uses the resources it has available by relating the quantity of inputs to outputs (HM Treasury 2000⁴⁷). Added-value per job across the UK lags that of other major industrialised countries⁴⁸ and the importance of increasing productivity for economic growth cannot be underestimated. In 1999, it was estimated that if the UK were to match the performance of the US, for example, output per head would be over £6,000 higher⁴⁹.

1.67 Long-term economic growth and increases in earnings depend crucially on raising value-added per job in the economy. The key component of the overall prosperity gap between West Wales and the Valleys and Wales as a whole lies mainly in lower value-added per job. Indeed, across the western and northern (excluding Isle of Anglesey) areas of West Wales and the Valleys, it is lower value-added per job that explains the majority of the gap in GVA per head. Overall, this also explains around 50% of the total gap between Wales and the average for the UK⁵⁰.

1.68 Analysis⁵¹ of the variation across Great Britain suggests that most of the difference between Wales and the Great Britain averages are due to three factors:

- an adverse and long standing occupational and industry mix with relatively few high value-added jobs, whether in company head offices and R&D departments or in sectors with high rewards, such as financial or professional services;
- associated with this, an unfavourable qualifications profile in the workforce as a whole; and
- an inability to benefit from strong agglomeration effects, due to Welsh town and cities being relatively small and much of Wales being sparsely populated and distant from major centres.

⁴⁷ HM Treasury, 2000. Productivity in the UK 1: The Evidence and the Government's Approach: <http://www.hm-treasury.gov.uk/media/D4A/E5/ACF1FBA.pdf>

⁴⁸ For details see statistics from the Organisation of Economic Co-operation and Development: http://www.oecd.org/topicstatsportal/0,2647,en_2825_30453906_1_1_1_1_1,00.html

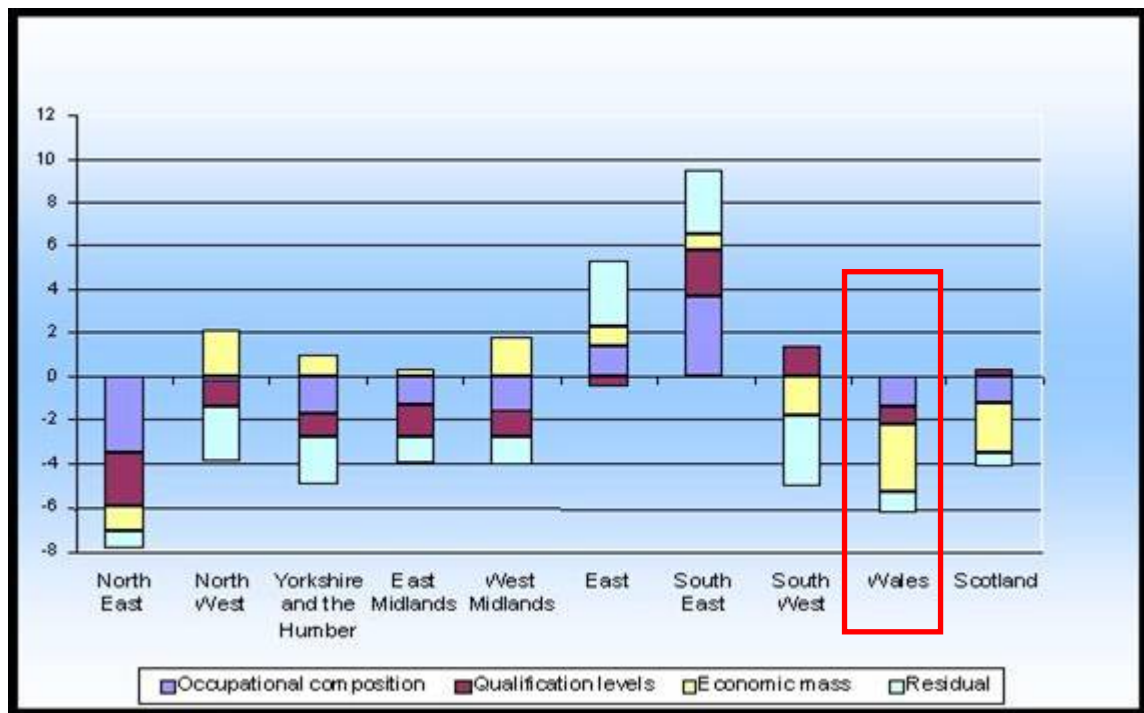
⁴⁹ HM Treasury, 2000. Productivity in the UK 1: The Evidence and the Government's Approach: <http://www.hm-treasury.gov.uk/media/D4A/E5/ACF1FBA.pdf>

⁵⁰ *Wales: A Vibrant Economy*, Welsh Assembly Government's Strategy for Economic Development: <http://new.wales.gov.uk/about/departments/dein/publications/wave?lang=en>

⁵¹ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper* No.642.

1.69 Figure 13 illustrates the findings of this research⁵². It indicates that agglomeration effects explain a higher proportion of the low output per head in Wales than for any other country or region of Great Britain⁵³. In addition Wales' adverse occupational structure and the skills levels of the potential workforce also help to explain lower relative productivity.

Figure 13. Analysis of earnings (a) differentials (percentage difference from Great Britain average)



(a) Primary measure for productivity used in the research is based on an earnings index which measures the spatial differences in earnings controlling for occupational structure. It therefore reflects spatial differences in productivity.

Source: Rice and Venables, 2004, Spatial determinants of productivity analysis for the regions of Great Britain, CEP Discussion Paper No.642

1.70 While no comparable analysis has been published for West Wales and the Valleys, the robustness of the findings, and consistency with wider evidence⁵⁴ on

⁵² Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper No.642*.

⁵³ Four main sorts of mechanisms have been put forward to explain the relationship between agglomeration and productivity or added-value per job. One such mechanism is technological spillovers. These arise as firms located within close proximity of others involved in related activities, learn how to innovate and implement new technologies more efficiently. The second main mechanism is simply that firms benefit from lower costs of trade and transportation if they have wider access to customers and suppliers. The third mechanism is that larger labour markets work more efficiently. The argument is that search costs for both employees and employers are lower due to the large pool of potential workers and that wide access is more likely to match suitably skilled individuals with appropriate employers. The fourth mechanism is that stronger competitive pressures arising from a larger concentration of firms and individuals lead to improvements in productivity.

⁵⁴ Boddy, M and Hudson, J, 2005, Meeting the Productivity Challenge A report for the South West of England Regional Development Agency:
http://download.southwestrda.org.uk/file.asp?File=/res/general/meeting_the_productivity_challenge.pdf

agglomeration and productivity, would suggest this is an even greater factor in explaining low output per head in West Wales and the Valleys than in Wales as a whole.

1.71 The implications of agglomeration are not straightforward although recent evidence⁵⁵ concluded that appropriate investment in transport infrastructure can develop economic mass leading to agglomeration effects on productivity. The rationale put forward is that by reducing the time and cost of movement, transport interventions can increase density and increase productivity.

1.72 Evidence⁵⁶ shows that there is an inherent relationship between transport and agglomeration. Transport costs play a crucial role in generating spatial concentrations. This is because transport systems to some extent determine proximity, or the ease of access, to other firms and to labour markets. In effect, transport can change urban or industrial densities by rendering a larger scale of activity more accessible.

1.73 From this line of reasoning it is clear that there may be consequences of transport investment that relate specifically to agglomeration. Essentially, the argument is that if there are increasing returns to spatial concentration, and if transport in part determines the level of concentration or density experienced by firms, then investment in transport may induce some shift in the productivity of firms via the externalities of agglomeration.

1.74 The type of evidence provided by Rice and Venables (2004)⁵⁷ and Graham (2004)⁵⁸ gives us a way of analysing transport's impact on agglomeration. First, since Rice and Venables measure distance using travel time, they can conduct an experiment that shows that the productivity increase of a 10% (costless) reduction in all travel time across the UK is 1.12%. A similar analysis on Graham's results yields an average productivity increase of 0.35%.

1.75 The evidence suggests that agglomeration effects can be most effectively generated close to existing areas of economic mass. Indicative estimates show that it is around city fringes where most gains can be made, so that moving (in the sense of reducing the overall time to destination rather than necessarily physical re-location an individual) within 30-40 minutes from a centre of critical mass has four times the impact on productivity than moving an individual within 60-70 minutes. For the Convergence Programme area this implies that investing in enhancing transport links from areas such as the South Wales Valleys to Cardiff, Newport and Swansea will have the greatest impact on productivity. Enhancing transport accessibility will also

Graham, D, 2005, Wider Economic Benefits of Transport Improvements: Link Between Agglomeration and Productivity. Department of Transport.

⁵⁵ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper* No.642.

⁵⁶ GRAHAM, D, 2005 Investigating the link between productivity and agglomeration for UK industries. http://www.hm-treasury.gov.uk/media/38C/C0/eddington_researchannex1.4_011106.pdf

⁵⁷ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper* No.642.

⁵⁸ Graham. D. (2005), "Wider economic benefits of transport improvements: link between agglomeration and productivity: Stage 1 report", UK Department for Transport.

help to improve access to jobs for the lower skilled, for whom opportunities are increasingly created in personal and retail services located in the larger centres.

1.76 The benefits derived from generating economic mass from transport investment vary by industry. Evidence shows that it is in the service sector where the benefits are largest. A 10% increase in the level of agglomeration is associated on average with a 1.29% increase in aggregate productivity in the service sector compared to 0.07% on the manufacturing sector. Wales' sectoral approach to economic development focuses on higher value added service sectors and increasing productivity amongst existing businesses as well as creating business conditions to attract higher value added industries to Wales.

1.77 Additional evidence⁵⁹ has highlighted the importance of capital investment in explaining Wales' gap in output per head. In total it is estimated that approximately 25% of the gap between Wales and London is explained by Wales having a lower capital stock. The results from the study also highlight the importance of industrial structure, skills and agglomeration as explanatory factors.

Industrial Structure

1.78 In addition to agglomeration effects and skills, industrial structure is a significant factor in explaining Wales' lower output per head. This is highlighted by Wales' sectoral approach adopted though *Wales: A Vibrant Economy*⁶⁰. The focus of the sectoral approach is based on those sectors where the evidence shows are high value-added and/or offer growth potential in the Welsh economy. It is envisaged that the development of the key sectors in Wales will help to increase productivity and boost Welsh headline GVA.

1.79 Analysing the industrial structure for West Wales and the Valleys shows that it has a relatively high representation in industries that have exhibited relatively lower growth rates, such as production industries, and a relatively low representation in industries, such as finance and business activities, which have experienced relatively higher recent growth at the UK level⁶¹. Figure 14 shows the relative concentration of industries in West Wales and the Valleys according to the relative share of total

⁵⁹ BODDY. M AND HUDSON J, 2006. Productivity in Wales: analysis of the productivity differentials and determinants in Wales and the implications for intervention. A report to the Economic Research Advisory Panel of the Welsh Assembly Government.

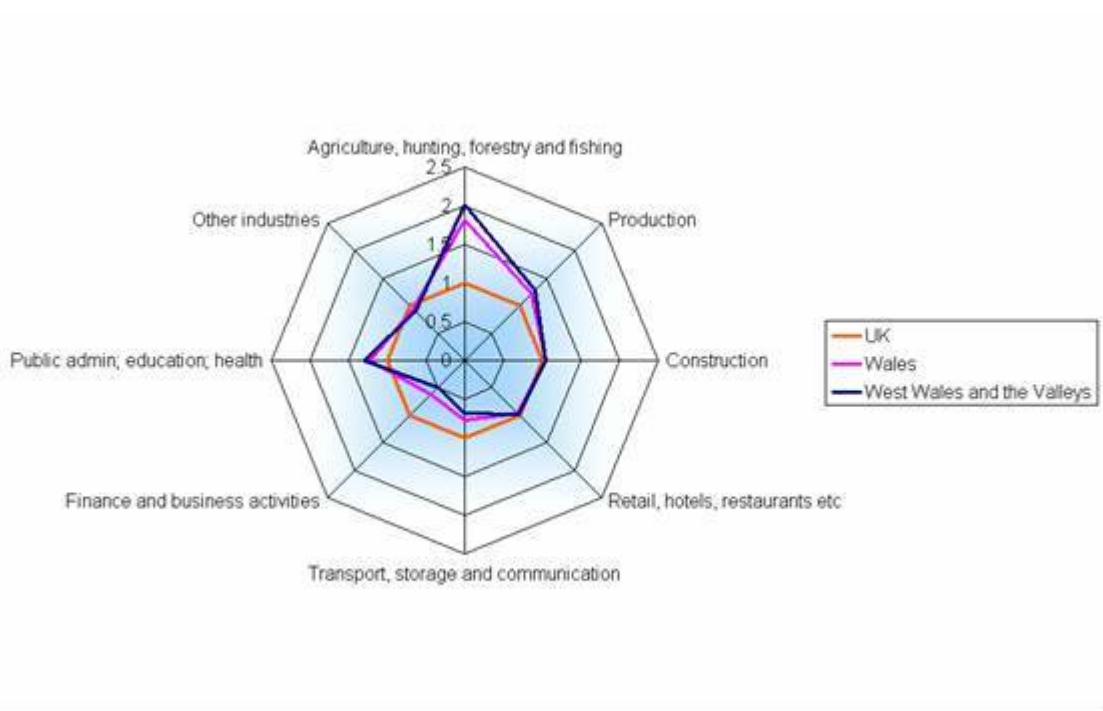
⁶⁰ *Wales: A Vibrant Economy*, Welsh Assembly Government's Strategy for Economic Development: <http://new.wales.gov.uk/about/departments/dein/publications/wave?lang=en>

⁶¹ Annual Business Inquiry. A summary is available at: <http://www.wales.gov.uk/keypubstatisticsforwalesheadline/content/economy/2005/hdw200512161-e.htm>

civilian workforce jobs⁶² compared to Wales and the UK average as location quotients⁶³.

1.80 As Figure 14 shows West Wales and the Valleys has a relatively high representation of workforce jobs in agriculture, production and public administration etc⁶⁴ (although in absolute terms agriculture accounts for less than 3% of total employment in West Wales and the Valleys) and a relatively low representation of workforce jobs in financial and business activities. The pattern for West Wales and the Valleys is similar to that of Wales as a whole. However, the relatively low representation of financial and business activities is even more pronounced in West Wales and the Valleys.

Figure 14. Civilian Workforce Jobs by industry (UK=1)



Source: Office for National Statistics

⁶² Civilian workforce jobs estimates comprise data from three sources; employee jobs from the Annual Business Inquiry (ABI) and Short-Term Employment Surveys (STES), self employed jobs from the Labour Force Survey (LFS) and government supported trainees (GSTs) from the ELWA National Trainee database.

⁶³ A score of 1 shows where the occupational structure is the same as the UK average, a score of less than 1 shows where an industry is relatively under-represented compared to the UK average and a score of greater than 1 shows relative over-representation.

⁶⁴ The relative over-representation in public sector employment in Wales is due to the relative small size of the private sector in Wales rather than an over-representation of the public sector in Wales given Wales' population and population density.

1.81 Figure 15 shows civilian workforce jobs in West Wales and the Valleys as a bubble chart. The size of the bubble shows the relative employment share of the sector compared to the total employment in the region (the bigger the bubble the higher the proportion of total employment in the sector). The position of the bubble along the horizontal axis shows the relative concentration of the sector in West Wales and the Valleys compared to the UK average (see

1.82

1.83

1.84

Figure 15). The position of the bubble on the vertical axis depends on the change in employment since 2000. Where a sector has seen a rise in employment the position of the bubble will be in the upper half of

1.85 Figure 15 and in the bottom half if employment in the sector has fallen.

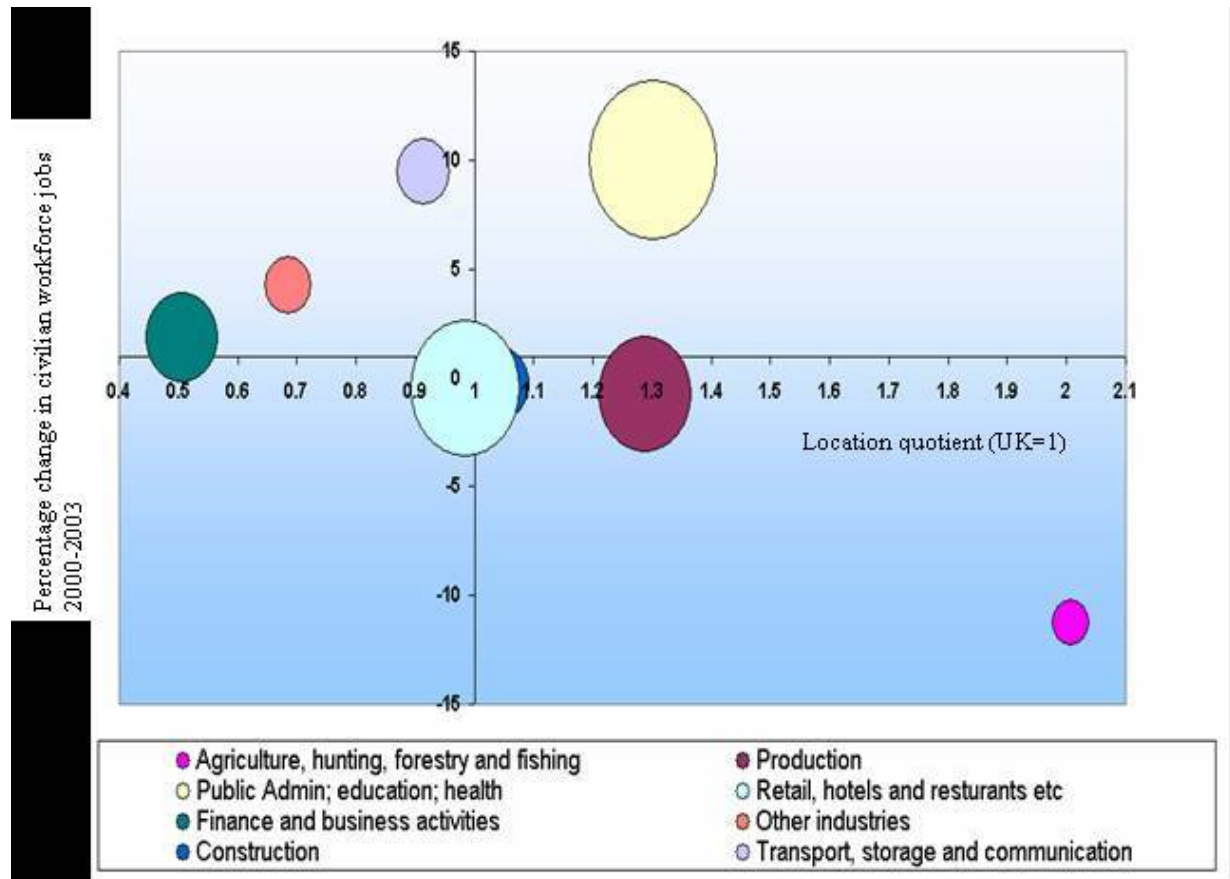
1.86 Figure 15 shows that in absolute terms, public administration, education and health is the largest sector in employment terms in West Wales and the Valleys, representing some 30% of all civilian workforce jobs. Public administration, education and health is also a growing sector and accounts for a slightly higher proportion of employment (although in terms of per head of population these sectors are no larger than in the rest of the UK).

The chart illustrates the gains that have been made in sectoral mix: sectors that are relatively over-represented in the region (Production and Construction) have experienced a fall in employment since 2000, whereas

sectors with a relatively low representation (finance and business services, other industries and transport) have seen a rise in employment. However, the numbers in some of these sectors are relatively small (as shown by the relatively small size of the bubble).

1.87 Figure 15 illustrates the over-dependence on declining industries across West Wales and the Valleys. Although small in absolute terms, agriculture has seen a significant fall in civilian workforce jobs and has a relatively high representation. Production has a large share of total employment (16%) but has declined. While industrial change is occurring across West Wales and the Valleys, as illustrated by rising employment in service sector activities, these sectors are still relatively under-represented and account for a relatively small proportion of total employment.

Figure 15. Civilian Workforce Jobs by industry, bubble charts



Source: Annual Business Inquiry, Short-term Employment Survey and Labour Force Survey

Table 12 shows the data relating to

1.88 Figure 15.

Table 12. Civilian Workforce Jobs, West Wales and the Valleys

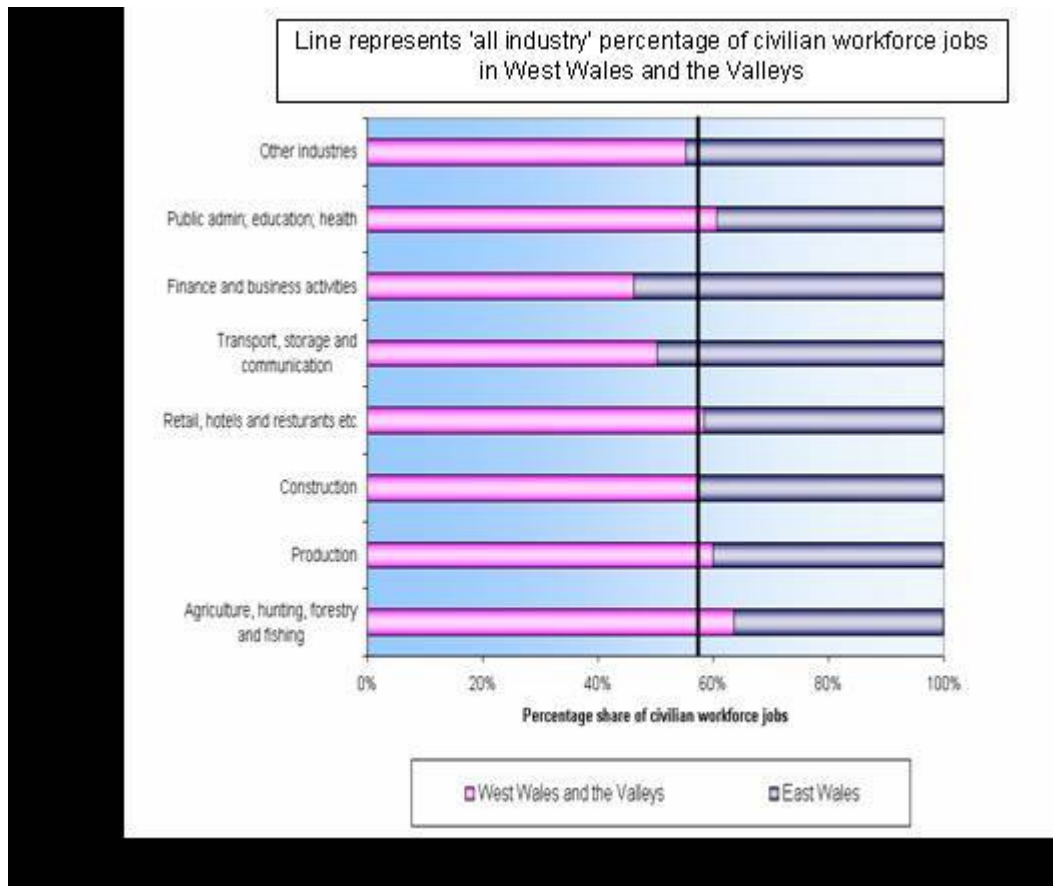
	Percentage change in civilian workforce jobs 2000–2003	Percentage share of total employment, 2003
Agriculture, hunting, forestry and fishing	-11.3	2.8
Construction	-0.8	16.6
Production	-2.9	7.2
Retail, hotels and restaurants etc	-0.5	23.0
Transport, storage and communication	4.2	4.2
Financial and business activities	1.9	9.9
Public administration, education and health	10.0	30.6
Other industries	9.5	5.7
All industries	3.1	100.0

Source: Annual Business Inquiry, Short-term Employment Survey and Labour Force Survey

In total, 57% of all civilian workforce jobs in Wales are located in West Wales and the Valleys. However, as Figure 16 shows, the proportion of total workforce jobs varies according to industrial sector. The line on Figure 16 shows the overall (all industry) percentage of civilian workforce jobs in West Wales and the Valleys. In 2003, 57% of all Welsh workforce jobs were located in West Wales and the Valleys. Given an equal representation of each industrial group, one might expect the share of employment in each industry to also be 57%. However,

1.89 Figure 16 further highlights the point that even at the Welsh level West Wales and the Valleys has a relatively low representation in finance and business activities and a relatively high representation in production, agriculture and public administration.

Figure 16. Percentage of civilian workforce jobs by area and industry, 2003



1.90 The availability of sites and premises can be an important factor in business location decisions⁶⁵. *The Property Strategy for Employment in Wales*⁶⁶, much of the present demand in Wales (as is the case in the UK as a whole) is for ready-made, modern buildings. The latest property appraisal across Wales shows that, in practice, only a relatively small proportion of the land is both currently available for development and relevant to the 'new' property market requirements. Similarly, in relation to the buildings, a large proportion of the stock is neither new nor modern.

1.91 Accessibility is another factor highlighted in research⁶⁷ as an important factor in business location decisions. Access to markets and labour can have important consequences on the performance of businesses and regions. As noted in previous sections, improvements in accessibility can lead to improvements in value-added per job and investment in transport can improve accessibility. Transport accessibility is discussed later in this analysis (making Wales an attractive place to invest in and work).

⁶⁵ DTZ Piedad Consulting, 2005, Factors Influencing the Location Decisions of Mobile Traded Services, A Report for the Economic Research Unit of the Welsh Assembly Government.

⁶⁶ Welsh Development Agency (now the Welsh Assembly Government), *Property Strategy for Employment in Wales 2004-08*: <http://www.wda.co.uk/resources/WDAProperty1.pdf>

⁶⁷ DTZ Piedad Consulting, 2005, Factors Influencing the Location Decisions of Mobile Traded Services, A Report for the Economic Research Unit of the Welsh Assembly Government.

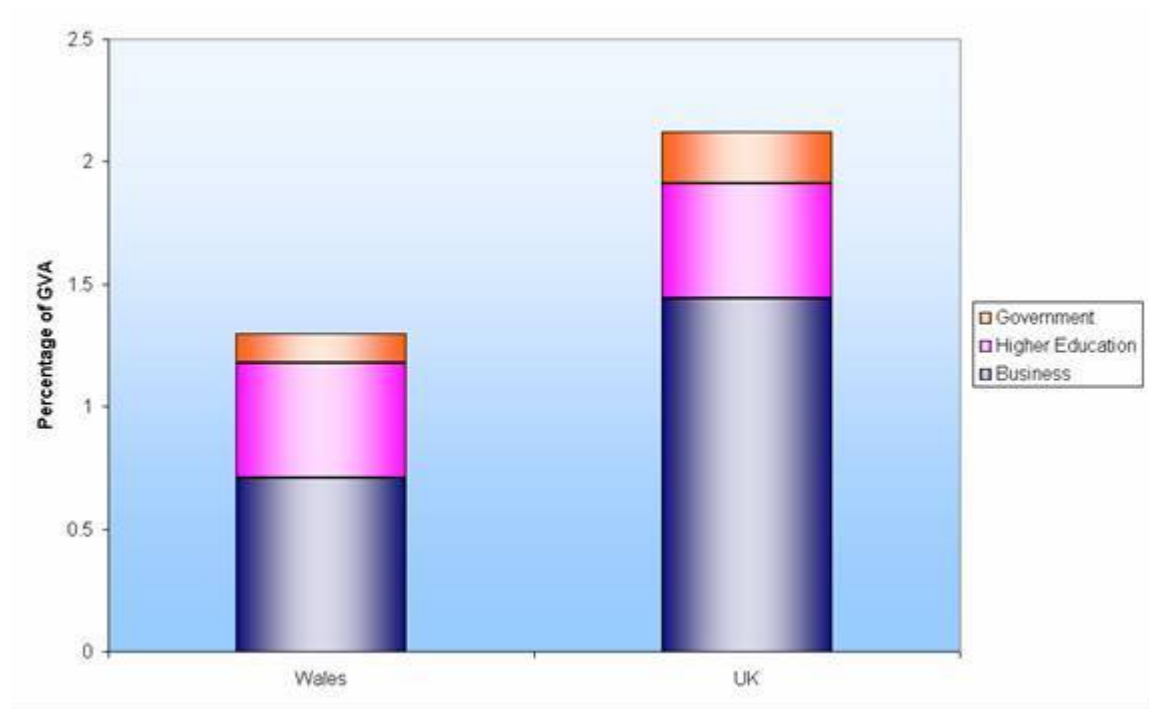
Innovation, R&D and Entrepreneurship

1.92 For individual businesses, the development of new products, processes and services can be significant drivers for establishing a competitive advantage. Beyond these direct benefits innovative practices may lead to spill-over benefits for society as a whole, as individuals work in more efficient ways and new products are created. At the aggregate level, the evidence is supportive of such a link between indicators of innovative activity and measures of economic output⁶⁸.

1.93 Figure 17 shows R&D⁶⁹ expenditure as a percentage of GVA in Wales and the UK and shows the analysis of R&D expenditure according to the sector of investment (sub-Wales data is not available). As Figure 17 shows, overall R&D expenditure as a percentage of GVA is below the average for the UK as a whole at 1.3% of total GVA. The main underlying factor explaining this low figure is the proportionately lower R&D expenditure found within the business sector in Wales. In 2003, only 55% of R&D expenditure was within the business sector, which is below the target set in the Lisbon Agenda of 67%. This is mostly reflective of the industrial structure of the Welsh economy (with, for example, relatively low representation of pharmaceutical companies that have high R&D spend), since on many measures of innovation (see below) Wales is only just below the UK average.

⁶⁸ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence.

⁶⁹ R&D is defined as creative work which aims to increase knowledge within society. Precise measurement can be difficult to make and subjective methods are required to divide R&D and other business activities. More information is available at: <http://www.statistics.gov.uk/pdfdir/et0805.pdf>

Figure 17. R&D Expenditure, 2003 (percentage of GVA)

Source: Office for National Statistics

1.94 Table 13 provides a regional breakdown of R&D expenditure. The regions of the UK are ranked according to the percentage of total R&D expenditure performed within businesses. Wales is ranked about mid-way and is amongst a number of regions where business R&D is below the targets set in the Lisbon Strategy (as indicated by the line in Table 13 showing business R&D at 67% of total R&D expenditure). While regional comparisons are useful, in a small region such as Wales the level of R&D expenditure can be influenced greatly by a small number of major projects commencing or ending.

Table 13. Regional R&D expenditure, ranked by percentage of R&D expenditure performed by business, 2003

	% of total R&D expenditure performed within business	% of total R&D expenditure performed within Government establishments	% of total R&D expenditure performed within higher education institutions	R&D expenditure as a percentage of GVA
East of England	82	8	10	4.4
East Midlands	79	2	19	1.9
North West	79	3	18	2.0
South West	76	13	11	2.4
South East	74	13	13	3.1
West Midlands	69	4	27	1.1
North East	64	0	36	1.4
Wales	55	9	36	1.3
Northern Ireland	50	7	43	1.1
Yorkshire and the Humber	44	16	40	1.2
Scotland	38	20	42	1.7
London	36	13	50	1.3
UK	68	10	22	2.1

Source: Office for National Statistics

1.95 Using data from the UK's Annual Population Survey West Wales and the Valleys had a lower proportion of total employment in R&D related activities than compared to Wales and the UK as a whole. In total 2% of all employment was in R&D related activities across West Wales and the Valleys compared to 2.3% for Wales and the UK respectively. A broader analysis of employment in high-tech sectors is presented in Table 14.

1.96 The Community Innovation Survey (CIS) is a survey conducted every four years by EU Member States that allows the monitoring of Europe's progress in the area of innovation. The survey is based on businesses in Member States on self-reported innovation⁷⁰. Between 1998–2000, 37% of Welsh businesses were identified as innovative active firms⁷¹, this compares to 36% across the UK and 40% for the EU as a whole.

1.97 Evidence⁷² suggests that the appropriate use of ICT can have a positive impact on business productivity. Information on the use of ICT by SME businesses

⁷⁰ Some care must be taken due to potential mis-reporting on innovation and variations between respondents on the definition of innovation.

⁷¹ 'Innovation active' here indicates that the firm reported the introduction of a new product or process and/or had innovation activities that were incomplete or abandoned in the period 1998-2000.

⁷² Rincon, A et al, 2005, The Productivity Impact of E-commerce in the UK, 2001: Evidence from Microdata: <http://www.niesr.ac.uk/pubs/searchdetail.php?PublicationID=548>

in Wales is collected via the Annual Small Business Survey⁷³. Headline results from the survey show that SME businesses in West Wales and the Valleys have a lower business use of ICT than across the UK as a whole. SME business use of ICT in West Wales and the Valleys follows trends for Wales as a whole. In total, 74% of SMEs in West Wales and the Valleys (Wales 74% and UK 81%) use ICT 'in some way' with accounting, communication and record keeping recorded as the main uses of business ICT.

1.98 Data on internet access for individuals is not available at a sub-regional level. However, Wales had the second lowest Internet access rate⁷⁴ of all regions and countries of the UK, and the second lowest proportion of households with internet access at their home. Data on internet access across the EU⁷⁵ shows that the UK has a higher proportion of households with access to the Internet than across the EU25 as a whole (comparable data for Wales is not available).

1.99 Evidence⁷⁶ highlights the role that Higher Education Institutions (HEIs) can play in technology transfer through collaborative research with the private sector, direct business starts and spin-offs. The Higher Education Business and Community Interaction Survey⁷⁷ provides an insight into higher education collaboration and technology transfer with the business and community sectors. In 2002–2003 HEIs in Wales (sub-Wales level analysis is not available) generated approximately £50 million in income from collaborative research with public and other (including the private sector) organisations, which represents some 10% of the UK average (compared to Wales having only an 8% representation of all HEIs in the survey). Since 2001–2002 income generated from collaborative research with public and other organisations in Wales has increased by £12 million, or 28% compared to an increase of 6% across the UK as a whole.

1.100 While the Welsh Assembly Government supports the Higher Education Institutions in Wales with funding channelled through the Higher Education Funding Council for Wales (HEFCW), universities in Wales are autonomous bodies and have sole responsibility for their own day-to-day administrative and academic affairs, including the types of courses they provide. Seven of Wales 12 higher education institutions are located in the Programme area. These are; University of Wales, Aberystwyth, University of Wales, Bangor, University of Glamorgan, University of Wales Swansea, Swansea Institute of Higher Education (SIHE), Trinity College, Carmarthen, and University of Wales, Lampeter. The remainder are; North East Wales Institute of Higher Education (NEWI), University of Wales, Newport, Cardiff University, University of Wales Institute, Cardiff (UWIC) and the Royal Welsh College of Music and Drama. Together they are well spread geographically across Wales and comprise a diverse range of institutions from research intensive institutions such

⁷³ Further details are available at:

<http://new.wales.gov.uk/about/departments/dein/publications/smallbusiness?lang=en>

⁷⁴ Measured by the proportion of adults that had used the Internet in the three months prior to interview. Source: Office for National Statistics.

⁷⁵ Eurostat.

⁷⁶ Rodgers, E.M et al (2000) Assessing the Effectiveness of Technology Transfer Offices at U.S. Research Universities.

⁷⁷ Higher Education Funding Council for England, 2005, Higher Education Business and Community Interaction Survey: http://www.hefce.ac.uk/Pubs/HEFCE/2005/05_07/#exec

as Cardiff University, to the University of Glamorgan which focuses on teaching and learning to the Royal Welsh College of Music and Drama, the national conservatoire.

1.101 HEIs can also have a leading role in the formation of business start-ups. While the numbers fluctuate from year to year the Higher Education Business and Community Interaction Survey shows that the number of new spin-off companies (not including staff and student start-ups) in Wales was 22 in 2001 – 02 (of which 18 have some HEI ownership, and 14 in 2002–2003 (of which 7 have some HEI ownership). The total number of new and existing active spin-off firms is 55, with 29 having survived for at least three years. Approximately £21 million in turnover and almost 245 FTE staff are supported in relation to active formal HEI spin-offs in 2002–2003. In the same year (2002-2003) there were 2 staff start-ups and a total of 14 active firms, 6 of which having survived for at least 3 years. In addition, there were 76 graduate start-ups and a total of 117 active firms 27 of which having survived for at least 3 years.

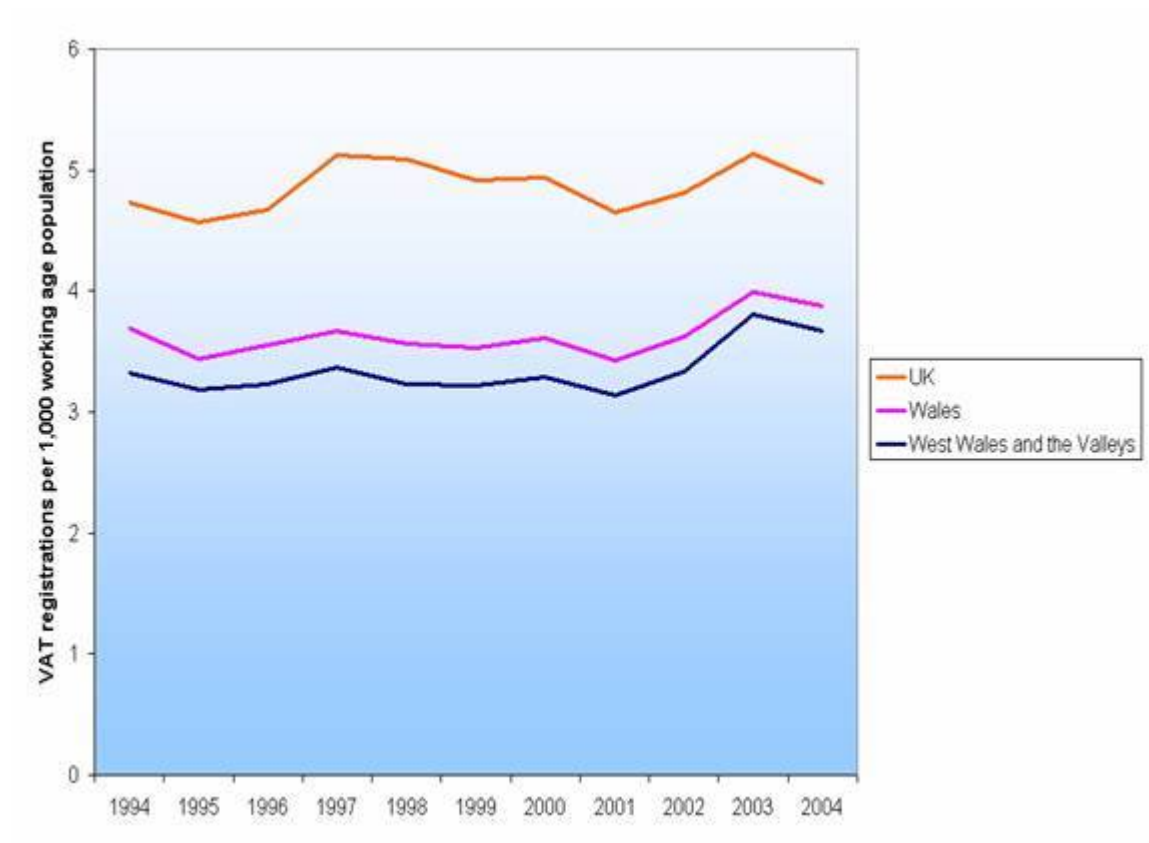
1.102 The Research Assessment Exercise (RAE) provides quality ratings for research across all disciplines in higher education institutions. Panels use a standard scale to award a rating for each discipline. Ratings range from 1 to 5*, according to how much of the work is judged to reach national or international levels of excellence⁷⁸. In 2001 (the latest year available), Wales had twelve 5* higher education departments, which represents a four-fold increase since 1996 (previous assessment year). Wales' average weighted RAE score⁷⁹ has improved since 1996 by 19%, marginally above the change across the UK as a whole (18%), although the absolute score is slightly below the UK average.

1.103 In addition to encouraging innovation, a strong entrepreneurial culture can be an important factor in the creation of new businesses and the expansion of existing ones⁸⁰. Although there is no single measure of entrepreneurship, the headline level of VAT registrations per thousand working age individuals has been used as a proxy for entrepreneurial activity in a given location. As Figure 18 shows, West Wales and the Valleys has a lower level of VAT registrations per thousand working age population than for Wales and the UK as a whole. This has been a consistent trend throughout the 1990s and into the early 21st Century.

⁷⁸ Further details are available at: <http://www.hero.ac.uk/rae/>

⁷⁹ Overall weighted averages ranks HEIs on a scale of 1-7 and takes account of the number of academic staff undertaking research

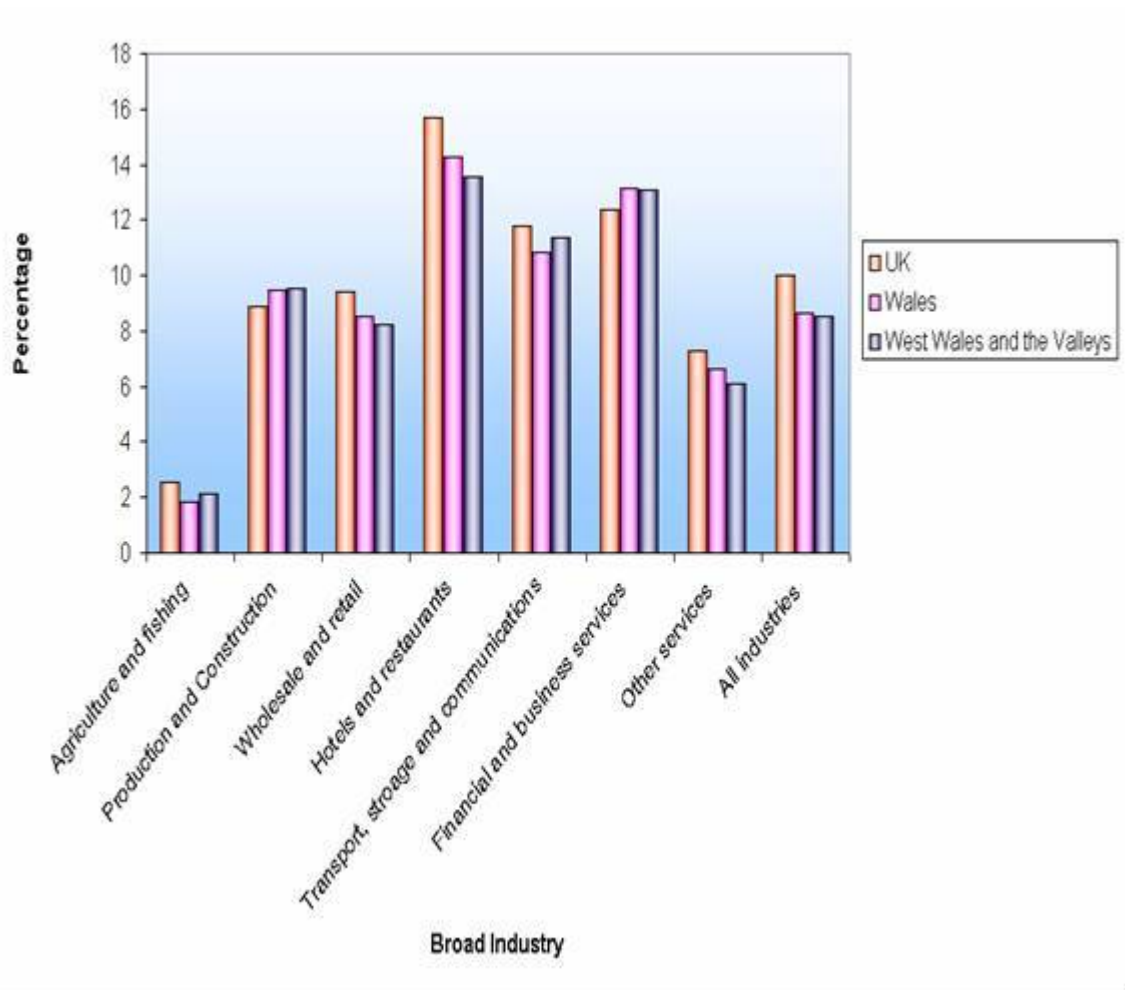
⁸⁰ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence.

Figure 18. VAT Registrations per 1,000 working age population

Source: Small Business Service

1.104 Detailed analysis of VAT registrations by industry group helps to explain the relatively low VAT registration rate across West Wales and the Valleys and across Wales as a whole. Figure 19 shows that VAT registrations vary according to industrial sector. VAT registration rates are highest in service sector industries, such as hotels and restaurants and financial and business services, and lower in production industries and agriculture. West Wales and the Valleys tends to have a higher concentration in those sectors where VAT registration rates are lower. Industrial structure, therefore, goes some way in accounting for the relatively low level of VAT registrations.

Figure 19. VAT Registration rate, 2004 (percentage of stock at start of the year)



Source: Small Business Service

1.105 Self-employment is another indicator of entrepreneurial activity and includes individuals that have started their own business, but are below the VAT threshold. The pattern of self-employment⁸¹ in West Wales and the Valleys is broadly representative of the picture for Wales as a whole. In total, self-employment represents just over 12% of total employment (13% Wales and 13% UK) in West Wales and the Valleys. Self-employment is concentrated in a handful of sectors, namely: construction (24%); agriculture etc (12%); retail etc (12%) and real estate and business activities (12%). Self-employment rates across West Wales and the Valleys (and Wales in total) are broadly in line with the UK average (13%). The main difference is the sectoral breakdown where West Wales and the Valleys has a higher proportion of total self employment in agriculture and a lower proportion in real estate and business activities than the UK average.

⁸¹ Source: The Labour Force Survey

1.106 The Global Entrepreneurship Monitor⁸² attempts to measure entrepreneurial activity across the world. The Total Early Stage Entrepreneurial Activity (TEA) index identifies the proportion of the working age population who are either setting up or have been running a business for less than 42 months. In 2005, West Wales and the Valleys had a TEA index of 5.2%, compared to 5.25% across Wales as a whole and 6% for the UK. Wales is ranked about mid-way compared to the regions and devolved countries of the UK, with London at the top of the scale (8.34%).

1.107 On an international level the TEA index for Wales in 2005 was above many of the leading countries of the EU, including Italy, Finland and Belgium. On a global scale, TEA for Wales and across the UK as a whole was below the average for the 35 countries that took part in the 2005 research⁸³.

1.108 Information on employment in high technology sectors⁸⁴ is collected by Eurostat and shows the proportion of total employment that is in high and medium high technology and knowledge intensive high technology services sectors. The data set is useful, as it is possible to make comparisons across West Wales and the Valleys to that of the average for the EU25. Table 14 shows the latest data.

1.109 As Table 14 shows, the proportion of employment in high and medium high technology manufacturing and knowledge-intensive high-technology services in West Wales and the Valleys is below that of the UK and European averages, representing just under 10% of total employment in the sub-region. The figure for West Wales and the Valleys is, however, higher than for Wales as a whole. This is partially explained by the high representation of manufacturing employment in West Wales and the Valleys, some of which is in high technology sub-sectors.

⁸² The Global Entrepreneurship Monitor (GEM) is one of the largest international social science research projects in the world and measures entrepreneurial attitudes and activities of individuals in 35 different countries. Its key measure of entrepreneurial activity, the TEA index, measures the total early stage entrepreneurial activity defined as the proportion of working age individuals who are engaged in setting up or running businesses either for themselves or for their employer that are less than 42 months old. Further details are available at: <http://www.gemconsortium.org/>

⁸³ GEM is one of the largest international social science research projects in the world and measures entrepreneurial attitudes and activities of individuals in 35 different countries.

⁸⁴ 'Statistics on high-tech industries and knowledge-intensive industries' comprise economic, science, technology, innovation and employment data describing manufacturing and services industries broken down by technological intensity. Further details are available at: http://epp.eurostat.ec.eu.int/portal/page?_pageid=0,1136250,0_45572555&_dad=portal&_schema=P ORTAL

Table 14. Employment in high and medium high technology manufacturing and knowledge-intensive high-technology services, percentage of total employment

	2001	2004	Change since 2001
EU25	10.26	10.18	-0.08
EU15	11.17	10.46	-0.71
UK	11.93	10.00	-1.93
Wales	9.64	9.69	0.05
West Wales and the Valleys	9.38	9.88	0.50

Source: Eurostat

1.110 The number of researchers provides a useful proxy for the number of people employed in providing high value-added services and research and development functions. West Wales and the Valleys has a lower number of researchers in HEIs per 10,000 population than across Wales and the UK as a whole. This is despite West Wales and the Valleys having a higher number of students per 10,000 population than across the UK as a whole, which is a proxy for the size of the HE base in a given region.

1.111 External trade of goods and services can be an important component of business performance⁸⁵. According to data from the Annual Small Business Survey 11% of SME businesses in West Wales and the Valleys sell (goods and services) outside the UK. This compares to 13% across Wales as a whole and 21% across the UK. Recent evidence⁸⁶ has indicated that firms that export learn from their buyers as a result of their experience and that firms who had learned from buyers in the past are more likely to then have productivity growth. This is in contrast to earlier research, which had suggested that the higher productivity observed in firms that export was not in itself an outcome, in that they already had higher productivity prior to beginning to export. The new evidence points to a significant market failure and suggests scope for government intervention to overcome informational deficiencies that may inhibit potential exporters.

⁸⁵ External trade increases the size of the potential market both for selling outputs and buying inputs. Increases in the potential market can lead to increases in turnover and increases the potential gains from economies of scale. Increases in the potential market for inputs can lead to reductions in input prices.

⁸⁶ CRESPI . G et al (2006) Productivity, exporting and learning by exporting hypothesis: Direct evidence from UK firms. CEP discussion paper No 726.
<http://cep.lse.ac.uk/pubs/download/dp0726.pdf>

MAKING WALES A MORE ATTRACTIVE PLACE TO INVEST IN AND WORK

TRANSPORT AND TRAVEL PATTERNS

As highlighted in the Community Strategic Guidelines⁸⁷ improving accessibility is an important factor that is expected to improve the attractiveness of regions. In addition to the potential impact on agglomeration and productivity transport accessibility also has a role to play in promoting economic development and promoting territorial cohesion.

The Transport Network

1.112 The transport network in Wales has evolved over time, initially as a result of needing to move agricultural products to market, and more latterly to move the products of industry to customers. The relatively low population density, especially in areas away from the north and south coasts, is a key determinant of the nature of the transport system in West Wales and the Valleys.

1.113 There are four main transport corridors in Wales, each of which bisects West Wales and the Valleys. These are the east-west corridors in North, Mid and South Wales and the North-South corridor.

1.114 For the east-west corridor in North Wales, the primary routes are the A55 and the North Wales main line. The corridor connects the Port of Holyhead, with its ferry services to Dublin and Dun Laoghaire in the Republic of Ireland, with the English border. The strategic significance of this route is recognised by its designation as part of the TEN-T network.

1.115 In contrast, the east-west corridor in mid-Wales does not carry large volumes of traffic, either on road or rail. There are no capacity issues, but the corridor does make a vital contribution to accessibility for people living in the area, including links to East Wales and the English Midlands. The Cambrian railway line from Birmingham to Aberystwyth does form part of the TEN-T network. Feasibility work is under way to examine the scope for doubling the frequency of service to Aberystwyth and there are plans to trial the European Rail Traffic Management System (ERTMS) on this line.

1.116 For the east-west corridor in South Wales, the primary routes are the M4 motorway, the A465 Heads of the Valleys road and, further west, the A40 and A477 trunk roads which connect to the ferry ports at Pembroke, Milford Haven and Fishguard. The rail network on this corridor serves both inter-city and significant local/commuter services. There have been improvements in the frequency of main line services from Cardiff to London in recent years.

⁸⁷ European Commission, 2005, Cohesion Policy in support of Growth and Jobs: Community Strategic guidelines, 2007-13., COM(2005) 0229:

http://europa.eu.int/comm/regional_policy/sources/docoffic/2007/osc/index_en.htm

1.117 Bus services, which account for about 85 per cent of all public transport journeys, are important in this corridor, particularly in the South Wales Valleys and around urban centres like Swansea. By improving accessibility to jobs, services and leisure facilities, buses have a key part to play in regenerating our communities and reducing economic inactivity.

1.118 For the north-south corridor, the main road links are the A470, A483 and the A487. Work is in hand to upgrade these links, which are generally of a single carriageway standard, with a view to providing community relief, improved safety and enhanced overtaking opportunities. The Welsh Marches line between Newport and Crewe, which is part of the TEN-T network, provides the main north-south rail link, although much of the route is outside Wales.

1.119 The key role of the TEN-T network can be most simply demonstrated by examination of traffic flows on the road network (see Figure 20), where the TEN east-west routes in both north and south Wales serve both to connect businesses to markets in other parts of Wales, in England and beyond, and play a major part in facilitating journeys to work. As the data on commuting patterns shows, many such journeys involve out-commuting from West Wales and the Valleys.

Figure 20. Traffic flows



1.120 The ownership and availability of cars is a crucial factor in influencing personal travel in Wales, particularly in West Wales and the Valleys where there is generally less public transport provision. The proportion of households without a car has been falling (from 32 per cent in 1996 to its current 25 per cent) and some 70 per cent of all personal journeys in Wales are made by car. Nevertheless, for those households without access to a car, particularly those away from the main urban centres, there are particular social inclusion issues concerning access to employment opportunities and key services.

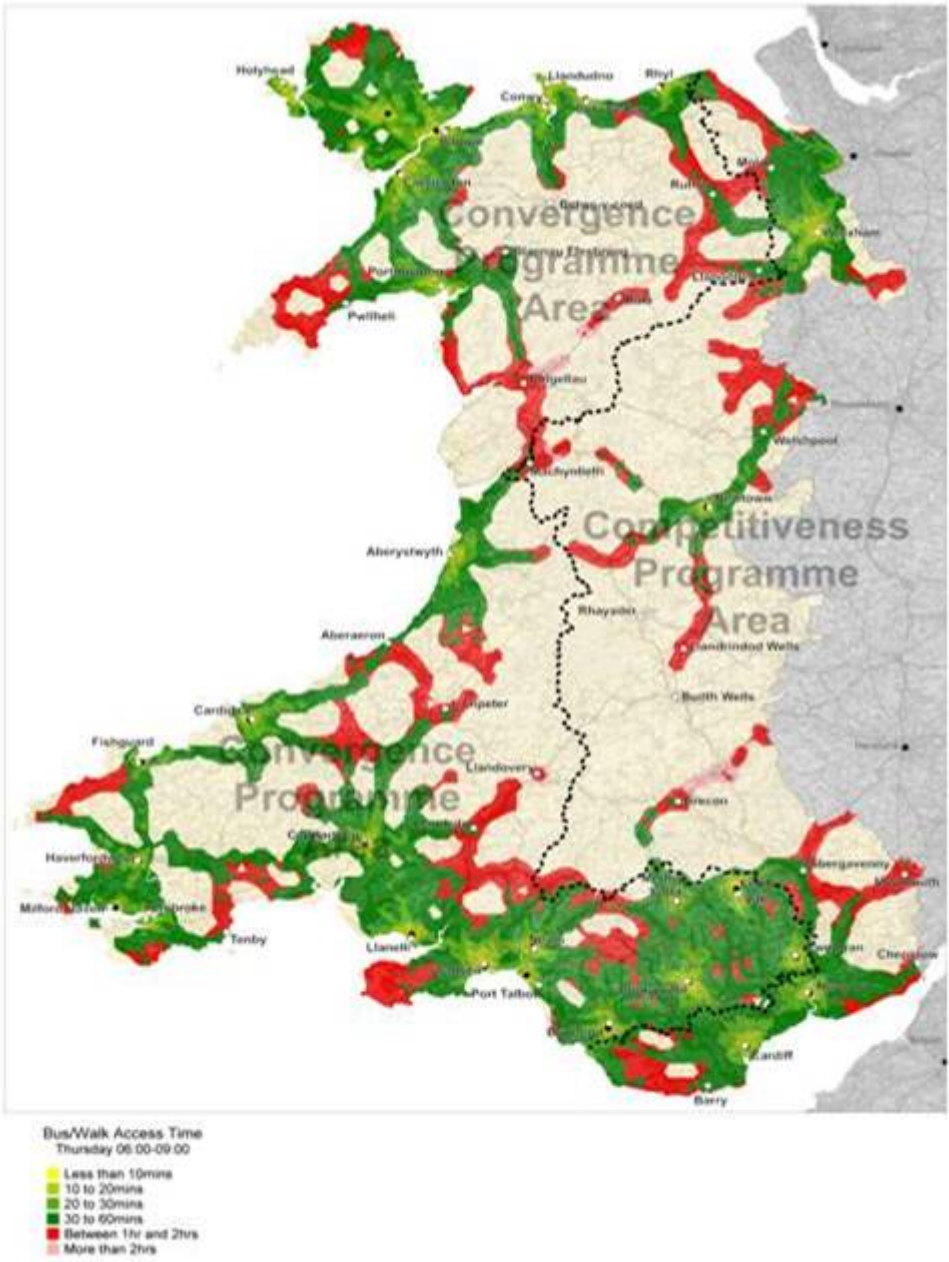
1.121 The use of buses and coaches in Wales is less frequent than elsewhere in Great Britain, 47 journeys per person per year compared with 59 in Great Britain

overall. Use of the rail network is lower still, at less than half the Great Britain average, although parts such as the Valleys Lines network have seen rapid growth in recent years. For many living in the Valleys, the network provides access to job opportunities around the more prosperous coastal strip, including Cardiff and Newport (See Figure 23).

1.122 Transport infrastructure has obvious links to relative access to services including access to employment centres. The link between transport and output per head has been made in the previous analysis (see improving knowledge and innovation for growth); however, transport can also have important social inclusion implications. Figure 21 shows bus and walking access to key centres⁸⁸. The key on the map shows that the red areas indicate where access to key centres by bus and/or walking is between one and two hours. Across West Wales and the Valleys, access to key centres by bus or walking is the poorest in West Wales, and parts of the South Wales Valleys where the geography makes it difficult to move between the Valleys and has an isolating effect, particularly in the upper valleys.

⁸⁸ The key centres used in the plot are also from the *Wales Spatial Plan*. The centres are defined as key centres related to socio-economic hubs, regional links and international/inter-regional links. These include five centres outside Wales - with Liverpool in addition to Chester, Shrewsbury, Hereford and Bristol.

Figure 21. Bus and walking access to key service centres (a)



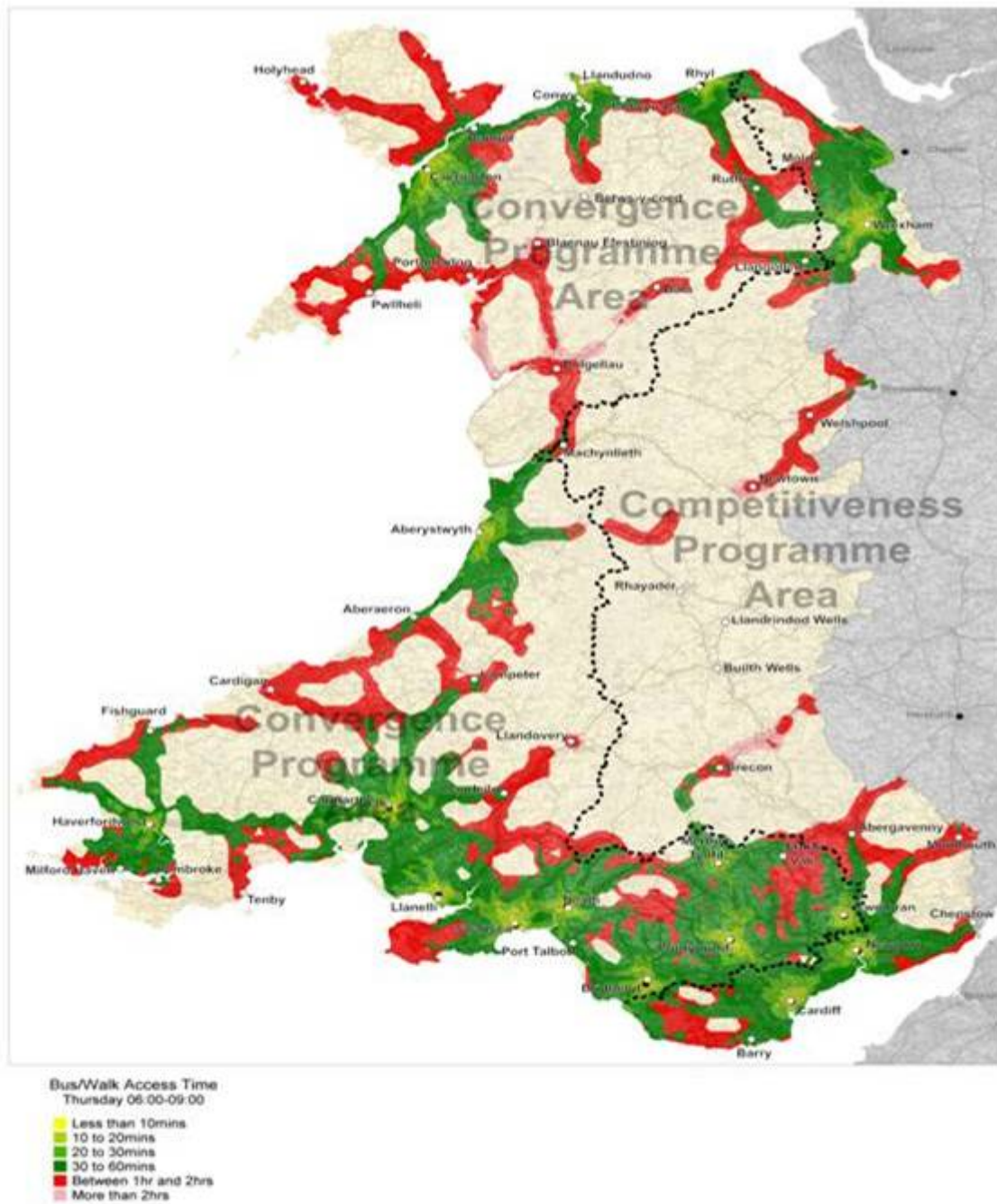
(a) The key centres used in the plot are also from the *Wales Spatial Plan*. The centres are defined as key centres related to socio-economic hubs, regional links and international/inter-regional links. These include 5 centres outside Wales - with Liverpool in addition to Chester, Shrewsbury, Hereford and Bristol.
Source: Halcrow Group Limited

1.123 Figure 22 shows access to key employment centres in Wales⁸⁹ by bus and walking. Again, the red areas show access of beyond one hour. The areas with the poorest bus/walking access to key employment centres across West Wales and the

⁸⁹ The employment centres used in this plot were taken from the *Wales Spatial Plan*. The centres included are all town/city centres with more than 2,000 jobs (2000 data), with the addition of cross-border locations Chester, Shrewsbury, Hereford and Bristol.

Valleys can be found in West Wales. There are also large pockets of poor access to employment centres even within the South Wales Valleys. This is linked with relatively high economic inactivity rates in the same areas within the South Wales valleys.

Figure 22. Bus and walking access to key employment centres (a)

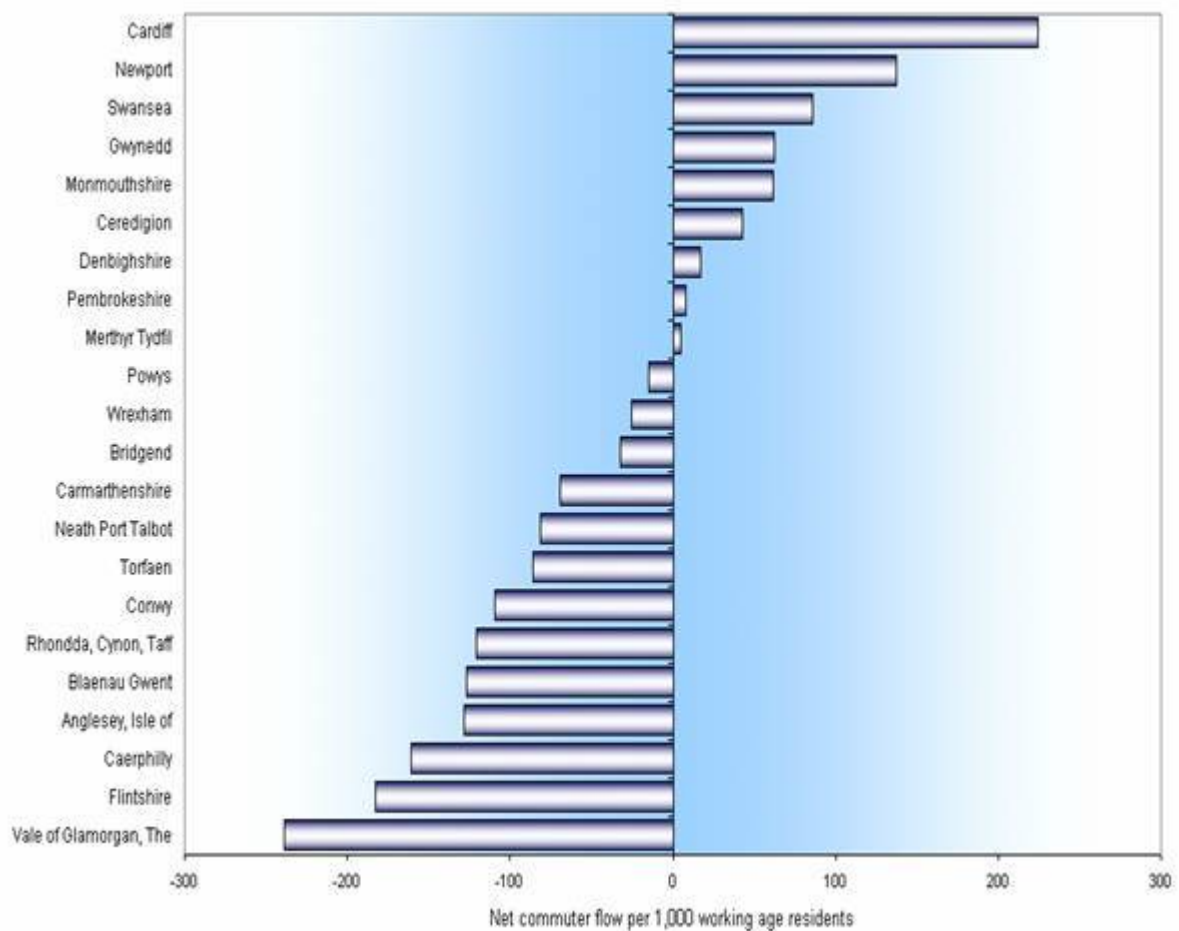


(a) The employment centres used in this plot were taken from the Wales Spatial Plan. The centres included are all town/city centres with more than 2,000 jobs (2000 data), with the addition of cross-border locations Chester, Shrewsbury, Hereford and Bristol.

Source: Halcrow Group Limited

1.124 The importance of good transport networks within West Wales and the Valleys is highlighted further by analysis of commuting patterns. Figure 23 shows the net commuting flows within Wales. Unsurprisingly Cardiff and Newport have large net inflows of individuals for employment. Interestingly, areas of the South Wales Valleys have some of the largest net outflows, Rhondda Cynon Taff, Torfaen and Caerphilly in particular. Analysis of commuting flows in the South Wales Valleys⁹⁰ shows that the largest net outflows are to the local authorities of Cardiff and Newport. Maintaining and possibly improving transport networks both within the South Wales Valleys and to areas such as Cardiff and Newport could be important to enhance the employment links from some of the poorest parts of West Wales and the Valleys and areas where the labour market is relatively more buoyant.

Figure 23. Net in-commuting flows as a proportion of the working age population, 2004



Source: Office for National Statistics

⁹⁰ ONS, 2005, Statistics on Commuting in Wales, 2004.
<http://new.wales.gov.uk/docrepos/40382/40382313/403824/economy/econ-2005/sb76-2005.pdf?lang=en>

Demographic trends

1.125 Demographic patterns and, in particular, migration can provide an insight into the relative attractiveness of an area for individuals⁹¹.

1.126 As Table 15 shows, since 1981 the population of West Wales and the Valleys has increased by 2.3%. However, the growth slowed between 1991 and 2001 while across East Wales the population continued to grow at a rate of 3.8%. Across all the time periods selected, population growth across West Wales and the Valleys lagged that for East Wales and Wales as a whole.

Table 15. Population change since 1981

		Level (000s)				Change (Percentage)			
		1981	1991	2001	2004	1981– 1991	1991– 2001	1981 – 2004	1991 – 2004
West and the Valleys	Wales	1,834	1,856	1,855	1,876	1.2	-0.1	2.3	1.1
East Wales		980	1,017	1,056	1,077	3.8	3.8	9.9	5.9
Wales		2,814	2,873	2,910	2,953	2.1	1.3	4.9	2.8

Source: Census, Mid-Year Population Estimates

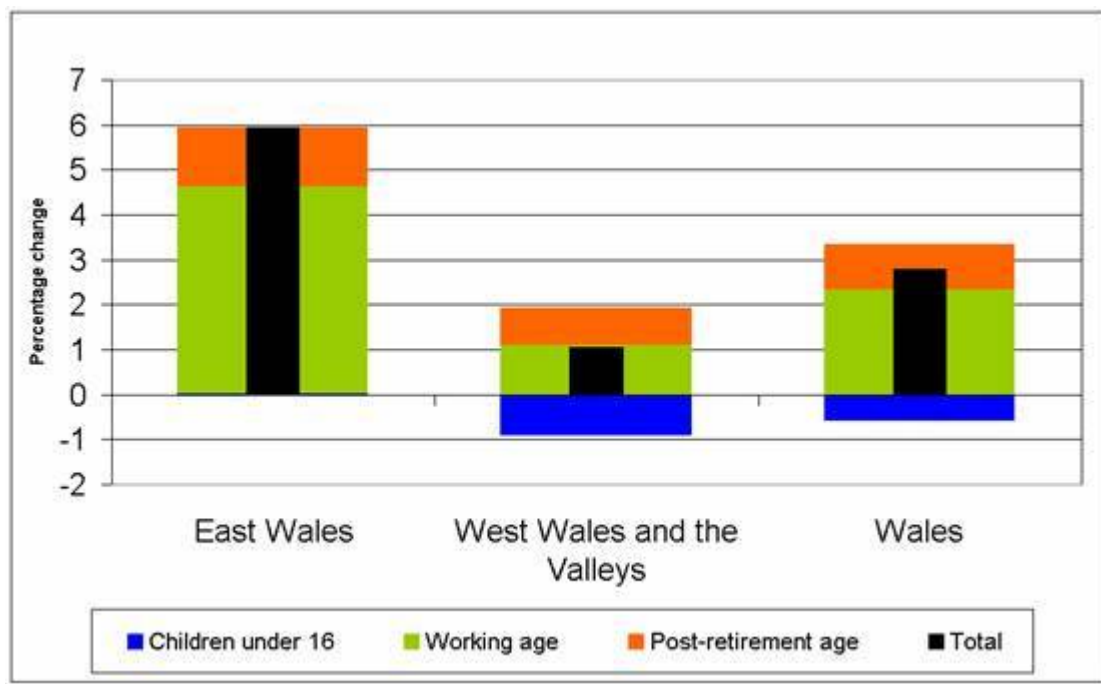
1.127 Figure 24 shows the population change between 1991 and 2004⁹² according to broad age breakdowns. The analysis attempts to isolate the proportionate change in the working age population, since this has a strong correlation to the overall dependency ratio⁹³ of the population.

1.128 West Wales and the Valleys experienced a reduction in the child population during the period. Proportionately this fall, however, was greater in West Wales and the Valleys than across Wales as a whole. Unlike East Wales, the proportionate increase in the post-retirement age population across West Wales and the Valleys was almost as large as that for working age population. This trend is due to the relatively small increase in the working age population across West Wales and the Valleys rather than the relative change in the post-retirement population.

⁹¹ It must be noted that migration patterns are a factor of various interactions and not just relative attractiveness.

⁹² Data for specific age groups for 1981 was not available for the geographies selected, therefore 1991–2004 was chosen for the analysis.

⁹³ Relative dependency of the population is calculated by the ratio of working age individuals compared to the total population.

Figure 24. Age breakdowns of population change, 1991–2004

Source: Office for National Statistics

1.129 Table 16 looks into more detail of the components of population change. It shows that the natural population (i.e. the difference between births and deaths) of West Wales and the Valleys and Wales as a whole is falling, that is deaths exceed births. This trend is a common phenomenon across most of the developed world and results in birth rates below the required replacement rate for the population to remain broadly constant⁹⁴. Against this general trend, the number of births exceeded the number of deaths in East Wales. This increase was predominately concentrated in city regions of Cardiff and Newport.

⁹⁴ If the average woman has less than two children then the number of second generation will be less than the current generation, thus the second generation does not 'replace' the previous generation.

Table 16. Components of population change (000s), 2001–2004

	Mid-2001 population	Live births	Deaths	Natural change	Net migration and other changes	Total change	Mid-2004 population
West Wales and the Valleys	1,855	58	67	-9	29	21	1,876
East Wales	1,056	35	33	2	20	22	1,077
Wales	2,910	93	99	-7	49	42	2,953

Source: Office for National Statistics
(Totals may not add due to rounding)

1.130 The main driver of population growth across West Wales and the Valleys is net migration. Migration patterns can be important, as they can provide an insight into the relative attractiveness of an area for individuals. Within West Wales and the Valleys, however, significant variations exist. The general picture is that net out-migration is a feature of the upper valleys⁹⁵ while most other areas experience net in-migration. The sub-Wales analysis is presented in Figure 25 which shows that the only Local Authorities in Wales that experienced net out-migration were Torfaen, Blaenau Gwent and Merthyr Tydfil, all located in the upper South Wales Valleys⁹⁶. Evidence⁹⁷ suggests that urban and regional policy should attempt to attract people at least as much as attracting firms and the decline of population presents a risk to the South Wales Valleys due to the links associated with out-migration population loss and adverse economic outcomes⁹⁸.

1.131 There is evidence⁹⁹ that employment rates for the low skilled have increased in areas that have also seen a rise in the opportunities for highly paid employment. The rationale supporting this is that lower skilled individuals gain employment opportunities in service sector occupations supporting the more affluent consumers. Changes in the social structure of an area can therefore have a role for wider economic regeneration, and migration patterns can be an important function of this.

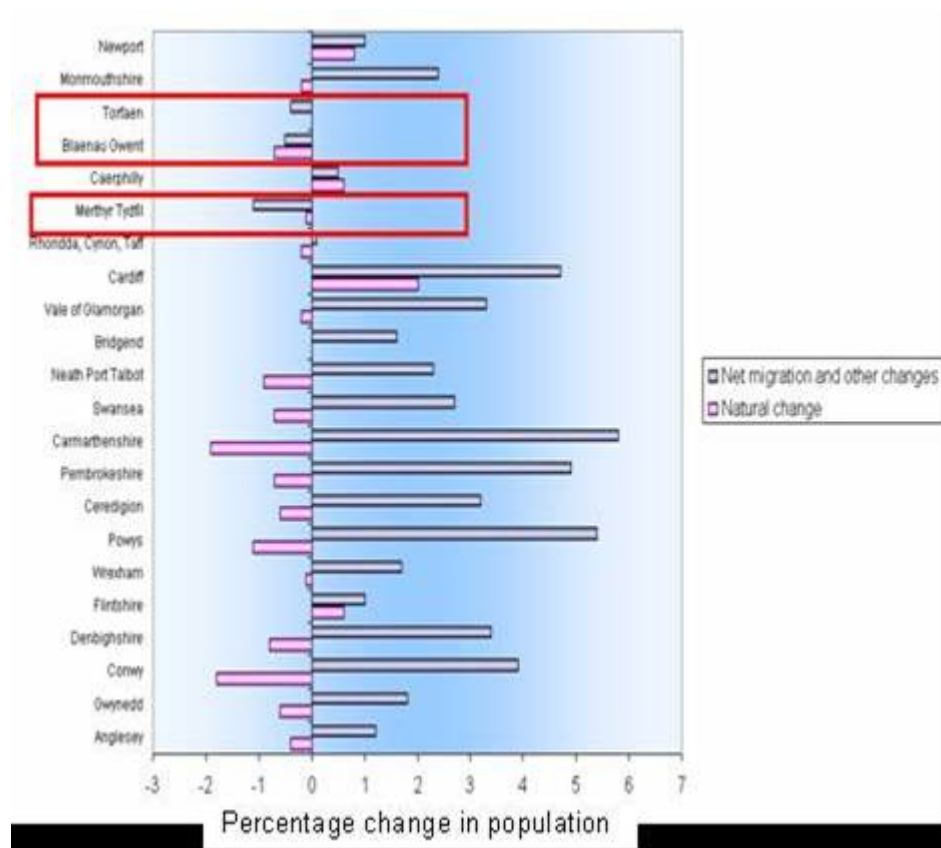
⁹⁵ Defined as the Local Authorities of: Blaenau Gwent; Merthyr Tydfil and Torfaen.

⁹⁶ It must be noted that migration patterns are a factor of various interactions and not just relative attractiveness.

⁹⁷ Glaeser. E (2004) Four Challenges for Scotland's Cities, Allander Series
<http://www.fraser.strath.ac.uk/Allander/AllanderPapers.htm>

⁹⁸ These include restricted access to markets, limited access to best-practice technologies, overwhelming advantages enjoyed by competing high-growth regions, and/or other market imperfections limit development in the affected region, reducing employment opportunities and leading to long-term out-migration of young, skilled, and/or educated populations.
Feser. E and Sweeney. H (1999) Out-migration, population decline and regional economic distress. Department of City and Regional Planning, University of North Carolina.
<http://www.urban.uiuc.edu/feser/PUBS/EDAdoc.pdf>

⁹⁹ Gibbons, S et al, 2005, Is Britain Pulling Apart? Area Disparities in Employment, Education and Crime, Centre for Market and Public Organisation Working Paper 05/120, published in N. Pearce and W. Paxton (eds.) *Social Justice, Building a Fairer Britain*, Institute of Public Policy Research:
<http://www.bris.ac.uk/Depts/CMPO/workingpapers/wp120.pdf>

Figure 25. Local Authority analysis of population change, 2001–04

Source: Office for National Statistics

1.132 Table 17 shows average annual net migration according to age bands with West Wales and the Valleys a net gainer in population for all age bands except 16-24, which is mostly explained by student migration to universities. The pattern is much the same as other regions of the UK except London and the South East. Of particular note is the net in-migration of individuals of working age. Evidence¹⁰⁰ suggests that working individuals with higher skills are more socially mobile. Recent evidence from Experian's Mosaic database¹⁰¹ shows that Wales has a high representation of in-migration from career professionals living in sought after locations which has a strong association with the attractiveness of a location for employment prospects but also quality of life factors.

¹⁰⁰ Gibbons, S et al, 2005, Is Britain Pulling Apart? Area Disparities in Employment, Education and Crime, Centre for Market and Public Organisation Working Paper 05/120, published in N. Pearce and W. Paxton (eds.) *Social Justice, Building a Fairer Britain*, Institute of Public Policy Research: <http://www.bris.ac.uk/Depts/CMPO/workingpapers/wp120.pdf>

¹⁰¹ Further details are available at: <http://www.business-strategies.co.uk/Products%20and%20services/Micromarketing%20data/Consumer%20segmentation/Mosaic.aspx>

Table 17. Average annual net migration trends, 2002–04

Age Band	West Wales and the Valleys	Wales
0-15	2,590	3,262
16-24	-1,490	-391
25-44	2,880	3,800
45-64	4,520	5,407
65+	1,170	1,364
All ages	9,670	13,442

Source: Office for National Statistics

POVERTY AND DEPRIVATION

1.133 In Wales, 21% of the total population lived in households of relative income poverty, a little higher than for Great Britain as a whole (20%). A total of 19% of working age adults and 18% of pensioners in Wales were in households of relative income poverty, both slightly higher than for Great Britain as a whole. The proportion of children living in households of relative income poverty was slightly above that for Great Britain as a whole. Table 18 provides information on relative income poverty¹⁰² in Wales compared to the regions and devolved administrations of Great Britain. While comparable data is not available for the West Wales and the Valleys evidence (such as that presented in the Welsh Index of Multiple Deprivation) would suggest the position could be worse than for Wales as a whole.

¹⁰² Income poverty is defined as below 60% of median household income. The results above are based on the 'after housing costs' measure but data is available in the full report on both a 'before housing costs' and 'after housing costs' basis.

Table 18. Risk of being in low-income groups after housing costs, percentage (three-year rolled average 2002/03–2004/05)

	All People	Working age adults	Children	Pensioners
North East	23	21	32	18
North West and Merseyside	21	19	29	20
Yorkshire and the Humber	21	19	29	19
East Midlands	21	19	26	22
West Midlands	23	20	30	22
Eastern	18	15	22	21
London	27	24	39	21
South East	17	15	21	18
South West	19	17	25	18
Scotland	20	19	25	18
Wales	21	19	28	18
England	21	19	28	20
Great Britain (a)	20	18	27	17

(a) Totals for Great Britain and shown for the year 2004/05 only and are not three-year rolled averages.

Source: DWP, Households Below Average Income 2004/05

1.134 The Welsh Index of Multiple Deprivation 2005 (WIMD)¹⁰³ is the official measure of deprivation for small areas in Wales. Deprivation is a wider concept than poverty. Poverty means not having enough money to get by; deprivation refers to problems caused by a general lack of resources and opportunities (not just money). The WIMD 2005 is made up of seven separate domains (or kinds) of deprivation¹⁰⁴. Figure 26 summarises the overall scores of deprivation across Wales.

1.135 As highlighted in Figure 26, areas of the upper valleys have the highest relative concentration of deprivation across West Wales and the Valleys and, indeed, Wales as a whole¹⁰⁵.

1.136 Figure 26 also describes the characteristics of rural and urban deprivation. While it is acknowledged that rural deprivation is an issue in Wales, particularly in terms of access (see Figure 27), many of the most deprived areas within rural local authorities (Pembrokeshire, Gwynedd and Ceredigion for example) are around their urban centres. The most deprived areas in Pembrokeshire are around the urban areas of Pembroke Dock and Milford Haven. In Gwynedd, one of the most deprived areas is Caernarfon, and Holyhead in Anglesey is the most deprived area within the Local Authority¹⁰⁶.

¹⁰³ For further details see: <http://new.wales.gov.uk/topics/statistics/theme/wimd2005/?lang=en>

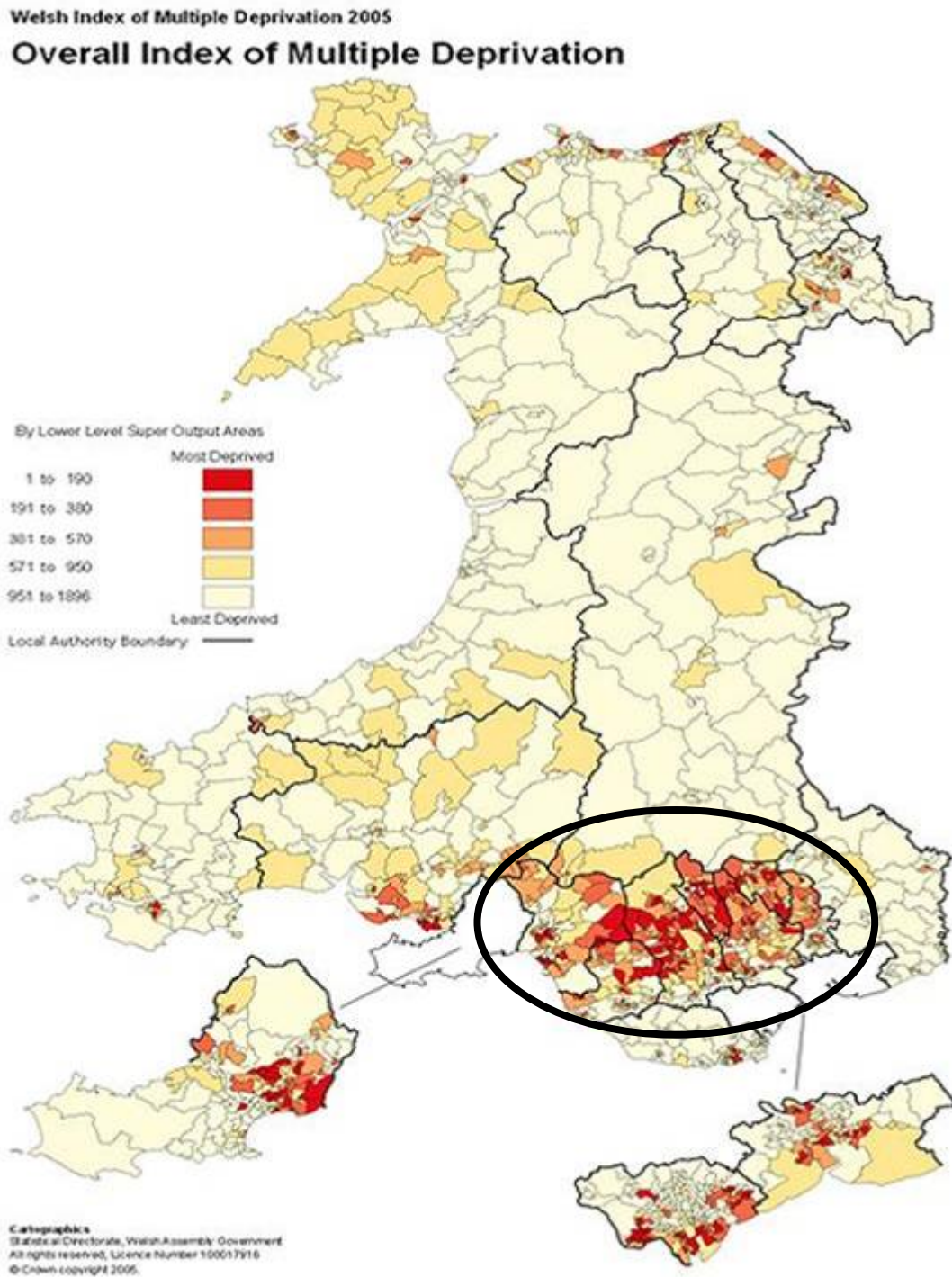
¹⁰⁴ Income, employment, health, education, housing, access to services and environment.

¹⁰⁵ Although city wards of Cardiff, Newport and Swansea also suffer from high relative deprivation.

¹⁰⁶ Further Local authority analysis is available at:

<http://new.wales.gov.uk/topics/statistics/theme/wimd2005/results/analysis-revised/?lang=en>

Figure 26. Overall Index of Multiple Deprivation



Source: Welsh Index of Multiple Deprivation 2005

1.137 West Wales and the Valleys shows differing types of deprivation according to which aspect of deprivation is being looked at. The upper valleys have relatively¹⁰⁷ high levels of deprivation in terms of income, employment, health and education.

¹⁰⁷ Information on the measure of relative deprivation is available at:
<http://new.wales.gov.uk/topics/statistics/theme/wimd2005/?lang=en>

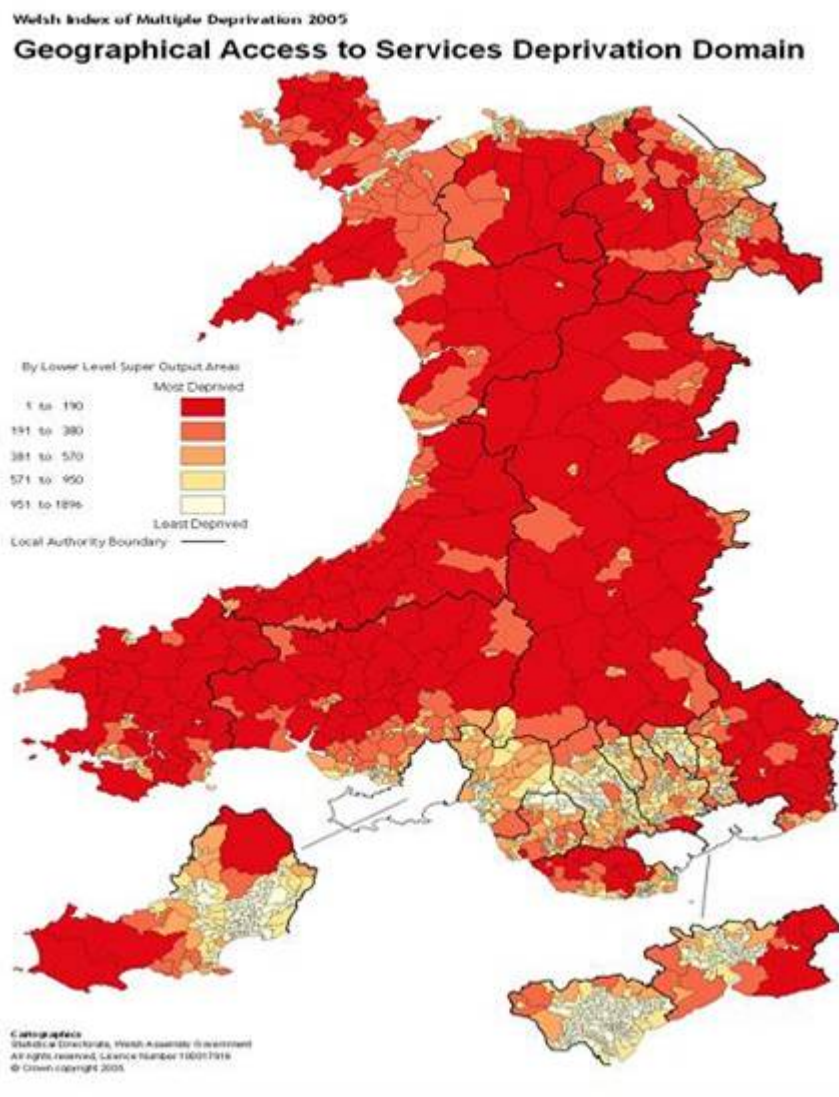
The more sparsely populated western and northern areas of the sub-region have relatively high levels of deprivation in terms of housing and access to services.

1.138 The WIMD also provides useful insight into issues of access to services¹⁰⁸. The access to services domain not only provides an insight to the number of available services in a given location, but also relative access to transport since the indices are measured as time taken to access a given service.

1.139 As Figure 27 shows, deprivation in the form of access to services is concentrated in the western areas of Wales rather than in the valleys. This reflects the relative rural nature of West Wales and the sparsity of urban centres where the majority of local services would be located.

1.140 In addition to access to services highlighted in the access to services domain of the WIMD, the importance of networks, both informal and formal have been highlighted as potential barriers especially for individuals living in rural areas. This has obvious implications for West Wales and the Valleys given that a large proportion of the area is rural. Evidence also suggests that those at most disadvantage have strong links to their local community and that community support and local access to training and job opportunities can be important. A recent study of the economically inactive in Wales showed that the majority (75 per cent) of respondents who wanted to work in the future were either 'Not Very Willing' or 'Not at All Willing' to move to find an acceptable job. Similarly, 92 per cent of respondents in this group also said they were only looking for work in the town in which they lived or the surrounding area. This suggests the economically inactive have a strong attachment to their local communities, and this can lead to problems in finding jobs locally and the provision of services to assist the most disadvantaged into employment and wider social inclusion.

¹⁰⁸ Services include, access to food shop, GP, schools, NHS Dentist, public library and leisure centre. For more details see: <http://new.wales.gov.uk/docrepos/40382/40382313/403824/wimd-2005/403821101/wimd2005-report-geo-e.pdf?lang=en>

Figure 27. Access to services

Source: Welsh Index of Multiple Deprivation 2005

THE ENVIRONMENT

1.141 Although individuals' characteristics are viewed in the academic literature¹⁰⁹ as more important in determining economic outcomes, evidence on the significance of 'place' shows that the overall attractiveness of a town or region can have a significant impact on the economic outcomes of the inhabitants¹¹⁰. In addition supporting the development of attractive towns and regions can have a role to play in generating agglomeration effects as attractive areas become popular locations for individuals to live, work and invest in thus generating economic mass. There is evidence that the physical attractiveness of towns and their locales can be crucial in attracting the skilled and affluent - as well as in promoting their functions as local service centres and tourist destinations. A number of less tangible factors can also be important, notably quality of life, especially physical attractiveness. Aspects of community and culture may also play a role. The environment can therefore be an important driver of economic and social well-being, as well as being a public good in its own right. A high quality environment can stimulate the delivery of the growth and competitiveness agendas, as well as providing a public good. Preserving and enhancing the quality of the environment will be increasingly important for our economy and quality of life in the era of the knowledge economy.

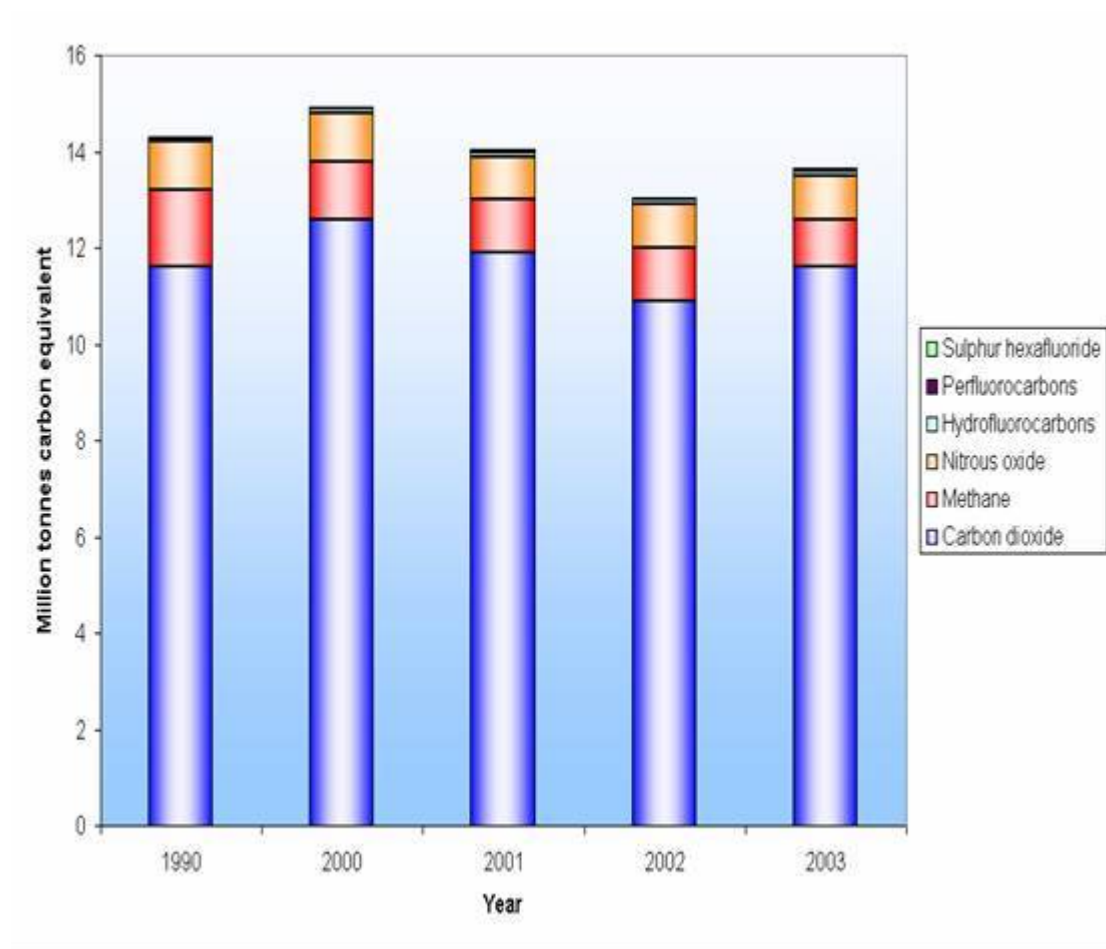
1.142 Air quality is a headline environmental indicator and Figure 28 shows the estimated emissions of greenhouse gases. Reduction targets for the 'basket of emissions'¹¹¹, were agreed at the Convention on Climate Change in Kyoto, Japan in December 1997. The target for the UK is to achieve a reduction of 12.5% in the global warming potential of the six greenhouse gases by 2008–2012 (based on 1990 base-year emissions of carbon dioxide, methane and nitrous oxide and 1995 base-year emissions of hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride). The data is shown as volume of carbon equivalent. Carbon equivalent is a metric measure used to compare emissions of different greenhouse gases based on their global warming potential (GWP).

1.143 In Wales, it is estimated that, compared to the base-year emissions, emissions of methane and perfluorocarbons have fallen in 2003. Hydrofluorocarbon emissions are estimated to have increased over the period. The overall effect has been an estimated decrease of 3.6% in emissions of the basket of greenhouse gases from Wales in 2003.

¹⁰⁹ See Durlauf, S, (2004. Neighbourhood Effects. *Handbook of Urban and Regional Economics, Volume 4, Economics*, J. V. Henderson and J.-F. Thisse, eds; Mackay, S, 2003 Local Area Characteristics and Individual Behaviour. Social Research Division, Department of Work and Pensions. In-house report 123.

¹¹⁰ Dynamic Small Towns: Identification of Critical Success Factors. Report for the Economic Research Advisory Panel 2002.

¹¹¹ Basket of emissions refers to six greenhouse gases (Carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).

Figure 28. Emissions of greenhouse gases, Wales

Source: National Environmental Technology Centre (NETCEN)

1.144 The use of renewable and waste as a source of energy is an important component in reducing the amount of greenhouse gases emitted. Across Wales (and Great Britain as a whole) a very low proportion of total energy consumption comes from renewable or waste sources. However, the figure for West Wales and the Valleys and Wales as a whole is above the average for Great Britain and above most other regions of Great Britain. However, given that only 0.5% of all energy consumed in Wales is from renewable sources it is clear that further progress can be made which will help the EU contribution to the Kyoto targets.

1.145 As Highlighted in the UK's Energy Review¹¹², 'the starting point for reducing carbon emissions is to save energy' (DTI, 2006). Energy efficiency is seen to be a major tool in reducing greenhouse gas emissions and in Wales the Home Energy Efficiency Scheme¹¹³ is a flagship initiative to improve energy efficiency. However, there are a number of obstacles to the take up of energy efficiency including the lack

¹¹² DTI, 2006, The Energy Challenge, the UK Government's Energy Review: <http://www.dti.gov.uk/files/file31890.pdf>

¹¹³ Further details on the Home Energy Efficiency Scheme are available at: <http://new.wales.gov.uk/topics/housingandcommunity/housing/energyandfuel/saving/?lang=en>

of information about costs and benefits, absence of appropriate incentives, and lack of motivation among consumers¹¹⁴.

1.146 The Energy management and renewable energy sector is expected to be a leading growth sector in environmental goods and services across the UK. This growth is driven by policy drivers (such as meeting the Kyoto agreement) but also rising fuel prices and public opinion on the use of renewable energy¹¹⁵. Given the expected growth in this sector opportunities exist in Wales to maximise this potential growth to reduce the risks associated with climate change and benefit from any associated economic impacts as the sector grows.

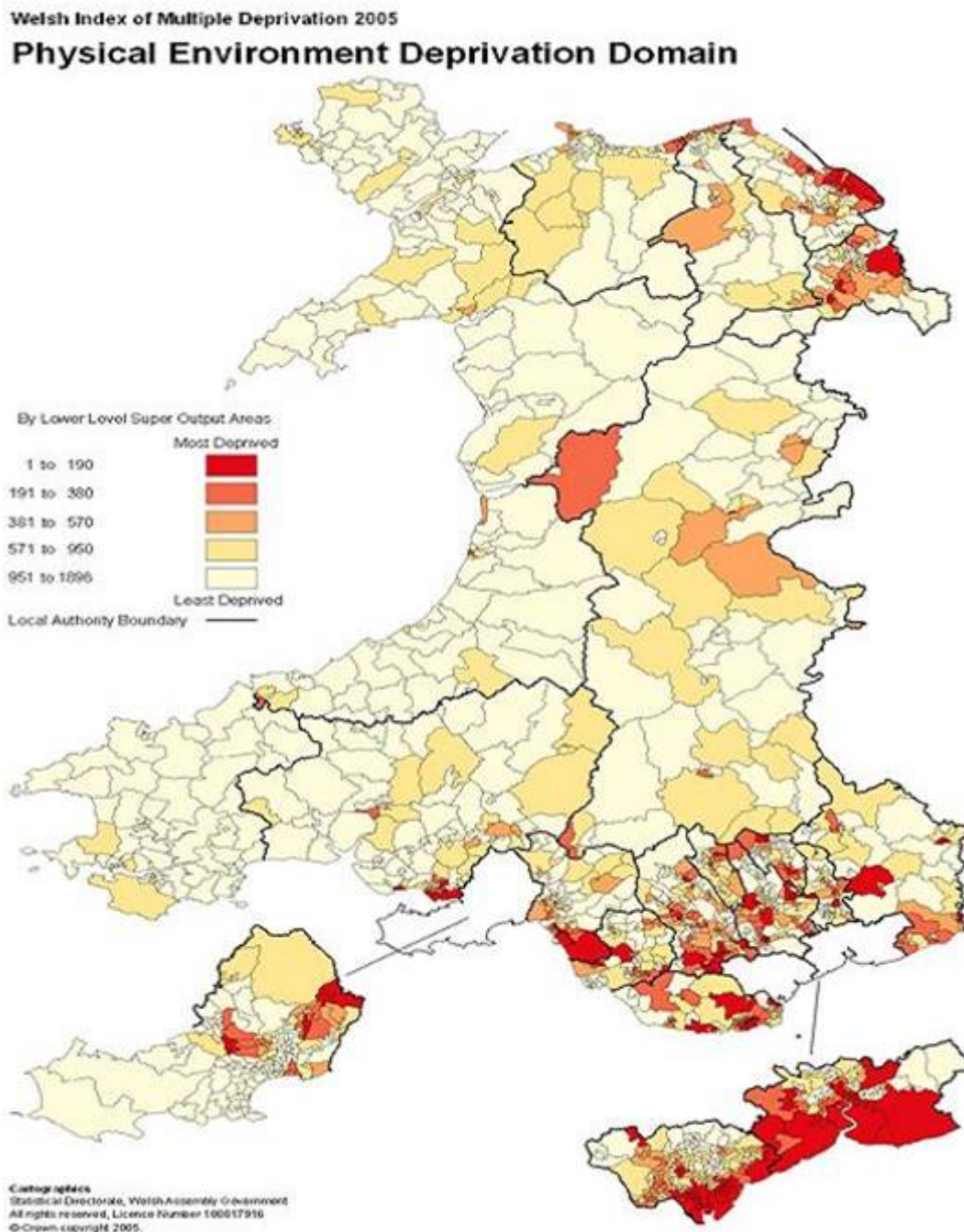
1.147 The environment domain from the WIMD 2005 is intended to model the factors related to the physical environment which may affect quality of life. The domain includes indicators such as air quality, air emissions, access to waste disposal sites, relative proximity to Environment Agency regulated industrial sources and risk of flooding.

1.148 As shown in Figure 29, overall environmental quality, as measured through the WIMD across West Wales and the Valleys, is relatively high. The main areas of environmental deprivation in Wales are seen across Cardiff and Newport, especially around the city centre areas and former heavy industrial areas (Newport in particular). However, pockets of environmental deprivation exist across West Wales and the Valleys, in particular in the South Wales valleys and Neath Port Talbot.

¹¹⁴ DTI, 2006, The Energy Challenge, the UK Government's Energy Review: <http://www.dti.gov.uk/files/file31890.pdf>

¹¹⁵ DTI, 2006, Study of Emerging Markets in the Environment Sector

Figure 29. Physical Environment Deprivation



Source: Welsh Index of Multiple Deprivation 2005

1.149 Effective waste management has become a critically important aspect in the drive to protect and enhance the environment. The EC Landfill Directive¹¹⁶ and the

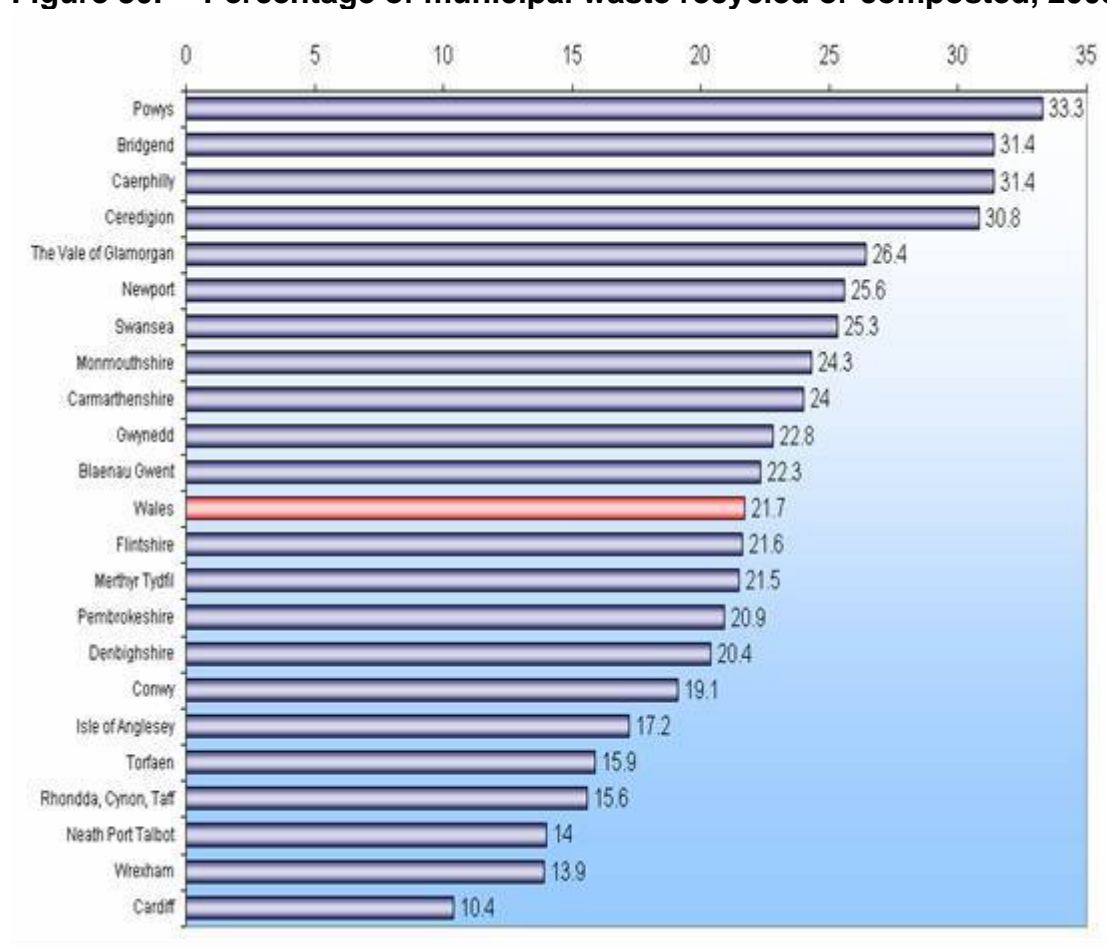
¹¹⁶ European Commission, 1999, Directive 99/31/EC on Landfill of Waste:
http://ec.europa.eu/comm/environment/waste/landfill_index.htm

Welsh Assembly Government's Waste strategy – *Wise About Waste*¹¹⁷ provide a blueprint for major changes in the management of the region's waste.

1.150 Since 1996–1997 the percentage of municipal waste recycled or composted has increased over five-fold. Across Wales as a whole, 21.7% of municipal waste is recycled or composted compared to 17.7% for England and Wales as a whole. However, as Figure 30 shows, there are significant spatial variations across Wales. Many areas within West Wales and the Valleys fall below the Welsh average in terms of percentage of municipal waste recycled or composted, notably Neath Port Talbot, Rhondda Cynon Taff and Torfaen.

1.151 Increasing commodity prices and tightening regulations are also providing increasing opportunities in the waste management sector, particularly in the area of recycling. EU Directives are focusing on the integration of waste management, encouraging recycling, reuse and recovery at the expense of landfill¹¹⁸.

Figure 30. Percentage of municipal waste recycled or composted, 2003–2004



Source: Municipal Waste Management Survey

1.152 The role of eco-innovation has increased over recent years as a key driver for environmental protection and promotion as well as economic growth. A recent report

¹¹⁷ Welsh Assembly Government, *Wise About Waste: The National Waste Strategy for Wales*, 2002: <http://www.countryside.wales.gov.uk/fe/master.asp?n1=366&n2=213&n3=368>

¹¹⁸ DTI, 2006, Study of Emerging Markets in the Environment Sector

from the DTI¹¹⁹ highlighted that, 'Innovative technologies will be one of the main tools used to achieve Sustainable Production and Consumption (SPC). Energy and resource-efficient technologies can reduce operating costs by enhancing the efficiency with which materials, energy and water are utilised, and through the minimisation of waste. These technologies can also help to create new markets, promote competitiveness and enhance corporate reputations, whilst simultaneously providing social and environmental benefits'.

1.153 Based on the results of a recent mapping survey¹²⁰, the Environmental Goods and Services (EGS) sector in Wales (excluding Landscape Industries) accounts for around 4% of the UK industry with a significantly higher than average share in the Renewable Energy, Environmental Consultancy, Land Remediation, Environmental Monitoring and Cleaner Technology sub-sectors. It is estimated that there are about 1,000 primary EGS companies¹²¹ in Wales and a further 320 secondary EGS firms giving a total of 1,320 companies that are active in the EGS sector in Wales. The sector has about 22,000 employees. The EGS sector in Wales has grown rapidly since the previous study in 2002 which identified 725 firms employing 12,400 staff.

1.154 The EGS sector has grown rapidly over the past three years due to a combination of organic growth of existing firms, new start-ups and new market entrants. The recent mapping exercise has highlighted that the sector in Wales is expected to perform well with about 90% of the companies expecting turnover to grow with nearly 20% forecasting high growth. The companies are also very optimistic about growth in profits, investment and, to a slightly less extent, employment. Very few companies expect reduced performance. A number of sub-sectors are expected to perform well over the coming years with growing environmental markets especially in sub-sectors which have strengths in Wales such as Renewable Energy, Environmental Consultancy, Water & Wastewater Treatment and Waste Management & Recycling.

1.155 A full assessment of the environmental situation is contained in the Strategic Environmental Assessment at Annex H.

¹¹⁹ DTI, 2006, Technology strategy, key technology area: Sustainable Production and Consumption. <http://www.dti.gov.uk/files/file27991.pdf?pubpdfdownload=06%2F1210>

¹²⁰ Quantum Strategy and Technology, 2007 Mapping the Environmental goods and services sector in Wales.

¹²¹ Using the UKFEI definition: a primary EGS firm is one for which 50% or more of annual turnover is in the EGS market or the EGS sector is the largest area of focus)

SWOT ANALYSIS

1.156 The following summarises the socio-economic evidence in the form of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. The SWOT analysis highlights the particular areas where West Wales and the Valleys stands out as being different to the rest of Wales and the UK as a whole, as well as providing key areas where targeted intervention can best make an impact.

Table 19. SWOT Analysis for ERDF Convergence

Strengths	Weaknesses
<p>-Improvements in the labour market conditions with rising employment coupled with falling unemployment and falling economic inactivity show problems not to be intractable.</p> <p>-Employment growth across West Wales and the Valleys almost twice the rate of East Wales and above UK and EU levels.</p> <p>-Rise in female employment with the current employment rate above the 60% target set in the Lisbon Agenda.</p> <p>-Lower gender pay gap than across the UK as a whole, although still above EU average.</p> <p>-Lower proportion of pupils leaving school at 16 without attaining a formal qualification than across Wales and the UK as a whole.</p> <p>-Rise in income generated from collaborative research between higher education institutions and public and other organisations in Wales then compared to the UK as a whole.</p> <p>-Four fold increase in the number of 5* rated higher education departments in Wales according to the latest Research Assessment Exercise (RAE).</p> <p>-Good quality natural environment in almost all areas of West Wales and the Valleys attractive to tourists and in principle should be attractive to families and investors.</p> <p>-Good quality of life helping to increase</p>	<p>-Low GDP per head relative to all Wales and UK averages.</p> <p>-Lower Gross Disposable Household Income than the Welsh and UK averages.</p> <p>-Despite improvements, West Wales and the Valleys has lower employment, higher economic inactivity and higher unemployment than for Wales and UK as a whole and higher than the EU.</p> <p>-Lower than average earnings than for Wales and UK as a whole.</p> <p>-Higher incidence of poor health coupled with a higher proportion of people reporting to be economically inactive due to ill health.</p> <p>-Adverse skills profile, with a high proportion of individuals without any formal skills.</p> <p>-Lower proportion than compared with Wales as a whole of pupils achieving five or more GCSEs grades A*-G or vocational equivalent.</p> <p>-Lower proportion of pupils staying on at further education at the age of 16 couples with lower A/AS level attainment than compared to Wales as a whole and the UK.</p> <p>-Higher Proportion of 19-21 year olds without any formal qualifications than compared to the UK average.</p> <p>-High dependency on low value-added, declining industries including agriculture and production sectors.</p>

<p>net migration into Wales.</p> <p>-While only 0.55% of all energy consumed in West Wales and the Valleys comes from renewable energy sources, this is higher than for the rest of Wales and the UK.</p>	<p>-Low R&D expenditure, particularly low private sector R&D.</p> <p>-Lower rates of business ICT use than compared to the UK as a whole.</p> <p>-Low rates of entrepreneurship as measured by VAT registration.</p> <p>-Low number of researchers in higher education institutions.</p> <p>-Lower proportion of 5* RAE rated higher education departments in Wales than compared to the UK average.</p> <p>-Remoteness of some areas of West Wales and the Valleys with relatively poor access to markets and public services.</p> <p>-Congestion on key access routes into the region and within the region.</p> <p>-Poor transport accessibility and high reliance on private vehicles.</p> <p>- Lack of strategic sites to attract new investors.</p> <p>-Many parts of West Wales and the Valleys need to improve their management for waste and water in response to stricter EU legislation in these areas.</p> <p>-High levels of overall deprivation driven in the main by income and employment deprivation.</p>
<p>Opportunities</p>	<p>Threats</p>
<p>-Opportunity to build on the strengths of the previous round of Structural Funds and the increase in capacity for community, public and private sector regeneration.</p> <p>-Potential to build on and further develop the established networks with higher education institutions and business.</p> <p>-Potential to increase R&D activity and</p>	<p>-Weaker R&D agglomeration effects and spin-outs because of low R&D base.</p> <p>-Lower take-up of new developments in ICT combined with poor geographic coverage in some areas.</p> <p>-Deficiencies in business knowledge and information in some areas.</p> <p>-Very poor physical environment in some areas.</p>

<p>its commercial exploitation within the Programme area.</p> <ul style="list-style-type: none"> - Opportunities for greater use of ICT by business and communities. - Opportunities for new business development. -Scope to provide the right environment and human capital for economic diversification. - Opportunities to invest in businesses with growth potential. -Opportunities to encourage businesses to adopt new processes and practices. - Scope to move businesses up the value added ladder. -Potential to support growth in each of the 10 key sectors all of which have a presence in the Programme area. -Opportunities to exploit the spill-over effects from the relatively more prosperous and dynamic neighbouring Competitiveness area. -Potential to exploit specific opportunities in the growing environmental goods and services sector, including energy management, renewable energy and the waste management sectors. - Potential to improve the transport network and accessibility and both intra and inter regional links. -Opportunities to develop eco-innovation and innovative technologies in achieving sustainable production and consumption. -Scope to improve the skills levels and increase the size and depth of the labour pool. -Potential to build on local strong community networks to achieve lasting benefits from investment in physical infrastructure and people. 	<ul style="list-style-type: none"> -Wales' CO₂ emissions need to be reduced to meet the UK's commitments under the Kyoto protocol. -Potential challenges posed by climate change. -Falling demand for low skilled individuals cited as principal cause for higher economic inactivity in West Wales and the Valleys. As demand continues to fall, social issues become entrenched. -Ageing population resulting in a lower relative proportion of working age individuals (high dependency ratio) and increased pressure on many public services (although a better understanding of migration patterns is required as this may counter the natural ageing of the population). -Falling population in the upper valleys as individuals migrate to other parts of Wales and England.
---	---

References

- BELL. D and HEITMUELLER. A, 2005, The disability Discrimination Act in the UK: Helping or Hindering Employment Amongst the Disabled? IZA Discussion Paper Number 1476.
http://www.iza.org/index_html?lang=en&mainframe=http%3A//www.iza.org/en/webcontent/personnel/photos/index_html%3Fkey%3D1051&topSelect=personnel&subSelect=fellows
- BERTHOUD, R. 2003. Multiple Disadvantages in Employment: A Quantitative Analysis. A Report for the Joseph Rowntree Foundation.
- BLACKERBY, D et al. 2003 Identifying Barriers to Economic Inactivity in Wales. A Report for the Economic Research Unit of the Welsh Assembly Government, Available at:
<http://www.wales.gov.uk/subiresearch/content/eru/rpt03-04-e.htm>
- BODDY. M and HUDSON. J, 2005, Meeting the Productivity Challenge A report for the South West of England Regional Development Agency. Available at:
http://download.southwestrda.org.uk/file.asp?File=/res/general/meeting_the_productivity_challenge.pdf
- CARTMEL, F and FURLONG, A, 2000. Youth Unemployment in Rural Areas. A Report for the Joseph Rowntree Foundation.
- CLARK. K and DRINKWATER S. 2005. Dynamics and Diversity: Ethnic Employment Differences in England and Wales, 1991-2001. IZA Discussion Paper No. 1698 <http://www.econ.surrey.ac.uk/staff/sdrinkwater/dp1698.pdf>
- DEPARTMENT FOR WORK AND PENSIONS, 2006, Impacts of the Job Retention and Rehabilitation Pilot. A research report carried out by the National Centre for Social Research and Urban Institute on behalf of the Department for Work and Pensions. Available at:
<http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep342.pdf>
- DEPARTMENT FOR WORK AND PENSIONS, 2001, The changing welfare state: employment opportunity for all
- DUNCAN, A and GILES, C. 1996. Should we Subsidise Childcare and if so how? Fiscal Studies, Vol 17 pp. 39-61.
- DURLAUF. S, (2004. Neighbourhood Effects. Handbook of Urban and Regional Economics, Volume 4, Economics, J. V. Henderson and J.-F. Thisse, eds.
- DUNCAN, A et at, 2001. Mothers' Employment and the use of Childcare in the UK, Institute of fiscal Studies WP01/23.

DUNCAN, A and GILES, C. 1996. Should we Subsidise Childcare and if so how? Fiscal Studies, Vol 17 pp. 39-61.

DTZ PIEDA Consulting, 2005, Factors Influencing the Location Decisions of Mobile Traded Services, A Report for the Economic Research Unit of the Welsh Assembly Government.

EUROPEAN COMMISSION, 2005, Common Actions for Growth and Employment: The Community Lisbon Programme, Communication from the Commission to the Council and the European Parliament. COM(2005) 330 final. Available from: http://europa.eu.int/growthandjobs/key/index_en.htm

EUROPEAN COMMISSION, 2005, Cohesion Policy in support of Growth and Jobs: Community Strategic guidelines, 2007-13, COM(2005) 0229, available at: http://europa.eu.int/comm/regional_policy/sources/docoffic/2007/osc/index_en.htm

EUROPEAN COMMISSION, 1999, Directive 99/31/EC on Landfill of Waste. Available at: http://ec.europa.eu/comm/environment/waste/landfill_index.htm

FAGGIO. G AND NICKELL. S, 2005. Inactivity Among Prime Age Men in the UK. CEP Discussion Paper 673 available at: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

FRIEDMAN J et al. 1992 What attracts foreign multinational corporations? Evidence from branch plant location in the United State, Journal of Regional Science 32(4): 403-418.

GIBBONS. S et al, 2005, Is Britain Pulling Apart? Area Disparities in Employment, Education and Crime, Centre for Market and Public Organisation Working Paper 05/120, published in N. Pearce and W. Paxton (eds.) Social Justice, Building a Fairer Britain, Institute of Public Policy Research. Available at: <http://www.bris.ac.uk/Depts/CMPO/workingpapers/wp120.pdf>

GLAESER. E, 2004 Four Challenges for Scotland's Cities, Available at: <http://www.fraser.strath.ac.uk/Allander/AllanderPapers.htm>

GREENHALGH, C. 1980. Participation and hours worked of married women in Great Britain. Oxford Economics Papers Vol 32, pp. 296-318

Government of Wales Act 1998. Available at: <http://www.opsi.gov.uk/acts/acts1998/19980038.htm>

GRAHAM. D, 2005, Wider Economic Benefits of Transport Improvements: Link Between Agglomeration and Productivity. Department of Transport.

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND, 2005, Higher Education Business and Community Interaction Survey. Available at: http://www.hefce.ac.uk/Pubs/HEFCE/2005/05_07/#exec

HM TREASURY, 2000. Productivity in the UK 1: The Evidence and the Government's Approach. Available at: <http://www.hm-treasury.gov.uk/media/D4A/E5/ACF1FBA.pdf>

HM TREASURY, 2000. Productivity in the UK 1: The Evidence and the Government's Approach. Available at: <http://www.hm-treasury.gov.uk/media/D4A/E5/ACF1FBA.pdf>

HOME OFFICE 2003 2003 Home Office Citizenship Survey: People, Families and Communities, Home Office Research Study 289.

JONES and SLOANE, 2003, Low Pay, High Pay and Job Satisfaction in Wales. Available at: <http://www.swan.ac.uk/welmerc/Research.htm>

JUN K.W. and SINGH H. 1996 The determinants of foreign direct investment: New empirical evidence, in Transnational Corporations 5(2): 67-106.

MACKAY. S, 2003 Local Area Characteristics and Individual Behaviour. Social Research Division, Department of Work and Pensions. In-house report 123.

OFCOM, 2005, The Communications Market: Markets and Regions. Available at: http://www.ofcom.org.uk/research/cm/nations/nations_regions/nations_regions.pdf

OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence.

PORTER. M. 1998 Clusters and the New Economics of Competition. Harvard Business Review.

RICE. P AND VENABLES. A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain, CEP Discussion Paper No.642.

RINCON. A et al, 2005, The Productivity Impact of E-commerce in the UK, 2001: Evidence from Microdata. Available at: <http://www.niesr.ac.uk/pubs/searchdetail.php?PublicationID=548>

Valuing Our Environment - Economic Impact of the Environment of Wales, was produced on behalf of a consortium of organisations including: CCW, Heritage Lottery, Welsh Development Agency, Wales Tourist Board, National Trust, RSPB and Environment Agency (Wales). Available at: <http://www.ccw.gov.uk/>

WELSH ASSEMBLY GOVERNMENT. Catching A Wave. The Welsh Assembly Government's Watersports Strategy. Available at: http://www.wtbonline.gov.uk/upload/pdf/watersports_tourism_strategy_eng.pdf

WELSH ASSEMBLY GOVERNMENT. Welsh Assembly Government's Knowledge Economy Nexus report, 2004. Available at: <http://www.wales.gov.uk/subitradeindustry/content/know-econ-nexus-e.pdf>

WELSH ASSEMBLY GOVERNMENT. People, Places, Futures – The Wales Spatial Plan, November 2004. Available at: <http://www.wales.gov.uk/themesspatialplan/content/spatial-plan-e.htm>

WELSH ASSEMBLY GOVERNMENT STRATEGY AND COMMUNICATIONS GROUP, 2004. Review of Economic Inactivity. Available at: <http://www.wales.gov.uk/assemblydata/N0000000000000000000000000023624.pdf>

WELSH ASSEMBLY GOVERNMENT. The Sustainable Development Action Plan of the Welsh Assembly Government. Available at: <http://www.wales.gov.uk/themessustainabledev/content/action-plan-e.pdf>

WELSH ASSEMBLY GOVERNMENT 2005. Wales: A Vibrant Economy. The Welsh Assembly Government's Strategic for Economic Development. Available at: <http://www.wales.gov.uk/subitradeindustry/content/wave/wave-e.htm>

WELSH DEVELOPMENT AGENCY (NOW THE WELSH ASSEMBLY GOVERNMENT), Property Strategy for Employment in Wales 2004-08. Available at: <http://www.wda.co.uk/resources/WDAProperty1.pdf>

WELSH ASSEMBLY GOVERNMENT, 2002, Wise About Waste: The National Waste Strategy for Wales. Available at: <http://www.countryside.wales.gov.uk/fe/master.asp?n1=366&n2=213&n3=368>

WHEELER D. and MODY A. 1992 International investment location decisions. Journal of international economics 33: 57-76.

WOMEN AND WORK COMMISSION, 2005, Shaping A Fairer Future. Available at: http://www.womenandequalityunit.gov.uk/publications/wwc_shaping_fairer_future06.pdf

LIST OF FIGURES CONTAINED IN ANALYSIS

Figure 1.	Map of the West Wales and the Valleys Convergence Programmes area	2
Figure 2.	Progress against Lisbon targets, 2005 and 2010	6
Figure 3.	GDP per head (Purchasing Power Parities (a)) EU25=100 (b)	7
Figure 4.	Analysis of GVA per head differences across West Wales and the Valleys compared to the Welsh average, 2001–2003 average	9
Figure 5.	Employment rates by local Authority	13
Figure 6.	Economic Inactivity rates by local Authority	15
Figure 7.	Employment rates, by gender	18
Figure 8.	Employment rates for older workers.....	19
Figure 9.	Average gross weekly earnings (a)(b).....	20
Figure 10.	Economic inactivity rate by reason given, 2004	22
Figure 11.	Economic inactivity rates by highest qualification, 2004 (per cent of the working age population)	25
Figure 12.	Qualification/skill set, West Wales and the Valleys (UK=1).....	27
Figure 13.	Analysis of earnings (a) differentials (percentage difference from Great Britain average).....	33
Figure 14.	Civilian Workforce Jobs by industry (UK=1)	36
Figure 15.	Civilian Workforce Jobs by industry, bubble charts.....	38
Figure 16.	Percentage of civilian workforce jobs by area and industry, 2003	39
Figure 17.	R&D Expenditure, 2003 (percentage of GVA).....	41
Figure 18.	VAT Registrations per 1,000 working age population	45
Figure 19.	VAT Registration rate, 2004 (percentage of stock at start of the year).....	46
Figure 20.	Traffic flows.....	51
Figure 21.	Bus and walking access to key service centres (a).....	53
Figure 22.	Bus and walking access to key employment centres (a).....	54
Figure 23.	Net in-commuting flows as a proportion of the working age population, 2004.....	55
Figure 24.	Age breakdowns of population change, 1991–2004	57
Figure 25.	Local Authority analysis of population change, 2001–04	59
Figure 26.	Overall Index of Multiple Deprivation.....	62
Figure 27.	Access to services	64
Figure 28.	Emissions of greenhouse gases, Wales	66
Figure 29.	Physical Environment Deprivation.....	68
Figure 30.	Percentage of municipal waste recycled or composted, 2003–2004	69

LIST OF TABLES CONTAINED IN ANALYSIS

Table 1.	Population concentrations, West Wales and the Valleys	3
Table 2.	Labour market summary, EU25 comparison (percentage).....	5
Table 3.	Labour market summary	12
Table 4.	Labour market summary, disaggregated by disability (a) and ethnicity (percentage).....	17

Table 5.	Employment rates by gender (percentage)	18
Table 6.	Percentage of adults reporting selected illnesses/conditions (a) ..	23
Table 7.	Employment rate by qualification, West Wales and the Valleys ..	26
Table 8.	Levels of highest qualifications held by persons of working age, percentage of working age population, 2004	28
Table 9.	Attainment of pupils in final year of compulsory education (percentage) 2005/06 provisional results	29
Table 10.	Attainment of pupils aged 17 at the start of the academic year, 2005/06 provisional results	29
Table 11.	Participation in lifelong learning, 2004 (a)	30
Table 12.	Civilian Workforce Jobs, West Wales and the Valleys	38
Table 13.	Regional R&D expenditure, ranked by percentage of R&D expenditure performed by business, 2003	42
Table 14.	Employment in high and medium high technology manufacturing and knowledge-intensive high-technology services, percentage of total employment.....	48
Table 15.	Population change since 1981	56
Table 16.	Components of population change (000s), 2001–2004.....	58
Table 17.	Average annual net migration trends, 2002–04.....	60
Table 18.	Risk of being in low-income groups after housing costs, percentage (three-year rolled average 2002/03–2004/05)	61
Table 19.	SWOT Analysis for ERDF Convergence	71

ANNEX B – INDICATIVE LIST OF MAJOR PROJECTS

Priority 1

One Thematic Science/Technology Park – location to be determined.

Priority 2

One major finance project, subject to need and the outcomes of JEREMIE scoping phase.

Priority 3

Possibility of one single property scheme. More likely to be specific, selected strategic investments under Euros 50 million.

Up to two major rail-link upgrading projects.

Up to two freight terminals, or similar significant investments in rail infrastructure.

One upgrading of TENS road links.

Priority 4

One energy grant, or similar business investment scheme, over Euros 25 million.

Up to two major projects focussing on renewable energy such as biomass.

Several strategic environmental infrastructure schemes focussed on specific activities such as recycling, waste management and environmental protection.

Up to two environmental risk mitigation schemes such as flood defences.

Priority 5

None envisaged at this time.

ANNEX C – USE OF COMMISSION CORE INDICATORS

Commission core indicators¹ have, where relevant, been integrated into the Programme. The Managing Authority will be able to report, through monitoring indicators, management information or evaluation, against the following indicators denoted by *.

Programme level

*(1) Jobs created, Definition: gross direct jobs created, full time equivalents, Source: monitoring system – This will be collected through the Priority-level indicators

*(2) of this: for men – This information will be collected through evaluation

*(3) of this: for women – This information will be collected through evaluation

Thematic fields

(selected fields out of codification system)

Research and technological development (01 – 05, 07)

*(4) Number of RTD projects – This will be collected through management information

*(5) Number of cooperation projects enterprises – research institutions – This will be collected through the Priority-level indicators

*(6) Research jobs created (preferably 5 years after project start) – This will be collected through management information at a priority level

Direct investment aid to SME (08)

*(7) Number of projects – This will be collected through management information

*(8) of it: number of start-ups supported (first two years after start-up) – This will be collected through category breakdown information

*(9) Jobs created (gross, full time equivalent) – This will be collected through the Priority-level indicators

*(10) Investment induced (million €) – This will be collected through the Priority-level indicators

Information society (10 - 15)

*(11) Number of projects – This will be collected through management information

*(12) Number of additional population covered by broadband access – This will be collected through evaluation

¹ EC(2006) Working Document No.2 – Indicative Guidelines on Evaluation Methods: Monitoring and Evaluation Indicators:

http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/wd2_indic_en.pdf (Annex I).

Transport (16, 17, 20 – 23, 25)

- *(13) Number of projects – This will be collected through management information
- *(14) km of new roads – This will be collected through category breakdown information
- *(15) of which TEN – This will be collected through category breakdown information
- *(16) km of reconstructed roads – This will be collected through category breakdown information
- *(17) km of new railroads – This will be collected through category breakdown information
- *(18) of which TEN – This will be collected through category breakdown information
- *(19) km of reconstructed railroads – This will be collected through category breakdown information
- *(20) Value for time savings in Euro / year stemming from new and reconstructed roads for passengers and freight – This will be collected through the Priority-level indicators
- *(21) Value for time savings in Euro / year stemming from new and reconstructed railroads for passengers and freight – This will be collected through the Priority-level indicators
- *(22) Additional population served with improved urban transport – This will be collected through the evaluation

Renewable energy (39-42)

- *(23) Number of projects – This will be collected through the Priority-level indicators
- *(24) Additional capacity of renewable energy production (MWh) – This will be collected through the Priority-level indicators

Environment (44-47, 50)

- (25) Additional population served by water projects
- (26) Additional population served by waste water projects
- *(27) Number of waste projects – This will be collected through management information
- (28) Number of projects on improvement of air quality
- *(29) Area rehabilitated (km²) – This will be collected through category breakdown information

Climate change (16-17, 39-43, 49, 52)

- *(30) Reduction greenhouse emissions (CO₂ and equivalents, kt) – This information will be collected through evaluation

Prevention of risks (53)

*(31) Number of projects – This will be collected through management information

*(32) Number of people benefiting from flood protection measures – This will be collected through the Priority-level indicators

(33) Number of people benefiting from forest fire protection and other protection measures

Tourism (55-57)

*(34) Number of projects – This will be collected through management information

*(35) Number of jobs created – This will be collected through the Priority-level indicators and management information

Education (75)

(36) Number of projects

(37) Number of benefiting students

Health (76)

(38) Number of projects

Urban issues

If a Member State decides to allocate specific funds to urban issues in line with art. 37.6 of the regulation 1083/2006, then following core indicators should be applied to these parts of the programme:

Physical and environmental regeneration

*(39) Number of projects ensuring sustainability and improving the attractiveness of towns and cities – This will be collected through management information

Competitiveness

(40) Number of projects seeking to promote businesses, entrepreneurship, new technology

Social inclusion

(41) Number of projects offering services to promote equal opportunities and social inclusion for minorities and young people

ANNEX D – INDICATORS

Priority 1

The following indicators, relevant to Priority 1, will be used to track the progress of projects and the Programme. The output and result indicators are monitoring indicators, which projects will be required to report against during the life of the project. The impact indicators are evaluation indicators and should be considered during project- and Programme-level evaluation.

Category breakdown information collected against the outputs “Individuals assisted” and “Individuals financially supported” will allow for monitoring against Equal Opportunities objective 2. The indicator “Enterprises adopting equality and diversity strategies and monitoring systems” will allow for monitoring against Equal Opportunities objective 4. In line with Art 66(2) of the general regulation, monitoring information collected will allow for the breakdown of statistics by gender and size of the recipient undertakings, where appropriate. Furthermore, information required by Annex XXIII of the implementing regulation for the Structural and Cohesion Funds 2007-2013 as well as further equal opportunities information will be collected where appropriate. This will allow for monitoring against Equal Opportunities objective 3.

Output	⇒	Result	⇒	Impact
Projects				

Enterprises assisted	Gross jobs created	Net jobs created
Enterprises financially supported	Profit benefit	Increase in turnover
		Increase in company-level GVA
	Investment induced	Increase in turnover
		Increase in company-level GVA
	Enterprises adopting or improving equality and diversity strategies and monitoring systems	
	Enterprises adopting or improving Environmental Management Systems	
	Products, processes or services registered	
	New or improved products, processes or services launched	Sales of products, processes or services
Individuals assisted	Products, processes or services registered	
Individuals financially supported	New or improved products, processes or services launched	Sales of products, processes or services
Collaborative R&D	Products, processes or services registered	
	New or improved products, processes or services launched	Sales of products, processes or services
	Enterprises created	Net enterprises created
	Gross jobs created	Net jobs created
	Investment induced	Increase in turnover
Innovation centres and R&D facilities developed	Enterprises accommodated	Occupancy rates
	Jobs accommodated	

Open access infrastructure points		Population with access to infrastructure points
Initiatives addressing barriers to ICT uptake		

Priority 2

The following indicators, relevant to Priority 2, will be used to track the progress of projects and the Programme. The output and result indicators are monitoring indicators, which projects will be required to report against during the life of the project. The impact indicators are evaluation indicators and should be considered during project- and Programme-level evaluation.

Category breakdown information collected against the outputs “Individuals assisted to set up a new enterprise” and “Individuals financially supported to set up a new enterprise” will allow for monitoring against Equal Opportunities objective 2. The indicator “Enterprises adopting equality and diversity strategies and monitoring systems” will allow for monitoring against Equal Opportunities objective 4. In line with Art 66(2) of the general regulation, monitoring information collected will allow for the breakdown of statistics by gender and size of the recipient undertakings, where appropriate. Furthermore, information required by Annex XXIII of the implementing regulation for the Structural and Cohesion Funds 2007-2013 as well as further equal opportunities information will be collected where appropriate.

Output	⇒	Result	⇒	Impact
Projects				

Enterprises assisted	Gross jobs created	Net jobs created
Enterprises financially supported	Profit benefit	Increase in turnover
		Increase in company-level GVA
	Investment induced	Increase in turnover
		Increase in company-level GVA
	Increase in level of export	Net increase in level of export
	Enterprises adopting or improving equality and diversity strategies and monitoring systems	
	Enterprises adopting or improving Environmental Management Systems	
Individuals assisted to set up a new enterprise	Enterprises created	Net enterprises created
Individuals financially supported to set up a new enterprise	Gross jobs created	Net jobs created
Awareness raising schemes		
Social enterprises assisted	Investment induced	Increase in turnover
Social enterprises financially supported	Gross jobs created	Net jobs created
	Enterprises adopting or improving equality and diversity strategies and monitoring systems	
	Enterprises adopting or improving Environmental Management Systems	

Priority 3

The following indicators, relevant to Priority 3, will be used to track the progress of projects and the Programme. The output and result indicators are monitoring indicators, which projects will be required to report against during the life of the project. The impact indicators are evaluation indicators and should be considered during project- and Programme-level evaluation.

The impact indicator “People brought within travel time threshold of a ‘key centre’” will allow for evaluation against Equal Opportunity objectives 1 and 2. In line with Art 66(2) of the general regulation, monitoring information collected will allow for the breakdown of statistics by gender and size of the recipient undertakings, where appropriate.

Output	⇒	Result	⇒	Impact
Projects				
		Gross jobs created		Net jobs created
Public transport services created or improved		Gross passenger kilometres on public transport		Net passenger kilometres on public transport Population within travel time threshold of a ‘key centre’
Intermodal facilities created or improved		Goods on rail or sea freight		Net goods on rail or sea freight
		Gross passenger kilometres on public transport		Net passenger kilometres on public transport
Railroad created or reconstructed		Goods on rail or sea freight		Net goods on rail or sea freight Value for time savings Population within travel time threshold of a ‘key centre’
Access route created or reconstructed				Population within travel time threshold of a ‘key centre’
Footpath or cycleway created or reconstructed				
Land developed		Premises created or refurbished		Occupancy rates
		Jobs accommodated		
		SMEs accommodated		

Participants accommodated

Priority 4

The following indicators, relevant to Priority 4, will be used to track the progress of projects and the Programme. The output and result indicators are monitoring indicators, which projects will be required to report against during the life of the project. The impact indicators are evaluation indicators and should be considered during project- and Programme-level evaluation.

The indicator “Enterprises adopting equality and diversity strategies and monitoring systems” will allow for monitoring against Equal Opportunities objective 4. In line with Art 66(2) of the general regulation, monitoring information collected will allow for the breakdown of statistics by gender and size of the recipient undertakings, where appropriate. Furthermore, information required by Annex XXIII of the implementing regulation for the Structural and Cohesion Funds 2007-2013 as well as further equal opportunities information will be collected where appropriate.

Output	⇒	Result	⇒	Impact
Projects				

Enterprises assisted	Enterprises operating environmental management systems at a level that requires monitoring and reporting of carbon emissions	Net reduction in greenhouse emissions
	Renewable energy generated	
	Energy saved	Net reduction in greenhouse emissions
	Reduction in greenhouse emissions	
	New or improved products, processes or services launched	Sales of products, processes or services
	Waste reduced, reused or recycled	Net waste reduced, reused or recycled
	Investment induced	Increase in turnover
		Increase in company-level GVA
	Gross jobs created	Net jobs created
Enterprises adopting or improving equality and diversity strategies and monitoring systems		
Collaborative R&D	Products, processes or services registered	
	New or improved products, processes or services launched	Sales of products, processes or services
	Enterprises created	Net enterprises created
	Gross jobs created	Net jobs created
	Investment induced	Increase in turnover
	Increase in company-level GVA	
Environmental risk	People benefiting from	

management initiatives	flood protection measures	
Initiatives developing the natural and/or historic environment	Visits	Income generated
Managed access to countryside or coast	Visits	Income generated
Number of renewable energy projects	Renewable energy generated	Net reduction in greenhouse emissions
	Reduction in greenhouse emissions	

Priority 5

The following indicators, relevant to Priority 5, will be used to track the progress of projects and the Programme. The output and result indicators are monitoring indicators, which projects will be required to report against during the life of the project. The impact indicators are evaluation indicators and should be considered during project- and Programme-level evaluation.

Category breakdown information collected against the outputs “Individuals assisted to set up a new social enterprise” and “Individuals financially

supported to set up a new social enterprise” will allow for monitoring against Equal Opportunities objective 2. In line with Art 66(2) of the general regulation, monitoring information collected will allow for the breakdown of statistics by gender and size of the recipient undertakings, where appropriate. Furthermore, information required by Annex XXIII of the implementing regulation for the Structural and Cohesion Funds 2007-2013 as well as further equal opportunities information will be collected where appropriate.

Output	⇒	Result	⇒	Impact
Projects				
Physical improvement schemes				
Land developed		Premises created or refurbished Jobs accommodated Enterprises accommodated		Occupancy rates
Organisations assisted Organisations financially supported		People accessing services Investment induced Gross jobs created Organisations adopting or improving equality monitoring systems Organisations adopting or improving environmental management systems		Increase in turnover
Individuals assisted to set up a new social enterprise Individuals financially supported to set up a new social enterprise		Social enterprises created Gross jobs created		Net social enterprises created Net jobs created

ANNEX E – LESSONS LEARNED

Summary of Key Lessons Learned from Previous Programmes in Wales, the UK and the EU

October 2006

Private and Confidential

In conjunction with



Table of Contents		Page
1	INTRODUCTION.....	1
2	APPROPRIATENESS OF THE PROGRAMME STRATEGIES	5
3	PROGRAMME PERFORMANCE	12
4	INDICATORS AND QUANTIFICATION OF TARGETS.....	30
5	IMPLEMENTATION SYSTEMS	37
6	CONTRIBUTION TO LISBON AND CROSS CUTTING THEMES.....	54
7	SUMMARY OF KEY CONCLUSIONS AND RECOMMENDATIONS FOR STRUCTURAL FUNDS IN WALES 2007 – 2013	64

Annexes

Annex A: Bibliography

Annex B: Objective 1, 2/T and 3 Programmes' Priorities and Measures (2000-2006)

1 INTRODUCTION

- 1.1 Wales has qualified for substantial European Structural Funds support between 2007 and 2013. It is anticipated that this assistance will be delivered through four programmes - the Convergence Programme (for West Wales and the Valleys), the Competitiveness Programme (for East Wales) and two European Social Fund Programmes, one for West Wales and the Valleys and one for East Wales. In addition, the Ireland/Wales 2007-13 cross border programme will continue to deliver the objectives of the INTERREG III programme which was to achieve progressive integration of local economic, social and environmental development across borders between Wales and the Republic of Ireland. The next round of the Ireland/Wales cross border programme will be hosted and evaluated by the Irish authorities.
- 1.2 WEFO is required by the European Commission to carry out Ex Ante Evaluations for each of the Convergence, Competitiveness and the two corresponding ESF Programmes. These evaluations will serve to ensure that resources are allocated optimally and to maximise the quality of plans for programme implementation. The ex ante evaluation process is iterative, with the evaluators making assessments and recommendations on plans for programming and the Programme authors (WEFO) taking these into account in later drafts of Programme documents. DTZ Consulting and Research, an independent research consultancy company, has been appointed to carry out the Ex Ante Evaluations of the four Programmes.
- 1.3 As part of the Ex Ante Evaluations, DTZ has reviewed previous evaluations of the current round of European Structural Funds (SF) Programmes at the Welsh, UK and European level in order to identify key conclusions and lessons learned. The paper focuses on information relevant to the design of the 2007-2013 Programmes, rather than on conclusions and recommendations that are very specific to a particular set of programme circumstances. This paper builds on a lessons learned paper supplied by WEFO which specifically identified lessons learned from the Welsh Mid Term Evaluations (MTEs) and the Mid Term Evaluation Updates (MTEUs).

1.4 The lessons learned paper is not a literature review. Rather, it reflects what DTZ judges to be salient findings, relevant to the new programmes in Wales. These key findings are then distilled into lessons learned, conclusions and comments which represent DTZ's overall assessment.

1.5 The papers reviewed are listed in the Bibliography in Annex A. Specifically these include:

- The MTEs and MTEUs of the Structural Fund Programmes in Wales carried out in 2003 and 2005 respectively

Table 1: MTEs and MTEUs reviewed

<i>Wales</i>	MTE	MTEU
West Wales and the Valleys Objective 1 Programme	X	X
East Wales Objective 2 and Transitional Programme	X	X
East Wales Objective 3 Programme	X	X
West Wrexham URBAN II Programme	X	X
INTERREG IIIA Ireland / Wales Community Initiative Programme	X	X
LEADER+ Wales Community Initiative Programme	X	

- A selection of the MTEs and MTEUs of Structural Fund Programmes across the rest of the UK, carried out in 2003 and 2005 respectively (as identified in Table 2) – focusing especially on Objective 1, 2 and 3 Programmes. These were selected to provide a good spread across the country and across Programmes as well as covering a selection of MTEs and MTEUs.

Table 2: UK MTEs and MTEUs reviewed

	MTE	MTEU
<i>England</i>		
South-West (Objective 1)	X	
South Yorkshire (Objective 1)	X	X
London (Objective 2)	X	
Yorkshire & Humber (Objective 2)		X
West Midlands (Objective 2)		X
North East England (Objective 2)	X	
Objective 3	X	
East of England (Objective 2)	X	
<i>Scotland</i>		
Highlands and Islands (Objective 1)	X	
Western Scotland (Objective 2)	X	X
East of Scotland (Objective 2)	X	
Objective 3	X	
<i>Other</i>		
CSF England/Scotland/Wales Objective 3	X	

- Other WEFO, UK and European Commission reports as shown in the attached bibliography.

1.6 Throughout the paper, the evaluators have highlighted relevant specific issues and have drawn out conclusions and lessons learned at the end of each chapter. These are the key findings the evaluators consider to be relevant to the new programming period and as such reflect the evaluators' independent assessment of the key issues which should be taken into account.

1.7 The report has been divided into the following sections:

- Section 2 examines the evidence on how far original programme strategies were still applicable at later stages in the programmes;
- Section 3 reviews programme performance (as at MTE/MTEU stage);
- Section 4 investigates the quantification of objectives (indicators and targets);
- Section 5 reviews the implementation systems including monitoring and evaluation systems;
- Section 6 reviews the contribution to Lisbon priorities; and
- Section 7 draws out the key conclusions and recommendations for the Welsh Structural Funds Programmes for 2007-2013.

2 APPROPRIATENESS OF THE PROGRAMME STRATEGIES

2.1 In general, at the time of the MTEs (2003) it was found that most programme strategies remained relevant and appropriate across Wales (Objective 1 MTE, INTERREG MTE, and URBAN MTE), the rest of the UK (ESF Evaluation Team 2003) and EU Member States (DG REGIO 2004 p 19). This was generally the case not only over time, but also across regional and national policy objectives and socio-economic circumstances. This section reviews the appropriateness of strategies across the above factors but also highlights particular areas where it was found that programmes had to be amended in order to accommodate various changes in conditions. These experiences highlight several lessons, which are discussed in the concluding section.

Appropriateness of programme strategies over time

2.2 As mentioned, most programme strategies were found to remain relevant and appropriate across Wales, the UK and EU. However, of the few strategies that were revised, one was that of the UK's Highlands and Islands (Special Transitional) Programme. The H&I MTE Main Report (2003) recommended that whilst the overall objectives, priorities and measures of the Programme were still broadly relevant, it would be advisable to refocus funding towards "high achieving measures"¹ that reflected underlying changes in the socio-economic characteristics of the Programme area. This was with a view to moving away from the criticism that the Programme described "all of what the Partnership *might do*, to a position where it represents what the Partnership has *resolved to do* and for which there are reasonable prospects for securing match funding" (H&I MTE, p.3). In Merseyside ('Objective 1 Mid Term Evaluation' Regeneris Consulting 2003), the recommendation was made that resources be focused on securing a stronger culture of innovation and technology transfer, with an increased focus on the demand side.

¹ For example, it was agreed to shift the emphasis of the Programme's Priority 3 towards social inclusion and refocus spending in Priority 1 Measure 4 to projects that could demonstrate strategic significance; new development opportunities (e.g. renewables, nuclear decommissioning, knowledge/media); direct employment generation; and generative capacity (H&I MTEU 2005)

2.3 In Scotland, the socio-economic conditions in which the Objective 3 Programme operated had changed; with a general fall in unemployment, together with the New Deal, removing much of one of the Programme's target groups. This led to concerns that the over-detailed specification of Measures (particularly in relation to limits placed by geographic or beneficiary-type targeting) were making it difficult for project promoters to devise and run effective projects under the changed circumstances. Consequently, the Programme targets were considered in need of revision.

Links to national and regional strategies

2.4 In the Wales Objective 1 MTE, the evaluators noted that certain elements of the Programme were well integrated with national strategies (for example innovation and rural development) and that only a few projects appeared to be inconsistent with Welsh Assembly Government strategies which emerged since the Programme was written. However, they noted that in the main, the bottom up, project driven nature of the Programmes meant that the Programme would be more reactive than proactive in pursuing national strategic objectives. Similarly, evaluators found that the Objective 3 Programme fits well with broader policy frameworks but seems rather "unstrategic" (Objective 3 MTE).

2.5 Given the increased emphasis on the Welsh language and Welsh medium education/training since the 2000 – 2006 Programmes were developed, this issue was recommended to have a higher profile in future programmes (Objective 3 MTE).

2.6 In some cases (e.g. South-West England Objective 1, East of Scotland Objective 2), a high level of consistency with emerging regional strategies was noted, as well as linkages with other new strategies. For example, in South-West England the 2003 MTE found that the programme was consistent with national and EU emerging strategies as well as with regional strategies. Following the publication of the Single Programming Document in East of Scotland one of the main new strategies was the 2000 Framework for

Economic Development in Scotland (FEDS), which the programme was found to be 'completely in line' with (EKOS Ltd 2003).

- 2.7 For the South Yorkshire Objective 1 Programme, although considered to be well aligned with the emerging regional strategies, some review of activities was recommended. In London (Objective 2), evaluators noted that there were opportunities to increase the Programme's contribution to key regional initiatives. They also recommended that the Programme Complement be revised to mention specific domestic initiatives relevant to each Measure, to which the Programme sought to add value.
- 2.8 Similarly, in the East of England (Objective 2) Programme, there was a recommendation for closer alignment between the Programme and the Regional Economic and Regional Social Strategies with regard to strategic aim, funding arrangements and project selection procedures. In North East England (Objective 2), the introduction of sub-regional organisations delivering a variety of interventions² and operating in key policy areas covered by the Programme was thought to have important implications for the allocation of resources and Programme activity. This highlighted the need for Programmes to be flexible and responsive to the environment in which they operate.
- 2.9 In Yorkshire and Humber (Objective 2), a need was identified to integrate the Programme more closely with targets for business support in the Regional Economic Strategy. This would also help to reduce the large number of output targets for business support to a more manageable number of key outputs. The evaluation also highlighted the role for the Programme to respond to sub-regional needs, as overarching regional strategies may not be able to respond to these needs effectively.

² For example the Learning and Skills Council and Small Business Service.

- 2.10 In Western Scotland (Objective 2), a number of specific recommendations were made in this context. The evaluation noted that the Programme appeared to be most effective where strategies and delivery arrangements were most closely aligned. The ability of the Programme to attract co-finance was seen to diminish if national/regional strategies were changing significantly. The Programme would have to recognise and adapt to the more recently designed strategies, structures and approaches to maximise its impact.
- 2.11 It was recommended that the Programme take a pro-active stance by re-launching itself to some of the new Partnerships, showing how Programme funds could be used to mutual benefit. It was recognised that there is a need to establish formal and ongoing working relationships with the new agencies created since Programme inception, with one possible method being through reviewing membership of Programme committees to reflect the new developments. It was emphasised that projects designed to meet the national agenda but delivered and managed through Local Partnerships could produce clear regional benefits. It was also recommended that the Programme should also take steps to attract the new sources of co-financing that were emerging.
- 2.12 For the West Midlands (Objective 2), the MTE noted the emergence of cluster-based policies (aimed at developing specific sectors in specific locations) as being particularly important, and recommended that this should be reflected in a change in the sectoral focus of the Programme. In addition, the report commented that the introduction of alternative sources of funding had affected demand for the Programme among certain partners for particular activities, especially in the context of increasing resources for Community Economic Development (CED). The MTE recommended that the Programme take greater account of the new context, for example by undertaking a strategic assessment of the degree of integration between the England Rural Development Plan and the Programme. In Wales, the weak performance of rural development measures and ICT objectives in the Objective 2 Programme was seen by the evaluators to suggest that the Programme operated “in

competition with other programmes, such as LEADER+ and Information Society initiatives” (Objective 2/T MTEU, p. 118).

- 2.13 In the East of Scotland (Objective 2), the point was made that without flexibility, spatial targeting becomes obsolete and ineffective – there is a need for the ability to adjust to changing socio-economic circumstances.

Programme design

- 2.14 Drawing up multi-annual programmes ('programming') to plan and deliver Structural Funds interventions remains a core principle underpinning the whole implementation process. 'A Study on the Efficiency of the Implementation Methods for Structural Funds³' (ÖIR/LRDP/IDOM, 2003) concludes that the programming approach to Structural Funds allocation and regional development should be maintained and reinforced and was in fact “a very valuable means of ensuring legal and financial certainty for planners and policy implementers and for project promoters and managers over a prolonged period of time” (p. 7).
- 2.15 While programming continues to be seen as a useful approach, many of the evaluations noted that it was important to focus programmes at the strategic level rather than attempting to detail the programmes to a high degree. In this context, the designation of Measures was seen as limiting the flexibility to adapt the programmes throughout the programming period. For example, the Objective 1 and 2/T MTEs in Wales found that the division of the Programmes into Measures did limit flexibility in terms of project development and programme management. These MTEs also noted that in some cases there was a lack of clarity in the distinction between Measures.
- 2.16 The Objective 1 MTEU for Wales noted that there was a vast array of policy goals within the current Objective 1 Programme, and the link between Measure and headline objectives was not always clear. Perhaps as a result, projects were not consistently focused on Programme headline objectives.

³ This was a process focused study to provide input to the EC on the design of implementation processes for Structural Funds.

Comment: Depending on the overall policy framework, spatial targeting as well as targeting particular groups in society or types of businesses can be a useful way of ensuring that the funding can make a major contribution to headline objectives. This needs to be weighed up against potential rigidity being introduced into programme delivery – the designation of a detailed map for Objective 2 and Transitional support across the UK illustrated difficulties with an over-rigid approach.

Conclusions and lessons learned: programme strategies

- 2.17 In general, programme strategies remained relevant over the programming period, although there were a few cases when strategies had to be revised during the programming period, as picked up by the various MTEs. Across UK Programmes, recommendations for re-alignment or adjustment were usually made to take into account changes in socio-economic conditions or economic development strategies in the regions concerned. It is important that programmes adjust to changes in regional or national strategies as overlaps and duplications with other funding programmes and policy initiatives (EU or national) can lead to reduced demand for Structural Funds interventions.
- 2.18 Although programming was found to be and continues to be a useful framework to deliver the Structural Funds, the relatively rigid designation of Measures in the last programming period limited flexibility to develop and manage programmes effectively.
- 2.19 The discussions of this chapter and above conclusions lead to several lessons learned:
- To be most effective, programmes need to be closely aligned to national and regional economic development strategies and to the key aims of organisations delivering these strategies.
 - There needs to be sufficient flexibility in the programmes to adapt to changed national and regional contexts and socio-economic conditions as

well as taking into account any overlaps and duplications with other funding programmes which emerge in the course of the programming period. There should be a pro-active approach to reviewing of the programmes to ensure that required changes are anticipated.

- For the 2007 – 2013 programming period, the Commission has decided that the designation of Measures is no longer required. The use of Themes in the programmes is conducive to helping define the kind of projects which will be supported under each Priority but care needs to be taken that Themes will not limit the flexibility of the programmes.
- Having a large range of policy goals and objectives can make it difficult to link specific Priorities and Themes to the attainment of headline objectives. This makes it important to focus the Structural Funds in a limited number of policy areas. While this applies to the new Convergence Programme, it is even more important for the smaller Competitiveness and European Social Fund Programmes.

3 PROGRAMME PERFORMANCE

- 3.1 This section discusses the findings of UK and Wales' programme evaluations, focusing on programme performance. The chapter firstly provides a brief overview of the progress made by various regions and programmes in the UK.
- 3.2 It then looks specifically at progress in Wales, organised under broad headings corresponding to emerging Priorities under the new Programmes in Wales. Although there may be some overlap with regards to outcomes achieved, we have as far as possible discussed policies under the key objective to which they are relevant. These specific sections focus on the previous Welsh Programmes although specific findings from the rest of the UK have been added where appropriate. General conclusions and lessons learned are presented in the final section.

Progress against financial and outcome targets - UK

- 3.3 Analysis of UK SF programme evaluations (including both evaluations and evaluation updates, as detailed in the following paragraphs) reveals a mixed picture in terms of programme targets being met. The programmes that were broadly expected to meet targets included the East of England Objective 2 ('Mid Term Evaluation', Centre for Strategy & Evaluation Services 2003), the West Midlands Objective 2 ('Mid Term Evaluation Update', GHK Consulting and Fraser Associates 2005) and the Highlands and Islands (Transitional) Programmes ('Mid Term Evaluation', Fraser Associates Management *et al* 2003).
- 3.4 On the other hand however, by the time of the Mid Term Evaluations both South Yorkshire Objective 1 (Wells *et al* (2003) and Yorkshire and Humber Objective 2 (Leeds Metropolitan University and University of Hull 2003) were achieving relatively low outputs in relation to targets, although the Programmes were considered to be making strong financial progress. In South Yorkshire, changes in socio-economic conditions meant that many of the original targets (for both gross and net jobs) were too high. Similarly, in

Yorkshire and Humber, 15 of the 31 Key Output Indicators showed nil to poor progress and the appropriateness of the original targets was questioned.

- 3.5 In South-West of England Objective 1 Mid Term Evaluation (ECOTEC Research and Consulting Limited 2003), despite impressive commitment levels, the pattern of projected and actual outputs against targets was patchy (as at 1st June 2003), with projected results and impacts being well behind what was expected in relation to spending commitments at that stage, raising questions about the achievability of associated targets. At the time of the North East England Objective 2 Mid Term Evaluation (EKOS Consulting 2003), the ESF forecasts and achievements were low across the Programme. This was not entirely explained by difficulties gathering monitoring data from projects. Reasons for variations between forecast and actual outputs/results tended to relate to the characteristics of the supported projects, for example delays in project start and the long-term nature of the projects; although these factors should have been taken into account when forecasts were set.
- 3.6 Across the UK, the MTEUs showed that there was considerable variation in the progress made to date towards outputs and results targets. However, those responsible for running the Programmes generally believed that the majority of targets would be met by Programme end, and that a number would be exceeded. In many cases, targets, particularly output targets, had already been met or exceeded. At the aggregate level (England), a number of indicators were already performing at a level above the total of the targets in all programmes. Although performance towards output targets was generally strong, many programmes were making slower progress towards result and impact targets. This was generally attributed by the programmes to results and impacts not being expected to be observed until the end of the programming period. (ODPM 2005 p. 3).
- 3.7 Where targets were unlikely to be met by the end of the Programme, many Programmes had taken remedial action to attempt to resolve this. In the majority of cases there were still funds available that had not been committed, so there was still scope to turn the situation around. (Updated Mid Term

Comment: Any shift in the allocation of funding to meet targets should be preceded by a careful analysis of why the targets were not being met to determine whether aiming to attain the target is still appropriate and whether the non-attainment is caused by underlying issues with the effectiveness of the projects.

Progress against targets, commitment and spend – Wales

- 3.8 In Wales, both at the time of the MTEs and at the time of the MTEUs progress against targets and in terms of commitment and spend was generally good across programmes. Overall, full achievement of commitment, spend, and indicator targets was anticipated. In several policy areas there was no need for concern regarding the achievement of targets. However, within certain policy areas of the Programmes, prospects for meeting targets were mixed. Below, programme performance is discussed under some of the broad objectives, corresponding to emerging Priorities for the new Programmes.

European Social Fund

- 3.9 Broadly speaking, the European Social Fund (ESF) focuses on enhancing employability and skills and reducing unemployment and economic inactivity to reduce inequality across Member States. The following section discusses Programme performance under these two core areas of ESF objectives.

Employability and Skills

- 3.10 Several of the Welsh policy areas can be identified as pursuing the integration of excluded groups into the labour market by enhancing their employability, widening and improving upon the skills base and enhancing human capital, and other such related objectives. This section provides an overview of the progress made in these areas. However, as noted in the Wales Objective 1 MTEU (2005), the evaluators concentrated on researching the impact of the

Programme in terms of the creation (and quality of) new jobs and SMEs, and did not include any primary research on a number of potential areas of enquiry, including management processes. In light of this, the commentary on the evaluations here is necessarily limited to reviewing progress made against targets in the areas concerned.

- 3.11 In terms of skills, under Objective 1, progress to June 2005 was encouraging against many of the Priority 4 (developing people) targets, with targets forecast to be met or over-performed in the areas of: new learners into learning opportunities; beneficiaries gaining a qualification and beneficiaries completing their courses; childcare provided; and young people receiving help before 6 months of unemployment. These strong positive forecasts are set in the overall context of 84% of funding under all Priority 4 Measures being already committed to projects.
- 3.12 In Objective 3, under Priority 3 (Lifelong learning) Measures 1 and 2 (Developing new or improved guidance and learning systems; Increasing participation and attainment in lifelong learning), results were encouraging for 'beneficiaries who have completed their courses'; 'number of beneficiaries gaining a qualification'; 'number of beneficiaries in work on leaving' and 'numbers participating in lifelong learning'. Projects under this Priority were forecast to exceed output targets.

Comment: Overall, Welsh programmes have contributed greatly to stimulate learning, leading to higher numbers of individuals with qualifications and levels of qualifications being obtained.

- 3.13 However, there were disappointing results for Measure 4 (skills for innovation and technology) relative to funding committed, with low levels reached in relation to targets in terms of number of beneficiaries, numbers of companies and numbers of employees helped. The Objective 1 MTEU found that as of June 2005 there was "virtually no progress at all in terms of number of projects supported (p. 45, Old Bell 3 2005).

Comment: Specifying the set of skills to be achieved under a particular intervention can lead to low uptake. An approach that does not focus on a narrow set of skills but rather provides interventions that build on employer demand for skills and individual learner's preference and abilities can potentially provide better uptake and outcomes.

- 3.14 In order to evaluate the effectiveness of the training and/or advice that is provided through Structural Funds, the DWP and WEFO commission surveys of companies to thereafter make the relevant assessments. According to the survey carried out between June and November 2002 (PACEC 2003), the overwhelming majority of beneficiary firms which received support to develop the skills of their workforce said that they were wholly or largely satisfied with the training they received (44% and 39% respectively). Nearly half of beneficiary firms said that training had led or will lead to employees being awarded qualifications. Over 40% of the company beneficiaries said that they had experienced positive effects on their business' commercial performance as a result of the ESF training, including enhanced employee productivity, profitability and increased assets/market value, firm employment and sales and income.
- 3.15 The survey also found however, that a relatively high proportion of the trainees were in higher level, particularly managerial, positions, suggesting that the training was not always reaching those in lower to mid level skilled occupations. It was therefore suggested that refocusing of training programmes might be needed in order to pitch the provision of training at low and mid skilled workers. It also recommended that a greater emphasis on 'soft skill' training and more basic training would be desirable.
- 3.16 The Wales Objective 1 MTEU (2005) noted that if future objectives continue to focus on quality job creation and economic inactivity, then resources need to be 'aggressively' focused on interventions which can clearly be seen to lead to achievement of these objectives.

- 3.17 However, the ESF training was found in many instances to provide limited additionality. Although training under Objective 3 provided the greatest additionality (with 50% of firms reporting that they could not see how else the positive outcomes – particularly those relating to employee productivity could otherwise have been achieved) 22% of firms reported that they would definitely have taken alternative measures⁴ if the funding would not have been available while a further 18% probably and 21% possibly would have taken alternative measures. Just under 4 in 10 companies would probably or definitely not have taken alternative measures (PACEC *ibid*).
- 3.18 However, the evaluators recommended that although the levels of additionality may seem disappointing, it is important to bear in mind that the alternative to ESF training in many cases may have taken place later, meaning that the positive effects would not have been felt until later, potentially harming the immediate competitiveness of these companies. Nevertheless, the evaluators recommend that those who manage the funding for ESF training in Wales carry out further work to examine the extent to which the funding is duplicating provision.

Comment: Firms in Wales were generally satisfied with the training provided under 'improving skills' projects and firms reported improved commercial performance. However, there was a large degree of deadweight.

- 3.19 A report to the Department for Work and Pensions (DWP) on the England and Gibraltar Objective 3 Programme recommended, with regards to future programmes, that public support for workforce development should continue after 2006. However, the report also recommended that it should be made clearer when the training and development is aimed at companies' commercial performance and where it is targeted at particular, disadvantaged groups in the labour market. The report also noted that a degree of realism is required in

⁴ I.e. would the companies have pursued different means in order to achieve the outcomes pursued by adopted ESF funded training? 88% of respondents replied that although they would have found other means of carrying out the same kind of training had the ESF funds not been available, 26% replied that it would have taken place at a later date (Table 3.24 and 3.23 respectively in the 2002 survey (PACEC 2003).

the assessment of how much training and development can contribute to company growth (Evaluation of the ESF Support for Companies, Fraser Associates report to DWP, 2005).

Comment: It is difficult to make the direct link between any individual activity (such as training or R&D) and the company's bottom line, which will depend on a range of factors (for example market conditions). In many cases, it will be the willingness of companies to invest scarce resources in a particular area that provides the best indication of the value attached to an activity.

3.20 One of the key new areas of intervention which has emerged strongly over the last programming period is that, in addition to 'hard' outcomes such as skill attainment, 'soft' outcomes such as increased confidence are also of importance to enhance employability. Many ESF projects helped beneficiaries to achieve soft outcomes such as higher levels of confidence and motivation, better skills in communicating and interacting with others, and a greater ability to manage their own lives. The economically inactive group made substantial gains in terms of enhanced employability and improved self-confidence. (Leavers Survey, Wales, 2002 Atkinson, Miller, and Gerova, 2004). It is worth noting that this survey was followed up in 2005 to track the progress of those who had participated in the original 2002 survey in order to gain an insight into the longer-term paths of beneficiaries after completion of their courses. In addition to reporting positive improvements in their employability, many respondents were still likely to say that they had improved their confidence and/or self esteem (Follow-up Survey of European Social Fund Leavers, DWP 2005).

Comment: While soft outcomes can clearly be linked to hard outcomes (for example, individuals with higher levels of motivation and confidence tend to perform better in the labour market), it is important to determine at the outset of projects whether these soft outcomes are simply designed to be a stepping stone to enter the labour market or whether they are pursued as outcomes in their own right.

- 3.21 The soft outcomes achieved as a result of participation were valued by project sponsors and beneficiaries alike, though few project sponsors had systems in place to capture and measure the outcomes and they were not captured at Programme level (Objective 1 and 3 MTEUs).
- 3.22 Across the UK, all groups of ESF beneficiaries⁵ reported a high level of soft and work related skills development, and minority ethnic groups reported the highest levels of these benefits from the projects. (‘Evaluation of equality mainstreaming in ESF Objective 3’ ECOTEC 2004)
- 3.23 One key objective of the ESF interventions is to improve the gender balance in the workplace. However, very few projects were designed to specifically address issues of gender segregation or to affect the support infrastructure that affords men and women equal access to learning and work. Progress was disappointing against the training in higher level skills target, although in terms of numbers undertaking training in under-represented occupations – a key indicator of tackling horizontal segregation – both achieved and forecast numbers were already well in excess of targets.
- 3.24 However, the Evaluation of equality mainstreaming in the English ESF Objective 3 concluded:

“Overall, very few beneficiaries were given opportunities in non-traditional occupational areas for their sex. Levels of training for women and men in nontraditional occupations also need to increase.” (p. iv)

Comment: In Wales, few projects were aimed at addressing horizontal or vertical gender segregation.

⁵ Disadvantaged groups targeted by the programme: women, ethnic minorities and people with disabilities.

Tackling Unemployment and Inactivity

- 3.25 One of the key areas of intervention for the ESF Programmes is to reduce worklessness by promoting employment for those currently unemployed or economically inactive. The Leavers Survey 2002 (Atkinson *et al* 2004) suggests that, in terms of ESF interventions under Objective 1 and 3, following participation in the projects, there has been an increase in the proportion of respondents in paid employment. However, the Programmes appeared to have been less successful in reducing inactivity within the sample. (Leavers Survey, Wales, 2002 Atkinson *et al ibid*)
- 3.26 The Objective 3 MTEU (Old Bell 3 2005) found that there was conflicting evidence surrounding the proportion of beneficiaries likely to progress into employment and/or learning following participation: “Project sponsors appeared to be over-optimistic in their view of the proportion of leavers who would progress into employment, whilst beneficiaries probably over-estimated the extent to which they would progress into further learning” (p. 3). Project sponsors estimated that around two fifths of learners would progress into employment but less than a fifth of beneficiaries believed they would progress into employment. The results were somewhere in between with around 25% of leavers entering jobs immediately.
- 3.27 In Objective 3, the aggregate data suggests that there was weaker than anticipated performance on employment outcomes for inactive and unemployed beneficiaries. In some cases, projects appeared to be primarily concerned with prioritizing soft outcomes and meeting the social and personal needs of the beneficiaries rather than enabling them to progress towards participation in the labour market (Objective 3 MTEU).

Comment: Some beneficiaries will be at some distance from the labour market. This has implications for the cost of delivery as the marginal cost of achieving a positive outcome for an individual will clearly be higher, for example requiring multiple or longer interventions to enable entry into employment.

- 3.28 The ESF Wales ESF Leavers Survey 2002 (Atkinson *et al* 2004) notes that it is crucial to determine the different employment circumstances of the beneficiaries from which they join the project. It suggests a distinction should be drawn between those already in work, those who are unemployed and those who are economically inactive. In the current programming period, the Priorities and Measures were used to streamline the focus of ESF interventions. Several Measures under various priorities were selected to represent various policy 'clusters' to highlight and measure the focus and impact on employed, unemployed and inactive beneficiaries, as well as on other targeted groups. Social Inclusion (ESF Programme Priority 4 Measure 2) and Improving Female Labour Market participation (ESF Priority 4 Measure 5) were especially targeted on inactivity. Social Inclusion and Active Labour Market Policies (ESF Priority 4 Measure 2 and ESF Priority 4 Measure 1 respectively) are also targeting a higher than average percentage of long term unemployed while Adaptability and Entrepreneurship (ESF Priority 1 Measure 4) has the clearest focus on those already in employment (almost 2/3)⁶. (Leavers Survey 2002)⁷
- 3.29 Within the sample assessed by the Leavers Survey, a substantial majority of Priority 1 (developing active labour market policies to prevent and combat unemployment) project beneficiaries were unemployed or economically inactive. Projects were primarily concerned with preparing people for sustained employment as opposed to helping them achieve qualifications. Measure 1 (preventing long-term unemployment) projects in particular seemed to be successful in attracting the long-term unemployed. However, rather perversely (given Measure 2's focus upon re-integration of the long term unemployed), Measure 2 projects appeared to have attracted more short term unemployed beneficiaries than might have been expected.

⁶ See Table 2.1 in the 2002 Leavers Survey for further information.

⁷ Note that Priorities and Measures are detailed in Annex B.

Comment: If interventions are specifically designed for particular target groups (e.g. the long term unemployed and/or those in economic inactivity), this should form part of eligibility criteria. However, if the interventions are intended to also support broader groups (e.g. short term unemployed), the definition of Measures (or Themes) and targets should encompass these groups.

3.30 Gender equality, and more generally equal opportunities, are one of the Structural Funds' "horizontal" Cross Cutting Themes (CCTs) that are considered in Section 7 of this report. However, there are also outcomes and targets are being pursued "vertically", under Objective 1 Priority 4 Measure 5 (improving the participation of women in the labour market). According to the Mid Term Evaluation Update (Old Bell 3 2005 p138) the aggregate data for this Measure presented a mixed picture, with strong performance against many targets (for example, 'No of beneficiaries gaining a qualification', 88.9% of target achieved by June 2005), but poorer performance against targets for a number of innovative projects (48.8% of target achieved as at June 2005), numbers undertaking training in higher level skills and unemployed beneficiaries in work on leaving (6.8% of target by June 2005). Generally, projects had a strong emphasis on economic inactivity amongst women. In Objective 3, the aggregate data as at June 2005 would suggest that key output indicators in respect of Priority 5 (promoting gender inequality within the labour market) will be exceeded by the end of the Programme ('Mid Term Evaluation Update of the East Wales Objective 3 Programme' Old Bell 3 2005).

Comment: It is unsurprising that unemployment tended to feature less than economic inactivity among women, given that the key determinant of the lower employment rate of women is related to inactivity while the female working population tends to have lower unemployment rates than the male population.

European Regional Development Fund

- 3.31 The following section assesses a broad range of objectives which are pursued under European Regional Development Fund (ERDF) interventions and assesses the performance of the Welsh current Programmes with reference to their impact upon three key objectives of the ERDF, namely Assistance to Business and Innovation, Economic Infrastructure and Community Development.

Assistance to Business and Innovation

- 3.32 The Wales Objective 2/T MTEU (EKOS Consulting 2005) found that targets for initial advice to businesses/entrepreneurs were considerably exceeded, which led to concerns by the evaluators that not enough entrepreneurs were receiving further more intensive forms of assistance. In the view of the evaluators this carried the risk that many potential entrepreneurs were not continuing with their ideas or moving on to receive more intensive forms of assistance (p 36).
- 3.33 In terms of job creation as a result of assistance to businesses, in Objective 1 the evaluators' estimate of progress by Programme end against Programme targets suggested that the target would not been reached. A number of reasons for this can be identified. Firstly, the Objective 1 MTE found that although a small number of businesses interviewed had created jobs as a result of the support, the targets for job creation were too high. Although the targets were "appropriate" it was felt that due to historical trends in the labour market and difficulties in the manufacturing sector, the targets were perhaps "over-ambitious" (p 35). Although the total number of jobs reported was broadly in line with projects' forecasts, this was possibly due to double-counting between projects. On the positive side, however, half of those filling the jobs were previously inactive or unemployed and the jobs were reported by the employers to be sustainable.

Comment: While the evidence suggests that the targets were too ambitious, the jobs being created seemed to have helped a considerable number of individuals to enter the labour market.

- 3.34 In terms of the quality of jobs, in both Objective 1 and 2 the jobs created were usually low-skilled and poorly paid. However, this was broadly in line with the occupational mix in Wales. There are implications here for future programme design and emphasis in targets.

Comment: It would be useful if programmes could be explicit about whether the jobs created are intended as a first entry point into the labour market for those currently excluded or whether jobs created are expected in the higher skill/higher wage bracket.

- 3.35 Aside from target level and design, other reasons can be identified for shortfalls in the targets. In Objective 1 and 3 problems with transport and childcare, along with a lack of self-confidence, were the most frequently cited barriers both to participation in ESF projects and to accessing jobs at the end of beneficiaries' training by both project sponsors and beneficiaries.

Comment: It will be important to identify how far projects can be designed to overcome the key barriers identified to accessing employment, including barriers associated with individuals (e.g. skills), social infrastructure (e.g. childcare) or local labour markets (requiring transport to access employment).

- 3.36 Overall, the impact of the Programme in terms of new business creation has been low. There have also been disappointing results for the number of gross new high technology companies created, with only 7% of the target achieved by the time of the Mid Term Evaluation Update (Objective 1 Programme, Old Bell 3 2005 p 45).

Comment: Before committing funding to business creation in the new programmes, it will be important to consider what may have hindered achievements in the previous programmes. It will be important to identify the key barriers (e.g. in terms of motivational drivers, funding/finances, available skills etc.) to design Programmes and projects accordingly.

3.37 However, there was strong performance against targets under Objective 1 such as number of companies receiving financial support for R&D/innovation projects and the number of companies given advice/information by R&D/innovation projects. There were also good results for numbers of firms benefiting from e-commerce and ICT support – at the MTEU (Old Bell 2005) achievement was already above target and was forecast to go up to 27% above target (p 45)(Objective 1). However, under Objective 2, the two ICT activity targets were low in terms of forecast against Programme targets, although actual achievement against forecast is good ('Mid Term Evaluation Update of the Wales Objective 2/T Programme' EKOS Ltd 2005). Outcomes for Priority 1 Measure 1 (support for enterprise) indicators have been encouraging with performance against most outputs and results indicators forecast to exceed targets (e.g. achievement of new direct jobs, jobs safeguarded and increase in turnover, innovation and SME development). The major exception is the number of new SMEs receiving assistance (Objective 2 MTEU EKOS Ltd *ibid* p 36).

Infrastructure

3.38 Most of the targets of Objective 1 Priority 6 (strategic infrastructure development) were forecast to be achieved by the end of the Programme. In fact, most of the targets were forecast to be exceeded considerably – for example the target 'No. of km of transport route built/improved' was forecast to achieve 787% of its target (Objective 1 MTEU Old Bell 3 2005 p53-54).

Community Development

3.39 One method used to encourage business development in less advantaged areas has been the provision of business sites and premises. According to the MTEU for Objective 1 (Old Bell 3 2005) occupancy rates in completed sites and premises were generally high and businesses which moved into these premises identified increases in employment and turnover since moving into the new premises. However, a number of targets for key indicators (e.g. jobs accommodated) are unlikely to be reached by the end of the Programme (Old Bell 3 *ibid* p 150)..

3.40 However, businesses occupying these premises were generally happy with the accommodation. The quality of the development was overwhelmingly seen – by both project sponsors and SMEs occupying the premises provided through the project – as one of the principal reasons for the SMEs to locate within the Objective 1 area (Objective 1 MTEU Old Bell 3 2005 p 150). The investment in sites and premises under Objective 2 Priority 1 Measure 3 has had the desired effects in terms of business growth and market outlook ('MTEU of the Objective 2/T Programme' EKOS Ltd 2005 p VI). Importantly, at the project level, there was much evidence of additionality reported through the ERDF funding, with the companies surveyed taking advantage of new high quality space in order to expand.

Comment: The development of new business premises has influenced companies' location decisions and has had an effect on business growth.

Comment: The development of new business premises needs to be based on underlying market demand to avoid the creation of premises which will be under-utilised. It is also important to consider the extent to which business activity has been displaced from non-supported areas.

3.41 Good progress has been made in supporting community services/facilities (70% of target achieved as at June 2005) and assisting or creating social economy businesses (120% of target forecast to be achieved as at June 2005) (EKOS Ltd 2005)). The same report found however that while renewable energy developments have progressed well against targets in the Core Programme Area, achievements in the Transitional Area have been disappointing to date. In general the 2/T programme was found to be successful in incorporating environmental sustainability values into projects of various natures, the programme was less successful at actually steering investment into the creation of specific environmental schemes.

Comment: The development of local economies is likely to have benefited from support for premises as well as support for social businesses but it is difficult to make the link directly as it is difficult to establish the counterfactual (what would have happened without the interventions) and to attribute local economic activity directly to these interventions.

Conclusions and lessons learned: programme performance

- 3.42 Performance against targets set at the programme design stage at the UK level was patchy, with no clear trend emerging overall. In general, those responsible for running the programmes were optimistic that the majority of output targets would be met by the end of the programmes, although this was not the case for result or impact targets where it was felt that it would take longer than the programming period for the targets to be achieved.
- 3.43 In general, most of the programmes in Wales had progressed well against targets, commitments and spend at the MTEU stage. However, several areas in which targets were not being met have been flagged up and provide important lessons for future target and policy formation. Reasons given range from targets themselves being too ambitious, to problems and barriers in the wider economy, to there being a need for objectives to be clearer on what exactly their main aims and focuses are. It is of key importance to bear these reasons in mind at the target setting stage of future programme design as they

provide vital insight into the appropriate and realistic level of future targets, and the need for clear definitions of objectives and the corresponding indicators. Further, these reasons given also serve as a reminder that adverse conditions or changes in the wider economic environment can hinder (as well as help) progress towards meeting targets.

3.44 Some overarching lessons relating to general programme design can be identified:

- When setting results and impact targets, care should be taken to ensure that these can be realised within the programming period timeframe. Whilst it is desirable to measure the results and impacts of the programmes, the monitoring system and the choice of indicators (and associated targets) are in many cases not the most appropriate way to measure longer-term effects.
- It is useful to retain a degree of flexibility in the allocation of funds to ensure that funding can be targeted at those areas where additional activity is required to meet targets.
- In the areas of development of employability and skills and reducing unemployment and inactivity – i.e. the objectives that fall under the ESF umbrella - the following lessons have been identified:
- With regard to design and measure of targets and indicators, it is key that the labour market status of beneficiaries is recorded at the outset of the project so that differentiation between outcomes achieved for individuals with varying employment/unemployment status can be identified.
- Projects aimed at tackling unemployment and inactivity seem to be more successful in helping people to move into paid employment from unemployment than from economic inactivity, probably indicating different distances of individuals from the labour market.
- Project sponsors appear to over-estimate success rates associated with their intervention in terms of moving people into employment.

- There is still considerable uncertainty about how to measure soft outcomes, such as increased self-confidence, and about how these soft outcomes affect labour market outcomes. For the new programming period, it will be important to provide easily accessible guidance to relevant projects from an early stage.
- In terms of workforce development, there needs to be clarity as to whether the key aim is to provide businesses with the skills needed or to help disadvantaged groups in the labour market.
- With regards to the objectives relating to business development, infrastructure and sustainable development – i.e. those objectives that fall under the ERDF umbrella – a number of key lessons emerged:
- Programme targets for a number of new SMEs being assisted are not being met. This indicates that the whole area of support for business start-ups or recent start-ups needs to be considered carefully to determine how Structural Funds can effectively contribute in this area.
- When setting targets associated with the development of new business premises, the long timespan in terms of realised impact should be taken into account. Benchmarks could be derived from the experience in the last round of programming.

4 INDICATORS AND QUANTIFICATION OF TARGETS

- 4.1 Improvements have been made in the present period in identifying indicators and setting targets. However, some problems persist:

“In particular, indicators often lack a clear definition and proliferate in some cases, especially where programmes have too broad a focus. “ (European Commission 2006a, p. 166)

- 4.2 Analysis of the English Objective 1 and 2 Programmes (Updated Mid Term Evaluation of England Objective 1 and 2 Programmes – Collation of Regional Analysis) revealed a number of weaknesses in indicators, target setting and data collection systems. The following sections discuss indicators and targets in turn.

Indicators

Indicator definitions

- 4.3 To encourage widespread use of indicators, one of the key issues noted across Programmes is the need to provide good definitions. EU-wide, DG REGIO reported that MTE evaluators found :

“In many cases, inadequate definition of indicators was identified as a problem and recommendations were made to address this issue. “ (The Mid Term Evaluation in Objective 1 and 2 Regions - Growing Evaluation Capacity, p. 42)

- 4.4 Stakeholders in the Highlands and Islands (Transitional) programme noted that definitions should be provided for all indicators whilst evaluators in the H&I MTE (2003) recommended that “supplementary guidance on the relationship between indicators and some worked examples would be useful” (p 8). In the East of Scotland (‘East of Scotland Objective 2 Programme Mid Term Evaluation’ EKOS Ltd 2003, p 81), projects often misinterpreted definitions of performance indicators.

- 4.5 Programme Managers in Scotland's Objective 3 Programme did not understand indicators clearly and misreported against them as a result. Similarly, the Wales Objective 1 and 3 MTEs and MTEUs found that not all indicators could be meaningfully defined and it was difficult to measure progress against some indicators, for example those related to turnover. However, over time, good progress has been made in providing definitions for key indicators (Wales Objective 1 MTEU).
- 4.6 At the MTE stage in Wales, clear and practicable definitions of indicators, advice on how to monitor them, and requirements for evidencing performance, were found to be needed (Wales Objective 1 MTE and MTEU, INTERREG IIIA MTEU and Objective 3 MTE).

Results and impacts

- 4.7 In some areas, the full range of indicators within the indicator frameworks were used. For example, Objective 2 projects in Wales used the full spectrum of available indicators to measure their achievements (Wales Objective 2/T MTE). In general, indicators measuring activity/outputs were used widely but across the UK, there were specific difficulties with measuring results and especially impacts. It was also not always clear how the activity, result and impact indicators were linked (for example, Wales LEADER+ MTE). Measuring impacts is often complicated as they occur after the programme period – for example, stakeholders in the Highlands and Islands (Transitional) programme expressed concerns about the timespan for results and impacts to be realised.

Comment: Impact assessment issues should be considered from the design stage of the new programmes. It should be explicit in programme documentation whether impact targets relate to all programme spending or just to the SF component.

Indicator frameworks

- 4.8 Evaluations across Wales and in the rest of the UK noted that a smaller number of indicators would be helpful. This was recognised in the Commission's draft working paper on targets and indicators which acknowledges that the large number of indicators in many programmes made it difficult to track progress and that a smaller number of key indicators will be helpful.
- 4.9 A number of UK MTEs found that the indicator framework needed to be revised. For example, the West Midlands Objective 2 identified a need for substantial revision to selected indicators so that the indicators more accurately reflected the scope of the Measures. In the East of Scotland Objective 2 Programme MTE (EKOS Ltd 2003), streamlining of Scotland-wide performance indicators to exclusively utilise Scottish Core Indicators⁸ (p. 29), as opposed to a mix of various indicators, necessitated a redrafting of the Programme Complement in 2002. Progress against a considerable number of performance indicators appeared poorer than was the case as specific indicators⁹ were substantially under-reported against or not selected by projects. On the other hand, many results and outputs seemed overly optimistic with regard to reported achievement levels. Stakeholders in the Highlands and Islands (Transitional) Programme expressed concerns about the system for measuring performance, including ways in which indicators have been applied and limitations of the framework for taking full account of soft outcomes.

⁸ The Scottish Core Indicators were a set of agreed common indicators for all the Scottish Structural Fund programmes, designed to ensure consistent reporting on a Scottish level.

⁹ For example the H&I MTE 2003 found that one area of shortfall in one of the measures was the 'number of beneficiaries completing their course'. It was advised that this is due to under-reporting and is being further investigated (p. 34).

Data collection on beneficiaries

- 4.10 The Objective 1 MTE found that sampled projects generally had robust systems in place to prevent double counting. However, double counting of outputs between projects (as opposed to within projects) was identified as an issue. Establishing a central database of beneficiaries and final recipient SMEs would help with the provision of more accurate data (Wales Objective 1 MTEU).

Quantification/Targets

- 4.11 Across the EU, the Commission noted at the MTE stage that:

“The quantification of objectives is an area where most evaluations found room for considerable improvement, although there were some very good examples of quantification of objectives feeding into an effective monitoring system.” (The Mid Term Evaluation in Objective 1 and 2 Regions - Growing Evaluation Capacity, p. 42)

- 4.12 An EKOS report to the European Commission analysing the Single Programming Documents submitted to the Commission by the UK regions identified a range of benchmarks for use in estimating activity, result and impact targets. This was used as a starting point by a number of UK regions and consequently quantification of objectives in the UK Programmes was considered to be generally of a good quality.

<p><u>Comment:</u> To ensure consistent use of benchmarks across the new UK programmes, centrally co-ordinated research into establishing benchmarks across the UK would be useful.</p>

- 4.13 A considerable number of programmes have revised their targets since the beginning of the programming period. For example, the West Midlands Objective 2 Programme) required a complete re-quantification of Programme targets in their entirety, to be carried out in consultation with partners (Mid Term Evaluation p xiv, GHK and Fraser Associates 2003).

- 4.14 Some of this is likely to be due to the difficulties associated with setting such targets before programme delivery commences but it also indicates that initial target setting may not have been as accurate as it could have been:

“Given that the majority of programmes have revised their targets since the beginning of the programme, this suggests that initial target setting was not as robust as it could have been. A number of programmes highlighted instances of inaccuracies in the definitions of targets, the assumptions underlying them, or the baseline figures used to calculate the targets.” (Updated Mid Term Evaluation of England Objective 1 and 2 Programmes - Collation of Regional Analysis, p. 19))

- 4.15 The fact that a number of targets had already been vastly exceeded, while in other areas overall performance was forecast to fall seriously below target levels, also suggested flaws in the target setting process or the validity of the monitoring data.

- 4.16 More clearly defined and quantified baselines would have assisted target setting for the Objective 2 Programme in Wales, particularly in relation to impact indicators (Wales Objective 2 MTEU). Some large projects set targets pro rata based on Measure targets, according to the proportion of Measure funding they are seeking (Wales Objective 1 MTE).

- 4.17 In Yorkshire and Humber (‘Objective 2 Mid Term Evaluation’ Leeds Metropolitan University and University of Hull 2003), further guidance on the logic underpinning targets and quantification was being sought by sponsors to allow for a clearer and more critical approach to project design (p 95). Targets were revised as part of a comprehensive review of the quantification of Objective 2 recommended by the MTE:

“Quantification needs to be rigorously examined and revised in Objective 2 for the second half of the Programme - perhaps drawing on the experience gained by Objective 1 in its review of quantification. In this review a key objective must be simplification – in individual indicators and in the totality and range of indicators” (Yorkshire and Humber Objective 2 MTE 2003, p. 161)

- 4.18 Even where the process of setting targets was assessed to be sound, revisions were required over time. For example, the North East England Objective 2 Programme (Mid Term Evaluation, Centre for Strategy and Evaluation Services 2003) target setting was assessed as being a very thorough process, with reasonable assumptions underpinning the exercise¹⁰. However, a need for re-quantification was identified to ensure accurate benchmarks were being used. A need was also identified to examine actual costs, such as recent increases in construction costs for example; and including costs incurred by delivery partners.
- 4.19 Even a comprehensive quantification exercise can not cover all possible inputs and outputs. A recommendation from Good Practice research notes that projects should be encouraged to identify and monitor against input and output targets over and above those set in the Programme document, if the latter give only a poor approximation to the true benefits of the project. ('Good Practice in Structural Fund Project Management' WEFO 2005a)

Conclusions and lessons learned: indicators and targets

- 4.20 This section has discussed indicators and quantification of targets with a view to drawing out the conclusions and lessons learned that could contribute to improving design and quantification of targets in the future. This was identified as being an area where although good progress was made in the last programming period, scope remains for improving upon current practice.
- 4.21 The importance of target specification should not be underestimated. Although there are clearly inherent difficulties in setting targets at the outset of the programmes, misspecification of targets or flaws in the collection of data can lead to difficulties in attaining targets. A review mechanism could potentially mitigate this.

¹⁰ The exception was the treatment of tourism, where deadweight assumptions were judged by the MTE evaluators to be implausible.

4.22 The following are the main lessons learned from the experiences discussed above:

- Indicators need to be defined at the outset and it is critical to ensure that all indicators are meaningful by (for example) using indicators already in use in the delivery of similar programmes as well as drawing on the EU guidance available¹¹. In this respect, guidance needs to be supplied at the outset to encourage the correct usage of indicators, with a specific focus on hard-to-measure results and impact indicators.
- A smaller number of indicators would help to encourage consistency in monitoring and improve data quality. It was found that in the East of Scotland considerable streamlining of indicators took place in this respect.
- To avoid double-counting between projects, a database should be established in Wales which identifies final beneficiaries (SMEs/Individuals).
- Projects should be encouraged to monitor targets over and above the minimum requirements.

¹¹ For the next programming period 2007-13, guidance on indicators for monitoring and evaluation of programmes can be found in the draft working paper (European Commission 2006b) http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/indic_sf2007-2013_en.pdf

5 IMPLEMENTATION SYSTEMS

- 5.1 Across the EU, considerable improvements in implementation systems were found, particularly in terms of project selection procedures, financial control, monitoring, and evaluation. In the UK, project development, appraisal and selection systems were found to be substantially improved. Notwithstanding these improvements, numerous recommendations were made at EU-level suggesting improvements to implementation systems. Below the paper focuses mostly on implementation in Wales with some wider conclusions being drawn from programmes elsewhere.

Partnerships

- 5.2 Partnership in delivery is one of the core principles of Structural Funds. The Commission notes that partnership in the design and implementation of programmes has become stronger and more inclusive, involving a range of private sector entities, including the social partners, as well as regional and Local Authorities. According to the Third Report on Economic and Social Cohesion (pg xxi) “This has led to better targeted and more innovative projects and improved monitoring and evaluation of performance and the wider dissemination of information of their results, at the price, in some cases, of additional complexity of programme management” (European Commission 2004).
- 5.3 Partnerships were identified by many of those working within the Programmes in Wales as a key element of ‘added value’ (Wales Objective 3 MTE). The Objective 1 Partnerships generally appeared to function well (Wales Objective 1 MTE). Expertise and capacity has been successfully built within Partnerships and should be made use of in future programmes (Wales Objective 2/T MTE).

- 5.4 There is evidence that the Structural Funds have stimulated strategic partnership working and, over time, have enhanced capacity for developing strategic responses to regional development problems. Programmes were considered to show a strong partnership basis for programming and implementation, bringing together sectors and agencies that had not previously worked together (see for example East of Scotland Objective 2).
- 5.5 While partnership working has been one of the successful elements of the Structural Funds implementation system, there are some practical concerns that need to be addressed, including the need for a “clearer definition of the partnership relationship between the Commission, Member States and Regions in a manner that identifies the specific contribution that each can make to increasing the efficiency of the implementation system and achieving the goals of simplification” (‘A Study on the Efficiency of the Implementation Methods for Structural Funds’ ÖIR in association with LRDP and IDOM 2003 p 16). In Wales, there was some confusion among partnership members as to their role and responsibilities (Objective 1 MTE). Ongoing training should be provided on this and other issues, such as project selection (Wales Objective 1 and 3 MTEs).
- 5.6 Close links which have developed on an ad hoc basis exist between some Partnerships. It was found that the organisational structure did not ensure that Partnerships worked together and shared good practice with one another (Wales Objective 2/T MTE). It was further noted that the ‘media magnifying glass’ focused on Objective 1 in Wales did not encourage the sharing of bad as well as good practice, which, it was concluded in the Mid Term Evaluation (CRG Research Ltd 2003 p 108) was what was needed. Further, the Wales Objective 2/T MTEU noted that networking and joint working should be encouraged in order to maximise the benefits of sharing best practice and help promote collaborative projects.

- 5.7 In Wales it is worth noting the key operational differences that affect the local and regional partnerships. Whilst the Local Partnership Secretariats are financed by Technical Assistance matched by the relevant Local Authority; the Regional Partnership Board is financed by the Welsh Assembly Government via the Welsh Development Agency. The consultation carried out for the Objective 2/T MTEU (2005) in Wales found that the Regional Secretariat perceived that their resources were greater than those for the Local Partnerships - particularly for aftercare activity, and that staff duties had evolved through training to meet monitoring duties. On the other hand several of the local partnerships were uncertain regarding their role in monitoring projects, leading to the finding in the MTEU that improved clarity of roles, accountability and responsibilities regarding monitoring and aftercare is required.
- 5.8 As regards representation and balance of organization within each Partnership, it was found in the Wales Objective 2/T MTE that membership was relatively stable, given the inevitability of high turnover of individuals within representative organizations over the length of the Programming period. However, in local partnerships, with the exception of one, attendance at Board meetings tended to decline as the Programming period continued. At Regional Partnership level a system of alternates (the sharing of a seat around representatives) was found to keep attendance satisfactorily high.

Involvement of private sector partners

- 5.9 Private sector led projects are the exception and not the norm. There is the perception that accessing funds is complicated and time-consuming. To encourage private sector applications, the work of the Private Sector Unit is to be encouraged and support should be given to simplifying procedures, capacity building within the private sector, and building networks and sector groups. Regional facilitators could also be employed, and the use of key funds should be considered. (Wales Objective 1 and 2/T MTE)

Comment: Continuing effort is needed to involve the private sector in the Partnerships and in sponsoring projects.

Administrative requirements

- 5.10 A key complaint across Structural Funds programmes is the administrative burden, on projects, Partnerships and Managing Authorities. The Commission recognises that the control procedures required are often regarded by those involved in the implementation as unwarranted, given the costs involved, and as duplicating national systems. There are also concerns that the administrative procedures could discourage participation in Partnerships by voluntary/community sector or social partners and discourage these partners from bringing forward projects.
- 5.11 The Commission has recognised that there are concerns regarding the administrative requirements of the Programmes. In addition to concerns about duplication with national programmes, the Commission notes:

“A particular criticism is that the new requirements were decided at a late stage, forcing regions to modify systems which had already been defined. This led to delays in programme implementation, with knock-on effects because of the ‘N + 2’ rule, creating pressure to spend at the expense of quality and innovation. According to some Member States and regions, the cost of implementing all the financial control procedures required by the Commission is too high compared to the benefits achieved. The issue of cost is particularly acute for Objective 2 interventions. For these, there is evidence that implementation costs are a high proportion of total expenditure.” (‘Third Report on Economic and Social Cohesion’, European Commission 2004 p. 166). Although the report did not refer to a minimum project size as a means of reducing implementation and administration burdens and costs, it did highlight the success and further potential of partnership working for reducing administrative overlap. The report further recommended a need for a balance between rigorous management and the consequent administrative burdens this created.

Comment: While administrative burdens can be minimised to a certain degree, it is likely that a substantial burden will remain, especially for some of the smaller partners and projects. It might be useful to establish that projects should be of a minimum size.

- 5.12 Data on cost efficiency and cost effectiveness at the project and Programme level is difficult to come by. In general, the evidence points to substantial differences in the costs of implementation. There is a need for more data on this to be collected as part of the programming and monitoring process ('A Study on the Efficiency of the Implementation Methods for Structural Funds').

Appraisal process

- 5.13 The WEFO Customer Attitude Surveys (2004 and 2005) noted that the application forms were in need of improvement. Opinion appeared divided among customers on whether enough information about the progress of their application was provided. Equal proportions (48% in each case) of respondents replied 'yes' or 'no' to the question of whether they were kept sufficiently informed during the application process. Around half (46%) of respondents were of the opinion that feedback given to respondents by WEFO once the application is submitted was either helpful or very helpful.
- 5.14 Across the UK, where specific recommendations were made regarding simplifying or streamlining systems (for example North West England Objective 2 and East of England Objective 2), these tended to include what were considered to be over-complex application processes and the need for project selection systems to go beyond simply ensuring eligibility. For London Objective 2 ('Mid Term Evaluation of the Objective 2 Programme 2000-2006', ECOTEC Research and Consulting Ltd 2003), a need for more qualitative assessment during the project appraisal process was noted, bringing views of likely and desirable impacts to bear in order to enhance the more mechanistic scoring.

- 5.15 For Western Scotland (Objective 2), it was noted that the appraisal process was better at assessing and ensuring the funding of eligible projects than at adding value, or driving improvements in project quality. There was no evidence that the appraisal process had value as a predictor of actual project effectiveness. A radical change in approach was recommended, changing the emphasis from appraisal to monitoring, evaluation and feedback. It was recommended that the selection process accurately reflected the true scope and flexibility of the Programme, and that the flexibility available within the Programme to fund most of the activities partners would wish to undertake should be publicised (this recommendation was echoed in the East of Scotland Objective 2 MTE). Every attempt should be made to streamline the project application, appraisal and payment processes, through improved business processes, simplified scoring systems and fast-tracking projects that meet a defined standard.
- 5.16 Similarly, the Highlands and Islands (Special Transitional Programme) noted that the project selection process was rather over-elaborate in that the process involved consideration of a great many criteria; it was concluded that this had a tendency to dilute or cloud the focus on the fundamental value of projects. The MTE made the point that most of the impact of the Programme would come from a small number of key projects, as well as projects which extend existing activities to support economic, social and environmental sustainability across the region in innovative ways. In Scotland's Objective 3 Programme, again, a strong case was noted for simplifying appraisal and approval processes. In addition there was a recommendation to better relate project selection with likely project performance to allay concerns that the selection process did not adequately distinguish between high and low value projects and that well written proposals could successfully pass the selection criteria, regardless of their end value (Scotland Objective 3 MTE 2003)¹². A case was also found for fast-tracking continuation projects, and for differentiating between large and small projects in the selection process so that procedures reflect and justify the size of the project. In common with other programmes, it

¹² The evaluators of the Scotland Objective 3 MTE (2003) found a low correlation between 100 projects analysed by performance and the score given by the Advisory Group (p. 68).

was suggested that there would be a benefit from moving the majority of effort from application and selection to monitoring and implementation.

- 5.17 In North East England ('Mid Term Evaluation of the Objective 2 2000-2006 Programme', EKOS Consulting 2003), it was recommended to reduce the need for two or more appraisals for individual projects, as well as reducing the number of individual ERDF project applications – aggregating support to a smaller group of intermediaries, (however it was not suggested in the recommendation how this might be done). As regards management structure the recommendation was made that senior managers be appointed by the Government Office and European Secretariat to liaise with new sub-regional delivery vehicles. The 'alternative bidding' programming and application process generally provided scope for local/regional actors to develop projects to address specific local needs. However, the need for match funding, complex procedures, and time limited funding were felt to have deterred some groups from getting involved in ESF ('Evaluation of the Added Value and Costs of the European Structural Funds in the UK').

Comment: There appears to be a case to closely work with the projects in the appraisal process from the outset to help them to develop the projects rather than simply assessing projects. A smaller number of projects would facilitate this process.

Financial implementation

- 5.18 In case study research with Objective 1 projects in Wales, financial control measures are recognised as being an essential part of the accountability requirements of the implementation system. However, the introduction of the new regulations in the current programming period were seen by many of those involved in the implementation to have brought with them increased workload for already overburdened administrative personnel. While there is full endorsement of the need for accountability and control, the broadly held opinion is that there is room for introducing more flexibility and simplicity into the system ('A Study on the Efficiency of the Implementation Methods for

Structural Funds' ÖIR in association with LRDP and IDOM 2003). Any opportunities arising to introduce systems which simplify financial accounting requirements (e.g. greater flexibility on eligibility of expenditure, agreeing a system for claiming expenditure recorded on standard accountancy practices rather than that actually paid) should be exploited (*Good Practice in Structural Fund Project Management*).

- 5.19 Monitoring and control of underspending Objective 1 projects appeared to have improved from the time of the Mid Term Evaluation in 2003, to the time of the Update in 2005 ('Wales Objective 1 MTEU' Old Bell 3 2005 p 186).

Comment: Close, ongoing monitoring of financial performance of projects is essential to track progress and to take action if necessary. However, this needs to be balanced with the burden imposed by any extra monitoring requirements.

- 5.20 There was frequent slippage in the return of claims information (Wales Objective 1 and 3 MTEs). In part, this might have been due to the claim report being seen by some projects as complicated and not user-friendly (Wales LEADER+ MTE).
- 5.21 Final recipient SMEs and beneficiaries of projects were not always aware that the intervention received was partially financed through Structural Funds programmes (Wales Objective 1 MTEU).

Ongoing project-level implementation

- 5.22 The authors of a good practice guide on Structural Fund project management concluded that "There is a strong case, in the next programming period, for working with established and successful project sponsors to build on their experience and organisational expertise to develop further projects" (p. 7). The guide's authors also state that guidance from WEFO to projects should stress the importance of a) senior management of sponsor organisations always being engaged in project development, b) the project rationale being clearly in line with the sponsor's organisation mission, and c) insofar as is possible,

there being continuity between those developing and those implementing projects. (*Good Practice in Structural Fund Project Management*)

5.23 Further, the authors suggest that WEFO needs to consider whether it can work with academic/commercial providers to develop a standard short, practical training package on Structural Fund project management and promote this very actively: this will also necessitate a greater willingness to provide clear guidance on “grey areas”, for example, of eligible expenditure. (*Good Practice in Structural Fund Project Management*)

5.24 In the East of Scotland (‘Objective 2 Mid Term Evaluation’ EKOS Ltd 2003 p 5), evaluators recommended that the Programme Management Executive give feedback to Advisory Groups and other partners through case studies reporting best practice, and also reporting on projects that have failed to perform well, to highlight lessons learned.

Additionality

5.25 The principle of additionality¹³ has been largely respected in Objective 1 regions, in the sense that the Structural Funds have supplemented rather than replaced existing public expenditure. However, verifying that this has also been the case as regards the Objective 2 and 3 Programmes, especially the latter, has proved more difficult (‘Third Report on Economic and Social Cohesion’).

5.26 Most evaluations have found that Structural Fund Programmes have delivered added value in a range of areas which are harder to measure, for example, in delivering innovative interventions, working in partnership, setting long term development priorities and by embedding good practice in areas such as monitoring and evaluation and mainstreaming of cross cutting themes such as equal opportunities. This highlights that it is essential not to interpret “additionality” as just meaning wholly new and different activity but rather as

¹³ Additionality in this sense is measuring whether the Programmes have delivered additional outputs/outcomes which would otherwise not have been delivered. It can also refer to achieving outcomes quicker or at a higher quality. In this sense, it does not refer to added value as explained in the subsequent text.

activity which produces additional or enhanced quality of outputs and delivery: projects should be encouraged which extend existing services in a way which cannot clearly be funded by established “core funding”. (WEFO 2005a)

Comment: It is important to account for additionality, demonstrating the full added value of using Structural Funding rather than domestic funding.

Monitoring and Evaluation

- 5.27 The Commission has consistently highlighted the importance of monitoring and evaluation in programme implementation and consequently there tends to be a high level of monitoring and evaluation activity when compared to most national and regional domestic approaches across the EU. The advances which have been made in the past mean that there is a major opportunity to build on the experiences from the previous round to further strengthen monitoring and evaluation systems. This section looks at the experience of monitoring and evaluation discussed in some of the literature thus far, and makes a number of high level recommendations for future development of monitoring and evaluation systems.

Monitoring

- 5.28 Evidence suggests that monitoring has not been as effective as expected, partly because of the difficulty of collecting meaningful information. (*Third Report on Economic and Social Cohesion* European Commission 2006a).

Comment: Monitoring systems are critical for future evaluations of programmes but there is an ongoing challenge to ensure that monitoring systems do not attempt to measure everything and so increase the administrative burden.

- 5.29 Project data quality was not found to be uniformly high (Wales Objective 1 MTEU and MTE, URBAN MTEU, Objective 2 MTE). Projects did not always ensure strong linkages between interventions and the reported outputs or keep the required evidence (Objective 1 MTE and MTEU).

- 5.30 More post-approval contact with projects might help with this (Wales: Objective 1 and INTERREG MTEs). Alternatively a new approach, for example issuing looser definitions and applying discount factors to the figures provided, could be considered (Wales Objective 1 MTEU). There also needs to be stronger encouragement for projects to monitor beneficiary satisfaction and the quality of the service provided for projects and for this information to be used to reflect on and make adjustments to project delivery (WEFO 2005a)
- 5.31 Lack of qualitative project monitoring was a source of frustration at all levels of project and programme management. This was seen to delay identification of problems in project delivery by programme managers, and to hamper dissemination of good practice (Wales Objective 1 and 3 MTE).
- 5.32 There were often substantial delays between the achievement of outcomes and projects providing monitoring data to WEFO (Objective 1,2/T and 3 MTEs). Possible solutions included the online submission of monitoring data or providing a 'template' database to projects for recording beneficiary / SME final recipient details. The latter option would also facilitate the central collection of beneficiary / SME final recipient data (Objective 1, 3, INTERREG IIIA and URBAN MTEUs, Objective 1 and 3 MTEs).
- 5.33 Projects should be encouraged to carry out follow-up work with beneficiaries (URBAN MTEU, Objective 1 and 3 MTE).
- 5.34 It is crucial to work with the projects and project sponsors to ensure that monitoring takes place consistently and across all projects. To achieve this, it is critical to make the process as user-friendly as possible, supplying guidance and templates throughout. Helping to inform project sponsors and projects at the outset why and what is monitored, and what they are expected to contribute to ongoing monitoring, can help to achieve consistency, as well as buy-in.

5.35 The appraisal stage (application) is critical to later monitoring and evaluation. Monitoring and evaluation determines whether projects are achieving what was originally set out and an incomplete initial appraisal can make it very difficult to assess whether a project is successful. For the purpose of transparency and consistency, it would be useful to establish a simple, concise template (with guidance alongside) which can be used by individual projects to record a number of key items of information (e.g. main objectives, target groups, targets, monitoring and evaluation plans) for each project at the outset.

Evaluation

5.36 Evaluation has improved over time, but still varies considerably between Member States in the way it is implemented. In the 2000 – 2006 programming period, evaluations are required to be undertaken *ex ante* by Member States, and at mid-term in cooperation with the Commission — in time for the results to affect decisions on the remainder of the programme. Although *ex post* evaluations are required by the Commission, they are not required until two years after the programme ends which has led to the suggestion that this creates difficulty in making effective use of the results ('Third Report on Economic and Social Cohesion' European Commission 2004). It was further suggested that the process might be made more useful and relevant by increasing the involvement of regions and Member States in the process by thus more readily promoting and highlighting the specific needs of regions. (European Commission *ibid*). The Commission's draft Working Paper on ongoing evaluation suggests that in the new programming period the focus should shift further towards an ongoing evaluation process.

5.37 In Wales, the Mid Term Evaluations of the Programmes were used to adjust the Programmes and most of the recommendations were implemented. Where the recommendations were not implemented, there were generally good reasons for not doing so, or the recommendations had been superseded by events (Wales Objective 1,2/T,3, INTERREG IIIA, URBAN and LEADER+ MTEUs). Similarly, good progress had been made across England on implementing recommendations made in the MTE. Where recommendations

have not been implemented this was generally due to a conscious decision not to do so, for example to take into account changes in circumstances rather than reluctance to implement the recommendations made (Updated Mid Term Evaluation of England Objective 1 and 2 Programmes - Collation of Regional Analysis).

- 5.38 Evaluation requirements should be tightened for all projects. External evaluation should be made mandatory for larger projects (Objective 1 MTEU, Objective 3 MTEU and INTERREG IIIA MTEU). The results of evaluations need to be fed back to WEFO and other interested parties (Objective 1 MTEU).
- 5.39 If more emphasis is being put on individual projects to evaluate themselves (this change in emphasis in part enabled by a smaller number of larger projects) or if project self-evaluation becomes a condition of funding, it will be important to build capacity to carry this out in terms of resources set aside for evaluation and in enhancing the interaction with the evaluation community.
- 5.40 Establishing an overarching Monitoring and Evaluation Strategy (Article 46 refers to an 'Evaluation Plan') at the outset of the programme is a useful way to ensure consistency and coherence. Such a strategy should remain flexible throughout the programming period but would be a useful framework.

Conclusions and lessons learned: implementation

- 5.41 This chapter has focused primarily on implementation systems and although considerable improvements have been made across the EU, there nevertheless remains some important lessons to be learned for further improvement.

- 5.42 The idea of partnership in delivery is a core principle of Structural Funds, and it was found that stronger partnership in earlier design and implementation stages has led to better targeted and more innovative projects. At the appraisal stage, there is considerable scope to improve processes across most regions of the UK, moving away from the mechanistic scoring system to an appraisal process aimed at selecting projects that will provide the most added value to the programmes.
- 5.43 Administrative burdens are an issue but, although this burden can be reduced to an extent, this is likely to remain an issue, particularly for smaller partners and projects.
- 5.44 Monitoring and evaluation is crucial not only to current plans, but to design of future programmes. However, there are difficulties in collecting the necessary information required for monitoring, and excessive monitoring in itself can become an administrative burden. Project-level data was found to be deficient in many of the evaluations reviewed, with many projects not collecting the required evidence. More guidance and support is needed and in some cases it might be necessary to consider alternative approaches to measure the impact of the programmes.
- 5.45 Evaluation in the new programming period will be a much more dynamic process, focused on the needs of the managing authorities. More emphasis on project-level monitoring and on building evaluation capacity will enhance evaluation practice.

5.46 In this chapter, we have identified several elements of the implementation process where lessons can be learned:

Partnerships and Private Sector Involvement

- In Wales, the Partnerships worked well and have built up expertise and capacity, providing a good foundation for the next programming period.
- To enable Partnerships to work efficiently, there needs to be a clear understanding on all sides of the roles and responsibilities. Ongoing training would help to support the partnership process.
- Structures should be put in place to encourage sharing of good practice, joint working and networking between Partnerships.
- Continuing effort is required to involve the private sector in the Partnerships and in sponsoring projects.
- Administration, Process and Financial Management Issues
- While there is a clear requirement by the Commission to track what happens to the Structural Funds, wherever possible administration should be minimised and processes dovetailed with existing mechanisms already used by project sponsor organisations.
- Data on the cost of implementing the projects needs to be collected systematically. This data needs to be fine grained enough to enable assessments of cost efficiency and effectiveness.
- Application forms for funding need to be as simple as possible and the application process needs to be accompanied by further guidance and support, including the application process and feedback on the application.
- A common template which records information on each project consistently at the outset would assist in monitoring and evaluation throughout the Programme period.

- Simplification of the financial requirements would ease the burden on projects and could improve compliance with audit requirements. Using key funds or global grants (where the award of funding is made to a framework rather than individual projects) can help this simplification.
- Simplification of the claims forms is likely to improve return rates and compliance with monitoring requirements.
- There should be clear and consistent guidance on how projects should publicise the funding received, including how information is relayed to final beneficiaries.

Ongoing Project-Level Implementation

- There should be a particular focus on working with established and successful project sponsors to maximise the benefit from the expertise they have acquired.
- Training for projects in Structural Fund project management would be useful in ensuring that good project management practices are followed
- Disseminating good practice should be a core activity. This will not only enable the ongoing improvement of implementation but will also ensure that the funds can leave a longer term legacy by influencing national and regional policy.

Monitoring and Evaluation

- Systems need to be put into place to enable projects to measure qualitative outcomes more consistently.
- Easy-to-use monitoring guidance for projects and project sponsors, summarising the requirements and setting out why and what is monitored, and what projects and project sponsors are expected to contribute to ongoing monitoring would enhance monitoring.

- Providing online systems and database templates for the submission of monitoring data would encourage timely, consistent and comprehensive submission of data by the projects, including data on beneficiaries (firms or individuals).
- A higher degree of project evaluation will require building evaluation capacity.
- Projects above a certain size should be required to carry out evaluations. Guidance should be provided to all projects to ensure consistency.
- An Evaluation Plan (or Monitoring and Evaluation Framework) should be set out at the outset of the Programmes.

6 CONTRIBUTION TO LISBON AND CROSS CUTTING THEMES

- 6.1 This chapter investigates how previous programmes have contributed to achieving the Lisbon objectives. Although the Lisbon objectives were formalised after the current Structural Fund Programmes had been developed, a number of the Priorities and Measures in those previous programmes can be linked to the Lisbon objectives, such as development of the knowledge-based economy and encouraging innovation and entrepreneurship.
- 6.2 This chapter also investigates what can be learned from the last round of European Structural Funds in terms of integrating the CCTs, namely Equal Opportunities and Sustainable Development (with a particular focus on environmental sustainability).

Contribution to Lisbon

- 6.3 One area that has been supported in previous programmes is the development of the knowledge economy and support for R&D and innovation. For example, under Objective 1 across the EU support has been given to R&D and innovation to:
- construct new research capacity;
 - help formulate regional strategies for directing R&D towards meeting local opportunities for development; and
 - further the spread of ICT and the skills required to use the new technologies.
- 6.4 The Commission carried out a "Thematic Evaluation of the Structural Funds' Contributions to the Lisbon Strategy" to better understand the contribution of the current generation of Structural Funds to the Lisbon Agenda; to analyse the policy framework at national and regional level for such a contribution; and to explore potentials and limits for the future. The study found that the Lisbon Agenda has had a substantial effect as regards resources allocated to R&D,

IT infrastructure investment, and activities for improving Information Society skills.

- 6.5 In addition, it needs to be recognised that many of the ESF interventions are also contributing to the Lisbon objective of jobs and growth by increasing employment and providing the skills required for economic growth. These have been discussed earlier in this paper with specific reference to the last round of Programmes in Wales.
- 6.6 In the Wales Objective 1 Programme, Priority 2 relates directly to Developing Innovation and the Knowledge-Based Economy. The MTEU found strong performance of outputs such as new jobs created and even stronger performance in terms of jobs safeguarded. There was also particularly strong progress in terms of number of companies receiving financial support for R&D/innovation projects and number of companies given advice/information on R&D/innovation projects. There are also good results for number of firms benefiting from e-commerce and ICT support (in line with targets). However, the MTEU found that there is a specific problem with the number of gross new high technology companies which was seen by the evaluators as a disappointing result given the nature of the Measure (Objective 1 MTEU p. 51)
- 6.7 The MTEU for Objective 2/T notes that actual achievement against Information Society indicators is low in Priority 1 and very low in Priority 2. The evaluators recommended that the problems with implementing Information Society aspects should be investigated with relevant projects and that project sponsors should be encouraged to report comprehensively on outputs and results achieved.
- 6.8 Varied performance was also identified across UK regions. For example good progress was noted in the Highlands and Islands. However, in a number of areas, for example South Yorkshire, lower expenditure than expected was noted due to lower than expected uptake from SMEs. Generally, in the UK Objective 2 regions, slow take-up of Measures was evident. In Merseyside, evaluators recommended increased effort towards innovation and technology transfer and in Western Scotland evaluators recommended that the

Programme should retain the long-term goal of developing knowledge-based companies.

- 6.9 In terms of entrepreneurship, support for business start-ups is a common feature across many Structural Fund programmes. In Wales, under Objective 1, the majority of beneficiaries of Structural Fund projects who had been considering starting a business when they were assisted did not eventually do so and those that did generally thought they would have started up a business even without the support. This suggests a relatively low impact in terms of new business creation.
- 6.10 In contrast, it was felt by a large majority of those businesses that had created jobs as a result of assistance provided by Objective 1 that the jobs would not have been created in the absence of assistance. Businesses supported by projects were generally micro-enterprises (Objective 1 MTEU). Receipt of assistance from multiple SF projects by SMEs or individuals was seen as sometimes being a positive feature of assistance even if it leads to double counting, as the different interventions might meet different needs of the recipient (Objective 1 and 3 MTEU) and together create the conditions for employment growth.
- 6.11 One of the key areas which has been targeted by SF programmes has been the availability of risk finance for SMEs. However, a DG REGIO (2003) report (*Thematic Evaluation of the Structural Funds' Contribution to the Lisbon Strategy*) suggested that there might be saturation of the market for venture capital funds in the UK, and that close monitoring is essential to ensure that there is a real need for the interventions. This issue was also raised in North East England ('Objective 2 Mid Term Evaluation' EKOS Consulting 2003), where the financial allocation under the relevant Priority was high, but take-up low. The most appropriate potential project sponsors had already applied for funds from the Programme, and it was unclear how there could be a marked step-up in activity. The focus on businesses less than three years old was problematic for the capital Measure: for developing and marketing premises, this would imply only start-up facilities, which would mean that demand for

capital support would be restricted. Greater effect would be achieved by a more systematic approach to the promotion of enterprise and clearer support packages less dependent on individual projects.

Comment: In areas such as business support through the provision of risk finance, a clear, ongoing market failure needs to be established before intervention is considered.

6.12 As for the use of Information and Communication Technologies in Objective 3 ESF-supported projects, in general there was good alignment between Objective 3 ESF priorities and wider UK Government and regional policies. Promoting wider access to ICT and helping a wide range of individuals improve their ICT-related skills has become a common aim of interventions. However, rigorous links to local labour market needs are often not made explicit and there is a need to ensure that the skills provided fit with the requirements of local employers. Project promoters rely on widely-held perceptions that ICT skills have become a key tool in helping individuals gain work, retain work, and develop their careers. Many of the projects address ICT issues only indirectly (in effect, as 'embedded' learning or as part of more extensive SME support) – but again this can lead to effective contributions towards Information Society goals.

6.13 The processes through which Objective 3 ESF projects are developed and receive approval do not necessarily promote Information Society concepts actively: there is evidence of a certain amount of 'box ticking' at application and approval stages under the old system of bidding to Government Offices – but nevertheless, good performance is often achieved (CRG (2003) 'The Use of ICT in Objective 3 ESF-Supported Projects'. Report to DWP, 2003).

Cross Cutting Themes

- 6.14 Several evaluations across the UK, including for example the UK Objective 2 evaluations, suggested that more resources could be targeted on integrating the CCTs into the Programmes. One suggested way of doing this is through the development of working groups and the incorporation of CCTs into project selection criteria. In Wales, within the Objective 1 Programme MTE, integration of the CCTs with relevant strategies was noted as being exemplary. Other evaluations have also praised the implementation of CCTs within Programmes in Wales (Objective 2/T and URBAN II MTEs). For Wales the 'Cross Cutting Themes Research Project' (ECOTEC 2006) found that even where projects did not have specific CCT output targets, they all nevertheless commit to implementing the Themes within the operation of their project.
- 6.15 The Research Project also found that the projects sampled all considered that they were implementing the Themes as intended in the approved application. However, the report found that in many instances these intentions are not very specific and it would be difficult to prove or disprove whether this is the case. A need was thus identified to provide more detailed guidance, particularly to assist sponsors who are willing to implement the Themes but lack the knowledge to do so.
- 6.16 Also identified by the report was the fact that many projects adopted a 'bolt on' approach to including CCTs in their project, rather than fully integrating the issues – again attributed to a lack of knowledge of how to achieve integration. In addition to lack of knowledge however, several other barriers to integrating the CCTs were identified, including: difficulties in achieving match funding where integrating CCTs added to costs; difficulties with additional processes such as planning permission which added to the length of implementation of projects; and pressures of meeting other targets such as n+2 targets.

- 6.17 To mainstream the CCTs more effectively, programme evaluations often suggested that these should be considered at all stages of projects. For example, in the Scotland Objective 3 Programme ('Mid Term Evaluation Final Report' Hall Aitken 2003) it was suggested that the CCTs should be tackled by making them a compliance issue. This would require projects having to address CCTs satisfactorily before being approved rather than CCTs just being one factor which is scored as part of the selection process. This should be accompanied by a reduction in the level of monitoring data to be supplied on CCTs as well as practical and more manageable levels of guidance on the integration of CCTs.
- 6.18 In the South-West England (Objective 1 Programme), the specific dedicated officers in post to support the CCTs were well regarded by stakeholders and projects who were keen that the posts be kept in place after the Objective 1 programming period. Through evaluations carried out by the authors (ECOTEC Research and Consulting Ltd) that included data analysis, stakeholder interviews, projects visits and Theme and community workshops it was found that they brought many benefits. These included: high levels of knowledge; easy access to advice and guidance; provision of practical and realistic suggestions; visibility of the Themes to those previously not engaged in these specific agendas; and increased quality of Theme-based activity (which was embedded as opposed to being an add-on). These advisors acted as catalysts for networking and idea sharing and there was a desire to maintain these posts after the Objective 1 Programme.
- 6.19 In the Highlands and Islands, there was strong encouragement by the Programme management to integrate the CCTs, with important case-study projects showing how the CCTs can be more widely embedded ('Mid Term Evaluation of the Highlands and Islands Special Transition Programme' Fraser Associates 2003). The evaluators thought that a sharper focus on substantive action that justifies the effort in managing and monitoring would be useful (p 41). The MTE concluded that a more proactive approach was needed to integrate sustainable development into projects and as such the input of a thematic specialist was also recommended when assessing relevant sections of applications, and to provide advice to projects.

Equal Opportunities

- 6.20 ESF projects in Wales have been successful in targeting certain key groups, including women, people at both ends of the age spectrum, people experiencing long-term unemployment or inactivity and people without qualifications. The Programmes (Objective 1 and 3) were disproportionately successful in helping the most disadvantaged to find work (Leavers Survey, Wales, 2002). Work outcomes for women were as predicted in the Equality Mainstreaming Plan, with a high proportion entering part-time work.
- 6.21 However, work outcomes for minority ethnic groups and disabled people were poorer than predicted, and suggest more support is needed to maximise their entry to the labour market (Evaluation of equality mainstreaming in ESF Objective 3). In England, Projects that had provided or funded care support for beneficiaries with dependants were not used as extensively as expected at the outset. Most projects offered some support to disabled beneficiaries, including almost 50% who offered some form of specialist support. However, a third of projects had no provision for under-represented groups and overall the forecast level of provision for disabled people was not reached. Projects providing a wage subsidy were not used frequently for all groups especially women and disabled people and it was concluded that levels of childcare, support for disabled people and wage subsidies would all need to increase in the second half of the Programme. (Evaluation of equality mainstreaming in ESF Objective 3 ECOTEC Research and Consultancy Ltd 2004).
- 6.22 To assist those at some distance from the labour market, the 'pathways' approach of the Merseyside Objective 1 Programme ('Mid Term Evaluation', Regeneris Consulting 2003) was noted as a good example of the type of intervention which evaluators found to work well. The Highlands and Islands Programme also demonstrated clear success in supporting job entry for disadvantaged beneficiaries ('Mid Term Evaluation of Special Transition Programme' Fraser Associates Management and Economics Consultants in association with European Policies Research Centre and The Rural Development Company (2003).

Environment and sustainable development

- 6.23 During the 2000-2006 programming period, progress in integrating environmental sustainability into the Structural Funds Programmes was made across the UK, especially where dedicated officers or thematic groups were in place. For example in the West Midlands the 'West Midlands Environment and Structural Funds Group' was assessed by the MTEU as having played a particularly prominent role (more so than other thematic groups). The MTEU recommended reviewing whether there should be higher grant rates for projects deemed to implement best practice responses to the CCTs to encourage best practice. In Yorkshire and Humber, the MTE recommended provision of more advice and guidance, customised to different type of projects, in areas such as sustainable construction and dissemination of best practice. Setting up of an Environmental Advisory Group was seen as possible to help guide efforts and help develop links between Objective 2 and other resources in the region.
- 6.24 In North East England, there was strong emphasis on the environmental CCT, with a range of indicators to capture contributions to environmental sustainability. Guidance and support provided were to a very high standard. One specific need identified was to increase education and awareness raising, including guidance, face-to-face help, training programmes, dissemination of best practice (for example through websites) and an applicant buddy system.
- 6.25 However, in other areas, progress on environmental sustainability was patchier. In the East of Scotland, at the MTE stage, it was found that there was considerable under-reporting of indicators relating to the CCTs. In Merseyside, the environment CCT (as well as the two other CCTs) was not integrated at Priority or Measure level or built into commitments required of projects. In London Objective 1, there was limited evidence of action to drive forward this activity. Proposals for a Sustainability Officer post were delayed and there was no monitoring of progress against environmental indicators.
- 6.26 There were also difficulties in engaging partners with the sustainability agenda. For example, in South Yorkshire, environmental sustainability was embedded well into

all priorities but research found a conflict between views of project managers and stakeholders on how relevant this CCT is in the day-to-day implementation of projects. Two explanations were suggested: that there was a difference between strategic intent and delivery; and that there was difficulty in translating environmental sustainability into projects. In Western Scotland, it was felt that the mainstreaming process was more likely to lead to changes in how partners describe projects rather than in design or implementation.

Comment: Buy-in across partners is essential to integrate the Cross Cutting Themes meaningfully across programmes. This appears to be especially important to support the integration of the environmental sustainability Theme.

6.27 The European Commission recommended that better information systems should be established which allow identification of all fund payments according to their environmentally positive, neutral or negative nature (*Analysis of the impact of Community Policies on Regional Cohesion*). However, the requirement for carrying out Strategic Environmental Assessments on each of the Structural Funds programmes¹⁴ (including environmental monitoring requirements) and more general requirements for environmental monitoring in the legislation can provide an overview of how environmental issues are taken into account in the next round of programmes. In addition, for individual projects with a significant environmental impact an Environmental Impact Assessment will have to be carried out.

Comment: More detailed requirements to account for environmental impacts appear unnecessary, given the ongoing environmental monitoring and assessment already built into the Programmes.

Conclusions and lessons learned: Lisbon and CCTs

6.28 This chapter examined the extent to which the 2000-06 round of Structural Funds could be said to have integrated the CCTs and contributed towards the Lisbon

¹⁴ An SEA is required if the programmes are likely to have a significant impact on the environment.

Objectives. In Wales, as regards the Lisbon Objectives it was concluded that interventions aimed at supporting companies in developing innovation and investing in R&D have tended to be more effective in safeguarding existing jobs rather than creating new jobs. New company creation in the high technology sector has been disappointing. Performance across the UK was found to be varied and it was found for those areas where performance was lacking that a more systematic approach to the promotion of enterprise was recommended.

6.29 The key lessons learned are presented below:

- As regards progress towards Lisbon Objectives, measuring the outputs, results and impact associated with Information Society projects requires further guidance for projects.
- Interventions aimed at supporting companies in developing innovation and investing in R&D have tended to be more effective in safeguarding existing jobs rather than creating new jobs. New company creation in the high technology sector has been disappointing.
- Interventions aimed at improving ICT skills of individuals should show sound evidence of local labour market needs for these skills.
- As regards the CCTs, building on good practice in Wales, the CCTs need to be integrated into programme design to ensure that they are considered within projects from the outset rather than as an add-on.
- Having Thematic Advisory Groups and dedicated officers helps in the implementation of the CCTs.
- Providing case studies and guidance helps to embed the CCTs across the programmes.

7 SUMMARY OF KEY CONCLUSIONS AND RECOMMENDATIONS FOR STRUCTURAL FUNDS IN WALES 2007 – 2013

7.1 Below we have summarised the key conclusions and recommendations arising from the material we have reviewed. These recommendations should be considered carefully in the development of the new Programmes in Wales.

Appropriateness of Programme Strategies

- To be most effective, programmes need to be closely aligned to national and regional economic development strategies and to the key aims of organisations delivering these strategies.
- There needs to be sufficient flexibility in the programmes to adapt to changed national and regional contexts and socio-economic conditions as well as taking into account any overlaps and duplications with other funding programmes which emerge in the course of the programming period. There should be a pro-active approach to reviewing of the programmes to ensure that required changes are anticipated.
- For the 2007 – 2013 programming period, the Commission has decided that the designation of Measures is no longer required. The use of Themes in the programmes is conducive to helping define the kind of projects which will be supported under each Priority but care needs to be taken that Themes will not limit the flexibility of the programmes.
- Having a wide range of policy goals and objectives can make it difficult to link specific Priorities and Themes to the attainment of headline objectives. This makes it important to focus the Structural Funds in a limited number of policy areas. While this applies to the new Convergence Programme, it is even more important for the smaller Competitiveness and European Social Fund Programmes.

Programme performance

- When setting results and impact targets, care should be taken to ensure that these can be realised within the programming period timeframe. Whilst overall, it is desirable to measure the results and impacts of the programmes, the monitoring system and the choice of indicators (and associated targets) are in many cases not the most appropriate way to measure longer-term effects.
- It is useful to retain a degree of flexibility in the allocation of funds to ensure that funding can be targeted at those areas where additional activity is required to meet targets.
- With regard to design and measure of targets and indicators, it is key that the labour market status of beneficiaries is recorded at the outset of the project so that differentiation between outcomes achieved for individuals with varying employment/unemployment status can be identified.
- Following on from this, it was learned that projects aimed at tackling unemployment and inactivity seem to be more successful in helping people to move into paid employment from unemployment than from economic inactivity, probably indicating different distances of individuals from the labour market.
- Project sponsors appear to over-estimate success rates associated with their intervention in terms of moving people into employment.
- As regards 'soft outcomes' there is still considerable uncertainty about how to measure soft outcomes, such as promoting project participants' self-confidence, and how they affect labour market outcomes. For the new programming period, it will be important to provide easily accessible guidance to relevant projects from an early stage.
- In terms of workforce development, there needs to be clarity on aims and objectives, determining whether the key aim is to provide businesses with the skills needed or to help disadvantaged groups in the labour market.
- Programme targets for a number of new SMEs being assisted are not being met. This indicates that the whole area of support for business start-ups or recent

start-ups needs to be considered carefully to determine how Structural Funds can effectively contribute in this area.

- When setting targets associated to the development of new business premises, the long time span in terms of realised impact should be taken into account. Benchmarks could be derived from the experience in the last round of programming.

Indicators and targets

- Indicators need to be defined at the outset and it is critical to ensure that all indicators are meaningful by (for example) using indicators already in use in the delivery of similar programmes as well as drawing on the EU guidance available. In this respect, guidance needs to be supplied at the outset to encourage the correct usage of indicators, with a specific focus on hard-to-measure results and impact indicators.
- A smaller number of indicators would help to encourage consistency in monitoring and improve data quality. It was found that in the East of Scotland considerable streamlining of indicators took place in this respect.
- To avoid double-counting between projects, a database should be established in Wales which identifies final beneficiaries (SMEs/Individuals)
- Projects should be encouraged to monitor targets over and above the minimum requirements.

Implementation systems

Partnerships and Private Sector Involvement

- In Wales, the Partnerships worked well and have built up expertise and capacity, providing a good foundation for the next programming period.
- To enable partnerships to work efficiently, there needs to be a clear understanding on all sides of the roles and responsibilities. Ongoing training would help to support the partnership process.
- Structures should be put in place to encourage sharing of good practice between partnerships.
- Continuing effort is required to involve the private sector in the partnerships and in sponsoring projects.

Administration, Process and Financial Management Issues

- While there is a clear requirement by the Commission to track what happens to the Structural Funds, wherever possible administration should be minimised and processes dovetailed with existing mechanisms already used by project sponsor organisations.
- Data on the cost of implementing the projects needs to be collected systematically. This data needs to be fine grained enough to enable assessments of cost efficiency and effectiveness.
- Application forms for funding need to be as simple as possible and the application process needs to be accompanied by further guidance and support, including the application process and feedback on the application.
- A common template which records information on each project consistently at the outset would assist in monitoring and evaluation throughout the Programme period.
- Simplification of the financial requirements would ease the burden on projects and could improve compliance with audit requirements.

- Simplification of the claims forms is likely to improve return rates and compliance with monitoring requirements
- There should be clear and consistent guidance on how projects should publicise the funding received, including how information is relayed to final beneficiaries.

Ongoing Project-Level Implementation

- There should be a particular focus on working with established and successful project sponsors to maximise the benefit from the expertise they have acquired.
- Training for projects in Structural Fund project management would be useful in ensuring that good project management practices are followed
- Disseminating good practice should be a core activity. This will not only enable the ongoing improvement of implementation but will also ensure that the funds can leave a longer term legacy by influencing national and regional policy.

Monitoring and Evaluation

- Systems need to be put into place to enable projects to measure qualitative outcomes more consistently.
- Easy-to-use monitoring guidance for projects and project sponsors, summarising the requirements and setting out why and what is monitored, and what projects and project sponsors are expected to contribute to ongoing monitoring would enhance monitoring.
- Providing online systems and database templates for the submission of monitoring data would encourage timely, consistent and comprehensive submission of data by the projects, including data on beneficiaries (firms or individuals).
- A higher degree of project evaluation will require building evaluation capacity.
- Projects above a certain size should be required to carry out evaluations. Guidance should be provided to all projects to ensure consistency.

- An Evaluation Plan (or Monitoring and Evaluation Framework) should be set out at the outset of the Programmes.

Contribution to Lisbon and Cross Cutting Themes

- As regards progress towards Lisbon Objectives, measuring the outputs, results and impact associated with Information Society projects requires further guidance.
- Interventions aimed at supporting companies in developing innovation and investing in R&D have tended to be more effective in safeguarding existing jobs rather than creating new jobs. New company creation in the high technology sector has been disappointing.
- Interventions aimed at improving ICT skills of individuals should make the links between these skills and the local labour market needs explicit.
- As regards the CCTs, building on good practice in Wales, the CCTs need to be integrated into programme design to ensure that they are considered within projects from the outset rather than as an add-on.
- Having Thematic Advisory Groups and dedicated officers helps in the implementation of the CCTs.
- Providing case studies and guidance helps to embed the CCTs across the programmes.

Annex A: Bibliography

Mid Term Evaluations and Updates (Wales) – Reference Table

Note: All WEFO reports are available in the RME Branch section of the WEFO website, www.wefo.wales.gov.uk.

<u>Author</u>	<u>Title</u>	<u>Reference</u>
CRG Research Ltd., Cardiff University (Centre for Local and Regional Government Research & Welsh Economy Research Unit), and Fitzpatrick Associates. September 2003.	Mid Term Evaluation of the Objective 1 Programme for West Wales and the Valleys: Final Report.	Objective 1 MTE
Centre for Strategy & Evaluation. December 2003.	Mid Term Evaluation of the East Wales 2000-06 Objective 2 & Transitional Programme: Final Report.	Objective 2/T MTE
CRG Research Ltd. and Cardiff University (Centre for Local and Regional Government Research). August 2003.	Mid Term Evaluation of the Objective 3 Operational Programme for East Wales: Final Report.	Objective 3 MTE
Old Bell 3 Economic Development and European Services, Cardiff University (Welsh Economy Research Unit), Dateb, and Darpar. December 2005.	Mid Term Evaluation Update for the West Wales and the Valleys Objective 1 Programme: Final Report.	Objective 1 MTEU
EKOS Limited. December 2005.	Mid Term Evaluation Update for the East Wales Objective 2 and Transitional Programme: Final Report.	Objective 2/T MTEU
Old Bell 3 Economic Development and European Services, Cardiff University (Welsh Economy Research Unit), Dateb, and Darpar. December 2005	Mid Term Evaluation Update for the East Wales Objective 3 Programme: Final Report.	Objective 3 MTEU

CRG Research Ltd., Fitzpatrick Associates, and Cardiff University (Centre for Local and Regional Government Research & Welsh Economy Research Unit). December 2003	Mid Term Evaluation of the Ireland-Wales INTERREG IIIA Programme: Final Report.	INTERREG MTE
Centre for Strategy & Evaluation. December 2003.	Mid Term Evaluation of the West Wrexham 2000-06 URBAN II Programme: Final Report.	URBAN MTE
EKOS Limited. November 2003.	Mid Term Evaluation of the LEADER+ Community Initiative in Wales: Final Report.	LEADER+ MTE
Old Bell 3 Economic Development and European Services, Fitzpatrick Associates Economic Associates, and CRG Research Ltd. December 2005.	Mid Term Evaluation Update for the Ireland-Wales INTERREG IIIA Community Initiative Programme: Final Report.	INTERREG MTEU
WEFO Research, Monitoring and Evaluation Branch. December 2005.	Mid Term Evaluation Update for the West Wrexham URBAN II Community Initiative Programme: Final Report.	URBAN MTEU

Rest of UK

South West Objective 1 MTE: *Mid Term Evaluation of the Objective 1 Programme for the South West, 2000-2006*. ECOTEC Research and Consulting Limited (2003) A Draft Final Report to the Government Office South West, the Office of the Deputy Prime Minister and the Partnership July 2003.

<http://www.gos.gov.uk/gosw/docs/164916/250313/Obj1-MTEReport-2003>

South Yorkshire Objective 1 MTE: *South Yorkshire Objective 1 Programme Mid Term Evaluation*. <http://www.yorkshirefutures.com/articledetail.aspx?page=2B1E70FE-443D-4F3F-A164-E89A52F038EC&article=9D5B09C8-1449-4B9F-A207-7EB71162E823>

South Yorkshire Objective 1 MTEU: <http://www.wefo.wales.gov.uk/resource/2005-12-23-O1-MTEU-Final-Report6586.pdf#search=%22south%20yorkshire%20objective%201%20Mid%20term%20evaluation%20update%22>

ECOTEC Research and Consulting Ltd (2003) *Mid Term Evaluation of the London Objective 2 Programme 2000-2006*.

http://www.government.gov.uk/european_structural_funds/downloads/o2_midterm_evaluation.pdf#search=%22%22Mid%20Term%20Evaluation%20of%20the%20London%20Objective%20%22%20Programme%20%22

Yorkshire and the Humber Objective 2 Programme 2000-2006 Mid Term Evaluation. Leeds Metropolitan University and University of Hull (2003).

<http://www.lmu.ac.uk/lbs/erbedu/pdf/Y&HO2MTE%20Final%20Report%20281003web.pdf>

European Regional Business and Economic Development unit (ERBEDU) and Centre for Urban Development and Environmental Management (CUDEM), Leeds Metropolitan University and the Centre for City and Regional Studies (CCRS), University of Hull. (2005) 'Update of the Mid Term Evaluation of the Yorkshire and the Humber Objective 2 Programme'. <http://www.gos.gov.uk/goyh/docs/199734/199789/278976/359071>

West Midlands Objective 2 Mid Term Evaluation Update :

[http://www.thepressdesk.com/government/library/documents/downloads/MC\(05\)\(31\)%20Part%20B-MTE%20Update%20Report.pdf#search=%22west%20midlands%20mid%20term%20evaluation%20update%22](http://www.thepressdesk.com/government/library/documents/downloads/MC(05)(31)%20Part%20B-MTE%20Update%20Report.pdf#search=%22west%20midlands%20mid%20term%20evaluation%20update%22)

North East England Objective 2 Mid Term Evaluation:

http://www.gos.gov.uk/goee/docs/193516/193520/202497/Mid_TermEval_Report.doc

Centre for Strategy and Evaluation Services (2003) 'East of England Objective 2 Programme 2000 –2006- Mid Term Evaluation'. . Available

from:http://www.goeast.gov.uk/goee/docs/193516/193520/202497/Mid_TermEval_Report.doc

ESF Evaluation Team (2003) Mid Term Evaluation of the Objective 3 Operational Programme for England and Gibraltar.

<http://www.esf.gov.uk/docs/Summary%20standalone.doc>

Centre for Strategy and Evaluation Services (2003) *Mid Term Evaluation of the East of England 2000-06 Objective 2 Programme*

http://www.gos.gov.uk/goee/docs/193516/193520/202497/Mid_TermEval_Report.doc

Scotland

Fraser Associates Management and Economics Consultants in association with European Policies Research Centre and The Rural Development Company (2003) *Mid Term Evaluation of the Highlands and Islands Special Transitional Programme*. Downloadable from: <http://www.hipp.org.uk/downloads/eval.asp?cat=12>

Yellow Book (2003) *Western Scotland Objective 2 Programme 2000-2006 - MTE*

<http://www.wsep.co.uk/downloads/reports/WofS%20O2%20Final%20Report%209December2003.pdf>

Strathclyde European Partnerships (2005) 2000-2006 Western Scotland Objective 2 Programme Mid Term Evaluation Update - November 2005.

http://www.wsep.co.uk/downloads/reports/MTEU%202005%20-%20SEP%20report%20-%2021%20December%202005%20_2.pdf

EKOS Ltd (2003) East of Scotland Objective 2 Programme Mid Term Evaluation.

http://www.esep.co.uk/download/midterm/mte_final.pdf#search=%22east%20of%20scotland%20objective%20%20mid%20term%20evaluation%22

Hall Aitken (2003) *Scotland Objective 3 Mid Term Evaluation*. Downloadable from:

<http://www.objective3.org/Web/Site/obj3/downloads/Programmedocumentation.asp>

Atkinson, John; Miller, Linda and Gerova, Vania (2004) *ESF Leavers Survey 2002 Objective 1 & 3 Wales*¹⁵ – *Final Report*. Published by the Institute for Employment Studies for the National Assembly for Wales 2004.

http://www.wefo.wales.gov.uk/resource/RME_LeaversSurvey_2002_e9284.pdf#search=%22ESF%20Leavers%20Survey%202002%20Objective%201%20%26%203%20Wales%22

CRG (2003) *The Use of ICT in Objective 3 ESF-Supported Projects*. Report to DWP, 2003,

<http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH138.pdf>

Danish Technological Institute (2003) *Thematic Evaluation of the Structural Funds' Contribution to the Lisbon Strategy*, report to DG REGIO, 2003,

http://europa.eu.int/comm/regional_policy/sources/docgener/studies/pdf/lisbon2005.pdf

¹⁵ This report presents results of a survey of 1,351 individuals who participated in and left projects supported under ESF Objectives 1 and 3 in Wales during the latter part of 2002.

Danish Technological Institute (2005) *Thematic Evaluation of the Structural Funds' Contributions to the Lisbon Strategy - Synthesis Report.* February 2005.

DG REGIO (2004) *The Mid Term Evaluation in Objective 1 and 2 Regions*, DG REGIO Evaluation Network report, 2004
http://europa.eu.int/comm/regional_policy/sources/docgener/evaluation/pdf/tech_mte_en.pdf

DTI (2004) *Regional Business Support Pilots: Stage 2*, Report to Small Business Service, 2004,
<http://www.dti.gov.uk/about/evaluation/040521Stage2RDAFinalReportWithCovers.pdf>

DTI (2006) *Draft National Strategic Reference Framework – EU Structural Funds Programmes 2007-2013*. February 2006
<http://www.gos.gov.uk/gowm/docs/379399/428789/NationalStrategicReferenceFramew#search=%22Draft%20National%20Strategic%20Reference%20Framework%20%E2%80%93%20EU%20Structural%20Funds%20Programmes%202007-2013%22>

ECOTEC Research & Consulting Limited (2003) *Evaluation of the Added Value and Costs of the European Structural Funds in the UK*¹⁶: - Final Report to the Department of Trade and Industry (DTI) and the Office of the Deputy Prime Minister (ODPM). December 2003.

ECOTEC (2004) *Evaluation of Equality Mainstreaming in ESF Objective 3*. Report to DWP, 2004.
<http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH141.pdf>

ECOTEC (2006) 'Cross Cutting Themes Research Project (Objectives 1 & 3) Final Report'.
<http://www.wefo.wales.gov.uk/resource/RME-CCT-2006-e4535.pdf>

EPRC (2005) *Delivering the Lisbon and Gothenburg Agendas*. EPRC Discussion Paper for UK presidency Conference, 2005,
<http://www.dti.gov.uk/europe/EPRCBackgroundPaperUKPresidencyConference.pdf>

ODPM (2005) *Updated Mid Term Evaluation of Objective 1 and 2 Programmes in England – Collation of Regional Analysis*, Prepared by the Operational Research Unit for ERDF and State Aid Division and Department of Transport.
<http://www.erdf.communities.gov.uk/Repository/WordDocuments/UMTECollationreporDec2005>

ESF Evaluation Team (2003a) *Mid Term Evaluation of the Objective 3 Operation Programme for England and Gibraltar: Summary of Final Report*.
<http://www.esf.gov.uk/docs/Summary%20standalone.doc>

ESF Evaluation Team (2003b) *Mid Term Evaluation of the CSF for England/Gibraltar, Scotland and Wales*, Report for DWP, 2003
<http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH133.pdf>

ESF Evaluation Team (2003) *Mid Term Evaluation of the Operational Programme for England and Gibraltar*, Report for DWP, 2003. <http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH134summary.pdf>

¹⁶ The aims of the study are to provide an assessment of: whether and in what ways, Structural Fund programmes/funding in the UK produce added value compared to domestic initiatives; what, if any, additional costs are associated with Structural Funds compared to domestic initiatives; and what specific elements of the Structural Funds (implementation, design etc.) are responsible for these additional benefits and costs.

European Commission (2005) *Towards a new partnership for growth, jobs and cohesion. Third progress report on economic and social cohesion.* May 2005.

European Commission (2006a) *A new partnership for cohesion convergence competitiveness cooperation: Third report on economic and social cohesion.* Downloadable in parts from:

http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion3/cohesion3_en.htm

European Commission (2006b) *Indicators for Monitoring and Evaluation: A Practical Guide.* http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/indic_sf2007-2013_en.pdf

Fraser Associates (2002) *Evaluation of the Initial Implementation of ESF Co-financing in England.* Report to DWP, 2002, <http://www.dwp.gov.uk/asd/asd5/IH101.pdf>

Fraser Associates (2004) *Second Evaluation of ESF Cofinancing in England,* Report to DWP 2004. <http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH144.pdf>

Fraser Associates (2005) *Evaluation of the ESF Support for Companies,* report to DWP, 2005¹⁷, <http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep303.pdf>

GHK et al (2002) *Thematic Evaluation of the Contribution of Structural Funds to Sustainable Development,* report to DG REGIO, 2002, http://europa.eu.int/comm/regional_policy/sources/docgener/evaluation/doc/sustainable_vol1.pdf

Hall Aitken (2006) *Making every euro count – report on Structural Funds administration options for Scotland,* report to the Scottish Executive, 2006, <http://www.scotland.gov.uk/Resource/Doc/917/0022471.pdf>

Insite Research and Consulting (2005) *Evaluation of the ESF Global Grants Programme,* Report for DWP, 2005, <http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep287.pdf>

Labour Asociados (2003) *Analysis of the impact of Community Policies on Regional Cohesion.* October 2003.

McGowan, C. (2006) *Lessons learned from programme evaluations.* February 2006

ODPM (2003) *Assessing the Impact of Spatial Interventions, Guidance produced by Interdepartmental Group,* September 2003 http://www.odpm.gov.uk/pub/31/AssessingtheimpactofspatialinterventionsWord941Kb_id1129031.doc

ODPM (2004a) *Ex post Evaluation of the UK Objective 5b programmes, Final Report, 2004* http://www.odpm.gov.uk/pub/517/ExPostEvaluationoftheEnglishScottishandWelshObjective5bProgrammes_id1164517.pdf

¹⁷ In September 2004, Fraser Associates was commissioned by the Department for Work and Pensions (DWP) to evaluate training and other human resource development (HRD) provided to businesses under relevant Measures of the England and Gibraltar European Social Fund (ESF) Objective 3 Programme 2000-06.

ODPM (2004b) *Urban Regeneration Companies Policy Stocktake*

¹⁸http://www.communities.gov.uk/pub/238/UrbanRegenerationCompaniesPolicyStocktakePDF170Kb_id1128238.pdf

ODPM (2004c) *Local Strategic Partnerships Evaluation and Action Research Programme Case Studies Interim report: A baseline of practice*. Report to ODPM by University of Warwick, Liverpool John Moores University, University of the West of England, Office for Public Management: London and Department for Transport: London.

http://www.odpm.gov.uk/pub/885/LSPEvaluationCasestudyinterimreportabaselineofpracticeFullreportPDF354Kb_id1136885.pdf

ÖIR/LRDP/IDOM (2003) *A Study on the Efficiency of the Implementation Methods for Structural Funds - Final Report*. Commissioned by the European Commission Director General Regional Policy December 2003.

http://www.oirfm.at/iddb/archiv6288/89_archiv6288_35945.pdf?etxsid=59587aca84ac680c71fb1aa54aa99e2a#search=%22A%20Study%20on%20the%20Efficiency%20of%20the%20Implementation%20Methods%20for%20Structural%20Funds%22

PA Consulting (1999) *Interim Evaluation of English Partnerships*, Report to ODPM

<http://www.odpm.gov.uk/index.asp?id=1128641>

PACEC (2003) *ESF Companies Survey of Business Performance Objectives 1 and 3 in Wales*¹⁹ - *Final Report*. November 2003.

PACEC (2004) *Survey of Companies in England Supported by ESF Objective 3*. Report to DWP 2004. <http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH143.pdf>

Policy Research Institute (2003) *Local Impact of the European Social Fund*, Policy Research Report to the DWP, 2003 by the Policy Research Institute with the Centre for Regional Economic and Social Research Sheffield Hallam University and the Institute for Employment Studies <http://www.dwp.gov.uk/asd/asd5/ih2003-2004/IH140.pdf>

Policy Research Institute (2005) *Delivering Labour market Policies through Local and Regional Partnerships*, Report to DWP by the Policy Research Institute with GHK Consulting and the Centre for Research in Social Policy, Loughborough University. <http://www.dwp.gov.uk/jad/2004/208rep.pdf>

Regeneris (forthcoming) *Qualitative Case Study Evaluation of Objective 1 and 2 Projects*. ODPM has commissioned to undertake this study with a view to identifying what works and what lessons can be learned for future regional development and regeneration programmes (whether European or domestically funded). Report expected end April 2006.

Shury, Jan; Godwin, Laura; and Koroglu, Zehra (2006) 'A quantitative survey of companies supported by European Social Fund Objective 3, a report carried out by IFF Research Ltd on behalf of the Department for Work and Pensions.

¹⁸ ODPM funds a research programme on regional regeneration at Durham University. A series of papers has been published, listed here: <http://www.odpm.gov.uk/index.asp?id=1141980>

¹⁹ The overall aim of this Companies Survey is to assess the effectiveness of the training and advice provided to companies in Wales through ESF.

Taylor, Jean and O'Connor, William (2005) *European Social Fund: A Profile of Inactive Beneficiaries*. National Centre for Social Research Report to DWP

Territorial Cooperation Workstream secretariat (2006) 'Ireland/Wales Cross-Border Programme: Post 2006 External Stakeholders' Group Meeting 28th September 2006'. Available from: [http://www.wefo.wales.gov.uk/resource/P2006-Esg\(sept06\)-Cross-border5627.pdf#search=%22Territorial%20Cooperation%20Workstream%20secretariat%20%22](http://www.wefo.wales.gov.uk/resource/P2006-Esg(sept06)-Cross-border5627.pdf#search=%22Territorial%20Cooperation%20Workstream%20secretariat%20%22)

WEFO (2003) A Practical Guide to Measuring Soft Outcomes and Distance Travelled: Guidance Document.. June 2003

WEFO (2005a) Good Practice in Structural Fund Project Management²⁰ - Final Report. Old Bell 3 Economic Development and European Services in association with Dateb and CRG Research Ltd. <http://www.wefo.wales.gov.uk/default.asp?action=page&ID=1520>

WEFO (2005b) Customer Attitude Survey – Final Report²¹. Databuild Research & Solutions. December 2005.

²⁰ The overall aim of the project was to carry out case-study research with Objective 1 funded projects that demonstrated aspects of good practice in project management, with a view to promoting the adoption of good project management practices in current and future projects.

²¹ Aim of the study: surveys the attitudes of European Structural Funds applicants from 2000 to 2004. It includes views on: the development of an application for Structural Fund support; the appraisal of applications following submission, but prior to approval; the service provided by WEFO to projects after approval; and the overall quality of service received from WEFO.

Annex B: Objective 1, 2/T and 3 Programmes' Priorities and Measures (2000-2006)

Objective 1 Programme - West Wales and the Valley

Priority 1: Expanding and Developing the SME base

- 1.1 Financial support for SMEs (ERDF)
- 1.2 Promoting Entrepreneurship and Increasing the birth rate of SMEs (ERDF)
- 1.3 Developing competitive SMEs (ERDF)
- 1.4 Promoting adaptability and entrepreneurship (ESF)
- 1.5 Providing sites and premises for SMEs (ERDF)

Priority 2: Developing Innovation and the Knowledge Based Economy

- 2.1 ICT infrastructure (ERDF)
- 2.2 To stimulate and support demand for ICT (ERDF)
- 2.3 Support for the development of innovation and research and development (ERDF)
- 2.4 Skills for innovation and technology (ESF)
- 2.5 Clean energy sector developments (ERDF)

Priority 3: Community Economic Regeneration

- 3.1 Community action for social inclusion (ESF)
- 3.2 Partnership and community capacity building (ERDF)
- 3.3 Regeneration of deprived areas through community-led action (ERDF)
- 3.4 Supporting the creation and development of businesses in the social economy (ERDF)

Priority 4: Developing People

- 4.1 Preventative and active labour market measures (ESF)
- 4.2 Social inclusion (ESF)
- 4.3 Lifetime learning for all (ESF)
- 4.4 Improving the learning system (ERDF)
- 4.5 Improving the participation of women in the labour market (ESF)
- 4.6 Anticipation and analysis of skills needs (ESF)

Priority 5: Rural Development and the Sustainable Use of Natural Resources

- 5.1 Processing and marketing of agricultural products (EAGGF)
- 5.2 Training services to help farming adapt and diversify (EAGGF)
- 5.3 Forestry (EAGGF)
- 5.4 Promoting the adaptation and development of rural areas (EAGGF)
- 5.5 Investment in agricultural holdings (EAGGF)
- 5.6 Promoting local economic development (ERDF)
- 5.7 A sustainable countryside – enhancement and protection of the natural environment and countryside management (EAGGF)
- 5.8 Support for recreational opportunities and management of the natural environment (ERDF)
- 5.9 Support for fisheries and aquaculture (FIFG)

Priority 6: Strategic Infrastructure Development

- 6.1 Accessibility and transport (ERDF)
- 6.2 Energy Infrastructure (ERDF)
- 6.3 Strategic employment sites (ERDF)
- 6.4 Environmental infrastructure (ERDF)

Priority 7: Technical Assistance

- 7.1 Promoting effective programme management (ERDF)
- 7.2 Promoting effective programme management (ESF)
- 7.3 Publicity and Research (ERDF)
- 7.4 Publicity and Research (ESF)

Objective 2/T Programme – East Wales

Priority 1: Sustainable and Competitive SMEs

- 1.1 Support for Enterprise
- 1.2 Innovation and SME Development
- 1.3 Development of Premises for SMEs

Priority 2: Sustainable Rural Development

- 2.1 Rural Economic Development
- 2.2 Building Rural Networks

Priority 3: Urban Community Regeneration

- 3.1 Capacity Building & Community Initiatives
- 3.2 Developing the Social Economy

Priority 4: Technical Assistance

- 4.1 Effective Programme Management
- 4.2 Raising Awareness of the Programme

Objective 3 Programme – East Wales

Priority 1: Developing Active Labour Market Policies to Prevent and Combat Unemployment

- 1.1 Preventing Long-Term Unemployment
- 1.2 Re-integration of the Long-Term Unemployed
- 1.3 Supporting the Transition From Education to the Labour Market

Priority 2: Equal Opportunities for All and Promoting Social Inclusion

- 2.1 Pathways to Employment
- 2.2 Capacity Building for Community Based Groups
- 2.3 The Development of Business Opportunities in the Social Economy
- 2.4 Local Development to Promote Social Inclusion

Priority 3: Lifelong Learning

- 3.1 Developing New or Improved Guidance and Learning Systems
- 3.2 Increasing Participation and Attainment in Lifelong Learning

Priority 4: Promoting Business Competitiveness

- 4.1 Supporting Management Development
- 4.2 Skills and Knowledge Development for the Workforce in SMEs
- 4.3 Encouraging Innovation, R&D and the Information Society for Growth
- 4.4 Support to Encourage and Develop Entrepreneurship
- 4.5 Anticipation and Analysis of Skills Needs

Priority 5: Promoting Gender Equality within the Labour Market

5.1 Pathways to Participation

5.2 Promoting Attitudinal Change

ANNEX F – EX-ANTE EVALUATION

Ex Ante Evaluation of the 2007-2013 ERDF Convergence Programme

Final Report
March 2007

Private and Confidential



Contact: Fabian Zuleeg
Fabian.Zuleeg@dtz.com

DTZ Consulting & Research
Marchmount House
Dumfries Place
Cardiff
CF10 3RJ

Table of Contents	Page
1. Introduction and Study Approach	14
<i>Overview</i>	<i>14</i>
<i>Evaluation process and approach.....</i>	<i>15</i>
<i>Evaluation objectives</i>	<i>16</i>
<i>Community added value</i>	<i>17</i>
<i>Conclusions</i>	<i>18</i>
2. Appraisal of Analysis.....	19
<i>Chapter overview</i>	<i>19</i>
<i>Appraisal of the Analysis.....</i>	<i>20</i>
<i>SWOT analysis</i>	<i>22</i>
<i>Community added value</i>	<i>24</i>
<i>Conclusions</i>	<i>25</i>
3. Programme strategy rationale and internal and external consistency.....	27
<i>Chapter overview</i>	<i>27</i>
<i>Rationale.....</i>	<i>28</i>
<i>Strategic vision.....</i>	<i>31</i>
<i>Concentration of resources.....</i>	<i>32</i>
<i>Priorities suggested by the socio economic analysis.....</i>	<i>33</i>
<i>ERDF Convergence Programme</i>	<i>34</i>
<i>ERDF Priority 1: Building the knowledge based economy.....</i>	<i>36</i>
<i>ERDF Priority 2: Improving business competitiveness</i>	<i>38</i>
<i>ERDF Priority 3: Developing strategic infrastructure.....</i>	<i>39</i>
<i>ERDF Priority 4: Creating an attractive and sustainable environment in which to invest and work.....</i>	<i>39</i>
<i>ERDF Priority 5: Building Sustainable Communities.....</i>	<i>41</i>
<i>Alternative policy mix</i>	<i>41</i>

	<i>Validity of the Theory</i>	42
	<i>The Case for and against public intervention</i>	43
	<i>Internal consistency</i>	45
	<i>Conflict between Priorities</i>	45
	<i>Policy Risk</i>	46
	<i>Summary - Internal consistency</i>	47
4.	Appraisal of consistency with regional and national policies and Community Strategic Guidelines	48
	<i>Chapter Overview</i>	48
	<i>Consistency with European Policy and the Community Strategic Guidelines</i>	48
	<i>Summary - Consistency with EU policies</i>	56
	<i>Consistency with UK Policy and Strategy</i>	56
	<i>UK National Reform Plan</i>	58
	<i>Summary and recommendations</i>	60
	<i>Consistency with Welsh policy and strategy</i>	61
	<i>Skills and Employment Action Plan</i>	63
	<i>Our Environment Our Future</i>	66
	<i>Summary</i>	68
	<i>Consistency with Other Structural Funds Programmes</i>	68
	<i>Community added value</i>	72
5.	Strategic Environmental Assessment	75
	<i>Chapter overview</i>	75
	<i>The SEA process</i>	75
	<i>The Impacts of the Programme</i>	76
	<i>Proposed mitigation measures</i>	77
	<i>Programme revision - Results</i>	79
6.	Appraisal of proposed implementation Systems, monitoring and evaluation and indicators/targets	80
	<i>Implementation systems</i>	80

	<i>High-Level Recommendations</i>	82
	<i>Designation of Authorities</i>	83
	<i>Partnership</i>	84
	<i>Implementation</i>	85
	<i>Monitoring and evaluation</i>	89
	<i>Monitoring and evaluation – implementation of previous recommendations</i>	90
	<i>Publicity and information</i>	91
	<i>Indicators/targets</i>	91
	<i>Target setting for Wales 2007 - 2013</i>	91
	<i>Community added value</i>	92
	<i>Revisions to the Implementation Chapter prior to submission to Commission</i>	93
7.	AsSEssment of Changes made in Response to Comments	95
	<i>Recommendations relating to the Analysis</i>	96
	<i>Rationale and internal consistency</i>	97
	<i>Consistency with other policies and strategies</i>	97
	<i>Implementation and monitoring and evaluation</i>	97
8.	Conclusions and recommendations	100
	<i>Appraisal of the Analysis</i>	101
	<i>Appraisal of the rationale</i>	101
	<i>Appraisal of internal consistency</i>	102
	<i>Appraisal of external consistency</i>	102
	<i>Appraisal of implementation and monitoring and evaluation arrangements</i>	103
	<i>Indicators and target setting</i>	103
	<i>Community added value and lessons learned</i>	104
	<i>Revisions to the OP</i>	105
	<i>Conclusion</i>	105
	ANNEX A: BIBLIOGRAPHY	i

ANNEX B: SUMMARY OF KEY LESSONS LEARNED FROM PREVIOUS PROGRAMMES IN WALES, THE UK AND THE EU	v
ANNEX C: ENVIRONMENTAL REPORT	vi
Annex D DETAILS OF RECOMMENDATIONS MADE.....	vii
<i>Overview</i>	<i>vii</i>
<i>Recommendations relating Chapter 2 - to the appraisal of the analysis.....</i>	<i>vii</i>
<i>Consideration of the extent of implementation of the recommendations made by DTZx</i>	
<i>Page-by-page appraisal of the second draft of the Analysis.....</i>	<i>xiv</i>
<i>Further recommendations.....</i>	<i>xvi</i>
<i>Recommendations relating to Chapter 3 - the rationale and internal consistency of the Programme.....</i>	<i>xviii</i>
<i>Rationale.....</i>	<i>xviii</i>
<i>Priority 1.....</i>	<i>xxii</i>
<i>Priority 2.....</i>	<i>xxiii</i>
<i>Priority 3.....</i>	<i>xxiv</i>
<i>Recommendations Relating to Internal Consistency</i>	<i>xxiv</i>
<i>Details of complementarity of Priorities.....</i>	<i>xxv</i>
<i>Policy risk assessment.....</i>	<i>xxvi</i>
<i>Recommendations relating to Chapter 4 - external consistency</i>	<i>xxix</i>
<i>Recommendations relating to consistency with EU policies</i>	<i>xxx</i>
<i>Recommendations Relating to Consistency with UK Strategies.....</i>	<i>xxxi</i>
<i>Recommendations relating to consistency with Welsh National Strategies and Policies</i>	<i>xxxi</i>
<i>Recommendations relating to consistency with other Structural Funds Programmes</i>	<i>xxxi</i>
<i>Chapter 6 – Recommendations relating to the implementation arrangements including monitoring and evaluation</i>	<i>xxxvi</i>
<i>Monitoring and evaluation – Summary of previous recommendations</i>	<i>xxxvi</i>
<i>Monitoring and evaluation strategy</i>	<i>xxxvi</i>
<i>Introduction</i>	<i>xxxvi</i>

<i>Monitoring and evaluation</i>	<i>xxxvii</i>
<i>Introduction - Monitoring and evaluation</i>	<i>xxxvii</i>
<i>Overview - Monitoring and evaluation</i>	<i>xxxvii</i>
<i>Monitoring and evaluation in the Strategy chapter</i>	<i>xxxix</i>
<i>Monitoring and evaluation of Cross Cutting Themes</i>	<i>xlili</i>
<i>Monitoring and evaluation in the Implementation chapter</i>	<i>xliv</i>

EXECUTIVE SUMMARY

This document contains the ex-ante evaluation of the 2007-2013 ERDF Convergence Programme for West Wales and the Valleys (WWV), carried out by DTZ on behalf of WEFO. This Summary provides an overview of each of the Chapter contents, including the main conclusions and recommendations.

It is important to highlight in this context that the Ex Ante Evaluation process has been characterised by a high degree of positive and productive interaction between the evaluators (DTZ) and the client (WEFO). Consequently, the vast majority (over 90% of over 80 recommendations relating to the ERDF Convergence Programme) of recommendations and suggestions made by DTZ have been accepted by WEFO and have been incorporated in the draft of the Operational Programme (OP). In the few circumstances where recommendations were not implemented, WEFO generally provided DTZ with sound reasons as to why it was not appropriate to implement the particular recommendation. This makes this document to some extent historic, showing how the draft of the OP was influenced by the ex ante evaluation, rather than charting outstanding recommendations.

Throughout the process, the ex ante evaluation has also assessed the extent to which the Programme maximizes Community added value, in terms of economic and social cohesion, policy added value in relation to Community priorities, financial added value and added value of the Structural Funds method. This assessment has been based on the assessment of the Operational Programme, as well as drawing on the Lessons Learned. Overall, the Programme is designed to maximise Community added value, specifically by supporting Community economic and social cohesion objectives, being strongly complementary to Community priorities, especially Lisbon, and adding value through the method of implementation.

Chapter 1 contains an overview of the study brief and the approach taken by DTZ. Our approach has been characterised by making the ex ante evaluation as formative as possible while at the same time recognising that much of the OP design has been guided by a wider partnership. We also recognise that not all recommendations and detail need to be included in the OP at this stage to preserve the ability to react flexibly to emerging trends in the implementation of the programme. Overall, it is worth highlighting that the degree to which WEFO has attempted to incorporate the recommendations of the ex ante evaluators has been noteworthy and consequently few substantive comments remain at this stage.

Chapter 2 appraises the socio-economic Analysis that was undertaken by the Welsh Assembly's Economic Advice Division (EcAD). This Analysis formed part of the Consultation Document and the subsequent Operational Programme document. The first draft was appraised by DTZ and a number of changes were consequently recommended. The second draft was then considered by DTZ and an evaluation of the extent to which earlier recommendations had been implemented was undertaken. Chapter 2 therefore provides an overview of the Analysis and the redrafting process, before making a final set of conclusions and recommendations.

Overall, it was concluded from the appraisal of the first and second drafts of the socio-economic Analysis that the Analysis is relevant, up-to-date, comprehensive and very well written and constructed. There is a clear correlation between the content of the Analysis and the priorities of the Lisbon agenda. The appraisal of the Analysis addressed specific questions on the content, the data used and the conclusions that were drawn from the data. On these issues it was concluded by DTZ that the data sources used were credible and fairly representative of the socio-economic conditions of West Wales and the Valleys (WWV); that the conclusions drawn on the whole were linked to the evidence; and that no alternative evidence sources emerged that contradicted the data presented in the Analysis. With data for WWV evaluated

against Wales, UK and EU data, DTZ was satisfied that sufficient and appropriate comparators were used.

However, DTZ concluded that although clear, evidence based conclusions were drawn on the socio-economic profile of WWV, additional conclusions could be drawn about productivity, perhaps exploring the lack of investment in capital equipment, technology and R&D as additional factors in the differences in productivity across Great Britain. A further gap in the Analysis was identified in the area of eco-innovation (environmental technology), where it was felt that further investigation could have been undertaken.

In addition to these suggestions, DTZ made a number of recommendations in order to ensure that the Analysis fully conforms to EU guidance. These are detailed in Chapter 2, with the WEFO response to them discussed in Chapter 7.

Chapter 3 of this evaluation considers the strategy element of the Programme, which is aimed at considering the key challenges facing the region and setting out how the Priorities of the new Convergence Programme will address these. Chapter 3 discusses two aspects of this issue by appraising the rationale behind the Programme and the internal consistency between the various objectives and Priorities of the Programme.

In respect of the **rationale**, DTZ found that, in general, the Programme is well developed and a strong link exists between the key challenges facing WWV, the strategic vision, and the key elements of the Programme in terms of Priorities and Themes.

However, DTZ also identified a number of areas where the argument can be strengthened and made a number of recommendations on that basis. These are detailed in Chapter 3 but mainly relate to recommending that it should be made clear that market failure is generally the underlying rationale for

intervention but that in specific instances an assessment has to be made of whether market failure is evident.

As far as the assessment of the **internal consistency** is concerned, DTZ found that the Programme has a high degree of internal consistency, with few conflicts between the Priorities. Further, it was concluded that there is an appropriate balance between the interventions that carry a high degree of policy risk but promise high impacts if successful, and interventions that have been tried and tested in previous programmes. However, the areas where the internal consistency could be strengthened are covered by the following recommendations:

- The conflict at a Programme level of generating more economic activity and creating the associated increase in demand for energy with sustainable energy use objectives needs to be recognised.
- The conflict at a Programme level of increasing transport infrastructure with environmental protection objectives needs to be recognised. More emphasis should be placed on sustainable transport solutions.
- Potential overlaps on the built environment between Priorities should be explored in more detail.

Again, the extent to which these recommendations have been addressed is discussed in Chapter 7.

Chapter 4 appraises the strategy, aims, objectives and Priorities of the ERDF Convergence Programme against national, UK and EU level policies. It is concluded that, for the most part, the Programme is consistent with policies and strategies at a European level and fits well with the Community Strategic Guidelines and the Lisbon priorities. Some recommendations are made for strengthening the design of the Programme in order that it be fully consistent with European strategies and policies. These are detailed more fully in Chapter 4 but relate mainly to further strengthening the links between the

Programme and certain external policy areas such as Equal Opportunities, encouraging biodiversity, sustainable transport, the environment, creating enterprise opportunities, and the *Wales: A Vibrant Economy* document.

Chapter 5 contains an overview of the Strategic Environmental Assessment (SEA) that was carried out by Royal Haskoning acting as sub-consultants to DTZ. This chapter provides a summary of the key processes of the Assessment, the environmental impacts of the Programme identified in the Assessment, and the main recommendations and changes that were made to the Programme following the Assessment. The full SEA can be found in Annex C of this report.

Chapter 6 is an appraisal of implementation arrangements. The first section of this chapter assesses how comments made on the Consultation Document have been addressed, and how robust the overall arrangements for implementation of the Programme are. A number of high-level recommendations are made in this chapter followed by detailed comments on each section of the implementation chapter such as partnership arrangements, the designation of authorities and monitoring and evaluation.

The key recommendation made by DTZ in relation to monitoring and evaluation is that a monitoring and evaluation strategy (or evaluation plan) should be used to detail planned monitoring and evaluation activity. As a result of the DTZ recommendation WEFO set about drawing up a Monitoring and Evaluation Plan, the process of which will address many of these more specific recommendations. The detail of these recommendations has been documented in the relevant section of Annex D.

Chapter 6 also looks at the indicator framework for ERDF and discusses the setting of targets.

Chapter 7 discusses the recommendations made by DTZ throughout the ex ante evaluation process and summarises the WEFO response in terms of

agreement/disagreement, and any actions taken following this. In the main, the vast majority of recommendations and comments were accepted by WEFO and implemented. Chapter 7 therefore provides a very brief overview of the broad areas in which recommendations were made, rather than detailing every fine point that was discussed and agreed upon. Where disagreement did arise, more detail is given.

Chapter 8 provides overall conclusions and recommendations, recapping on the method that DTZ employed to achieve the objectives of the ex ante evaluation, as well as drawing out some conclusions about the ERDF Operational Programme.

In addition to the chapters outlined above, there are several Annexes containing additional information relevant to the evaluation process, namely:

Annex A: Bibliography

Annex B: Summary of key lessons learned from previous programmes in Wales, the UK and EU

Annex C: Strategic Environmental Assessment Environmental Report

Annex D: Details of recommendations made

1. INTRODUCTION AND STUDY APPROACH

Overview

- 1.1. This chapter provides an overview of the Ex Ante Evaluation of the 2007 – 2013 ERDF Convergence Programme for West Wales and the Valleys. This chapter outlines the methodology employed to carry out the evaluation, and the approach taken by DTZ to working with WEFO in their production of the Operational Programme (OP). Under European regulations, the Convergence Programme is required to undergo an iterative evaluation process in which outputs from each stage feed through into the next stage.
- 1.2. At each stage of this process, DTZ made a number of recommendations in relation to each element of the Programme, the vast majority of which have been implemented by WEFO in preparation of the OP. Further, WEFO has undertaken to take forward many recommendations throughout the implementation and monitoring and evaluation of the Programme. Throughout the evaluation, minor drafting and editing suggestions were made to WEFO, however it is recommended that the OP is thoroughly proof read before it is finalised.
- 1.3. In carrying out this evaluation, DTZ's approach has been to work closely with WEFO and the wider stakeholders to ensure that the recommendations of the evaluation are incorporated in the development of the OP. This approach has enabled us to provide an ex ante evaluation which goes beyond what is contained in this document. Rather, it is the changes to the OP resulting from DTZ's work, which demonstrate our ongoing involvement with WEFO, that are the real outputs of the evaluation.
- 1.4. Consequently, this report does not focus on the exhaustive list of recommendations and how these have been implemented by WEFO. While this detail is contained in Annex D, the main part of the report focuses on the high level themes emerging from the evaluation and areas where

recommendations have not been implemented in full. Throughout the evaluation process, minor editing changes that did not alter the meaning of the text were suggested, rather than appearing as formal recommendations. One such recommendation was:

- In second bullet point under section 6.35 of the Implementation Chapter, which sets out the rules on eligibility of expenditure, 'each' should be deleted;

Evaluation process and approach

1.5. In the main, from the standpoint of the evaluators, the ex ante evaluation process has been very productive, with most suggestions and recommendations being implemented by WEFO. For each area of the OP, from the socio-economic analysis that investigated the priority needs and market failures of the West Wales and the Valleys (WWV) area, through to the arrangements outlined by WEFO for implementing the Programme, WEFO provided DTZ with an initial draft. Each part of the draft OP was then appraised and recommendations made. Revised drafts were then submitted by WEFO to DTZ. The process of evaluation has thus been an ongoing dialogue.

1.6. Further, WEFO was able to draw not only from their experiences of the last round of programming, but also from the considerable preparation which has gone on in the run-up to the new Programmes. An important factor has been the partnership arrangements which have guided the development of the new Programmes.

1.7. We have been conscious of the principle of partnership that has underpinned the development of the OP. Given the different viewpoint of an evaluator our recommendations have not always corresponded to the views of stakeholders. In many of these cases, we have asked WEFO to strengthen the underpinning rationale for inclusion of particular elements rather than recommending removal of those elements. For the OP to truly reflect

partnership principles and local, regional and national priorities, we believe that it is critical that the ex ante evaluators do not completely 'dictate' what should be included in the OP but that they take into account the policy direction from these partnerships.

1.8. Similarly, it is important that an appropriate balance is found between the amount of detail required in the OP and the ability of the partnerships to react to changing circumstances and to flexibly implement the Programme as it develops over time. While in some areas we requested more detail, we accept that there is a limit to how much detail can be productively included in the OP.

1.9. Our approach has been to work with WEFO as closely as possible, and to work flexibly to ensure that the requirements of the ex ante did not have a detrimental effect on the development of the OP itself by making additional demands on the time of those drafting the Programmes. During the evaluation, we met with all the key staff at different stages and we reviewed the chapters of the OP as they were drafted, often providing early thoughts and suggestions before providing our formal response. At the same time the Strategic Environmental Assessment (SEA) was carried out by Royal Haskoning as a sub-consultant to DTZ. We also further developed a lessons learned paper provided by WEFO. Both of these documents are annexed to this report (see Annexes C and B respectively).

1.10. We also worked with WEFO to develop indicators and targets for the Programme, engaging in an ongoing process of reviewing the methodology and working to agree on the best way to use the data available from the previous round of programming as well as other data sources.

Evaluation objectives

1.11. In carrying out the Ex Ante Evaluation, there are several areas and issues set out in the Commission's Draft Working Paper on Ex Ante Evaluation that the evaluators must address. It is imperative that the evaluation assesses

the rationale of the Programme and seeks to answer whether it adequately addresses the needs of the area. This involved DTZ appraising the socio-economic analysis of the area to determine whether it used the appropriate data, drew valid conclusions from that data and thus correctly identified the key issues in the area. DTZ then assessed whether the Priorities and Themes of the Programme sufficiently reflect the key problems, and whether they are the correct interventions to address the identified market failures. Recommendations were made regarding the content and approach of the Priorities.

1.12. Subsequently, DTZ assessed the internal consistency of the Programme to ensure that within the Priorities and Themes there was complementarity and, as far as possible, an absence of gaps or duplications. The external cohesion of the Programme was assessed against other Welsh policies and strategies and the relevant UK and EU strategies, including the Lisbon Agenda.

1.13. As well as assessing the content, strategy and direction of the Programme, DTZ appraised the various elements relating to the practical processes in place for implementing the Programme and ongoing monitoring and evaluation. DTZ also provided advice and guidance to assist WEFO in setting targets for the Programme. Again, this involved working closely with WEFO and providing recommendations at each draft of the Operational Programme.

Community added value

1.14. As highlighted in the Working Paper, the ex ante evaluation needs to assess the degree to which Community added value is maximised throughout the Programme. The concept of community added value is defined on the basis of a range of criteria:

- Economic and social cohesion;

- Policy added value in relation to Community priorities;
- Financial added value, in terms of additionality and leverage effect;
- The added value of the Structural Funds method, including partnership, multi-annual planning, monitoring, evaluation and sound financial management; and
- Added value which stems from the exchange of experience and networking at a transnational, national or regional level.

1.15. Throughout the process, the ex ante evaluators have assessed the extent to which the Programme maximizes Community added value, drawing on the Lessons Learned exercise, and have made recommendations guided by the concern to maximise Community added value. In line with the overall approach to this Ex Ante Evaluation, this has been a dynamic process which has led to the vast majority of recommendations being implemented by WEFO before finalising the Programme. The consideration of Community added value has taken place throughout and is thus integrated into the assessment of the Programme within the chapters commenting on each of the component parts of the OP

Conclusions

1.16. As a result of the above-described methodology and processes we believe that the final OP has evolved to be a sound and robust document that adequately identifies and seeks to address the relevant issues in order to fulfil the objectives for Wales regarding economic, social and environmental progress, with Wales at the forefront of innovation and entrepreneurial activity. As such it will serve well as the key guidance document for the ERDF Convergence Programme.

2. APPRAISAL OF ANALYSIS

Chapter overview

- 2.1. In order to help decide upon the Programme's Priorities for intervention, the Assembly's Economic Advice Division (EcAD) undertook an analysis of the socio-economic conditions in West Wales and the Valleys. DTZ appraised this analysis and suggested a number of changes. The Analysis was revised, and this revised draft was appraised by DTZ with changes being reflected in the OP.
- 2.2. DTZ appraised the Analysis according to the Structural Funds regulations, the Draft Working Paper on Ex Ante Evaluation (European Commission, October 2005) and our knowledge of both the region and the appropriate data sources on the issues facing the region. A further element of appraisal takes the form of an assessment of the extent to which the Programme provides Community added value, and whether the Analysis adequately forms the basis for identifying strategic actions for Programme interventions.
- 2.3. Overall, the vast majority of recommendations were implemented. As set out in the chapter outlining our approach to the study, the Ex Ante Evaluation process has been characterised by ongoing interaction with WEFO and as a result, the final version of the socio-economic Analysis of WWV fulfils the ex ante evaluation requirements fully.
- 2.4. This chapter charts DTZ's appraisals of the Analysis. A discussion of the main recommendations that were made and how these were or were not implemented can be found in Annex D. The chapter is structured as follows:
- Appraisal of the Analysis;
 - Conclusions and recommendations; and
 - Consideration of Community added value.

2.5. The main finding from this chapter is that following changes made after assessment of the first draft, that the revised Analysis is a well written, well structured, up-to-date, comprehensive and relevant document.

Appraisal of the Analysis

2.6. The second draft of the Analysis is a well-written and constructed document. It is appropriately structured around the following headings:

- Area overview;
- Creating more and better jobs;
- Improving knowledge and innovation for growth; and
- Making Wales a more attractive place to live in and work.

2.7. This structure is directly related to the priorities of the Lisbon agenda and thus is appropriate. Within these sections, the discussion of data is clear, well explained and relevant to the socio-economic conditions of West Wales and the Valleys.

2.8. There are a number of specific questions that the appraisal of the Analysis should answer, based on WEFO's project specification. These questions are addressed below:

- **Are the sources of data used credible?**

The data sources used include Office for National Statistics, Eurostat, Labour Force Survey, census of population, Welsh Health Survey, Annual Business Inquiry, Welsh Index of Multiple Deprivation, National Environmental Technology Centre, peer-reviewed papers, data gathered from methodologically sound surveys of businesses and government department information. These data sources are credible and representative.

- **Are the conclusions based on sufficient evidence?**

The evidence as presented points to the conclusions that have been drawn. The link between evidence and conclusions is well explained. There are one or two occasions where conclusions have been drawn without explanation or reference to data. For example, "the legacy of the 1980s and 1990s" is mentioned in the area overview without explanation.

The Analysis could also investigate the link between infrastructure, investment and economic growth in more detail.

There are some sets of data included that do not represent socio-economic issues and on which conclusions are not drawn which would lead to prioritisation for Structural Funds intervention. These include the data on emissions of greenhouse gases, percentage of river lengths with good, fair, poor and bad chemical quality, and social capital. It is difficult to see what conclusions have been drawn from the presentation of this data that are relevant to the Structural Funds programmes.

- **Can any of the evidence be interpreted in a different way?**

Clear conclusions about the socio-economic profile of West Wales and the Valleys (WWV) are drawn from the data. None of the data is ambiguous and the issues identified from the data are clear, apart from the data on social capital.

Additional conclusions could be drawn about the reasons for the difference in productivity between WWV and the rest of the UK. As well as an adverse industry mix, unfavourable qualifications and lack of strong agglomeration effects, a fourth reason for the difference in productivity is a lack of investment in capital equipment, technology and R&D.

- **Is there any evidence that contradicts the evidence reported in the Analysis?**

No alternative evidence sources have been found that contradict the data presented in the Analysis.

- **Are the appropriate comparators used?**

Where possible, the comparators used are Wales, UK and EU. These are appropriate comparators.

- **Has there been sufficient sub-regional analysis where appropriate?**

Yes. The differing needs of rural and urban West Wales and the Valleys have been illustrated where necessary.

- **Is the Analysis relevant, accurate, comprehensive & up-to-date?**

Yes. The Analysis is relevant (apart from the river quality, social capital and greenhouse gas data, the relevance of which is not fully explained). It comprehensively outlines the socio-economic picture in Wales, structured appropriately around the Lisbon priorities. The data used appears to be the most up-to-date available.

- **Are there any gaps in the Analysis?**

Yes. As the opportunity presented by environmental technology and eco-innovation is a key facet of the Lisbon agenda, more analysis could have been undertaken of the environmental goods and services sector in Wales.

SWOT analysis

2.9. The SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis forms the basis of the development of the Programme strategy. Weaknesses

and threats identified from the Analysis will become priorities for intervention. Strengths and opportunities should be built on.

2.10. There is little consideration of the strengths of Wales. For example, improvements in employment levels have taken Wales above the Lisbon target and unemployment is below the UK average. Wales has a number of existing and emerging key sector strengths that could be built upon as part of the new Programme.

2.11. Following a recommendation of DTZ, WEFO included certain conclusions drawn from the Analysis regarding weaknesses in the Welsh socio-economic position that had not originally made their way into the SWOT analysis. For example, Wales' higher economic inactivity levels compared to the UK and EU was not mentioned as a weakness, which it undoubtedly is. Similarly, the lower employment rates for individuals with a disability or from Black and Minority Ethnic backgrounds were not mentioned. Although employment levels are high, earnings are low and part time work accounts for much of the growth in employment levels. Skills appropriate for the workplace continue to be a weakness.

2.12. Access to appropriate child or dependant care is a threat to the continued growth in female employment. The unfavourable industrial mix and underinvestment in new technologies and equipment also threaten growth and this is correctly identified. The threats section is more comprehensive.

2.13. The section on opportunities is detailed, but draws conclusions that are not illustrated in the Analysis. For example, an opportunity presented by the growth in the Environmental Goods and Services sector is mentioned, but the Welsh position in this sector is not made clear.

2.14. In general, it would be useful if the SWOT analysis followed more closely the issues identified in the socio-economic and environmental analysis preceding it.

Community added value

2.15. Throughout the evaluation, the evaluators have considered to what extent the Programme provides Community added value. With respect to the analysis chapter, the key consideration has been whether the Analysis indicates that the Programme can add value to the Economic and Social Cohesion of the Convergence area, and in particular whether the Programme is designed to maximise regional economic and social convergence. The Lessons Learned paper highlights that it is important to base the Programmes on sound analysis, while at the same time making sure that the Programmes can be flexible enough to evolve throughout the programming period.

2.16. The Analysis Chapter identifies key areas of progress while at the same time highlighting that key challenges remain for the Convergence area. The analysis is sound and links strongly to the proposed interventions under the Programme. These challenges and associated interventions indicate clearly that the Programme can provide significant Community added value in relation to economic and social cohesion.

Revisions to the Analysis prior to submission to Commission

2.17. A number of revisions to the OP provided to DTZ for assessment in early December 2006 were made before it was submitted to the Commission in mid-December 2006. The revisions as they affect our appraisal of the analysis are discussed below.

2.18. DTZ previously highlighted that although the SWOT analysis identified higher levels of economic inactivity in WWV than in Wales as a weakness, this was not extended to include the fact that in turn, economic inactivity in Wales is higher than the UK and EU as a whole. The SWOT analysis has since been extended to make this point.

2.19. Further, it was previously recommended by DTZ that the SWOT analysis more clearly map to the Analysis preceding it. In this regard, several

elements have clearly been added to the SWOT analysis to more comprehensively cover the key elements coming through from the Analysis. For example, the Analysis included a fairly comprehensive analysis of renewable energy use, but this was not picked up on in the SWOT analysis. It is now concluded that the SWOT analysis has been strengthened in the revised version of the OP to include this detail as well as several others.

2.20. It was previously identified by DTZ that the strategy was fairly strong on transport interventions. However the Analysis did not identify sustainable transport solutions other than buses, meaning either that support for projects other than those to develop better bus services should not be given or that the Analysis should be extended. The Analysis now includes a more comprehensive transport assessment including analysis of the road and rail network, identifying the key areas of problems and bottlenecks. Further, the Analysis now includes an overview of travel patterns covering passenger use of the bus and rail network and the movement of goods around the country, including through ports. Therefore there is now greater justification for interventions focusing on supporting rail and road developments and reducing road haulage of goods and encouraging rail and sea freight (as per Priority 3).

2.21. Drawing on a previous comment made by DTZ, the Analysis now includes more detail on the Higher Education sector in WWV.

Conclusions

2.22. The Analysis as revised and presented in the OP is a very well written and constructed document. It is appropriately structured in the following headings:

- Area overview;
- Creating more and better jobs;
- Improving knowledge and innovation for growth; and

- Making Wales a more attractive place to live in and work.

2.23. This structure is directly related to the priorities of the Lisbon agenda and this is to be commended. Within the sections, the discussion of data is clear, well explained and relevant to the priorities of the Lisbon strategy and to the socio-economic issues faced by Wales. As discussed, the clear linkage to the Lisbon agenda, the extent to which recommendations have been implemented and the robustness of the Analysis ensure that the Programme demonstrates where it can provide substantial Community added value in relation to economic and social cohesion.

3. PROGRAMME STRATEGY RATIONALE AND INTERNAL AND EXTERNAL CONSISTENCY

Chapter overview

3.1. Between this chapter and the following chapter, Chapter 4, an appraisal of the rationale and internal and external consistency of the ERDF Convergence Programme is provided. This chapter focuses in particular on the following two aspects of the appraisal:

- Appraisal of the rationale behind the Programme strategy; and
- Appraisal of the internal consistency of the Programme strategy.

An appraisal of the consistency between the Programme strategy and other strategies (external consistency) is given in Chapter 4 along with a discussion of the extent to which the Programme demonstrates Community added value with regard to the strategy.

3.2. The rationale appraisal considers a number of areas to identify whether market failures have been correctly identified and a credible case for intervention built on this basis. Further, the rationale appraisal considers whether the Priorities and Themes of the Programme are appropriately aimed at addressing these market failures.

3.3. After considering each Priority and Theme in detail, the appraisal of the rationale concludes that in general, the rationale is well developed and that there is a strong link between the key challenges facing WWV, the policy response, and the key elements of the Programme. However, some recommendations to strengthen the rationale can be found in Annex D. These relate mainly to providing more detail on some of the areas that are to be addressed by Priorities; and making underlying arguments for intervention clearer.

3.4. The appraisal of the internal consistency of the Programme looks at the cohesion between the various Priorities of the Programme, looks for any areas of conflict or overlap, and considers whether an alternative policy mix could better achieve the Programme objectives. It was concluded that there was no notable conflict between Priorities and that instead there were identifiable complementarities between Priorities, leading to the conclusion that there was a high level of internal consistency. Several areas of concern arise from, for example, the potential conflict between generating greater economic growth and the consequent need for more energy and the environmental impact this may have; the conflict at Programme level between increasing levels of transport infrastructure and the environmental protection objectives; and potential overlaps on the built environment between Priorities.

Rationale

Introduction to rationale section

3.5. In appraising the Programme rationale the task of the evaluator, as set out within the specification for the Ex Ante Evaluation, is to analyse:

- i. The objectives and Priorities of the Programme;
- ii. The theory underlying the strategy and the validity of that theory;
- iii. Whether the financial allocations for each part of the strategy are appropriate;
- iv. The case for and against public intervention; and
- v. 'Trade-offs' inherent within the proposed strategy.

3.6. Item five of the list above is not considered explicitly within this section as it is covered within the SEA, although reference to some of the trade-offs is

made throughout the text in this and the following chapter. The integration of the Cross Cutting Themes and the link to EU policies in these policy areas is discussed under the 'consistency with EU policies' heading.

The Priorities of the Programme

3.7. The Priorities for the Programme strategy as outlined in the Consultation Document were:

- Knowledge and innovation for growth
- Creating an attractive business environment; and
- Building sustainable communities.

3.8. The Analysis is structured around the following four areas:

- Area overview;
- Creating more and better jobs;
- Improving knowledge and innovation for growth; and
- Making Wales a more attractive place to live in and work.

3.9. At the highest level, there is clear cross-over between the Programme strategy and the Analysis. Creating knowledge and innovation for growth is common to both the Analysis and the Programme strategy, and there is overlap between making Wales a more attractive place to live in and work (Analysis) and building sustainable communities and creating an attractive business environment (Programme strategy). Creating more and better jobs corresponds more closely to the ESF Convergence Programme than to the ERDF Convergence Programme.

Key Strategic Challenges

- 3.10. The Programme strategy details key strategic challenges for West Wales and the Valleys (WWV). The headline economic position is given that WWV still lags behind the EU25 countries, with GDP standing at 75% of the EU25 average. This underperformance is explained in the Analysis by the lower value-added per worker and a lower employment rate. This ties in to the Analysis evidence. The lower value-added per worker is then attributed within the Programme strategy, in part, to the industrial composition of Wales rather than Welsh workers being less productive than UK and EU counterparts.
- 3.11. Whilst the industrial mix of WWV is not favourable, there is nothing in the Analysis that indicates that Welsh workers are more or less productive than their EU and UK counterparts on a like-for-like basis. This implies that the key focus of the policy response should aim to change the industrial mix of Wales. This can take the form of supporting the conditions for growth for more productive industries by for example providing the right skills and encouraging innovation. However, W:AVE (Section 3.44 ff) identifies a range of ten sectors which are seen as critical for economic growth. The Programme should note explicitly how/whether the interventions fit with this cluster approach.
- 3.12. A lack of agglomeration is also credited in the Programme strategy with reducing the value-added per worker. This is clearly evidenced by the Analysis.
- 3.13. The next strategic challenge identified in the Programme strategy is the low employment rate in WWV compared to the UK and EU average. The majority of this difference, it is claimed, is due to the higher rate of economic inactivity in WWV rather than a high unemployment rate and this assertion is supported in the Analysis. Economic analysis (see for example Annex A of W:AVE) suggests that it is the falling demand across Western Europe for unskilled workers that is behind this high inactivity rate and this is outlined in the strategic challenges. What is not mentioned here, however, is the contribution that ill health makes to the high rates of economic inactivity. This is

clearly evidenced in the Analysis¹ and should be referenced in the strategic challenges section of the Programme strategy.

- 3.14. A number of revisions to the OP provided to DTZ for assessment in early December 2006 were made before it was submitted to the Commission in mid-December 2006. In terms of key strategic challenges, In line with the additional information in the Analysis chapter the strategy chapter now outlines infrastructure inadequacies as a key strategic challenge. The strategy discusses the importance of addressing these inadequacies in relation to several areas that are relevant to the Programme Priorities including: sustainable development; provision of quality sites and premises; and ease of access for goods and people. These challenges were identified in the additional information included in the Analysis. Therefore it is appropriate that this area is included as a key strategic challenge and it is sufficiently evidenced in the Analysis.

Strategic vision

- 3.15. The vision set out in the Consultation Document is to create a vibrant entrepreneurial region at the cutting edge of sustainable development with prosperous communities across Wales. The two key drivers to achieve this are noted as increasing employment and skills and helping businesses to move up the value-chain and so increase the value-added per job. Reference is made in this section to a range of strategy documents, in particular W:AVE.

- 3.16. It is not clear how exactly the two key drivers will contribute to the vision. Specifically, the following questions arise:

- A vibrant entrepreneurial region is generally seen to relate to factors such as business start up activity, innovation, fostering entrepreneurial spirit, etc. While

¹ NB Due to data availability, the Analysis covers self-reported disability/illness. Care needs to be taken to ensure that any policy responses take this into account. For example, the degree to which a disability is perceived by individuals as work-limiting will depend on the support available.

helping to move existing businesses up the value chain can be seen as a component of this, it seems too narrow to capture this element of the vision;

- To be at the cutting edge of sustainable development requires more explanation – for example, does this refer to some kind of comparison with other regions? Sustainable development encompasses three elements (economic, social and environmental) but the drivers appear to focus only on the first two²; and
- The aspiration of creating prosperous communities across Wales has a clear spatial element but the drivers do not address this explicitly (although it is explored in the context of the spatial strategy later on). Decreasing worklessness is likely to lead to more prosperous communities, given that worklessness is concentrated in currently less advantaged communities. However, while value-added per job might have an effect on average earnings, it is difficult to see how exactly this will have an effect on the least prosperous communities which have limited economic opportunities. As noted above, more detail is needed to make the link explicitly.

3.17. Overall, the two key drivers identified for the Programme do not seem to correspond well to the W:AVE vision. The Priorities of the Programme seem to fit much better with the vision so it is unclear why these two drivers were singled out.

Concentration of resources

3.18. There is a table in the Consultation Document that sets out the broad thinking on funding for each Priority in relation to current spending. The original intention was to increase spending on Priority 1 ERDF (Knowledge and innovation) somewhat with spending on Priority 2 ERDF (Creating an attractive business environment) remaining stable. Priority 3 (Building sustainable communities) would be reduced somewhat.

² WEFO has agreed that more will need to be added on Sustainable Development.

3.19. The wording in the table suggests that the changes are small. If a need has been identified to reprioritise spending, the expectation would be for more than just marginal adjustments.

3.20. There is little indication of what drives these changes. Some of it seems to be driven by a stronger emphasis on the Lisbon priorities (for example increases in funding for Priority 1) while others might reflect changing socio-economic circumstances. The underlying rationale for these allocations needs to be explored in more detail.

3.21. On the basis of DTZ's recommendation that it be made more explicit how the Programme is in line with Lisbon priorities, WEFO elected to insert a table into the OP, which should address this issue.

Priorities suggested by the socio economic analysis

3.22. Breaking the Analysis down into the constituent issues that are identified leads to the following list of aims:

- Improve the industrial mix of Wales by attracting higher value-added industries;
- Increase the qualifications of the Welsh workforce (more relevant to the ESF Convergence Programme);
- Increase agglomeration (perhaps by improving infrastructure or creating virtual agglomeration through networks);
- Increase investment in the bus network;
- Move businesses in low value-added sectors further up the value chain;
- Increase knowledge and technology transfer out of higher education institutes (HEIs);
- Increase the number of high quality sites for businesses to locate to;

- Improve the supply of ICT infrastructure;
- Support and increase in business R&D spend;
- Support the improvement of the culture of innovation and entrepreneurship;
- Improve the uptake of ICT services in businesses and households; and
- Increase the number of people in high value-added jobs, including R&D and high/medium technology-based jobs in businesses and researchers in HEIs.

ERDF Convergence Programme

3.23. The Priorities have been restructured since the Programme went out to consultation. In particular, the following changes were introduced:

- The original Priority 1 was split into two Priorities (1 & 2);
- The original Priority 2 was split into two Priorities (3 & 4); and
- The original Priority 3 has become Priority 5.

3.24. The five Priorities for the draft OP are:

- Building the knowledge based economy;
- Improving business competitiveness;
- Developing strategic infrastructure;
- Creating an attractive and sustainable environment in which to invest and work; and
- Building sustainable communities.

3.25. In addition, the Programme will contribute to the two Cross Cutting Themes of Environmental Sustainability and Equal Opportunities.

3.26. Table 3.1 summarises the Priorities and Themes as set out in the draft OP

Table 3.1 Summary of Priorities and Themes

Priority 1: Building the knowledge based economy

- (a) Building the region's research, technology and innovation capacity and its ability to commercialise and exploit the outcome of research and ideas by fostering research, technology and innovation.
- (b) Promoting productivity by increasing the utilisation of and demand for the benefits of Information and Communications Technologies (ICT).

Priority 2: Improving Business Competitiveness

- (a) Supporting entrepreneurship and assisting the growth and expansion of businesses.
- (b) Improving access to business finance, in clearly targeted areas.

Priority 3: Developing the strategic infrastructure

- (a) Supporting sustainable transport solutions to promote agglomeration and increase the accessibility of markets.
- (b) Supporting the strategic infrastructure including targeted investments in sites and premises and the educational infrastructure

Priority 4: Creating an attractive and sustainable environment in which to invest and work

- (a) Increasing the supply of clean and renewable energy, and to encourage greater energy conservation and efficiency by businesses, public bodies, social enterprises, local communities and householders in

WWV.

(b) Managing and mitigating environmental risk and developing the environmental infrastructure,

(c) Promoting the environment as a driver for growth

Priority 5: Building sustainable communities

(a) Supporting physical regeneration, including the redevelopment of brownfield sites and landscape improvements.

(b) Tackling underlying issues that prevent sustainable economic and social development within communities, including increasing the sustainable participation and growth of community and social enterprises.

3.27. Overall, these changes have helped to clarify the spending priorities and are welcome. Each Priority now contains similar interventions, aimed at a recognisable overall driver or sector.

3.28. The only area where more clarity would be helpful is the inclusion of educational infrastructure under strategic infrastructure. For clarity, it would be worth considering including this type of infrastructure as a separate Theme or specifying that this refers to site development only.

3.29. Below we appraise the Priorities as they appear in the OP (as revised from the Consultation Document).

ERDF Priority 1: Building the knowledge based economy

3.30. For the most part, Priority 1 maps closely on to the needs identified within the Analysis. There are a number of sectors identified in the supporting text (from W:AVE) but they are not covered in the Analysis. It should be made

clear whether interventions will be aimed at particular sectors and how/whether this fits with a broader cluster approach (see recommendation above).

3.31. The environmental goods and services sector is mentioned as important to the development of a sustainable economy, but analysis of this sector in Wales and WWV has not been undertaken. It is difficult to see how the sector can be supported without having some understanding of the current specific context. It should also be made clear what type of interventions are intended for this sector under Priority 1 and Priority 2. This is especially important under Priority 1 to determine whether there is a need to single out this sector or whether the support will be on innovation and R&D, which might happen to be in that sector.

3.32. The two Themes of this Priority are:

- a) Research and Development, innovation and technology; and
- b) ICT infrastructure and Information Society for all.

3.33. The Analysis shows clearly that business spend on R&D is below Lisbon targets and that innovation and entrepreneurship, whilst improving, is still lower than UK and EU averages. Thus, the link has been made between the issue and the Priority.

3.34. Evidence is presented in the Analysis which shows that SME businesses in WWV have a lower use of ICT than across the UK as a whole. Further, the Analysis also highlights that Wales has the second lowest Internet access rate across all regions of the UK and the second lowest proportion of households with Internet access at home. Therefore there is a clear link between this area of weakness identified in the Analysis and the aims of this Priority.

ERDF Priority 2: Improving business competitiveness

3.35. There are two Themes in this Priority:

- a) Entrepreneurship – building a stronger environment for enterprise by supporting new and existing business ventures, particularly enterprises with the capacity to grow.
- b) Business finance – assisting the growth and expansion of business by improving access to business finance where there is clear market failure, and by supporting and accelerating Welsh exports.

3.36. The Analysis discusses several measures by which WWV may be said to be lacking in evident entrepreneurship (i.e. number of VAT registrations per 1,000 working individuals and a lower proportion of self-employment in business activities than the UK average). In this regard therefore there is a clear link between an identified problem in WWV and the nature of the intervention in Theme 1.

3.37. With regard to Theme 2 of this Priority, the issue of SME access to business finance is covered to a degree in the Analysis, although more research on the issue of market failure will be important before any projects are supported under this Theme. DTZ suggested that expanding on the planned co-operation with the European Investment Bank (EIB) would be useful. WEFO took this on board and implemented this recommendation, although further scope remained to expand further once WEFO received the EIB report.

3.38. The Analysis does not mention the Welsh export situation at all, however, so it is difficult to see from where this Priority has arisen. Either this Theme should be removed from the Programme, or evidence be produced that shows that it is an issue in Wales and specifically West Wales and the Valleys. It might also be worth considering Foreign Direct Investment in this context.

ERDF Priority 3: Developing strategic infrastructure

3.39. This Priority has two Themes:

- a) Sustainable transport
- b) Strategic infrastructure

3.40. The Analysis goes into some detail about the availability of key service and employment centres via bus and walking access and this identifies a clear issue for WWV. The issue of lack of agglomeration is also explained fully in the Analysis.

3.41. Initially, however, sustainable transport solutions other than buses were not identified as an issue in the Analysis. This meant that support for projects other than those to develop better bus services should not be given, or that if it were planned to support such projects then the Analysis would need to be extended. It is noted that following this recommendation, the Analysis was extended in this regard in later versions.

3.42. Theme 2 aims to support the implementation of site infrastructure, including road, water, waste, drainage, power, ICT connectivity etc, as well as the development of high quality business accommodation.

3.43. The Analysis highlights that better waste and water management systems are required in WWV. The Analysis also notes that there is a lack of land available for development and a lack of suitable modern buildings to meet business property demands. Therefore this Theme is appropriate in terms of needs and weaknesses identified in the Analysis.

ERDF Priority 4: Creating an attractive and sustainable environment in which to invest and work

3.44. There are three Themes in this Priority:

- a) Energy – supporting the development of clean and renewable energy and encouraging greater energy conservation and efficiency.
- b) Tackling environmental opportunities and risks for sustainable economic growth.
- c) Environment for growth – realising the economic potential of the natural environment and promoting related elements of the environmental goods and services (EGS) sector.

3.45. The supply of renewable and waste energy as a percentage of total consumption is covered in the Analysis at a sub-regional (WWV) level.

3.46. It was noted by DTZ that the Consultation Document contained a reference to managing the demand for energy, however this was not identified in the Analysis as an issue. It was thus recommended that either the situation should be analysed to identify the issue, or this part of the Priority should be removed. The Priority now refers to encouraging greater energy efficiency and the use of clean and renewable energy, which is identified in the Analysis as an important challenge for Wales in order to help the UK meet Kyoto targets.

3.47. Certain environmental risks have been identified, for example the emissions of greenhouse gases and river quality. Climate change is referenced. There is sufficient information to allow the support of projects that manage and mitigate environmental risk.

3.48. Following DTZ's recommendation, which drew attention to the fact that the use of eco-innovation was not covered in the Analysis, there is a discussion of the increased role of eco-innovation as a key driver of environmental protection as well as economic growth. However, further analysis of the EGS in WWV would be a useful basis for highlighting this sector in the Priorities.

ERDF Priority 5: Building Sustainable Communities

3.49. This Priority will focus on tackling local deprivation, in terms of the infrastructure, assets and economies of communities. The first Theme of this Priority is:

- a) Supporting physical regeneration of communities, including the redeveloping of brownfield sites and landscape improvements..

3.50. Whilst the provision of high quality sites and premises has been evidenced in the Analysis as a key factor in business location decisions, analysis of the number and quality of sites and the issue of brownfield and degraded sites in WWV is worthy of further investigation if this is to be a key Theme. The second Theme of this Priority is:

- b) Tackling the underlying issues that prevent sustainable economic and social development within communities, including increasing the sustainable participation and growth of community and social enterprises.

3.51. Social capital and social enterprise is covered sufficiently in the Analysis.

Alternative policy mix

3.52. One of the objectives of the Ex Ante Evaluation is to consider whether there is an alternative mix of policies that could achieve the objectives of the Programme. At the broadest level, this implies a consideration of whether the key strategic challenges of the Programme are best addressed by the proposed Priorities.

3.53. The key strategic challenges arise from the current gap in GVA per head between West Wales and Wales as a whole, as well as between West Wales and the EU25 average. This gap is mostly explained by lower value-

added per job. Priority 1 (Priorities 1 & 2 in the revised Programme) clearly aims to move businesses up the value chain while Priority 2 (Priorities 3 & 4 in the revised Programme) focuses on encouraging the right environment for businesses to achieve high growth. The Policies are necessary ingredients to achieve higher value-added per job and they are thus clearly necessary within the policy mix.

- 3.54. Priority 3 (Priority 5 in the revised Programme) does not directly link into the key strategic challenges for the Programme. However, it does strive to ensure that no parts of the economy are left behind. To fully justify the inclusion of the Priority in the policy mix, the link with strategic challenges should be made clearer.

Validity of the Theory

- 3.55. For the most part the Priorities and Themes within the strategy map to the Analysis. However, a number of exceptions were identified. This requires strengthening of the case for intervention to ensure a valid theory of intervention.

- 3.56. In general, it is difficult to determine how exactly the Analysis has been used to derive the Priorities and Themes and the link could be made more explicit.

- 3.57. DTZ is aware that further detail on the case for each Priority and Theme and the associated rationale for intervention is contained within the later chapters of the Programming document but a more structured argument would be helpful.

- 3.58. Within the Analysis and strategy chapters there is limited discussion of the theory lying behind the identified Priorities. Some topic areas already contain this analysis e.g. Priority 1, but it would be useful for the OP to explicitly identify how the particular interventions support the overriding aims of the Convergence Programme in each Priority. Consistency in this regard would

help the reader to better understand the underlying economic theory behind the strategy. This could be built into the structured argument suggested above. For example, for renewable energy the following argument could be made:

- Fossil fuel energy production creates negative externalities. These social costs are not taken into account in the market place and consequently the supply of renewable energies is lower than the social optimum. For this reason, intervention is required to correct this market failure.

The Case for and against public intervention

3.59. As highlighted in the Commission's Draft Working Paper on Ex Ante Evaluation (Commission, 2005) there is an underlying "belief that markets are generally the most effective and efficient means of achieving economic and social objectives" (p.9). Public intervention is therefore justified only where the market is not working properly and the intervention in question does not create economic distortion. Four situations can be identified where public intervention in a market economy could be justified:

- The provision of public goods which cannot be provided in the absence of public intervention;
- The introduction of corrective incentives and subsidies designed to alter the price of goods and services where the market price does not adequately reflect their wider social and environmental costs and benefits (i.e. the presence of externalities);
- The management of schemes targeted at changing behaviour through correcting a lack of knowledge or information asymmetries (summarised as imperfect information); and
- Redistribution of income through subsidies or welfare benefits in pursuit of broadly social aims.

- 3.60. In response to the key principle of market failure the wording in some of the Themes is potentially misleading. In two instances it states, “where there is clear evidence of market failure”. This should be a given for all Priorities where public intervention is justified. It should be made clear that market failure is generally the underlying rationale for intervention but that in these specific instances an assessment has to be made as to whether market failures are evident.
- 3.61. Throughout the entire Programme strategy there is an underlying assumption that without intervention the market will under-invest in activities that will provide long-term gains in competitiveness, economic growth and social cohesion. This assumption is predicated on the theory that as a result of a range of market failures both individuals and private organisations have shorter time horizons and hence higher discount rates than society as a whole. This means that the future benefits associated with investment are attributed a lower value. The concept of sustainable communities and leaving a positive legacy for future generations therefore requires public intervention to move the market towards a socially efficient outcome. This theory should be brought out more strongly to support the use of Structural Funds, in terms of the added value generated through intervention. This is particularly important in light of this being the last substantial round of European Structural Funds in Wales.
- 3.62. Overall there is justification for intervention, however, it is not always well evidenced consistently throughout the Analysis and strategy chapters.
- 3.63. Notwithstanding the above generic rationale, DTZ has assessed each of the Themes within the three Programme Priorities against the four causes of market failure above. These are summarised in Table A1 in the relevant section of Annex D, with some detailed accompanying text.

Internal consistency

Introduction to internal consistency assessment

3.64. In assessing the internal consistency of the Programme, the task of the evaluator as set out in the specification for this Ex Ante Evaluation is to determine:

- i. The contribution of each Priority to the Programme objectives;
- ii. How the combination of policy priorities will contribute to achieving these objectives;
- iii. The extent to which financial resources are likely to be sufficient;
- iv. Any conflict between Priorities; and
- v. If an alternative 'policy mix' might be more likely to achieve the Programme's objectives.

3.65. The Programme strategy objectives and Priorities are one and the same. There is therefore no requirement for assessment in respect of the contribution and combination of Priorities to achieve Programme objectives.

3.66. A discussion of the broad financial allocations for each part of the strategy has been provided previously

Conflict between Priorities

3.67. DTZ has not identified any notable conflict between Priorities. Rather, there are a range of potential complementarities between the Programme Priorities. These are detailed in Annex D.

Policy Risk

- 3.68. The Commission has noted that the Analysis should cover policy risk involved in the choice of priorities³. Arising from a concern that Structural Funds interventions were becoming increasingly risk-averse, this aims to promote exploration of the balance between more standard interventions which are 'easier' to implement and those which are inherently more risky but might have a bigger impact. In this context, risk is interpreted as the risk of delivering the outcomes, i.e. whether the intervention works. The impact of the policy is the outcomes if the policy delivers, i.e. the outcomes if the policy has worked on the overarching objectives of the Convergence programme in terms of jobs and growth. As an illustrative example, finding the cure for cancer has high policy risk (as the research only has a small likelihood of succeeding) but a very high impact if successful.
- 3.69. The strategy chapter does not provide enough detail on activities to make a comprehensive assessment of policy risk possible. Within each Priority it would be possible to support activities with varying degrees of risk and innovation. Table A2 in Annex D provides a headline risk assessment of each Priority and Theme. This indicates the potential scale of policy risk alongside potential impacts of the associated intervention.
- 3.70. Overall, the Programme contains a range of interventions that are risky but also promise high impacts. These are especially prevalent in Priority 1 (Priorities 1 & 2 in the revised Programme) and in related areas of Priority 2 (Priorities 3 & 4 in the revised Programme), linked to ICT infrastructure and renewable energy. Overall, the evaluators consider the Programme to be well-balanced in terms of policy risk.
- 3.71. In terms of risk of not meeting targets (especially at the N + 2 stage), this should be minimised by the additional flexibility inherent in the new Programme in that virements are allowed within Priorities. This in turn should

³ European Commission Draft Working Paper on Ex Ante Evaluation, October 2005, p. 9

enable a higher degree of flexibility in the way targets are set (for example taking into account uncertainty and longer-term impacts).

Summary - Internal consistency

- The Programme has a high degree of internal consistency, with few conflicts between Priorities.
- The Programme has an appropriate balance between interventions which carry a high degree of policy risk but promise high impacts if successful and interventions which have been tried and tested in previous programmes.

4. APPRAISAL OF CONSISTENCY WITH REGIONAL AND NATIONAL POLICIES AND COMMUNITY STRATEGIC GUIDELINES

Chapter Overview

4.1. Following on from the appraisals in Chapter 3, this chapter provides an appraisal of the consistency between the objectives of the 2007-2013 ERDF Convergence Programme, and other regional, national and EU level policies. The following chapter therefore looks mainly at the extent of coherence and fit between the Programme strategy and a broad range of external documentation including:

- EU/EC strategy and policy;
- UK national policy;
- Welsh regional policy; and
- Other Structural Funds Programmes in Wales.

4.2. The chapter considers each of these policy areas in turn and concludes that in each area there is a high level of fit between the Programme strategy and the relevant overarching policies at national, UK and EU levels. However, in each area, recommendations have been made in order to further strengthen this coherence so that the Programme is more fully consistent with these policies and strategies. The chapter concludes with a discussion of the extent to which the Programme demonstrates Community added value with regard to the strategy.

Consistency with European Policy and the Community Strategic Guidelines

4.3. DTZ has appraised the consistency of the Programme strategy with the key European policies and strategies. Analysing the consistency of these strategies with the Programme leads to the following comments, which are provided under headings relating to each of the policies analysed.

Structural Funds Regulations for the Period 2007-2013.

4.4. Article 4 of the Regulations⁴ relates to Convergence programming. It states that efforts should be focused on modernising and diversifying regional and local economies through a number of Priorities.

4.5. Areas of consistency between the regulations and the Programme include:

- Supporting research and technological development, innovation and entrepreneurship. This includes investing in culture, capacity and infrastructure and granting aid to support R&D, especially for SMEs;
- Developing the supply side and demand side of ICT (for both SMEs and individuals/households);
- Local-level initiatives, supporting community development;
- Mitigating environmental problems, regenerating brownfield and derelict land;
- Support for tourism and the promotion of the region's natural assets in a sustainable manner;
- Transport investments;
- Energy investments; and
- Investment in social infrastructure.

4.6. There are priorities identified in the Convergence Regulations that are not identified as explicit Priorities or Themes for support under the Programme strategy. Table A3 in Annex D lists these and shows whether these are contained within other parts of the programme:

⁴REGULATION (EC) No 1080/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999. *Official Journal of the European Union* 31.7.2006 http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_210/l_21020060731en00010011.pdf

4.7. Overall, the Programme covers most of the key Themes contained in the Regulations. While there are some Themes not picked up (some of which are however covered in the ESF Convergence Programme), in the view of the evaluators this represents a useful focusing of the Programme in line with the Regulation's requirement to target the most important needs in order to bring about significant effects. A much larger range of Priorities and additional Themes would distract from this focus.

Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines 2007-2013

4.8. The Community Strategic Guidelines (CSG) contain the principles and priorities of cohesion policy. The UK used the guidelines as the basis for drafting the National Strategic Reference Framework (NSRF), which is analysed in section 4.32.

4.9. According to the guidelines and in line with the renewed Lisbon strategy, programmes co-financed through the cohesion policy should seek to target resources on the following three priorities:

- Improving the attractiveness of Member States, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies; and
- Creating more and better jobs by attracting more people into employment; entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

4.10. It is clear that the Programme maps very closely to these broad priorities. In particular Priority 1 (Priorities 1 & 2 in the revised Programme) fits

well with the second bullet point whereas Priority 2 (Priorities 3 & 4 in the revised Programme) fits well with the first. The CSG priorities that relate to creating more and better jobs are covered in more detail in the ESF Convergence Programme, but are also implicit in the ERDF Convergence Programme. The one area which is covered explicitly in the ERDF Convergence Programme but not in the CSG is Priority 3 (Priority 5 in the revised Programme). While elements of this Priority are contained in the CSG (e.g. community development in urban areas), this is not an explicit objective under the CSG. If a strong focus on the Lisbon priorities is desired, a reduction of support for this Priority might be appropriate.

The Third Report on Economic and Social Cohesion

4.11. The priorities identified for Member States in the Third Report on Economic and Social Cohesion that apply to the Programme are summarised by the following headings:

- Narrowing disparities in regional competitive factors;
- Improving infrastructure endowment;
- Strengthening human capital;
- Strengthening social cohesion;
- Continuing disparities in innovative capacity;
- Ensuring access to basic services;
- Narrowing regional disparities in income;
- Supporting foreign direct investment (FDI); and
- Building the knowledge based economy.

4.12. It is clear that the Programme Priorities map very closely onto these Cohesion priorities. There is one instance where this is not the case, that of strengthening human capital. However, this is a key tenet of the ESF Convergence Programme so this is not an issue.

The Lisbon Strategy

4.13. The priorities in Lisbon are summarised under three headings:

- Making Europe a more attractive place to invest in and work;
- Knowledge and innovation for growth; and
- Creating more and better jobs.

4.14. The Priorities identified in the ERDF Convergence Programme are:

- Building the knowledge based economy;
- Improving business competitiveness;
- Developing the strategic infrastructure;
- Creating an attractive and sustainable environment in which to invest and work; and
- Building sustainable communities.

4.15. At the highest level, then, there is some cross-over between the two headings. Creating knowledge and innovation for growth is common to both the Lisbon and the ERDF Convergence Programme strategies, whilst some overlap can be envisaged between making Europe a more attractive place to invest in and work (Lisbon strategy) and building sustainable communities and creating an attractive business environment (Programme strategy). Creating more and better jobs is covered explicitly by the ESF Convergence Programme, but is also implicit in the ERDF Convergence Programme, as

moving businesses up the value chain implies the need for a more highly skilled workforce and additional growth would increase employment opportunities.

4.16. Under the Lisbon Strategy headings outlined above, there is one key Theme that is not covered within the Themes of the ERDF Convergence Programme:

- Establishment of Innovation Poles⁵ to bring together high-technology SMEs, universities and business/financial support.

4.17. The evaluators accept that much was done in the current Programmes (such as support for the Techniums⁶) and that the current Programme can build on what is already in place. In the Consultation Document the role of universities as part of the innovation and R&D landscape and as a key component of regional economies, through the attraction of in-migrants and as providers of high level skills, does not seem to feature prominently in the current Programme.

Equal Opportunities

4.18. Gender equality, especially in relation to the workplace, has been a feature of European policy since the Treaty of Rome. Over time, this issue has been broadened out to encompass Equal Opportunities for a range of groups. Equal Opportunities have been an important feature of Structural Funds, with a special emphasis within ESF. Equal Opportunities was a Cross Cutting Theme (CCT) in the current Objective 1 Programme (2000 – 2006) and are proposed to be a CCT in the new round of funding.

4.19. Equal Opportunities are discussed within a separate chapter of the Consultation Document on CCTs. Consequently, the chapter covers both the ERDF and the ESF Programmes. Most of the focus of Equal Opportunities is

⁵ Innovation and competitiveness poles are close cooperative association between enterprises, training centres and public- or private-sector research institutes within a defined geographical area.

on the ESF Programme and the labour market. There does not appear to be any explicit targeting of these issues in the ERDF Priorities and Themes. Within the Rationale two headings can be seen to relate to the ERDF component of the funding: Women Entrepreneurs and Women in Science, Technology and Management. Similarly, under the heading Lessons Learned, the chapter notes that advice was given to a high number of new SMEs owned by women and also that more could be achieved in relation to the childcare infrastructure. Both of these issues could relate to ERDF funding.

4.20. There are four specific Equal Opportunity Objectives outlined in the OP. However these relate more closely to the labour market objectives of ESF (i.e. by focusing on tackling inactivity and moving people into training and employment) and do not particularly emphasise a link with ERDF activities. . More could be done to consider how ERDF funding can contribute to Equal Opportunities, for example in relation to companies assisted and jobs created and safeguarded.

The Gothenburg Agenda / Environmental Sustainability

4.21. The vision of the Gothenburg Agenda is that economic growth, social cohesion and sustainable development go hand in hand. Particular priorities include:

- Combating poverty and social exclusion;
- Dealing with the social and economic implications of an ageing society;
- Climate change;
- Health;
- Biodiversity; and
- Transport congestion.

⁶ Six centres of excellence around the country for specific sectors of the technology industry

- 4.22. There is strong consistency between the Gothenburg Agenda and the Programme in the areas of combating poverty and social exclusion, in particular in relation to Priority 3 (Priority 5 in the revised Programme).
- 4.23. In general, the social and economic implications of an ageing society are not within the gift of Structural Funds to directly address. However, making Wales a more attractive place to live and work will help to increase in-migration and decrease out-migration, which will contribute to this objective. Indirectly, through environmental improvements, the Programme will also impact on health.
- 4.24. The environmental sustainability of the Programme is discussed in the chapter on CCTs. Biodiversity (promotion of aquatic biodiversity and protection in new developments), Climate Change (in relation to a reduction in Greenhouse Gases and adapting to its impact) and Sustainable Transport are covered as headings.
- 4.25. In terms of biodiversity, the main focus of the Programme is on protecting biodiversity rather than taking active measures to promote it. The exception is that actions to enhance degraded habitats will be promoted. More detail on this would be useful.
- 4.26. In terms of climate change, it needs to be recognised in the text that any improvements in efficiency of energy use and energy conservation funded under the Programme will be counterbalanced by higher demand for energy due to increased economic activity associated with the Programme.
- 4.27. In terms of sustainable transport, the link to congestion could be made more explicitly.
- 4.28. As mentioned previously, there is also merit in exploring in how far the Programme can contribute to the development of the green sector of the economy by for example encouraging R&D and innovation in this area.

4.29. The Ex Ante Evaluation needs to consider in how far the CCT of Sustainable Development (SD) has been considered and integrated into the Programme. This can be in terms of integration of SD in each of the Priorities and also across the Programme.

4.30. In terms of inclusion of SD in the Priorities, the main focus on environmental sustainability is in Priority 2. More could be done to highlight the role of the environment in Priority 1 (for example encouraging the 'green sector' and resource efficiency) and in Priority 3 (providing environmental improvements for disadvantaged communities).

4.31. In terms of horizontal integration of SD, the Programme will need to ensure that it goes beyond protecting the environment to a pro-active promotion of environmental objectives throughout the Programme. More detail will be needed to demonstrate how this can be embedded in the implementation of the Programme (e.g. environmental advice and guidance, project appraisal, or SD advisors).

Summary - Consistency with EU policies

4.32. In general, the ERDF Convergence Programme is consistent with the policies and strategies at a European level and fits well with the Community Strategic Guidelines and the Lisbon priorities.

Consistency with UK Policy and Strategy

National Strategic Reference Framework

4.33. The consistencies between the Programme and the National Strategic Reference Framework (NSRF) are outlined below, by Programme Priority (as revised for the OP):

Building the knowledge based economy – Priority 1

4.34. This Priority is consistent with the following NSRF Themes:

- R&D, innovation, technology. Encouraging higher education (HE) and business to promote technological development, technology transfer and commercialisation. Developing new technologies for energy/resource efficiency.

Improving Business Competitiveness – Priority 2

4.35. This Priority is consistent with the following NSRF Themes:

- Improving access to business finance (investment and export assistance); and
- More favourable environment for enterprise, including support for new and existing enterprises.

Developing the strategic infrastructure – Priority 3

4.36. This Priority is consistent with the following NSRF Themes:

- Developing sustainable integrated transport solutions; and
- Developing ICT infrastructure.

Energy and the environment – Priority 4

4.37. This Priority is consistent with the following NSRF Themes:

- Supporting the environment (promoting growth of environmental goods and services, protection/improvement of the environment, clean and renewable energy and energy/resource efficiency; adapting to climate change including flood risk and exploiting the potential of maritime and inland water assets).

Building sustainable communities – Priority 5

4.38. This Priority is consistent with the following NSRF Themes:

- Supporting development of high-quality business sites/premises;
- Regeneration and improving public spaces;

- Improving access to services of economic interest;
- Supporting heritage/cultural regeneration; and
- Local employment/community development/social enterprise and social capital.

4.39. The Themes in the NSRF that are not prioritised in the Programme are:

- Supporting cluster development and centres of excellence; and
- Creating enterprise opportunities within the education system.

4.40. If the Programme is revised so that these two Themes are implemented then Programme will be fully consistent with the NSRF.

UK National Reform Plan

4.41. The key document relating the Lisbon strategy to the UK policy level is the UK National Reform Plan (Lisbon Strategy for Jobs and Growth: The UK National Reform Plan, HM Treasury, October 2005). The Reform Plan is an EU-wide initiative that replaces the National Employment Action Plans, which tended to only focus on priorities with direct relevance to ESF interventions. The 2005 UK National Reform Plan focuses on three broader objectives:

- Macroeconomic stability for jobs and growth;
- Increasing employment opportunities for all; and
- Promoting productivity growth.

4.42. The first bullet point mainly covers policies for which the policy levers are held by the UK government such as fiscal policy and there is thus no direct applicability to the ERDF Convergence Programme. Similarly, the second bullet point covers issues of relevance to the ESF Convergence Programme and consistency with this Programme is going to be assessed in the Ex Ante Evaluation of that Programme.

4.43. The final bullet point covers the following specific policies:

- Raising skills in the workforce;
- To further reform the investment chain (the mechanisms which connect investors with the actual business, for example the actuarial profession);
- Reducing the burden of regulation on businesses;
- Improving access to capital for high growth small firms and encouraging enterprise development in disadvantaged areas;
- Encouraging investment into science and innovation;
- Promote effective, market-based policies to ICT usage by businesses and public authorities; and
- Increase business resource efficiency and reduce waste.

4.44. The Reform programme also notes that the responsibility for economic development lies with the Welsh Assembly.

4.45. The first bullet point is covered within the ESF Convergence Programme while the second refers to specific UK-wide reviews and initiatives. There is no direct reference to reducing the burden of regulation within the Programme. While the Programme should strive to minimise any additional burden on businesses (by for example keeping administrative requirements to a minimum), there is no direct role for the Programme in relation to regulation.

4.46. The remaining bullet points link directly Themes pursued within the Programme. Overall, the Programme thus fits well with the National Reform Plan and contributes to its overall objectives.

Summary and recommendations

4.47. The Programme strategy is largely consistent with UK policy and strategy. However, the following area has been identified for further consideration:

- Supporting clusters and creating enterprise opportunities in the education system should be considered and the rationale for including or excluding these interventions should be set out.

Consistency with Welsh policy and strategy

4.48. DTZ has appraised the consistency of the Programme strategy with a broad range of Welsh policy and strategy documents. Five key documents were identified explicitly within the specification for the Ex Ante Evaluation.

- Wales: A Vibrant Economy;
- Wales – A Better Country;
- Skills and Employment Action Plan;
- Wales Spatial Plan; and
- Our Environment Our Future.

4.49. These are discussed individually below. A further 15 documents have also been reviewed. Summary comment in respect of these is included.

Wales: A Vibrant Economy

4.50. Wales: A Vibrant Economy (W:AVE) is the Welsh Assembly Government's strategic framework for economic development. The Consultation Document was published in November 2005. W:AVE will supersede A Winning Wales upon formal release. W:AVE has been developed within the context of Wales – A Better Country (see below).

4.51. W:AVE has been drafted to set the strategic framework for the European Structural Funds Programmes 2007 – 2013 and is closely aligned to the Lisbon Agenda, particularly in terms of delivering more and better jobs and a focus on knowledge and innovation. Sustainability is at the heart of W:AVE. Key areas of consistency between W:AVE and the ERDF Convergence Programme include:

- Transport networks and economic infrastructure (link to Priority 3 of the revised Programme);

- Supporting businesses and sectors with growth potential (link to Priority 2 of the revised Programme);
- Increasing competitiveness through entrepreneurship, innovation, investment and trade (link to Priorities 1 & 2 of the revised Programme); and
- Encouraging clean energy generation and resource efficiency (link to Priority 4 of the revised Programme).

4.52. Priority 5, which is predominantly focused on disadvantaged communities, does not have this strong link to the key priorities in W:AVE.

4.53. In light of these overlaps between W:AVE and the Programme and the overlaps between the Programme and Lisbon, it is clear that W:AVE has a good fit with the Lisbon Priorities in those areas covered by ERDF funding. The exception to this is Priority 5, which does not have a strong link to either Lisbon or W:AVE.

Wales - A Better Country

4.54. Wales – A Better Country, published in September 2003, sets the strategic agenda for the Welsh Assembly Government. The remit of the agenda is wider than the Programme strategy and therefore consistency and coherence has been assessed against relevant areas of the agenda only.

4.55. Overall there is substantial consistency between Wales – A Better Country and the Programme strategy. The drive for more and better jobs in the Programme strategy is central to the economic elements of Wales – A Better Country, along with the focus in the Programme strategy on delivering a diverse, competitive, high added value economy with high quality skills and education that minimises demands upon the environment.

4.56. Sustainability is at the core of the agenda, and this is in line with the Programme strategy. Other key areas of consistency include:

- Boosting innovation and R&D activities;
- Enterprise and ICT;
- Developing transport infrastructure, enhancing the built in natural environment and creating conditions for sustainable development;
- Developing the Environmental Goods and Services sector and using environmental opportunity as a driver for the economy; and
- Tackling deprivation and delivering strong and safe communities through the Communities First initiative.

4.57. Spatial targeting is identified within Wales – A Better Country. This is to be delivered through the Wales Spatial Plan. Equal opportunities is a key element throughout. There is a strong sense of leaving a positive legacy for future generations.

4.58. There are no clear areas of inconsistency between Wales – A Better Country and the Programme strategy. However, the issue of support for the Welsh language is highlighted within Wales – A Better Country but not clearly evident in the Programme Strategy. WEFO may wish to consider strengthening references to this topic.

Skills and Employment Action Plan

4.59. The Skills and Employment Action Plan (SEAP) has greater direct relevance to the ESF Convergence Programme than to this Programme. However, where it is relevant to the ERDF Programme there is a high degree of fit. The SEAP notes that there is a need to promote job creation as well as ensuring that people are equipped with the skills and opportunities for work to take up the jobs created.

4.60. The SEAP 2005 details the strategic aim of increasing demand for skills by encouraging business to pursue high value-added products and services,

highlighting the role for co-ordinated businesses support in helping to achieve this. Education institutions are recognised as playing an important role in encouraging the development of a knowledge economy. Furthermore, the SEAP identifies the importance of attracting and retaining graduates in the Welsh economy, which further supports the priority of enhancing growth in higher value-added products and services.

4.61. Priority 5 of the OP, Building Sustainable Communities, identifies the strategic priority of combining physical regeneration and community economic development. Whilst not explicitly linked to the SEAP, there is potential for greater linkages between this Priority and the SEAP actions. For example the SEAP sets out that the National Planning and Funding System⁷ should increase capacity within the provider network to meet increased sector demand for particular skills. The investment highlighted in Priority 5 may have the potential to stimulate demand for skills in certain sectors, such as construction, which could be integrated with workforce skills development.

4.62. Whilst the encouragement of social enterprises is not part of the SEAP, there is an emphasis on ensuring that the working age population has the skills needed for employment and social enterprises could be regarded as a tool for achieving this. Given that low GVA per head in WWV is explained by relatively high levels of economic inactivity (as opposed to unemployment – see the Programme Analysis), activities that provide a pathway to economic activity, such as the development of social enterprises, complement the rationale for public sector intervention. Furthermore, social enterprises may provide some local facilities required to overcome barriers to employment (e.g. affordable childcare facilities), although again the Programme document does not explicitly mention social enterprises in this context.

⁷ ELWa has developed a new integrated National Planning and Funding System (NPFS) for post-16 provision, live since 2005.

Wales Spatial Plan

- 4.63. The Wales Spatial Plan, adopted by WAG in November 2004, sets a spatial framework to optimise the use of public and private resources. The Spatial Plan explicitly seeks to provide a framework for the implementation of EU Structural Funds 2007 – 2013. The broad Themes within the Spatial Plan have a good fit with the Programme strategy. As with other Welsh policy, the sustainable communities agenda is at its heart. The economic chapter of the Spatial Plan is well aligned with the Lisbon Agenda and Programme strategy with a focus on increasing competitiveness whilst reducing negative environmental impacts.
- 4.64. The Programme strategy outlines the use of the Wales Spatial Plan as the vehicle by which spatial targeting will be implemented. The area chapters cover six sub-regions of Wales. A strategy and related actions for each area are outlined as responses to needs identified. However, in the context of the Programme there is potential for inconsistency. The six identified areas do not clearly map to the West Wales and the Valleys region. The Programme strategy should therefore provide greater detail as to how spatial targeting is to be undertaken, with particular focus on addressing variation in geographical sub-regions between the Convergence region and the Spatial Plan areas.
- 4.65. There is a requirement by the Commission to consider how the funds are going to be targeted thematically and spatially. Currently, the document does not specify any spatial targeting aside from making reference to the Spatial Strategy. The Programme Analysis suggests that certain issues are more prevalent in particular parts of the region. It would be useful if these are used as a starting point for a broad spatial targeting. For example, Swansea is identified as having a relatively high GVA, western and northern areas have particular problems with lower value-added jobs, and in the central valleys lower employment features more prominently. While there are difficulties with spatial targeting that is too rigid (for example reducing the ability to react to changing socio-economic circumstances), a broad indication of where

spatially-concentrated issues require specific interventions would be useful in the Programme.

4.66. This does not require reproducing the analysis underpinning the Spatial Plan (though it might benefit from including some of the updated data in the Programme Analysis) or creating alternative targeting and delivering systems. Rather, it would be useful to summarise and re-iterate some of the key elements of the Spatial Plan in the Programme documents, making it explicit how and to what extent the Programme will use the Spatial Plan in its delivery.

4.67. The Commission has explicitly requested that regions consider territorial cohesion and the specific territorial characteristics such as mountain areas. DTZ previously identified that it would be useful to identify areas that require additional support due to territorial characteristics and map out in more detail how this will link into but not duplicate rural development support. Following this, WEFO included more detail in this regard in the OP.

Our Environment Our Future

4.68. The Strategic Environmental Assessment of the ERDF Convergence Programme strategy addresses consistency with the Environmental Strategy of the Welsh Assembly Government. The SEA Environmental Report has not found any inconsistency between the Programme objectives and the environmental objectives contained within Welsh strategies, noting that the Programme is aiming to contribute positively to a number of environmental objectives. The SEA Environmental Report also proposes a number of measures which can mitigate against any negative environmental impact arising from increased economic activity

Other Welsh strategies

4.69. DTZ has appraised consistency with the following additional Welsh strategy documents:

- A Winning Wales – National Economic Development Strategy;
- Wales Sustainable Development Scheme;
- Implementation Plan for Entrepreneurship: Making It Happen;
- Iaith Pawb: A National Plan for a Bilingual Wales;
- The Learning Country;
- National Action Plan for Social Inclusion;
- Extending Entitlement;
- 14-19 Pathways;
- Wales for Innovation – The Welsh Assembly Government’s Action Plan for Innovation;
- Reaching Higher – A Strategy for the Higher Education Sector in Wales;
- Nexus Report;
- Energy Wales Consultation Document;
- Waste Strategy; and
- Making the Connections.

4.70. In summary DTZ has found a very good fit between each strategy and the Programme strategy. The degree of relevance of each strategy to the Programme varies across documents. However, DTZ has not identified any areas of conflict.

4.71. There is a good degree of consistency across Welsh policy and strategy in general and the Lisbon and Gothenburg priorities, particularly moving towards the creation of more and better jobs. Sustainable development is a consistent Theme within strategic documents.

4.72. DTZ has identified the following minor issues which WEFO may wish to consider in developing the Programme strategy:

- Stronger references to the cultural and Welsh language agenda could be incorporated alongside references to quality of life;
- Stronger statements could be included in relation to the scale of renewable energy creation and energy efficiency gains.

Summary

4.73. DTZ has found a high degree of fit between the ERDF Convergence Programme strategy and Welsh policy and strategy.

Consistency with Other Structural Funds Programmes

ESF Convergence Programme

4.74. There is strong complementarity between ERDF Convergence and ESF Priorities. It is entirely consistent that both a highly skilled workforce is required to support a high added value economy and vice-versa, in that appropriate economic opportunities will need to be provided in order to retain highly skilled individuals.

4.75. The key areas for complementarity are listed in Table A4 in Annex D, with ESF Priority 4 focusing on employment and economic inactivity, Priority 5 on skills and Priority 6 on administrative capacity.

Territorial Co-operation Programme

4.76. The Territorial Co-operation Programme sets out the planned interventions to encourage cross-border working between Ireland and Wales. In relation to cross-border co-operation, the Community Strategic Guidelines state that “the ultimate objective of cross-border cooperation in Europe is to integrate areas divided by national borders that face common problems

requiring common solutions.” The Guidelines also stress the need to concentrate the assistance on the main priorities in support of growth and job creation.

4.77. The Programme sets out which policy areas might be suitable for territorial co-operation, focusing on the following areas where there are real opportunities for cross-border working:

- R&D;
- Education; and
- Training.

4.78. More limited opportunities for co-operation with a focus on specific issues of common concern are identified in the following areas:

- Community development;
- Climate change; and
- Environmental awareness.

4.79. The Programme also identifies areas where, despite common challenges, the Programme can not add significant value to national-level interventions, namely:

- Infrastructure;
- Broadband provision and access;
- Social deprivation; and
- Inter-regional imbalances.

4.80. The OP will be delivered through two Priorities, each containing two Themes:

- Priority 1- Knowledge, innovation and skills for growth
 - o Theme 1 - Innovation and competitiveness
 - o Theme 2 - Skills and competitiveness for employment integration
- Priority 2 - Climate change and sustainable regeneration
 - o Theme 1 – Climate change and environmental sustainability
 - o Theme 2 – Sustainable regeneration of communities

4.81. The Programme highlights that areas of notable success in the last Programming period (2000-2006) was the collaboration of higher and further education colleges and the private sector in the management, monitoring and protection of natural resources in the Irish Sea with collaboration on subjects as diverse as habitat mapping, the monitoring and protection of endangered species, and the sustainable management of sea based aggregates.

4.82. The areas of intervention chosen in the Territorial Co-operation Programme are also covered in the Convergence Programmes. For example, there are direct overlaps between ERDF Priorities 1 (with Territorial Programme Priority 1 Theme 1), 4 (with Territorial Programme Priority 2 Theme 2) and 5 (with Territorial Programme Priority 2 Theme 2) of the OP and the Territorial Cooperation Programme. Table A5 in Annex D highlights where Themes of the Territorial Co-operation Programme most clearly overlap with Priorities in the ERDF or ESF Convergence Programmes.

Other Structural Funds programmes

4.83. The ERDF Convergence Programme is fully consistent with the Priorities and Themes being developed for the Structural Fund interventions in East Wales under the ERDF and ESF Competitiveness Programmes. In the main the Competitiveness Programmes map closely onto the needs and priorities identified for WWV and should complement the interventions.

European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF).

4.84. It is important that the ERDF Convergence Programme is consistent with the EAFRD and the EFF to ensure that available funds are utilised in a way that maximises their added value and avoids duplication. The ERDF Convergence OP notes that work is ongoing to draw up the strict demarcation criteria that will be used to ensure that no operation is funded by more than one instrument. The OP highlights in general terms the areas and circumstances under which ERDF funding can potentially be used and how these differ from interventions under the EAFRD and EFF. Thus the Programme takes account of areas of potential overlap and clearly distinguishes between the types of activities that will be eligible for funding under each Programme.

4.85. Therefore the OP has appropriately and sufficiently identified the potential areas of overlap as well as complementarity to ensure that the ERDF Convergence Programme is consistent with the EAFRD and EFF.

Summary and recommendations – external consistency

4.86. For the most part, the ESF Convergence Programme is consistent with policies and strategies at the European level. The Programme strategy is also largely consistent with UK policies and strategies and with the key Welsh Policies. DTZ has also found a high degree of fit between the ERDF Convergence Programme strategy and other Structural Fund Programmes.

Community added value

4.87. Throughout the evaluation, the evaluators have considered to what extent the Programme provides Community added value. With respect to the Programme strategy, rationale and internal and external consistency chapter, the key consideration has been whether the OP indicates that the Programme can add value to Community priorities, as well as providing financial added value, in terms of additionality and leverage effects.

4.88. It is worth highlighting that the Programme specifically highlights the approach to Community added value, setting out clearly and comprehensively the different elements which will make up the Community added value of the Programme, drawing on lessons learned from previous Programmes.

4.89. The Programme strongly links to Community priorities, specifically highlighting the Lisbon agenda, and the interventions are designed to maximise Community added value with regard to Community priorities. The Lessons Learned exercise has highlighted that it is crucial for Programme priorities to be strongly linked to regional and national priorities, as well as Community priorities, to provide most effect and this is clearly the case for the Programme. Furthermore, the Programme builds on good practice in relation to the integration of the Cross Cutting Themes, ensuring that these are built in from an early stage.

4.90. In terms of financial provision, it is clear that the ERDF Convergence Programme will leverage in significant match funding from the Welsh public

sector. The financial allocations show a range of co-financing rates across the different priorities, with varying levels of Structural Fund, Welsh public funding and private match funding contributions⁸. WEFO has indicated that these different rates arise from a careful analysis of rates which are potentially achievable, aiming for a high level of match funding while at the same time being realistic and minimising risk, especially in view of the scale of match funding required. WEFO will add further text to clarify how the match funding rates have been derived. WEFO has advised DTZ that the rationale for this structure of funding will be outlined in a revision to the OP. At present, the level of envisaged private sector match funding has not been detailed in the OP.

4.91. The OP also contains significant provisions to ensure additionality of funds through the identification of areas where Structural Funds can add to the overall level of intervention; bring interventions forward which would otherwise not have taken place at that point in time; or enhance the quality of intervention. While a full assessment of additionality will need to be made at later evaluation stages, the planned provisions are consistent with seeking high additionality and leverage and are thus designed to maximise Community added value.

Revisions to external consistency prior to submission to Commission

4.92. A number of revisions to the OP provided to DTZ for assessment in early December 2006 were made before it was submitted to the Commission in mid-December 2006. The revisions as they affect our appraisal of Programme external consistency are discussed below.

4.93. DTZ previously concluded that in general the Programme is largely consistent with the policies and strategies at a European and UK level. The revised OP makes this consistency more explicit through the addition of text outlining that the Programme objectives and Priorities will address the

⁸ TA is matched on a one-for-one basis.

priorities of the Lisbon strategy, UK National Reform Plan, Community Strategic Guidelines and UK National Strategic Reference Framework. It is explained in the OP that the Programme will do this by focusing on building an enterprising and flexible business sector, promoting innovation and R&D, widening opportunities for the acquisition of skills, improving employment prospects for the most disadvantaged and increasing innovation and adaptability in the use of energy and resources.

4.94. The early December OP stated that whilst work was ongoing to establish the strict criteria for the demarcation of activities to be funded under Convergence versus European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF), the OP outlined in general terms the type of activities that would be eligible under each Programme. However the revised OP includes a Priority-by-Priority assessment of potential overlaps and complementarities between the ERDF Convergence Programme and the other two Programmes, as well as areas of potential added value. Thus the strategy is much strengthened in this regard.

5. STRATEGIC ENVIRONMENTAL ASSESSMENT

Chapter overview

- 5.1. Royal Haskoning in association with DTZ Research and Consulting have carried out the Strategic Environmental Assessment (SEA) of the ERDF Convergence Programme. The Assessment was carried out on the Consultation Document, with further assessment made of the revised Programme to ascertain whether the revisions had altered the likely significant environmental impacts. It was concluded that the revised Programme would not imply any significantly different environmental impacts and the original assessment therefore remains valid and appropriate. This chapter provides an overview of the assessment, with the full report contained in Annex C.
- 5.2. This SEA has been undertaken alongside the development of the Programme and the Ex Ante Evaluation of the Programme (as required under the EC regulations) and seeks to ensure that the Programme meets the high level of environmental protection expected of EU Structural Fund programmes. In addition, the Programme must support the Welsh Assembly Government's overarching goal of sustainable development.

The SEA process

- 5.3. The approach undertaken for the SEA of the Programme is based on two key guidance documents, namely: the Office for the Deputy Prime Minister⁹ (ODPM) guidelines¹⁰, and the Handbook on SEA for Cohesion Policy 2007-2013¹¹.

⁹ Now Communities and Local Government.

¹⁰ A Practical Guide to the Strategic Environmental Assessment Directive (Office of the Deputy Prime Minister, 2005).

¹¹ Handbook on SEA for Cohesion Policy 2007-2013 (Greening Regional Development Programmes Network, 2006).

The Impacts of the Programme

- 5.4. In the SEA, the key adverse environmental impacts of the draft Programme are identified as being likely to arise from increased economic development and the associated use of primary materials, primary fuels and energy, and the resultant emissions to land, air and water. These emissions could in turn result in indirect adverse impacts on biodiversity, water quality and resources, landscape, and on the quality of life and health of the population.
- 5.5. However, the Programme offers a good opportunity to reduce the current overall negative impacts resulting from a lack of energy efficiency, climate-friendly practices, and lack of cost-effective logistical planning. Moreover, the Programme could also contribute positively towards the enhancement and protection of biodiversity, water quality, soil quality, resource management, and cultural heritage and, in so doing, decrease and manage the total amount of greenhouse gases emitted into the environment.

Cumulative impacts

- 5.6. Without mitigation or avoidance measures the following cumulative impacts could potentially occur:
- Adverse cumulative effects on biodiversity at the local level as a result of new developments for some activities in Priority 1. These effects would arise predominantly from site-specific developments, which cannot be assessed at this strategic level;
 - Adverse cumulative effects could arise on discharges, water quality, quantity and usage where increased economic activity for some activities in Priority 1 result in increased pressure on these resources;

- Adverse cumulative effects on air quality from locally small-scale emissions to air for some activities in Priority 1, where these would result in increased transport levels; and
- Adverse cumulative effects on climate change due to potential small-scale contributions to carbon dioxide emissions from increased economic activity resulting from some of the activities in Priority 1, where increased transport may occur.

Proposed mitigation measures

5.7. The following mitigation and avoidance measures were identified and recommended for inclusion in the selection of activities to be funded by the Programme. These measures should provide economic benefits as well as long-term environmental benefits or benefits that would extend across the region:

- Activities supporting growth in clean environmental technology that would aim toward reductions in carbon emissions (and the related factors that cause this);
- Activities focussing on improvements in fuel efficiency and technologies that benefit clean and efficient public transport;
- Activities promoting technologies that minimise waste;
- Incorporation of resource efficiency measures in supported activities; and
- Activities supporting improvements in clean technology.

5.8. The following measures were recommended for incorporation into funded activities where these may result in uses of materials/energy/transport:

- Promotion of sustainable transport;
- Use of existing public transport links, and development of green transport plans where appropriate;

- Incorporation of Environmental Management Systems wherever possible;
- Use of ICT to improve efficiency of materials and reduce resource/energy use specifically transport;
- Utilisation of the climate change adaptation tool at <http://www.ukcip.org.uk/resources/tools/adapt.asp>;
- Achievement of high standards of environmental performance for all buildings (e.g. the BREEAM standards); and
- Use of ICT provision to increase longevity of buildings (reduction in space/efficiency of product movements).

5.9. The following measures were recommended for incorporation into activities where these may result in development or increased activities in or near to natural areas:

- Support for and enhancement of designated nature conservation sites;
- Promotion of biodiversity and sustainable land use management for developed sites; and
- Prioritisation of development on brownfield sites.

5.10. Incorporation of the mitigation or avoidance measures summarised above is expected to result in reduced emissions, energy usage, improved conservation of resources, development of clean technology, and other activities that would prevent and reduce the existing effects on the environment from economic drivers, as well as avoid potential adverse and cumulative impacts of the Programme.

Programme revision - Results

- 5.11. Following public consultation of the draft Environmental Report, the Environmental Report was revised to take account of the comments, significant among them being re-assessment of alternative options, as well as identification of more detailed mitigation measures. The revised Environmental Report provided a detailed recommendation and information input to the determination of the final Programme.
- 5.12. Although the final Programme was reorganised in its structure, the Priorities, Themes, aims, and indicative activities remained the same, or were improved by the addition of more aims and activities, which covered areas identified in mitigation measures and additional targeting information for the Programme's funding. These changes to the Programme are predicted as strengthening the probability of avoiding adverse impacts, reducing the probability of adverse impacts occurring and, in the unlikely event of significant impacts occurring, providing mitigation measures to reduce the scale of any adverse impact. The information provided by the SEA also provided additional focus on maximising the environmental benefits expected to result from the Programme.

6. APPRAISAL OF PROPOSED IMPLEMENTATION SYSTEMS, MONITORING AND EVALUATION AND INDICATORS/TARGETS

Implementation systems

Introduction

- 6.1. This chapter contains the appraisal of Programme implementation arrangements. It also reflects on how earlier comments made by DTZ on the monitoring and evaluation components of the Convergence Consultation Document have been addressed. It should be highlighted that the monitoring and evaluation elements of the Implementation Chapter were available to DTZ at an earlier stage than for other elements of the chapter and that this is reflected in an additional iteration of comments on monitoring and evaluation arrangements. A full evaluation of the recommendations and WEFO response to them is detailed in Annex D, and the commentary in this chapter mainly highlights the extent to which WEFO accepted recommendations. The final section of the chapter relates to the indicators and targets for the Programme.
- 6.2. The full implementation chapter has only become available shortly before this report was finalised. Consequently, DTZ are unable to assess at this stage how far recommendations on implementation arrangements have been taken into account. Further the OP has subsequently been revised since the production of this evaluation, and it is noted that most of the outstanding recommendations and drafting comments made here have been addressed by WEFO. However it is outwith the scope of this report to comment on these in detail.
- 6.3. The Commission's Draft Working Paper on Ex Ante Evaluations specifies that the following details in the OP need to be assessed:
- Designation of bodies and procedures for implementation;
 - Monitoring and evaluation systems;
 - Partnership arrangements;

- Publicity; and
- Procedures for the exchange of computerised data to meet payment, monitoring and evaluation requirements.

6.4. This chapter analyses risks and makes recommendations for preventative action, drawing on the lessons learned from previous evaluations (see Annex B). Broadly in line with the headings noted above, the Implementation Chapter of the OP is organised according to the following headings:

- Designation of Authorities;
- Partnership;
- Implementation;
- Payment Bodies;
- Procedure for Financial Flows;
- Computerised Exchange of Data;
- Monitoring and Evaluation; and
- Publicity and Information.

6.5. This assessment of the Implementation Chapter starts with some high-level recommendations. These are followed by detailed comments and recommendations on each of the sections of the Implementation Chapter. Further, as discussed throughout this evaluation, it is a requirement of the European Commission's Draft Working Paper on Ex Ante Evaluation that throughout the Programme development and evaluation process there should be a concern to maximise Community added value. Added value is based on a range of criteria including the Structural Funds method of implementation. Therefore this chapter also includes a discussion of the potential for added

value identified in the Lessons Learned paper and the provisions of the Implementation Chapter.

High-Level Recommendations

- 6.6. The Implementation Chapter sets out a high-level description of the proposed implementation arrangements. In setting out these arrangements, WEFO can draw from its experience of implementing the Programmes in the last round of funding. It is thus entirely appropriate that some of the provisions are kept relatively general. However, in areas where there is major change or where shortcomings were identified in the last round of funding, it would be useful if the document clearly identifies what the issues were and how the changes in this round of programming will address them. In particular, this should be explored in relation to the introduction of the new electronic Knowledge Management system and the creation of Strategic Frameworks.

Recommendation: The rationale for introducing changes such as the new electronic Knowledge Management system and the Strategic Frameworks should be explored in greater detail.

- 6.7. Setting up new systems is inherently more risky than continuing to use the previously tried and tested systems. The Implementation Chapter should explore risks associated with the introduction of new implementation arrangements, highlight risk mitigation or management measures and weigh up these risks against the benefits of the new arrangements.

Recommendation: The risks involved in the introduction of new implementation arrangements, as well as associated risk mitigation or management, should be considered alongside the benefits of any changes.

- 6.8. More generally, there is a need to explore all implementation risks alongside potential mitigation approaches.

Recommendation: A high level risk register should be included in the Implementation Chapter.

Designation of Authorities

- 6.9. The Implementation Chapter highlights that the different Authorities (Managing Authority and Certifying Authority) will be within WEFO but functionally separated, with different responsibilities and management arrangements. DTZ recommended that it would be useful to briefly set out why this separation is required and to discuss whether situating these Authorities in the same division (as opposed to, for example, the Internal Audit Service which is independent of WEFO) is compatible with the objectives of functional separation.

Recommendation: There should be an explanation of the underlying objectives and potential limitations of functional separation within WEFO.

- 6.10. Further, it was recommended that under the description of the functions of the Audit Authority, there should also be discussion of the verification function of the IAS in checking whether an audit trail exists for all payments and whether all records are kept in accordance with audit principles.

Recommendation: The importance of IAS verifying the audit trail and ensuring compliant record keeping should be highlighted.

In regard to the above two recommendations, WEFO has advised that details on separation of function and audit requirements will be produced separately.

Partnership

- 6.11. In the relevant section of the Implementation Chapter the selection of partners to implement the OP is discussed, with the aspiration that participation of voluntary and community bodies will be encouraged. More indication of how this will be addressed would be useful.

Recommendation: More detail on how voluntary and community bodies will be encouraged to participate is required.

- 6.12. A target of 40% representation of women on the Programme Monitoring Committee (PMC) is mentioned; this should perhaps be a 'minimum of 40%'. DTZ recommended that more indication of how this will be achieved would be useful: for example how women are going to be encouraged to take part. Are there any other groups that should have some representation such as black and ethnic minorities? Is private sector representation desirable?

Recommendation: More detail on how the PMC will be constituted is required.

- 6.13. Again WEFO has advised that these details will be produced and provided separately.

6.14. Also within the Implementation Chapter the frequency of PMC meetings could be specified as a minimum requirement of two meetings per year¹².

6.15. The PMC's role in setting project selection criteria is highlighted. Detail should be given on how this fits with the role of the Strategic Frameworks.

Recommendation: The interaction of the PMC with the Strategic Frameworks should be explored, for example in relation to project selection criteria.

6.16. An indication of what criteria will drive project selection would be useful.

Recommendation: More detail is required on what criteria will drive selection.

Implementation

6.17. There is an indication in the text that this section is still being revised, however the evaluation has been carried out on the available documentation as provided by WEFO.

6.18. The Implementation Chapter outlines principles agreed between the Welsh Assembly Government and stakeholders for guiding the development and implementation of the 2007 – 2013 Structural Fund programmes. Where the Implementation Chapter highlights Lisbon and Gothenburg, the overarching commitment to mainstreaming equality should also be reflected.

¹² Noted that WEFO is aware this is the minimum requirement, however wording was not clear in this regard in the Consultation Document and recommendation relates to the need to specify this clearly in the OP.

6.19. Also, the Implementation Chapter suggests that fewer projects will result in 'deeper interventions'. A brief explanation of this concept would be helpful.

Recommendation: Mainstreaming equality has to be highlighted alongside Lisbon and Gothenburg.

Recommendation: The term 'deeper interventions' needs to be explained.

6.20. A number of key documents are highlighted within the Implementation Chapter but only the Wales Spatial Plan is discussed subsequently. If the Wales Spatial Plan needs to be highlighted over and above what is already included in the Strategy Chapter then it should be made clear what the specific link to implementation will be (i.e. focusing and expanding on what is included in this section of the Implementation Chapter).

6.21. In the section of the Implementation Chapter that discusses the importance of the Wales Spatial Plan as a framework for policy choices and delivery, it is noted that the Plan 'will set the framework for choices both on policy priorities and for delivery'. This seems very general – does this apply to all priorities under all Programmes? Later in the same paragraph, three specific ERDF priorities are highlighted which seems to indicate a more limited application of the Wales Spatial Plan.

Recommendation: The role of the Wales Spatial Plan in implementation needs to be refined and explained in more detail.

6.22. In the section of the Implementation Chapter, which gives some broad information on Strategic Frameworks, more detail on how Strategic Frameworks will operate would be helpful: for example outlining how many are expected, what kind of areas are likely to be covered, and so on.

Recommendation: More detail on Strategic Frameworks would be helpful.

6.23. In the section of the Implementation Chapter which gives detail on how payments to projects will be made, there is mention of the Managing Authority, the Payments Branch, the Programme Management Division and the Certifying Authority. DTZ advised that a diagram might be helpful to illustrate the organisational structure. Following this, WEFO elected to insert a link into the OP to address this point.

6.24. In the section of the Implementation Chapter which covers the frequency of payments to projects, 'regular intervals' is mentioned. A more specific period (e.g. quarterly) could be specified¹³.

6.25. Key features of PPIMS, such as its development, functions, objectives, and milestones, should be discussed in more detail in a stand-alone section (for example under a new section 'Knowledge Management' which also includes the provisions for computerised exchange of data¹⁴).

Recommendation: A separate detailed section on PPIMS would be helpful.

6.26. Further, there is a provision to make payments to projects in advance. In general, a full payment in advance would be unusual and it might be worth exploring whether only a percentage of the total should be paid in advance. There is also a broad provision to pay organisations by 'need'. The text is not very clear on what this entails. In general, all payments should be linked to project delivery (or anticipated delivery in the case of advance payment), so it is difficult to see where 'need' comes into these payments.

¹³ Note that WEFO advise that this has been included in the Operational Programme.

¹⁴ Note that WEFO advise that this has been included in the Operational Programme.

Recommendation: The conditions for payment in advance or by 'need' have to be specified in more detail.

Monitoring and evaluation

6.27. Under the section of the Implementation Chapter, relating to projects' selection of indicators, more detail on what support will be provided to encourage monitoring by projects would be useful.

6.28. In addition to the functions of the Annual Implementation Report set out in the Implementation Chapter, the Annual Implementation Report should also be used to report annually on progress to a wide range of stakeholders in Wales, including the general public.

Recommendation: More detail on the role of regular monitoring and evaluation in reporting progress to the wider stakeholders in Wales would be helpful.

6.29. Where the Programme references the evaluators, further reference should be made to the independent and objective nature of the external evaluators (DTZ).

6.30. The Implementation Chapter contains a general reference to the Monitoring and Evaluation Plan. A draft outline of this plan would be useful in assessing the proposed monitoring and evaluation arrangements.

Recommendation: A draft outline of the Monitoring and Evaluation Plan should be included in the OP.

6.31. In the section of the Implementation Chapter which relates to project-level monitoring and evaluation guidance, more details on what guidance will be supplied would be helpful.

- 6.32. An indication of what evaluation capacity building will take place would be useful as part of the section on 'Managing Monitoring and Evaluation'.

Recommendation: More detail on how evaluation capacity will be built up in this funding period would be helpful.

- 6.33. In addition to these specific comments, the next section of this appraisal also looks at the recommendations provided on 10 October 2006 by DTZ on proposed monitoring and evaluation arrangements, and in how far those recommendations have been implemented by WEFO in the latest draft OP.

Monitoring and evaluation – implementation of previous recommendations

- 6.34. The overarching recommendation of introducing a monitoring and evaluation strategy (or monitoring and evaluation plan) has been accepted by WEFO. DTZ made around 20 recommendations relating to monitoring and evaluation, all of which except the few relating to tracking indicators were accepted by WEFO and will be implemented through the Monitoring and Evaluation Plan that WEFO is developing. As regards the tracking indicators WEFO decided to keep these contextual, rather than try to link Programme interventions to impacts on tracking indicators.

- 6.35. On the whole, WEFO has accepted the recommendations relating to monitoring and evaluation but wants to retain a high degree of flexibility by specifying the details in the Monitoring and Evaluation Plan, which will evolve throughout the Programme. The evaluators accept that WEFO is intending to include the required detail outwith the OP document itself.

- 6.36. Contained within the relevant section of Annex D relating to information for this section of Chapter 6 is Table A6 that outlines the recommendations made and an assessment of the actions taken by WEFO in response to these. Further, an earlier appraisal of the monitoring and evaluation arrangements

that took place and led to the introduction of the Monitoring and Evaluation Plan can be found in the Annex D to this chapter.

Publicity and information

- 6.37. In the publicity and information section of the Implementation Chapter, there seems to be scope for a more pro-active and positive role for communication activity in highlighting the added value Structural Funds have brought to Wales.

Indicators/targets

Target setting for Wales 2007 - 2013

- 6.38. This section describes the target setting exercise for the Programme. Initially it was envisaged that the monitoring data from the 2000 – 2006 Objective 1 Programme for West Wales and the Valleys could be used as a basis for drawing benchmarks and formulating targets for the 2007 – 2013 ERDF and ESF Convergence Programmes, based on the costs of interventions and the funding available.
- 6.39. In this regard, a mapping exercise was undertaken by WEFO which correlated Objective 1 Priorities and Measures to Convergence Priorities and Themes. Within each Measure, indicators that were similar to Convergence indicators were chosen, and the data on past performance by each project, and the amount spent by each project was used to produce a cost per output, and a new target on this basis. However, it was concluded that due to the gaps in the mapping, and the fact that the mapping was not entirely consistent due to the fundamental changes evident between the Objective 1 Programme and Convergence Programme, another methodology for setting targets would be required. In addition to this, no benchmarking data was available on the average costs of interventions of the type envisaged for ERDF in Wales.

6.40. In light of these issues, WEFO staff devised a methodology using statistical information to draw a contextual background for each target and devise the actual target based on the amount of funding available in each Priority and the estimated cost of intervention – for example the cost of providing advice to an SME or the cost of assisting an SME to create one job. Through discussion with WEFO DTZ provided objective advice on WEFO's processes used to calculate each target, and made several recommendations to improve the robustness of the methodology. Finalised targets are currently being developed by WEFO.

6.41. The next steps therefore involve WEFO finalising the targets with advice from DTZ and through negotiations with the Commission.

Community added value

6.42. Throughout the evaluation, the evaluators have considered to what extent the Programme provides Community added value. With respect to implementation, the key consideration has been whether the Implementation Chapter takes into account Community added value arising from the method of implementing Structural Funds, namely partnership, multi-annual planning, monitoring and evaluation and sound financial management.

6.43. Overall, the chapter draws strongly on the lessons learned from previous rounds of Structural Fund implementation and appropriately highlights that Structural Funds can add value by the methods by which they are implemented. The OP sets out clearly what partnership provisions will be made in the Programme and sets out the Strategic Frameworks which have been introduced to address some of the difficulties (for example the large number of individual projects) encountered in the previous round.

6.44. The Lessons Learned exercise has clearly identified that the Structural Funds can add value by providing a multi-annual programming framework, as long as there is also a degree of flexibility to allow the programmes to evolve.

The OP appropriately reflects both of these dimensions. The OP also clearly sets out financial management arrangements, building on the previous round of funding.

6.45. A particular strength of the Structural Funds are the provisions for monitoring and evaluation. The OP sets out a comprehensive approach to monitoring and evaluation which is thought through and will add significant value to the implementation of the Programme.

6.46. Overall, it is clear that the Programme implementation aims to maximise Community added value by appropriately highlighting the provisions in areas such as partnership, multi-annual programming and monitoring and evaluation.

Revisions to the Implementation Chapter prior to submission to Commission

A number of revisions to the OP provided to DTZ for assessment in early December 2006 were made before it was submitted to the Commission in mid-December 2006. The revisions as they affect our appraisal of the implementation arrangements are discussed below.

Changes are evident with regard to the various Authorities, where more detail on functions and roles of each Authority is provided in the revised OP. For example, the importance of the Managing Authority in ensuring audit trails are adequate in line with the Implementing Regulation has been added.

It was recommended that more detail be included on the interaction of the PMC with Strategic Frameworks. In this regard the revised OP includes a paragraph explaining that Strategic Frameworks will be developed in partnership – enabling partners to input into the detailed implementation of the programme. The revised OP also details that the Strategic Framework coordinators will work with existing partnerships to develop the framework documents and monitor progress.

It was recommended that where the OP sets out the principles for implementation that mainstreaming equality should be mentioned alongside the Lisbon and Gothenburg agendas. It is noted that the OP now states that it should be implemented with an 'overarching commitment to mainstreaming gender equality and equal opportunities'.

WEFO has noted that under Audit Arrangements that they will look to directly commission an external firm(s) of auditors to undertake project audits for the 2007 – 2013 Programmes in order to ensure greater control and assurance and provide for a consistent approach across all projects and funds. Further, as recommended in the evaluation, reference has now been made to the independent nature of the evaluators, DTZ.

Further, it was noted throughout the evaluation where recommendations were made that WEFO had committed to implementing these and in several areas the implementation can be seen in the revised OP. For example, it was recommended that more information on the introduction of the PPIMS system be included in the OP. It is noted that an additional section on the PPIMS has been included in the revised OP.

7. ASSESSMENT OF CHANGES MADE IN RESPONSE TO COMMENTS

Introduction

7.1. This chapter provides an overview of the changes made in preparation of the OP in respect of comments made previously by DTZ. The chapter is structured around the implementation of recommendations in regard to:

- The Analysis;
- Rationale and internal consistency of the Programme;
- External consistency of the Programme; and
- Implementation and monitoring and evaluation arrangements.

7.2. As mentioned earlier, the vast majority of recommendations made by DTZ have been implemented by WEFO, therefore most are not discussed in full and are instead provided in Annex D. Over 60 separate recommendations were made with specific regards to the ERDF Convergence Programme, with at least 90% of these accepted and being implemented by WEFO. Where recommendations were not implemented, WEFO provided clear arguments as to why it was not deemed appropriate to implement suggestions.

7.3. A further 20 recommendations were made in relation to monitoring and evaluation which were common to both ERDF Convergence and ESF Convergence. As has been discussed, WEFO is addressing these through the formation of a Monitoring and Evaluation Plan, and expansion of project-level monitoring and evaluation guidance.

7.4. Throughout this chapter, examples of the changes made, as well as the few recommendations that have not been implemented, are provided for illustrative purposes,

Recommendations relating to the Analysis

7.5. DTZ received a first draft of the socio-economic Analysis as carried out by the Assembly's Economic Advice Division (EcAD) and made a number of comments and recommendations on this initial draft which was then returned to WEFO. Subsequently WEFO provided DTZ with a second draft that DTZ found incorporated the vast majority of these recommendations. Importantly, it had been highlighted by DTZ that there was a need to improve the consistency of benchmarking against EU data and it was found that the second draft was much stronger in this regard.

7.6. One particular case worth highlighting where WEFO declined to implement a recommendation was in the regard to the following:

- **Forecast information would enhance the data**

WEFO responded to this recommendation with the view that they felt that forecast data was too unreliable to be included. DTZ has continued to make this recommendation on the basis that the regulations and guidance stress the need for the use of forecasting data.

7.7. Further, at the time of appraising the second draft DTZ found that the following recommendation had not been implemented:

- **Analysis of the entire transport network, not just bus accessibility and walking distance to services be undertaken**

DTZ has recommended to WEFO that further information be included. WEFO has agreed to implement this recommendation, and advises that greater detail on transport has been included in the OP, although DTZ has not yet had sight of the revised section.

Rationale and internal consistency

- 7.8. DTZ made several recommendations in this area. In the main these recommendations related to highlighting more explicitly the particular market failure that was being addressed and thus making more clear the case for Structural Funds intervention. These were widely accepted by WEFO and consequently implemented.

Consistency with other policies and strategies

- 7.9. A number of recommendations were made by DTZ that relate to the linkages between the ERDF Convergence Programme and other national Wales policies and/or overarching EU strategies. Again, in the main these have been accepted and implemented, and the details of these recommendations can be found in Annex D.

Implementation and monitoring and evaluation

- 7.10. As stated earlier, timing has not at present allowed a full appraisal of the extent to which the recommendations relating to implementation systems have been taken on board and implemented. However, as the monitoring and evaluating arrangements had been provided at an earlier stage DTZ was able to make a number of recommendations in this regard.
- 7.11. Comments and recommendations made by DTZ on arrangements for monitoring and evaluation related to both convergence Programmes. In this respect most of the recommendations were accepted by WEFO and had either been implemented or would be implemented through the development of a Monitoring and Evaluation Plan, an action recommended by DTZ.
- 7.12. Recommendations that have been accepted and that will be covered in the Plan include:

- Measuring soft outcomes requires consideration at an early stage and plans should be set out in greater detail.
- It should be clarified what programme-level evaluation activity is planned between the ex ante evaluation and the ex post evaluation.
- Roles and responsibilities of all bodies involved in monitoring and evaluation should be outlined.
- It should be set out where there are methodological knowledge gaps and where additional research will need to be carried out for effective monitoring and evaluation in the new programming period.
- Specific issues around the monitoring and evaluation of environmental sustainability should be explored in greater detail.

7.13. It should be noted that, as mentioned in Chapter 6, the appraisal of the monitoring and evaluation arrangements and the relevant recommendations are detailed in full in Annex D.

7.14. In addition to implementing recommendations through the Monitoring and Evaluation Plan, WEFO also updated the content of sections of the Consultation/OP documents in response to DTZ comments. For example, the following recommendations led to more detail being added to the Implementation Chapter:

- The function and role of monitoring and evaluation as part of continuous improvement of Programme delivery should be highlighted.
- The Programmes should set out what is meant by on-going evaluations and how it differs from current practice.
- More detail should be provided on plans for programme-level evaluation and how this will be integrated throughout Programme delivery.

- It should be explored how the Cross Cutting Themes will be evaluated at the programme level.

7.15. In this area of recommendations, the following was the only recommendation not to be accepted by WEFO:

- It needs to be made clear how the Programmes will impact on the tracking indicators.

7.16. In addition to the indicators and targets set out under each Priority and Theme, WEFO had included in the Strategy chapter the high level tracking indicators as set out in *Wales: A Vibrant Economy*. Whilst acknowledging that performance against these indicators is dependent on other influences such as macroeconomic trends and global events, these have been included by WEFO in order that the broader trends in the economy are taken into account in any evaluation of the impact of the Convergence Programme in WWV. As noted above, although it was felt by DTZ that a more explicit link between the interventions of the Programme and the tracking indicators was required, WEFO declined to accept this recommendation on the basis that the tracking indicators were intended to be contextual in nature. Rather than risk overstating the effect the Convergence Programme has on these indicators, WEFO will use them mainly to track the economic progress of the Convergence area.

8. CONCLUSIONS AND RECOMMENDATIONS

8.1. This chapter provides a summary of the main conclusions and summarises the extent to which the evaluation has achieved its objectives. The evaluation had a number of objectives to address, namely to produce:

- An appraisal of the socio-economic Analysis of the WWV area;
- An appraisal of the extent to which the rationale of the ERDF Programme and its strategy were targeted at addressing the key issues that emerged from the findings of the Analysis;
- An appraisal of the extent to which the Priorities and Themes of the Programme were internally consistent and free from gaps or duplication;
- An evaluation of the extent to which the Programme was externally consistent with the objectives of other Welsh, UK and EU policies;
- An appraisal of the implementation arrangements for the Programme;
- An appraisal of the monitoring and evaluation framework;
- An evaluation of the indicators set and the process of target setting; and
- A summary of the extent to which the recommendations made by DTZ were implemented by WEFO and how this affected the development of the OP.

Further, a number of supplementary documents are provided in the associated annexes. These are:

- The bibliography;
- An overview of the lessons learned from evaluations of previous programmes in Wales and the rest of the UK;
- A document containing Strategic Environmental Assessment Environmental Report; and

- Details of the recommendations made throughout the evaluation process.

The remainder of this chapter provides an overview of the main findings against each of the above key evaluation objectives.

Appraisal of the Analysis

- 8.2. In order to identify what the main Priorities of the ERDF Programme should be, a socio-economic analysis of the WWV area was carried out. DTZ appraised several drafts the Analysis, making recommendations at each stage, which were largely implemented by WEFO. In order to assess whether the Analysis adequately asserted what the main issues and market failures requiring intervention are in WWV, as well as whether it adequately addressed overarching issues as identified by the Lisbon Agenda, DTZ employed a number of methodologies.
- 8.3. The evidence was appraised to ensure that up-to-date, comprehensive and relevant data was used and that the conclusions drawn by WEFO followed logically from the data. Further, DTZ found no evidence or data that contradicted the data in the Analysis. As regards the Lisbon Agenda, DTZ found that the structure of the Analysis was directly related to the Priorities of the Lisbon Agenda, thus promoting cohesion between the Analysis and the overarching European priorities.
- 8.4. Overall it was concluded that the Analysis was a well-written, relevant, and well structured document that provided a sound basis for forming the Priorities and Themes of the ERDF Programme.

Appraisal of the rationale

- 8.5. This objective of the evaluation was achieved by DTZ through analysis of the Programme strategy and an assessment of the Priorities and Themes that were set out by WEFO, as compared to the key needs and issues identified in the WWV area from the Analysis. In the main it was found that

there was a satisfactory correlation between the issues raised in the Analysis and the Priorities and Themes documented in the Programme. Nevertheless, DTZ made a number of recommendations relating to the Programme rationale, mainly in order to strengthen the links between the outcomes of the Analysis and the interventions suggested in the Priorities as well as to make clearer the underlying arguments for intervention.

Appraisal of internal consistency

- 8.6. As regards the internal consistency of the Programme, DTZ concluded after assessing each Priority and Theme that the Programme has a high degree of internal consistency, with few conflicts between Priorities. The Programme was found to have an appropriate balance between interventions that carry a high degree of policy risk but promise high impacts if achieved and interventions that have been tried and tested in previous programmes.

Appraisal of external consistency

- 8.7. A key facet of the ex ante evaluation was the appraisal of the extent to which there was cohesion between the ERDF Programme for the 2007-2013 period, and other strategies and policies at Welsh, UK and EU levels. In order to appraise this DTZ required to consider a wide range of policy documents and strategies in order to assess the level of consistency between the Priorities of the Convergence Programme and the priorities and objectives of the other strategies. For the most part, the ERDF Convergence programme was found to be consistent with these strategies and policies, although recommendations were made in some areas where required in order to strengthen this cohesion. As with other recommendations these are detailed in Annex D.
- 8.8. As well as considering other regional, national and European objectives, the evaluation also considered the level of fit between the ERDF Programme and other European Structural Fund programmes in Wales. Again, a high degree of consistency was found in this regard.

Appraisal of implementation and monitoring and evaluation arrangements

- 8.9. As well as appraising the content and rationale of the ERDF Programme, it was also important that this ex ante evaluation considered the practical arrangements for implementing the programme and the arrangements for monitoring and evaluating the progress of the Programme. In this regard, the evaluation looked at a number of elements of the implementation arrangements, from the designation of bodies and procedures for various aspects of implementation such as financial flows, exchange of data monitoring and evaluation and publicity and information.
- 8.10. DTZ appraised these elements and made several recommendations in this regard. As is highlighted in Chapter 6, WEFO has agreed to these and agreed to implement them, however timing has not allowed us to see or comment upon the extent to which these have been implemented. However, an important aspect of the implementation arrangements – the arrangements for monitoring and evaluation, has changed markedly since the first draft of the Programme document was provided to DTZ.
- 8.11. In this regard DTZ had concluded that although general and high level arrangements for monitoring and evaluation had been outlined, these were lacking in detail. A great number of recommendations were made, however the overarching and most significant recommendation was that WEFO devise and implement a monitoring and evaluation plan. This was agreed upon by WEFO, and subsequently most of the recommendations relating to monitoring and evaluation were addressed by this plan.

Indicators and target setting

- 8.12. As regards the design of indicators and the subsequent target setting process, it has been highlighted that there is still an ongoing discussion between DTZ and WEFO regarding the use of data from the Objective 1 Programme and the methodology that should be employed to make use of this data for formulating targets for the ERDF Convergence Programme. It has

been concluded that the Objective 1 data is mostly unusable, and DTZ are currently advising WEFO with regard to making more robust the methodology employed by WEFO to set the targets. Implementation of Recommendations

8.13. Chapter 7 of this evaluation discussed the extent to which the recommendations made have been implemented by WEFO, with the conclusions that the vast majority have been agreed upon and implemented. Where comments or recommendations were not agreed upon, these individual cases were highlighted and discussed.

Community added value and lessons learned

8.14. Throughout the process, the ex ante evaluation has also assessed the extent to which the Programme maximizes Community added value. The evaluation has clearly shown that the Programme aims to maximise added value by:

- Supporting Community economic and social cohesion objectives;
- Being strongly complementary to Community priorities, especially Lisbon;
- Adding value through high leverage and additionality; and
- Adding value through the method of implementation.

8.15. Lessons learned from previous programmes have been integrated throughout the Programme. Those drafting the Programme interacted with the recommendations and conclusions arising from the Lessons Learned exercise at an early stage and as a consequence the Programme embodies, as far as possible within the context of some significant changes from the previous round, the key lessons learned from previous Programmes. This also applies to the approach to Community added value, which builds on lessons learned from previous programmes, aiming to maximise Community added value within the new Programme.

Revisions to the OP

8.16. As discussed within the relevant chapters above, a number of revisions to the OP provided to DTZ for assessment in early December 2006 were made before it was submitted to the Commission in mid-December 2006.

8.17. Overall, it is DTZ's view that the changes made to the OP to the version that was appraised in early December have improved and strengthened the OP. None of the additional text has been found to raise any issues with the evaluators. As noted above, several recommendations made by DTZ that remained outstanding in the evaluation have been implemented in the revised OP.

Conclusion

8.18. In conclusion, it can be said that as a result of an ongoing, iterative process between DTZ and WEFO, the OP for ERDF funded Convergence provides a sound and comprehensive basis for working towards achieving the objectives of the Programme. As such, it forms a robust foundation for addressing the relevant issues in order to fulfil the objectives for Wales regarding economic, social and environmental progress, with Wales at the forefront of innovation and entrepreneurial activity and will serve well as the key guidance document for the ERDF Convergence Programme for the period 2007-2013.

ANNEX A: BIBLIOGRAPHY

DTI (2006) United Kingdom National Strategic Reference Framework: EU Structural Funds Programmes 2007 – 2013.

<http://www.dti.gov.uk/files/file34769.doc>

Entrepreneurship Action Plan Steering Group (on behalf of National Assembly of Wales 'Implementation Plan for Entrepreneurship: Making It Happen'.

<http://www.wda.co.uk/resources/National%20Entrepreneurship%20Implementation%20Plan.pdf>

European Commission (2004) 'Third Report on Economic and Social Cohesion'. Downloadable from:

http://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion3/cohesion3_en.htm

European Commission (2005) 'The New Programming Period, 2007 – 2013: Methodological Working Papers, Draft Working Paper of Ex Ante Evaluation',

http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/exante_sf2007-2013_en.pdf

European Union (2006a) 'Council Regulation (EC) No 1080/2006 of 5 July 2006 on the European Regional Development Fund'. http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_210/l_21020060731en00010011.pdf

European Union (2006b) 'Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999'.

[http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2007/general/ce_1083\(2006\)_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2007/general/ce_1083(2006)_en.pdf)

European Union (2006) 'Cohesion policy in support of growth and jobs: Community Strategic Guidelines 2007-2013'. Information from:

http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm

Haines, K; Case, S; Isles, E; Rees, I; and Hancock, A (2004) 'Extending Entitlement: Making it Real', Commissioned on behalf of the Welsh Assembly Government. <http://www.learning.wales.gov.uk/pdfs/extending-entitlement-making-real-e.pdf>

HM Treasury (2005) 'Lisbon Strategy for Jobs and Growth: UK National Reform Plan'.
http://www.hm-treasury.gov.uk/media/093/DD/lisbon_jobs131005.pdf

Greening Regional Development Programmes Network (2006) 'Handbook on SEA for Cohesion Policy 2007-2013'.
<http://www.degeval.de/calimero/tools/proxy.php?id=12500>

Welsh Assembly Government (2002a) 'A Winning Wales – National Economic Development Strategy'.
http://www.elwa.ac.uk/doc_bin/SkillsObservatory/awinningwales.pdf

Welsh Assembly Government (2002b) 'Reaching Higher – A Strategy for the Higher Education Sector in Wales'.
<http://new.wales.gov.uk/docrepos/40382/4038232/4038211/40382121/reaching-higher-e.pdf?lang=en>

Welsh Assembly Government (2003a) 'Wales a Better Country'. The Strategic Agenda of the Welsh Assembly Government.
http://www.elwa.ac.uk/doc_bin/SkillsObservatory/Learning%20Country.pdf

Welsh Assembly Government (2003b) 'Iaith Pawb: A National Plan for a Bilingual Wales'.
<http://new.wales.gov.uk/docrepos/40382/403822/403822131/4038221335/iaith-pawb-e.pdf?lang=en>

Welsh Assembly Government (2004a) 'People, Places, Futures: The Wales Spatial Plan'.
<http://new.wales.gov.uk/docrepos/40382/40382313/40382/40382121/wsp-101104-pt1-e.pdf?lang=en> and

<http://new.wales.gov.uk/docrepos/40382/40382313/40382/40382121/wsp-101104-pt2-e.pdf?lang=en>

Welsh Assembly Government (2004b) 'Learning Pathways 14-19 Guidance'
<http://www.learning.wales.gov.uk/pdfs/c3704-pathways-guidance-e.pdf>

Welsh Assembly Government (2004c) 'Making the Connections: Delivering Better Services for Wales'.

<http://new.wales.gov.uk/docrepos/40382/403823121/40382213/403822133/mtc-document-e1.pdf?lang=en>

Welsh Assembly Government (2005a) 'Wales: A Vibrant Economy', The Welsh Assembly Government's Strategic Framework for Economic Development.
http://new.wales.gov.uk/docrepos/40382/4038231141/403821124153/wave_en.pdf?lang=en

Welsh Assembly Government (2005b) 'Skills and Employment Action Plan for Wales 2005'. <http://www.learning.wales.gov.uk/pdfs/c5104-seap-report-e.pdf>

Welsh Assembly Government (2005c) 'Our Environment Our Future'.
<http://www.countryside.wales.gov.uk/fe/master.asp?n1=366&n2=529&n3=533>

Welsh Assembly Government (2005d) 'Energy Wales Consultation Document'.
<http://www.ecoliinquirywales.org/docrepos/40382/4038231141/40382112412/energyroutemape.pdf?lang=en>

Welsh Assembly Government 'Wales Sustainable Development Scheme'. Information and publications available from:
<http://new.wales.gov.uk/topics/sustainabledevelopment/?lang=en>

Welsh Assembly Government 'The Learning Country'.

Welsh Assembly Government 'Wales for Innovation – The Welsh Assembly Government's Action Plan for Innovation'.
[http://new.wales.gov.uk/docrepos/40382/4038231141/4038211256/Innovation Action Plan.pdf?lang=en](http://new.wales.gov.uk/docrepos/40382/4038231141/4038211256/Innovation_Action_Plan.pdf?lang=en)

Welsh Assembly Government 'Waste Strategy'. Information and publications downloadable from:

<http://www.countryside.wales.gov.uk/fe/master.asp?n1=366&n2=213&n3=368>

National Action Plan for Social Inclusion

Nexus Report

ANNEX B: SUMMARY OF KEY LESSONS LEARNED FROM PREVIOUS PROGRAMMES IN WALES, THE UK AND THE EU

ANNEX C: ENVIRONMENTAL REPORT

ANNEX D DETAILS OF RECOMMENDATIONS MADE

Overview

This annex contains details of the recommendations made by DTZ throughout the Appraisal process. The vast majority were agreed with and implemented by WEFO. It is structured as follows, with recommendations provided in the following areas:

- Recommendations relating to Chapter 2 - the appraisal of the Analysis;
- Recommendations relating to Chapter 3 – the rationale and internal consistency of the ERDF Programme;
- Recommendations relating to Chapter 4 – external consistency; and
- Recommendations relating to Chapter 6 – the implementation arrangements, including monitoring and evaluation.

Recommendations relating Chapter 2 - to the appraisal of the analysis

This section outlines the recommendations with regard to the appraisal of the Analysis. The recommendations relating to the first draft provided to DTZ are discussed first, followed by an appraisal of the extent to which they were implemented. This is followed by the page-by-page appraisal that was carried out on the second draft of the Analysis provided to DTZ under each of the Analysis headings:

- Economic overview;
- Creating more and better jobs;
- Improving knowledge and innovation for growth; and
- Making Wales a more attractive place to live in and work.

Finally the remaining recommendations that were made relating to ensuring the Analysis fully conformed to the Structural Funds Regulations, the Lisbon Strategy, the Community Strategic Guidelines and the Gothenburg Agenda are provided.

First draft of the Analysis

DTZ received a first draft of the Analysis which was appraised in line with Structural Fund ERDF regulations, the Draft Working Paper in Ex Ante Evaluation (European Commission, October 2005) and our knowledge of both the region and the appropriate data sources on the issues facing the region.

A detailed evidence matrix was submitted, with a line-by-line appraisal of the Analysis. The key recommendations are summarised below:

- Although the Analysis presented a wealth of information, it was suggested that there was a need to draw conclusions from the data. Key issues for WWV should be established.
- The Analysis should clearly state why evidence is presented and where the possible links to Structural Funds interventions might be.
- The document should be more clearly structured; so for example all evidence on employment should be included in the same section.
- The evidence should be presented along the lines of the Lisbon priorities.
- Consideration should be given to removing some of the data, where it does not tie in clearly with Lisbon priorities. Alternatively, the links to possible interventions should be made more explicit, e.g. by linking environmental statistics with eco-innovation objectives.
- The importance of benchmarking WWV consistently against the EU was stressed.
- Consider the full range of reasons why productivity differentials exist between Wales and the UK/EU.

- More information should be given about making Wales a desirable location for inward investment.
- Forecast information would enhance the data.
- Care should be taken about the difference between ‘more jobs’ and ‘better jobs’ in the Analysis.
- Wales is ahead of the Lisbon target for employment. This would suggest this is not a priority for funding.
- Ethnic minorities show a worsening trend. Draw out the implications for this.
- Disaggregate ‘No answer’ from ‘no qualifications’ in the skills analysis.
- Include information about work-life balance and childcare issues from the UK Labour Force Survey.
- More detailed analysis of R&D, university/industry interaction, the Environmental Goods and Services sector, access to finance for SMEs and innovation should be undertaken.
- The inclusion of ‘A’ level and degree qualifications was recommended.
- It was recommended that analysis of the entire transport network, not just bus accessibility and walking distance to services be undertaken. Data on availability of train services, speed and quality of train lines, road infrastructure and the effects this has on economic development could all be considered as appropriate to the Analysis.
- Throughout the appraisal of the Analysis, a number of additional data sources were suggested that would enhance the Analysis. These included:
 1. European Labour Force Survey;
 2. Other comparable Eurostat datasets;
 3. Global Entrepreneurship Monitor (GEM);

4. OECD Science Technology & Industry (STI) Scoreboard;
5. Statistics on Welsh 5* Research Assessment Exercise (RAE) departments from Centres of Excellence for Technology and Industrial Collaboration (CETIC) Programme;
6. Annual Business Inquiry (ABI);
7. European Innovation Scoreboard;
8. Labour Force Survey;
9. Higher Education Business Interaction Survey (HEBIS); and
10. Environmental Goods & Services (EGS) data.

Consideration of the extent of implementation of the recommendations made by DTZ

- **Draw conclusions from the data presented. Establish key issues for WWV. The Analysis should clearly state why evidence is presented and where the possible links to Structural Funds interventions might be.**

This is now the case for the majority of the Analysis. However, data such as greenhouse gas emissions and river quality are not relevant to a socio-economic Analysis and are not referenced in the European guidance notes and regulations on Structural Funds programming or ex ante evaluation. WEFO's response to this was that there was a strong desire to include environmental elements. In which case, a stronger conclusion should be drawn from the data, which can subsequently be addressed as a priority under the Structural Funds Programmes.

- **The document should be more clearly structured; so for example all evidence on employment should be included in the same section.**

The document is now structured clearly, with evidence grouped together appropriately.

- **The evidence should be presented along the lines of the Lisbon priorities.**

The evidence is now structured along the Lisbon priorities of creating more and better jobs, improving knowledge and innovation for growth and making Wales a more attractive place to live in and work.

- **Consideration should be given to removing some of the data, where it does not tie in clearly with Lisbon priorities. Alternatively, the links to possible interventions should be made more explicit, e.g. by linking environmental statistics with eco-innovation objectives.**

As discussed above, the data on river quality, greenhouse gas emissions and social capital should either be removed, or linked to possible priorities for intervention.

- **The importance of benchmarking WWV consistently against the EU was stressed.**

The second draft of the Analysis was much stronger in terms of comparison with EU benchmarks. In one specific case, a recommendation was made that the average gross weekly earnings data should be compared to the EU equivalent from the European Labour Force Survey. Although WEFO's comment was that this had been done, it is not apparent in the second draft of the Analysis (Figure 13).

- **Consider the full range of reasons why productivity differentials exist between Wales and the UK/EU.**

Although WEFO has agreed that a lack of investment in the latest capital equipment or R&D may well be a factor in the difference in productivity between Wales and the UK/EU, the Analysis does not yet reflect this.

- **More information should be given about making Wales a desirable location for inward investment.**

The Analysis has been strengthened in this respect.

- **Forecast information would enhance the data.**

Frequent comment was made about the lack of forecasting, to which the response was that there was a reluctance to include forecasts due to their inherent unreliability. The regulations and the guidance stress the need for forecasting and as a result the recommendation remains that forecast data should be included in the Analysis.

- **Care should be taken about the difference between ‘more jobs’ and ‘better jobs’ in the Analysis.**

The second draft of the Analysis is more in depth, with the different requirements of creating ‘more jobs’ and ‘better jobs’ explored.

- **Wales is ahead of the Lisbon target for employment. This would suggest this is not a priority for funding.**

The response was that the Analysis would be linked to the UK’s Lisbon target of 80% employment rate, which is acceptable, but this inclusion appears not to have been made.

- **Ethnic minorities show a worsening trend. Draw out the implications for this.**

The sample size is very small. Text has been added to the Analysis to explain the volatility.

- **Disaggregate 'No answer' from 'no qualifications' in the skills analysis.**

Comment has been made that it is standard ONS practice to include 'none' and 'no answer' together. In addition, there are only 2,000 'no answer' responses across Wales. DTZ accepts this comment.

- **Include information about work-life balance and childcare issues from the UK Labour Force Survey.**

This has been done.

- **More detailed analysis of R&D, university/industry interaction, the Environmental Goods and Services sector, access to finance for SMEs and innovation should be undertaken.**

The chapter of the Analysis that considers knowledge and innovation for growth is much improved and for the most part, DTZ's recommendations have been taken on board. The one case where a recommendation has not been implemented is in the case of Environmental Goods and Services (also known as eco-innovation). More analysis of this sector should be undertaken and the opportunities for Wales presented by eco-innovation should be explored.

- **The inclusion of 'A' level and degree qualifications was recommended.**

WEFO's response was that 'A' level data was available but not degree level. However, the 'A' level data has not been included in the second draft of the Analysis.

- **It was recommended that analysis of the entire transport network, not just bus accessibility and walking distance to services be undertaken.**

At the time of the initial review this had not been implemented¹⁵. The comment was made that lengths of road networks do not indicate accessibility etc. Data on availability of train services, speed and quality of train lines, road infrastructure, travel to work areas, transport patterns and the effects these have on economic development could all be considered as appropriate to the Analysis. It is important that if issues are identified, subsequent Programme development can consider addressing them.

Page-by-page appraisal of the second draft of the Analysis

The link between infrastructure investment and economic growth could be investigated in more detail¹⁶.

Economic Overview

- P3: The last paragraph states "GDP per head in Wales has increased... but Wales' overall position has changed little since 1995 due to the legacy of the 1980s and 1990s". This is a conclusion drawn that is neither explained nor supported (we presume it relates to the recessions of the 1980s and 1990s and the contraction of heavy industry employment meaning that Wales started from a very small base of higher value-added industrial employment).
- P4: It is stated "Analysis of the gap in GVA ... is due to the historical legacy". Again, this is a conclusion that is not supported/explained.

¹⁵ Although it is noted that WEFO has agreed this recommendation and have addressed the issue since, although DTZ have not had sight of this.

¹⁶ Page W, 2005, 'Infrastructure Investment & Economic Growth', *Scottish Executive Economist Group Discussion Paper*.

- P6: Figure 5 needs UK and EU comparators for GVA. The ONS regional (NUTS II) and local (NUTS III) measures of GVA for the whole of the UK are published on a basis consistent with Eurostat figures, so UK and EU comparisons should be possible.

Creating more and better jobs

- P9 Figure 6: EU comparison should be made by including data from the Eurostat European Labour Force Survey.
- P15: Figure 13 should be tied to EU equivalent data from the European Labour Force Survey.
- P16: 'part of the lower gap in Wales is explained by an absence of higher paying jobs'. They are not absent, but fewer in number.
- P18: The denominator is not given in Figure 15.

Improving knowledge and innovation for growth

- P24: A fourth reason for the difference in productivity is a lack of investment in capital equipment, technology and R&D.
- P27: Figure 22 – use EU comparator. The Eurostat site contains employment figures by sector for Wales and all NUTS II regions. It also has NUTS III and summary figures for EU(15) and EU(25). The same sector definitions are used as in the current Analysis, so this would be a direct comparison.
- P33: Why are staff and student spin-outs excluded from the data? This would be a truer reflection of the amount of knowledge transferred out of HEIs.

Making Wales a more attractive place to invest in and work

- P50: It is not clear what issue is being identified here.
- P50-53: What is the issue for WWV and therefore the priority for Programme design?
- Suggest using just the Physical Environment Deprivation figure (45, page 54), as this is much more relevant and can be tied more closely into 'Making Wales a better place to live and work', or to tie in the Analysis presented more closely with relevant European strategies & regulations. The data on renewable and waste energy consumption can be tied to priorities to increase the amount of energy generated by renewable sources and the data on the percentage of waste recycled or composted could be useful if compared to UK and EU equivalents

A shortfall in the data presented is the lack of information on what the Lisbon strategy defines as 'eco-innovation'. Eco-innovation is presented in that strategy as a major opportunity for Europe, both for economic development and for the mitigation of environmental problems. We would suggest that more analysis is undertaken in this area.

Further recommendations

The following recommendations should be implemented to ensure the Analysis fully conforms to the Structural Funds Regulations, the Lisbon Strategy, the Community Strategic Guidelines and the Gothenburg Agenda:

- Provide background explanation to the assertion that Wales is hindered by the legacy of the 1980s and 1990s;
- Investigate the link between infrastructure investment and economic growth;
- Either exclude the data on river quality, greenhouse gases and social capital or draw stronger conclusions about them;

- Consider the lack of investment in capital equipment, technology and R&D as a reason for lower productivity;
- Analyse Wales' 'eco-innovation' sector in order to identify opportunities for sustainable development;
- Include forecast information in the Analysis;
- Include a reference to the UK target of 80% employment;
- Include European gross weekly earnings data;
- Include data on the numbers of pupils who achieve 'A' level qualifications;
- Include analysis of the transport infrastructure in Wales if this is to be a priority in the Structural Funds Programmes; and
- Re-draft the SWOT analysis so that it follows more closely the structure of the socio-economic and environmental analysis that precedes it.

Recommendations relating to Chapter 3 - the rationale and internal consistency of the Programme

This section documents the recommendations that were made in relation to the ERDF Convergence strategy rationale and the internal consistency of the Programme. This section provides the recommendations that related to the rationale, before providing a summary of the Priorities (the three ERDF Priorities as originally designated in the Consultation Document) in relation to four grounds for intervention in Table A1, with a subsequent detailed discussion. The internal consistency of the ERDF Programme is also discussed, with recommendations made and a number of analyses provided relating to:

- The complementarity of priorities; and
- A policy risk assessment

Rationale

With regards to the rationale, DTZ provided the following recommendations in order to strengthen the argument::

- The Programme should make it clear how it relates to the cluster/key industry approach put forward in W:AVE.
- The Programme should make reference to ill health as part of the strategic challenges facing WWV.¹⁷
- The link between higher value-added per job and access to the economic opportunities arising from this in disadvantaged communities should be made more explicit.
- The two drivers chosen to achieve the vision seem more limited than the scope of the Programme. A more explicit link between the Programme Priorities and the vision would strengthen the argument.

- If a major need has been identified to reallocate resources, a more decisive reallocation might be necessary, depending on the underlying rationale.
- The rationale for financial allocations or changes to the allocations should be set out.
- A chapter or table detailing the link of the Programme to Lisbon would be useful.¹⁸
- The role of the environmental or 'green' sector should be explored, especially in Priority 1.¹⁹
- The mechanism by which market failure in business finance will be determined should be outlined.²⁰
- The reason for including exports as a Theme should be detailed²¹ or the Theme should be removed.
- If sustainable transport is to be supported beyond bus transport, more detail will need to be included in the Analysis.²²
- If interventions aimed at managing demand for energy are to be supported, more detail will need to be included in the Analysis.²³
- More detail on the number and quality of business location sites and the issue of brownfield and degraded sites in WWV should be included in the Analysis.²⁴
- The link between Priority 3 and the strategic challenges needs to be explored in more detail to justify the inclusion of the Priority in the policy mix.

¹⁷ WEFO has agreed to this recommendation.

¹⁸ WEFO has agreed to this recommendation.

¹⁹ WEFO has agreed to this suggestion.

²⁰ WEFO has agreed to this suggestion.

²¹ WEFO has agreed to this recommendation.

²² WFO has agreed to this recommendation.

²³ WEFO has agreed to cover demand for energy more explicitly.

²⁴ WEFO has agreed to this suggestion.

- The link between analysis, policy and Themes and Priorities should be made explicit.²⁵
- A stronger structure setting out the underlying theory, analysis and policy for each Theme should be presented.
- It should be made clear that market failure is generally the underlying rationale for intervention but that in specific instances an assessment has to be carried out to assess whether market failure is evident in this particular case.
- The underlying argument for intervention should be made more explicit, especially in relation to Priority 3.²⁶
- The justification for intervention could be emphasised more strongly, drawing on the material presented by the evaluators on potential market failures.²⁷

As mentioned in Section 3.60, DTZ assessed each of the Themes within the Programme Priorities against four cases of market failure; public good; externality; imperfect information; and redistribution. Table A1 and the following text relate to the original three priorities as designated in the Consultation Document. The text that follows this table further expands upon the points made in Table A1.

Table A1: Summary of economic rationale for intervention by Priority/Theme

	Rationale			
Theme	Public good	Externality	Imperfect information	Redistribution
Priority 1: Knowledge and innovation for growth				

²⁵ WEFO has agreed to this suggestion.

²⁶ WEFO has agreed to this recommendation

²⁷ WEFO has agreed to this recommendation.

	Rationale			
Theme	Public good	Externality	Imperfect information	Redistribution
(a) Building the region's research, technology and innovation capacity and its ability to commercialise and exploit the outcome of research and ideas by fostering research, technology and innovation.	✓	✓	✓	X
(b) Supporting entrepreneurship and assisting the growth and expansion of businesses.	X	X	✓	?
(c) Improving access to business finance, where there is a clear market failure, and by supporting and accelerating Welsh exports.	X	X	✓	?
(d) Promoting productivity by increasing the utilisation of and demand for the benefits of Information and Communications Technologies (ICT).	X	X	✓	In part
Priority 2: Creating an attractive business environment				
(a) Supporting sustainable transport solutions to promote agglomeration and increase the accessibility of markets.	✓	✓	X	✓
(b) Providing targeted ICT infrastructure where there is clear evidence of market failure.	X	✓	X	✓
(c) Increasing the supply of clean and renewable energy, while also managing the demand for energy.	X	✓	X	X

	Rationale			
Theme	Public good	Externality	Imperfect information	Redistribution
(d) Managing and mitigating environmental risk and developing the environmental infrastructure.	X	✓	✓	In part
(e) Promoting the environment as a driver for economic growth.	X	✓	✓	X
Priority 3: Building sustainable communities				
(a) Supporting physical regeneration, the development of sites and premises, redeveloping derelict brownfield sites, regenerating degraded urban and rural landscapes, and improving the quality of public spaces.	X	✓	X	✓
(b) Community economic development, through promoting a sustainable social enterprise sector and the development of social capital in deprived communities.	X	X	X	✓

Priority 1

Support for Theme (a) within this Priority is justified on the grounds of the positive externality arising from R&D activity. This is summarised within the Analysis chapter of the Convergence Programme document e.g. spill-over effects that generate a greater benefit to society than the private benefit generated by the individual firm.

For each of the four Themes within this Priority there are also potential information failures, which justify intervention. For example, where there is a lack of information of the returns on investment (whether they be in R&D, ICT etc) risk and uncertainty can lead to an under investment compared with the

socially optimal market outcome. This is also true of business finance, where uncertainty leads the private sector capital market to avoid or under supply funds to small or new ventures.

However, where there is public intervention it should be noted that unwanted or unplanned outcomes could arise. These may influence the type of activities supported. For example, supporting private sector research may fail to target activities with the greatest spill-over effects and hence lead to substantial deadweight. Notwithstanding, the public sector should not seek to 'pick winners' as it has no better information than the market in this regard.

In relation to Theme (b) supporting entrepreneurship and assisting the growth and expansion of businesses, the same argument in respect of picking winners holds. In fact, public intervention should be seeking to deliver services where the market is failing and hence a greater focus on hard to reach groups and those businesses least likely to access private sector support services may be warranted. It should be made explicit that public sector intervention is not intended to replace private sector activity. This analysis also holds for the provision of business finance.

Priority 2

Theme (a) can be justified under three separate headings depending upon the type of intervention planned. The provision of roads and some other transport infrastructure can be classed as a public good, although there is some debate as to whether this is entirely true. It can be argued that infrastructure can be provided by the private sector if the financial incentives are aligned as for example in the provision of tolled roads.

There is also an argument that 'productive' public sector investment (in areas such as infrastructure) can stimulate private sector activity but this has to be weighed up against 'crowding out', i.e. the replacement of private sector activity with public sector activity whenever public spending occurs.

A stronger argument can be made in respect of negative externalities, where the social costs of private car use are far greater than with more sustainable modes of transport. Redistribution is also a justification for intervention, through providing greater access to opportunity and services.

The externality and redistribution arguments also hold for Theme (b). In particular, a desire to provide access to services for all. However, the most appropriate mechanism for public intervention should be considered in providing ICT infrastructure. For example, regulating the industry to ensure provision may be more suitable than direct provision.²⁸

Themes (c) – (e) have clear externality rationales, through environmental benefits achieved by society (which might be reduced costs from reducing negative environmental impacts). Intervention for Themes (d) and (e) can also be justified on grounds of imperfect information as explained under Priority 1 above, where a lack of certainty leads to under investment in activities which may be socially desirable.

Priority 3

There is a clear externality argument in support of Theme (a) as outlined within the supporting text. The market does not provide efficiently in deprived areas as a result of private returns below private costs. However, a case can be made for greater social return on investment. Theme (b) is justified on social and redistribution grounds.

Recommendations Relating to Internal Consistency

- The conflict at a Programme level of generating more economic activity and creating the associated increase in demand for energy with sustainable energy use objectives needs to be recognised.²⁹

²⁸ NB that primary legislation is reserved to Westminster.

²⁹ WEFO has agreed to this recommendation.

- The conflict at a Programme level of increasing transport infrastructure with environmental protection objectives needs to be recognised. More emphasis should be placed on sustainable transport solutions.³⁰
- Potential overlaps on the built environment between Priorities 2 and 3 should be explored in more detail.³¹

Details of complementarity of Priorities

Further to the discussions in Chapter 3, this section of the Annex provides some detail on the potential complementarities or overlaps between the ERDF Themes and Priorities.

For example, Themes under ERDF Priority 1 (support for research, technology and innovation) could complement the range of Themes within ERDF Priority 2 such as managing and mitigating environmental risk or managing the demand for energy.

However, a number of more minor issues have been noted below for further consideration by WEFO (N.B. in some instances the response may require amendment to chapter three of the Programme, ERDF and ESF Priorities, rather than the strategy chapter):

At a headline level the overarching strategy of boosting economic growth and all its related activities could/will lead to increased demand for energy which causes some conflict with Themes under Priority 2.³²

Support for the Environmental Goods and Services sector may better fit within ERDF Priority 1. This would complement other activities in the field of research, development, innovation, enterprise and business support. In keeping with Lisbon it may be appropriate to include the support within both

³⁰ WEFO has agreed to this recommendation.

³¹ WEFO has agreed to this recommendation.

³² WEFO has recognised this potential conflict.

Priorities 1 and 2 and to make this explicit in the text (see recommendation above).

ERDF Priority 2 has potential for conflict between the identified Themes. Theme (a) could potentially be used to support transport infrastructure projects whilst Theme (d) seeks to manage and mitigate environmental risk. It is DTZ's understanding that WEFO is aware of the complexities of this issue. However, it would be helpful to strengthen the text to note the risk and how this will be mitigated, and noting in how far more sustainable transport solutions are going to be supported rather than, for example, extensions of the road transport infrastructure.

There is potential crossover between activities supported under ERDF Priority 2 and Priority 3 in respect of the built environment. This needs to be clearly explained within the text.

Policy risk assessment

As mentioned in Chapter 3, this section of the Annex provides a headline assessment of the policy risk of the ERDF programme.

Table A2: Policy risk assessment

Theme	Policy risk	Potential impact	Notes
Priority 1: Knowledge and innovation for growth			
(a) Building the region's research, technology and innovation capacity and its ability to commercialise and exploit the outcome of research and ideas by fostering research, technology and innovation.	M-H	H	<ul style="list-style-type: none"> • High risk inherent in much R&D and innovation • Some risk mitigated by well established intervention paths • Impact high if successful – increased competitiveness, productivity etc.

Theme	Policy risk	Potential impact	Notes
(b) Supporting entrepreneurship and assisting the growth and expansion of businesses.	M-H	H	<ul style="list-style-type: none"> • High risk inherent in entrepreneurial activity • Some risk mitigated by well established intervention paths • Impact high if successful – increased competitiveness, additional economic activity
(c) Improving access to business finance, where there is a clear market failure, and by supporting and accelerating Welsh exports.	H	H	<ul style="list-style-type: none"> • High risk inherent in supplying business finance • Success of interventions patchy • Impact high if successful – increased competitiveness, additional economic activity
(d) Promoting productivity by increasing the utilisation of and demand for the benefits of Information and Communications Technologies (ICT).	M-H	M	<ul style="list-style-type: none"> • High risk inherent in much ICT activity • Some risk mitigated by well established intervention paths • Impact likely to increase competitiveness etc. more incrementally
Priority 2: Creating an attractive business environment			
(a) Supporting sustainable transport solutions to promote agglomeration and increase the accessibility of markets.	M	?	<ul style="list-style-type: none"> • Overall tendency over time is away from sustainable transport so risk is high • Impact will depend on balance between sustainable and road transport
(b) Providing targeted ICT infrastructure where there is clear evidence of market failure.	H	M	<ul style="list-style-type: none"> • Risk is high as there is a strong need to link with P1T(d) to ensure take up of ICT following provision of infrastructure. • Impact likely to increase competitiveness etc. more incrementally

Theme	Policy risk	Potential impact	Notes
(c) Increasing the supply of clean and renewable energy, while also managing the demand for energy.	M-H	M-H	<ul style="list-style-type: none"> • Risk is high where the aim is to stimulate behavioural change (demand for energy) and where technologies are relatively untested (supply). • Impact can be high if new technologies become commercially viable.
(d) Managing and mitigating environmental risk and developing the environmental infrastructure.	L	M	<ul style="list-style-type: none"> • Low risk due to well established intervention paths • Medium impact – long term, incremental impact on growth
(e) Promoting the environment as a driver for economic growth.	M	M	<ul style="list-style-type: none"> • Mostly untested feasibility of increasing viability and innovation of this sector but generally tested intervention paths for business support • Impact is likely to be diffuse with some successful companies in the sector and also a number of less successful ones
Priority 3: Building sustainable communities			
(a) Supporting physical regeneration, the development of sites and premises, redeveloping derelict brownfield sites, regenerating degraded urban and rural landscapes, and improving the quality of public spaces.	M	L	<ul style="list-style-type: none"> • Risk of diverting economic activity from elsewhere • Risk mitigated by well established intervention paths. • Overall impact on growth relatively low (objective mainly related to social inclusion)

Recommendations relating to Chapter 4 - external consistency

This section details the recommendations made relating to external consistency of the ERDF Programme as well as some additional analysis. It is structured under headings relating to the following areas of analysis that were undertaken that looked at the ERDF Convergence Programme and its consistency with:

- Structural Fund Regulations;
- EU policies
- UK strategy;
- Welsh national strategies and policies; and
- Other Structural Fund programmes (including an analysis of the complementarity between the Convergence ESF and ERDF programmes and the overlap between ERDF and the territorial cooperation programme).

At the time DTZ reviewed the Consultation Document there were priorities identified in the Convergence regulations that were not identified as explicit Priorities or Themes under the Programme Strategy. Table A3 highlights these and shows whether they are contained within other parts of the programme.

Table A3: Coverage of Themes from the regulation not explicitly covered in the Programme

Heading	Covered in another Theme/Priority?	Extent of coverage
Supporting business networks and cluster development	Priority 1	In part but not explicit
Supporting SMEs to adopt environmental management systems and pollution-	Priority 2, Theme 4	Can form part of this Theme (resource

prevention systems		efficiency)
Natural and technological risk prevention measures	Priority 2, Theme 5	More specific Theme (flood and coastal defences)
Investments in culture, including protection, promotion and preservation of cultural heritage	Priority 3, Theme 2 Priority 2, Theme 5	Can form part of these Themes
Education investments	Not explicitly included	N/A
Investments in health infrastructure	Not explicitly included	N/A

Recommendations relating to consistency with EU policies

- The rationale for excluding Themes mentioned in the regulations should be detailed.
- There is no explicit link between the Community Strategic Guidelines and Priority 3. The inclusion and level of support for the Priority in light of the emphasis on the Lisbon strategy should be explored.
- The role of universities as part of the innovation and R&D landscape and as a key component of regional economies should be covered in the Programme.
- More should be done to embed Equal Opportunities in the ERDF component of the Programme.
- More detail on encouraging biodiversity rather than safeguarding it should be included.
- More could be done to highlight the role of the environment in Priority 1 and in Priority 3.
- More detail should be included on how sustainable development can be integrated in the day-to-day implementation of the Programme.

- The link between congestion and sustainable transport should be included.

Recommendations Relating to Consistency with UK Strategies

- Supporting clusters and creating enterprise opportunities in the education system should be considered and the rationale for including or excluding these Themes should be set out.

Recommendations relating to consistency with Welsh National Strategies and Policies

- The link between Priority 3 and W:AVE should be explored and highlighted.
- Spatial targeting should be explored in greater detail in the programme.

Recommendations relating to consistency with other Structural Funds Programmes

- It should be made clear where skills development is employer led and predominantly intending to encourage higher value-added (contributing directly to productivity and growth) and where it is aimed at individual employability (mainly supporting social inclusion objectives).
- In the Convergence Programmes, there should be consideration of whether there are specific areas of intervention, for example in the field of HE/FE cooperation or in the area of environmental management, where territorial cooperation should form an essential part of the interventions.

Programme design of the Programme could be strengthened in a few areas to be fully consistent with European strategies and policies:

- The rationale for excluding Themes mentioned in the regulations should be detailed;
- There is no explicit link between the Community Strategic Guidelines and Priority 3. The inclusion and level of support for the Priority in light of the emphasis on the Lisbon strategy should be explored;

- The role of universities as part of the innovation and R&D landscape and as a key component of regional economies should be covered in the Programme;
- More should be done to embed Equal Opportunities in the ERDF component of the Programme;
- More detail on encouraging biodiversity rather than safeguarding it should be included;
- The link between congestion and sustainable transport should be included;
- More could be done to highlight the role of the environment in Priority 1 and in Priority 3; and
- More detail should be included on how sustainable development can be integrated in the day-to-day implementation of the Programme.

The Programme strategy is largely consistent with UK policy and strategy. However, the following areas have been identified for further consideration:

- Supporting clusters and creating enterprise opportunities in the education system should be considered and the rationale for including or excluding these Themes should be set out.

DTZ has found a high degree of fit between the Programme strategy and Welsh policy and strategy. However, a number of areas for further consideration have been identified:

- The link between Priority 3 and W:AVE should be explored and highlighted; and
- Spatial targeting should be explored in greater detail in the programme.

DTZ has found a high degree of fit between the ERDF Convergence Programme strategy and the ESF Convergence Programme. DTZ recommends that one area where more clarity can be achieved is:

- It should be made clear where skills development is employer led and predominantly aiming to encourage higher value-added and where it is aimed at individual employability.

Table A4: Complementarity between ERDF and ESF Convergence Programmes

ERDF	ESF	Nature of Complementarity	Strength
1	4	Growth (ERDF) will stimulate employment (ESF). Similarly, increasing labour supply will ensure that growth is not constrained by the labour market. However, most of the growth will be at the higher skills end (innovation, R&D etc.) whereas the labour market measures will focus on those excluded from the labour market.	M
1	5	Higher value-added growth (ERDF) will stimulate demand for skills (ESF). Similarly, a higher supply of skills will reduce skills gaps and shortages. Key will be to ensure that the skills meet business requirements. It will also be important to note when the main objective of a skills intervention is focused on enhancing employability of excluded groups which will have more limited complementarity with Priority 1.	M-H
1	6	If the key objective of Priority 6 is to enhance administrative capacity in relation to enabling and supporting private sector development, this could have a very significant impact on Priority 1. If the main focus is more efficient internal public sector mechanisms, there will be limited impact.	?
2	4	There will be additional demand for employment from the ERDF interventions, particularly in the construction and related sectors. Increased employment will also increase demand on the economic infrastructure.	M
2	5	More economic infrastructure will require particular skills, particularly in areas such as construction and related sectors, for example engineering.	L-M

ERDF	ESF	Nature of Complementarity	Strength
2	6	If the key objective of Priority 6 is to enhance administrative capacity in relation to enabling and supporting private sector development in particular sectors, this could have a very significant impact on Priority 2. If the main focus is more efficient internal public sector mechanisms, there will be limited impact unless it is focused in areas directly related to Priority One such as planning.	?
3	4	Employment and moving people from economic inactivity into employment is a key part of developing disadvantaged communities. Worklessness is the biggest cause of poverty and increasing employment.	H
3	5	Skills development can be an important part of economic development if it enables individuals to participate in the labour market or to access higher value-added jobs.	L-M
3	6	There appears to be no direct link between administrative capacity and sustainable communities.	-

The key complementarities are between Priority 1 (ERDF) and Priority 5 (ESF) (and to a lesser extent Priority 4) and between Priority 3 (ERDF) and Priority 4 (ESF). One key issue to consider is in how far Priority 5 is aimed at improving skills driven by employer demand or whether the focus is on equipping those outside the labour market with additional skills which would have a much more limited impact on growth. The former directly impacts on growth as it enables productivity growth within the private sector and can cover a range of skills, including higher level skills. The latter has a more limited impact on growth as it is predominantly aimed at including those in the labour market who are currently excluded, typically through the acquisition of relatively low level skills. While this supports social inclusion objectives, it has a much more limited impact on economic growth.

Table A5: Overlap between ERDF Convergence and the Territorial Cooperation Programmes

Territorial Cooperation Theme	Priorities in the Convergence Programmes
Priority 1- Theme 1: Innovation and competitiveness	ERDF Priority 1
Priority 1- Theme 2: Skills and competitiveness for employment integration	ESF Priority 2
Priority 2 - Theme 1: Climate Change and Environmental Sustainability	ERDF Priority 2 (the environmental element of Priority 2 now Priority 4 in the revised Programme).
Priority 2 - Theme 2: Sustainable Regeneration of Communities	ERDF Priority 3 (Priority 5 in the revised Programme)

Chapter 6 – Recommendations relating to the implementation arrangements including monitoring and evaluation

This final section of Annex D provides an overview of the recommendations made in relation to the Implementation arrangements, including monitoring and evaluation. As noted in Chapter 6, there were a number of recommendations made in relation to monitoring and evaluation arrangements, the vast majority of which will be addressed by WEFO agreeing to draw up a monitoring and evaluation plan. Further, on recommendation, WEFO agreed to expand the existing project-level Monitoring and Evaluation guidance.

This section begins by providing an overview of previous recommendations. Table A6 then provides a summary of whether and how these were implemented.

Monitoring and evaluation – Summary of previous recommendations

This section of the Annex provides a historic overview of the recommendations that were made in relation to monitoring and evaluation. Due to the fact that these have been implemented through the production of a Monitoring and Evaluation Plan there is no need for them to be detailed in the main body of the evaluation, however it is important that they are highlighted here so that the process of arriving at the final arrangements has been documented.

Monitoring and evaluation strategy

Introduction

This chapter contains the following draft component of the appraisal of implementation as part of the ex-ante evaluation for the ERDF and ESF Convergence Programmes:

- Monitoring and evaluation.

At this stage (10 October 2006), no further detail is available on implementation arrangements which could be appraised as part of the ex ante evaluation.

Further details of the above task are contained within the following section.

Monitoring and evaluation

Introduction - Monitoring and evaluation

In appraising the Programme rationale, the task of the evaluator, as set out within the specification for the Ex-Ante Evaluation, is to assess the implementing provisions proposed for monitoring and evaluating the programme.

The key guidance document for monitoring and evaluation of the new programmes is the Commission's Working Paper "Evaluation during the programming period: on-going evaluation"³³. In addition, there is also a specific working paper on indicators and targets³⁴. The Commission will also produce additional guidance on the requirements for ex post evaluation.

Overview - Monitoring and evaluation

The Consultation Document³⁵ contains provisions for monitoring and evaluation in paragraphs 2.68 to 2.77 as part of the Strategy chapter (p. 41 to 44) and 5.40 to 5.47 as part of the Implementation chapter (p. 134-135). In addition, there is a reference to monitoring and evaluation for Equal Opportunities (paragraph 4.53), referenced again for environmental sustainability (paragraph 4.98).

Recommendation: It would be helpful to have the detailed monitoring and

³³ http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/exante_sf2007-2013_en.pdf

³⁴ http://ec.europa.eu/regional_policy/sources/docoffic/working/doc/indic_sf2007-2013_en.pdf

³⁵ <http://www.wefo.wales.gov.uk/resource/Conv-Consultation-e4718.pdf>

evaluation provisions in one place and only to have brief summaries (with a cross-reference) whenever required.

The key elements of a robust and comprehensive monitoring and evaluation framework are contained within the Consultation Document. However, the information on monitoring and evaluation is at a very high level with many elements not explored in detail.

One way of developing a more specific framework is to first establish an overarching monitoring and evaluation strategy (Article 46 of the European Commission's Draft Working Paper on Ex Ante Evaluation) refers to an 'Evaluation Plan') at the outset of the programme to ensure consistency and coherence. Such a strategy should remain flexible throughout the programming period but would be a useful framework. It should contain (with further guidance available in the WP):

- Guidance on what monitoring and evaluation is required by projects (e.g. indicators) and broad guidelines on how to do this
- What indicators will be used to track overall progress and how closely they are linked to the programme
- What resources/capacity will be required to carry out the monitoring and evaluation (internal and external)
- Indicative timelines
- Responsibilities (WEFO, partners)
- Links to relevant guidance
- How the findings of the ex post evaluation of the last programme might be integrated into the current programme

- How findings of evaluations will be integrated into programme delivery and programme revisions if required
- How monitoring activity will be used to trigger evaluations (departure from initial goals)
- Key overarching evaluations (with timescales) for example:
 1. Annual reports
 2. MTE/UMTE or other mechanisms which will be used to judge progress to adjust the current programme and in preparation for the next programming period (NB – the working paper on measuring additionality stipulates that the MTE will take place in 2011 for the Convergence programme but this is not a requirement in the WP on ongoing evaluation)
 3. Thematic evaluations (e.g. contribution to environmental sustainability, equal opportunities, Lisbon)
 4. Meta-evaluations (by strategic framework or Theme)
 5. Potential performance-related/process evaluations
 6. Ex post

Recommendation: The monitoring and evaluation provisions for the new programming period should be set out in greater detail. We would suggest that a monitoring and evaluation strategy (or evaluation plan) would be an appropriate way of doing this.

Monitoring and evaluation in the Strategy chapter

The strong emphasis on high quality and robust evaluation is very welcome. It would be worth strengthening this by detailing how monitoring and evaluation

will be used within Programme delivery to improve the impact of the Programmes.

Recommendation: The function and role of monitoring and evaluation as part of continuous improvement of Programme delivery should be highlighted.

The chapter emphasises two mechanisms by which the Programmes will be monitored and evaluated – 1) high level tracking indicators and 2) objective setting and evaluation of individual programmes. The second heading seems to cover a wide range of activity. It would be helpful to separate out the different tasks. The evaluators would suggest, as broad headings, the following components:

- Tracking indicators;
- Monitoring (Indicators & Targets);
- Programme-level evaluation (ex ante, on-going and ex post); and
- Project/Strategic Framework-level evaluation.

Recommendation: It should be made clearer what the key components of monitoring and evaluation are in the new programming period.

The tracking indicators are very high level. It should be made clear how these indicators link into the interventions that will be delivered by the Programmes.

Recommendation: It needs to be made clear how the Programmes will impact on the tracking indicators.

The ERDF Convergence Programme is of a sufficient enough scale to impact on some of these high level indicators. It is, however, difficult to see how the ESF Convergence Programme will impact at such a high level.

Recommendation: Given the scale of the ESF Convergence Programme, it should be clarified whether it is realistic to expect that it will impact on the high level tracking indicators.

In terms of the monitoring indicators and targets, more consideration is needed as to whether a more simplified framework would improve monitoring.

Recommendation: It should be considered whether a simpler monitoring framework with fewer indicators might improve monitoring.

The text notes that the Welsh Assembly Government will make sufficient resources available to carry out Programme-level evaluations as required by EU legislation. More detail would be helpful to explore what Programme-level evaluation activity is planned and how it will be integrated in Programme delivery.

Recommendation: More detail should be provided on plans for programme-level evaluation and how this will be integrated throughout Programme delivery.

The emphasis on project-level evaluation, alongside guidance and support at the project outset, is welcome and will assist in continuously improving programme delivery. Care should be taken to adequately resource such evaluation activity while at the same time ensuring that projects have sufficient internal capacity to carry out these requirements. In general, as a rule of thumb, about 1-3% of project value needs to be set aside at the outset for external evaluation (depending on size of project and degree of primary research necessary).

Recommendation: Sufficient resources for project level evaluations should

be identified and set aside at the outset of the Programmes.

To help the projects in commissioning these evaluations, it will be important to establish guidance on the commissioning process (timing, tasks, suggested resources, etc.) as well as outlining content of aims and objectives of evaluations. It might be best to provide guidance for each framework area, as they will share common evaluation Themes.

Recommendation: Detailed guidance on project-level evaluation (including processes and approaches) should be provided to the project applicants at the outset.

It is crucial to consider early on how such evaluation activity can be supported by WEFO and the evaluation community to ensure there is sufficient capacity to carry out these requirements. It might be worth establishing a single evaluation portal with all the guidance which could also be used to post contacts, invitations to tender, guidance etc. There is also the possibility (noted in the WP on ongoing evaluation) to scope overall evaluation requirements at the outset and establish framework/call down contracts for certain tasks.

Recommendation: There needs to be consideration of how WEFO can ensure the required evaluation capacity is available in the evaluation community to carry out the Project and Programme level evaluations.

The text sets out requirements for the ex ante evaluation (being carried out in 2006) and the ex post evaluation (2015). Consideration should be given on what Programme-level evaluation activity is appropriate in the interim 9-year period. This includes for example evaluations relating to Strategic and Operational Functions, thematic evaluations, meta-evaluations etc.

Recommendation: It should be clarified what programme level evaluation

activity is planned in between the ex ante and the ex post evaluation.

Monitoring and evaluation of Cross Cutting Themes

The Consultation Document sets out how Equal Opportunities will be monitored and evaluated, mentioning the welcome involvement of specialist advisors in the project development phase. While there is sufficient detail on monitoring, there is no specific reference to programme-level evaluation, either as part of overarching evaluations or as specific thematic evaluations.

Recommendation: It should be explored how the Cross Cutting Themes will be evaluated at a programme level.

It is also not detailed in how far it will be expected from Project level evaluations that impacts on the CCTs need to be taken into account.

Recommendation: It should be noted how the Cross Cutting Themes will need to be considered within Project-level evaluations.

The document refers to the development of ways of measuring soft outcomes. This is a complex area and lessons learned from previous programmes suggest that systems need to be in place early on to ensure consistency and a sound methodological approach.

Recommendation: Measuring soft outcomes requires consideration at an early stage and plans should be set out in greater detail.

In general, where there are uncertainties in relation to methodological approaches, indicators and targets or any other aspects of monitoring and evaluation, additional research (internal or external) to address these issues should be carried out.

Recommendation: It should be set out where there are methodological knowledge gaps and where additional research will need to be carried out for effective monitoring and evaluation in the new programming period.

On environmental sustainability, the document refers back to monitoring and evaluation of Equal Opportunities. However, there is no specific consideration of differences between these policy areas, for example difficulties in measuring environmental effects of the Programmes consistently (as the impact is often indirect), the role of the 'green sector' and the requirements for monitoring environmental impacts set out in the SEA.

Recommendation: Specific issues around the monitoring and evaluation of environmental sustainability should be explored in greater detail.

Monitoring and evaluation in the Implementation chapter

There is some detail on the role of an Evaluation Advisory Group, as well as reference to the roles of WEFO and the PMC in monitoring and evaluation. However, a much wider exploration of roles and responsibilities, including those of delivery partners, projects and external evaluators is necessary to ensure clarity of who does what.

Recommendation: Roles and responsibilities of all bodies involved in monitoring and evaluation should be outlined.

There is a reference here to a shorter, more focused indicator framework but it is unclear how this has been translated into practice. This will also impact on the target setting. As recognised in the Consultation Document, targets will have to be specified for the OP.

The text refers to on-going evaluation but without exploring what this will entail. The subsequent sentence on strategic and operational level evaluations is not clear.

Recommendation: The Programmes should set out what is meant by on-going evaluations and how it differs from current practice.

There is more detail here on what is required in terms of project-level evaluation but the comment above (requiring more detail on capacity and resources required of projects and evaluators) still applies. It would also be helpful if it is outlined how TA will be used to support monitoring and evaluation.

The text refers to all projects carrying out evaluation and not just those above a certain threshold (as noted in the Strategy chapter).

Recommendation: It needs to be clarified whether all projects need to carry out evaluations or only those above a certain threshold.

Summary and recommendations – monitoring and evaluation

Overall, the Consultation Document sets out a very broad overview of what will be required in terms of monitoring and evaluation. The key elements of a robust and comprehensive monitoring and evaluation framework are contained within the Consultation Document but many elements are not explored in detail. Our key recommendation is that the monitoring and evaluation provisions for the new programming period should be set out in greater detail. We would suggest that a **monitoring and evaluation strategy (or evaluation plan)** would be an appropriate way of doing this.

Such an Evaluation plan will also address many of the specific recommendations set out in this document. Specific recommendations which are likely to be clarified by such a Strategy are:

- It would be helpful to have the detailed Monitoring and Evaluation provisions in one place and only to have brief summaries (with a cross-reference) whenever required;
- The function and role of monitoring and evaluation as part of continuous improvement of Programme delivery should be highlighted.
- The Programmes should set out what is meant by on-going evaluations and how it differs from current practice.
- It should be made clearer what the key components of monitoring and evaluation are in the new programming period.
- More detail should be provided on plans for programme-level evaluation and how this will be integrated throughout Programme delivery.
- It should be clarified what programme level evaluation activity is planned in between the ex ante and the ex post evaluation.
- It should be explored how the Cross Cutting Themes will be evaluated at a programme level.
- Measuring soft outcomes requires consideration at an early stage and plans should be set out in greater detail.
- Roles and responsibilities of all bodies involved in monitoring and evaluation should be outlined.

There are also a range of recommendations that relate to project level evaluation:

- Sufficient resources for project level evaluations should be identified and set aside at the outset of the Programmes.

- Detailed guidance on project-level evaluation (including processes and approaches) should be provided to the project applicants at the outset.
- It should be noted how the Cross Cutting Themes will need to be considered within Project-level evaluations.
- It needs to be clarified whether all projects need to carry out evaluations or only those above a certain threshold.

There are also some specific recommendations relating to indicators:

- It needs to be made clear how the Programmes will impact on the tracking indicators.
- Given the scale of the ESF Convergence Programme, it should be clarified whether it is realistic to expect that it will impact on the high level tracking indicators.
- It should be considered whether a simpler monitoring framework with fewer indicators might improve monitoring.

Finally, the following recommendations relate to evaluation capacity and knowledge gaps:

- There needs to be consideration of how WEFO can ensure the required evaluation capacity is available in the evaluation community to carry out the Project and Programme level evaluations.
- It should be set out where there are methodological knowledge gaps and where additional research will need to be carried out for effective monitoring and evaluation in the new programming period.
- Specific issues around the monitoring and evaluation of environmental sustainability should be explored in greater detail.

Table A6 Recommendations and assessment of actions taken in response

<u>Recommendation</u>		<u>Assessment of action taken in response</u>
Recommendations relating to a monitoring and evaluation Strategy (Evaluation Plan)		
It would be helpful to have the detailed monitoring and evaluation provisions in one place and only to have brief summaries (with a cross-reference) whenever required;		Accept. WEFO will develop a Monitoring and Evaluation Plan which will be in place before the Programme starts. WEFO decided to use the term “Monitoring and Evaluation Plan” rather than “Evaluation Plan” as it is believed that there is great value in acknowledging the strong links between monitoring and evaluation.
The function and role of monitoring and evaluation as part of continuous improvement of Programme delivery should be highlighted.		Accepted. Monitoring and Evaluation Plan will is being developed and will be in place before the Programme starts.
The Programmes should set out what is meant by on-going evaluations and how it differs from current practice.		More detail has been added to the Implementation chapter but this will be explored further in the Monitoring and Evaluation Plan.

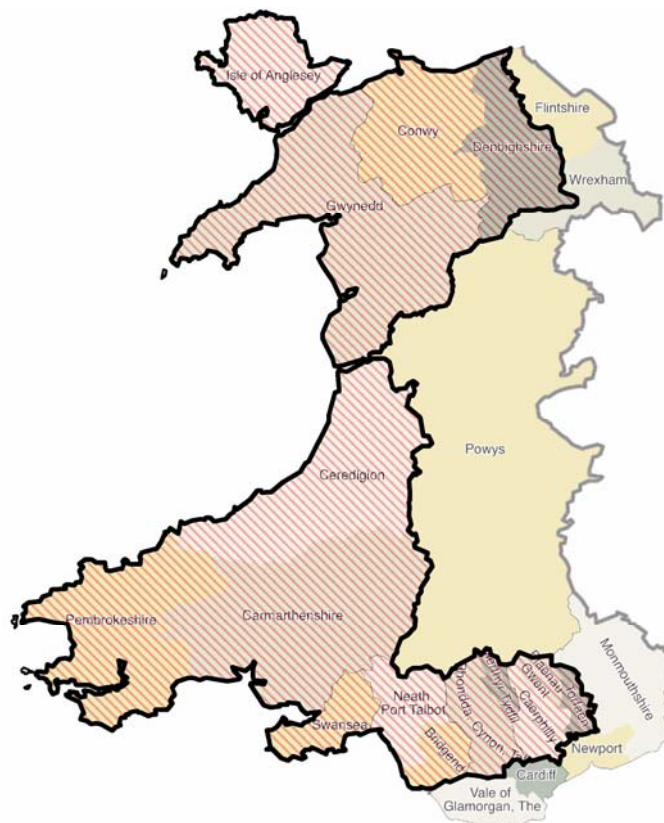
<u>Recommendation</u>		<u>Assessment of action taken in response</u>
<p>It should be made clearer what the key components of monitoring and evaluation are in the new programming period.</p>		
<p>More detail should be provided on plans for programme-level evaluation and how this will be integrated throughout Programme delivery.</p>		
<p>It should be clarified what programme level evaluation activity is planned in between the ex ante and the ex post evaluation.</p>		
<p>It should be explored how the Cross Cutting Themes will be evaluated at a programme level.</p>		
<p>Measuring soft outcomes requires consideration at an early stage and plans should be set out in greater detail.</p>		<p>This will be explored in the Plan.</p>
<p>Roles and responsibilities of all bodies involved in monitoring and evaluation should be outlined.</p>		<p>Addressed for the PMC. Wider bodies/stakeholders should also be considered. Will be explored further in the Plan.</p>

<u>Recommendation</u>		<u>Assessment of action taken in response</u>
Recommendations relating to project-level monitoring		
Sufficient resources for project level evaluations should be identified and set aside at the outset of the Programmes.		Available within Themes (will not be set aside as separate funds; however, projects will be required to undertake appropriate evaluations, and this will be an eligible cost).
Detailed guidance on project-level evaluation (including processes and approaches) should be provided to the project applicants at the outset.		This has been accepted and the existing project-level Monitoring and Evaluation guidance is currently being expanded.
It should be noted how the Cross Cutting Themes will need to be considered within Project-level evaluations.		Will be covered in project evaluation guidance which will be expanded to address this.
It needs to be clarified whether all projects need to carry out evaluations or only those above a certain threshold.		Addressed. All projects need to carry out evaluations; external evaluations are required for higher-grant, higher risk, innovative or pilot projects. This has been stated in the Implementation Chapter.
Recommendations relating to indicators		

<u>Recommendation</u>		<u>Assessment of action taken in response</u>
<p>It needs to be made clear how the Programmes will impact on the tracking indicators.</p>		<p>WEFO responded that the tracking indicators are necessarily contextual because other, external factors will affect their performance as well as the Convergence Programme. Directly linking interventions with tracking indicators may overstate the effect the Convergence Programme could have on these indicators.</p>
<p>Given the scale of the ESF Convergence Programme, it should be clarified whether it is realistic to expect that it will impact on the high level tracking indicators.</p>		<p>As noted above, the tracking indicators are contextual. The purpose of tracking indicators has been made clearer.</p>
<p>It should be considered whether a simpler monitoring framework with fewer indicators might improve monitoring.</p>		<p>The indicators have been subject to considerable revision since publication of the Consultation Document. Attempts have been made to simplify the framework and to make the link between output, result and impact indicators and Priority/theme level objectives and activities.</p>
<p>Recommendations relating to evaluation capacity and knowledge gaps</p>		

<u>Recommendation</u>		<u>Assessment of action taken in response</u>
<p>There needs to be consideration of how WEFO can ensure the required evaluation capacity is available in the evaluation community to carry out the Project and Programme level evaluations.</p>		<p>Accepted. WEFO will consider further.</p>
<p>It should be set out where there are methodological knowledge gaps and where additional research will need to be carried out for effective monitoring and evaluation in the new programming period.</p>		<p>WEFO will explore this in the Plan and expand the existing project-level monitoring and evaluation guidance.</p>
<p>Specific issues around the monitoring and evaluation of environmental sustainability should be explored in greater detail.</p>		<p>WEFO will explore this in the Plan and expand the existing project-level monitoring and evaluation guidance.</p>

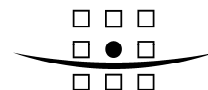
ANNEX G – NON-TECHNICAL SUMMARY OF SEA



West Wales and the Valleys ERDF Convergence Programme Strategic Environmental Assessment (SEA) Non-Technical Summary

DTZ / Royal Haskoning on behalf of the
Welsh European Funding Office

March 2007
Final Report
9R9459



ROYAL HASKONING

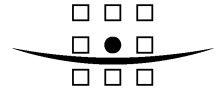
HASKONING UK LTD.
ENVIRONMENT

Elizabeth House
Emperor Way
Exeter, Devon EX1 3QS
United Kingdom
+44 (0)1392 447999 Telephone
01392 446148 Fax
info@exeter.royalhaskoning.com E-mail
www.royalhaskoning.com Internet

Document title West Wales and the Valleys ERDF
Convergence Programme
Strategic Environmental Assessment
(SEA)
Non-Technical Summary
Document short title ERDF Convergence SEA NTS
Status Final Report
Date March 2007
Project name Ex-Ante Evaluation of Funding
Programmes
Project number 9R9459
Client Welsh European Funding Office
Reference 9R9459/ConvP.NTS.v10.1/Exet

Drafted by Peter Thornton
Checked by Nicola White
Date/initials check
Approved by Nicola White
Date/initials approval

A COMPANY OF



ROYAL HASKONING

HASKONING UK LTD.
ENVIRONMENT

WEST WALES & THE VALLEYS ERDF CONVERGENCE PROGRAMME STRATEGIC ENVIRONMENTAL ASSESSMENT NON-TECHNICAL SUMMARY

1 INTRODUCTION

1.1.1 Royal Haskoning in association with DTZ Research and Consulting have carried out the Strategic Environmental Assessment (SEA) of the 2007 – 2013 ERDF West Wales and the Valleys Convergence Programme (hereon called the “Programme”). Figure 1 shows the Programme area.

1.1.2 This SEA has been undertaken alongside the development of the Programme and Ex Ante Evaluation (as required under the EC regulations) and seeks to ensure that the Programme meets the high level of environmental protection expected of EU Structural Fund programmes. In addition, the Programme must support the Welsh Assembly Government’s overarching goal of sustainable development.

2 THE SEA PROCESS

2.1.1 The approach undertaken for the SEA of the Programme is based on two key guidance documents, namely: the Office for the Deputy Prime Minister (ODPM) guidelines¹, and the Handbook on SEA for Cohesion Policy 2007-2013². The following boxes summarise the tasks and the process followed for the SEA.

STAGE 1

The initial (Screening) stage of the SEA comprised the following steps:

- Identify plans, programmes and environmental protection objectives of relevance;
- Develop SEA objectives and indicators;
- Consult with statutory bodies;
- Collect data to establish environmental, economic and social baselines and identify relevant problems/issues; and
- Identify alternatives in conjunction with WEFO.

STAGE 2

The second (Scoping) stage involved consultation with statutory consultees (the Countryside Council for Wales, Cadw, and the Environment Agency Wales). This entailed the production and review of a Scoping Report which presented the findings of Stage 1, and revision of the Scoping Report to take account of the comments received. The Scoping Report was then used as a basis for Stage 3.

¹ A Practical Guide to the Strategic Environmental Assessment Directive (Office of the Deputy Prime Minister, 2005).

² Handbook on SEA for Cohesion Policy 2007-2013 (Greening Regional Development Programmes Network, 2006).

STAGE 3

The third stage involved the production of the draft Environmental Report. This report included the following:

- An assessment of the effects of the Programme, and alternatives to the Programme, on the environment;
- Proposals for mitigating any adverse effects and assessment of measures already taken to mitigate adverse effects; and
- Proposals for monitoring the environmental effects of the Programme.

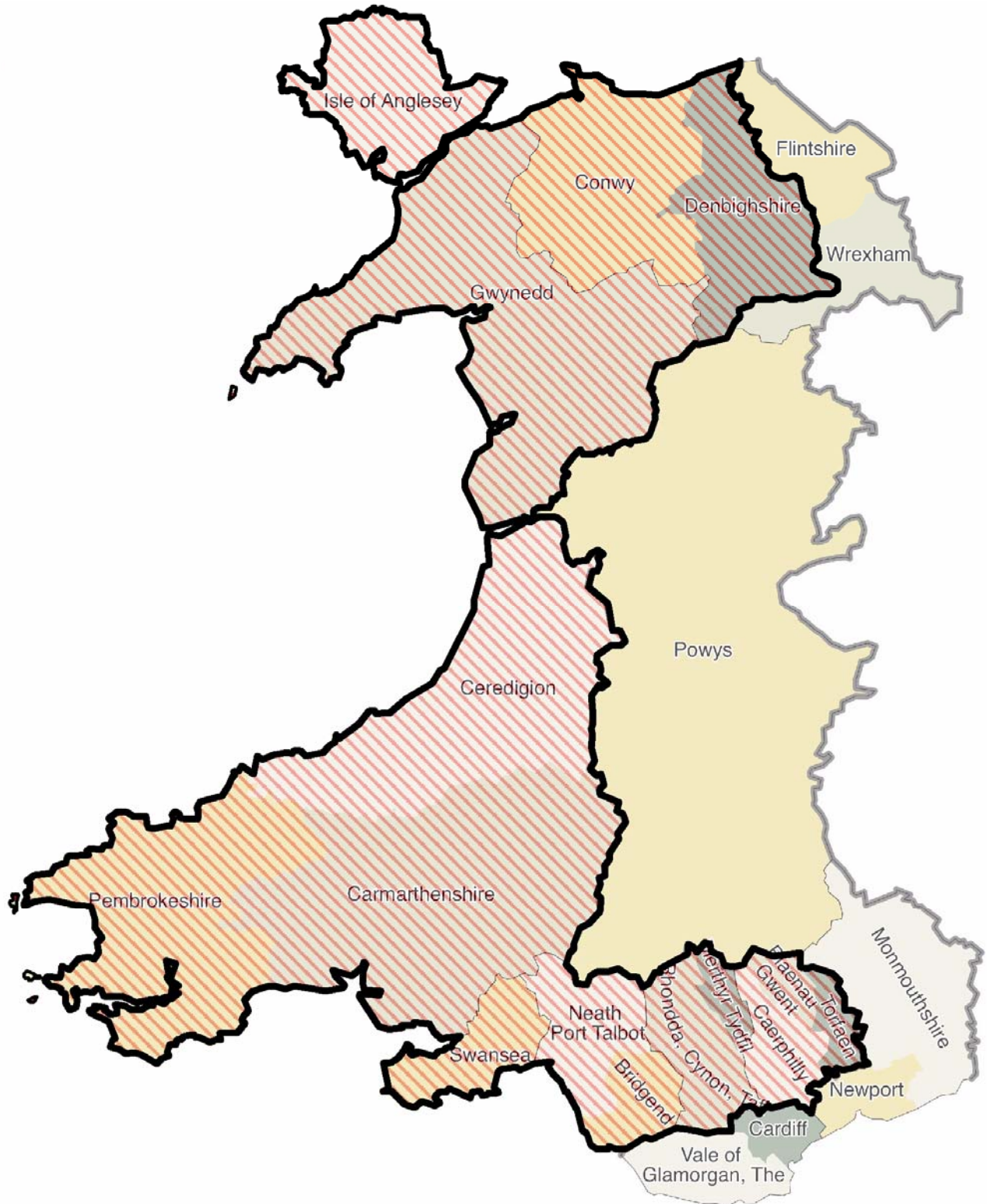
Following this, the draft Environmental Report was made available for public consultation.

STAGE 4

The fourth stage involved integrating the concerns, issues and impacts raised in the public consultation into the Programme and the Environmental Report. It also involved recording how the consultation responses were taken into account in the development of the final Programme, the reasons for particular decisions, and the monitoring proposals. The final Environmental Report is published by WEFO.

- 2.1.2 The SEA was carried out in conjunction with the development of the Programme. It has identified possible impacts, and possible measures, to avoid or mitigate those impacts. These have been presented to the Programme authors for consideration in preparing the finalised Programme documents. The Ex Ante Evaluation of the Programme, carried out as a separate exercise by DTZ Research and Consulting, reviews how the SEA recommendations have been taken into account.

Figure 1 The area eligible for ERDF Convergence Programme funding



3 THE ERDF CONVERGENCE PROGRAMME

3.1.1 Table 2 presents a summary of the Priorities and Themes in the draft Programme, which was re-assessed in detail following public consultation. The Programme as submitted to the Commission in mid-December 2006 is very similar except for re-organisation of its structure and additional aims and activities which are detailed and their effects summarised in Section 8.

Table 2 Summary of the Programme Priorities and Themes

Programme reference	Priority	Theme
Priority 1	Knowledge and innovation for growth	<ul style="list-style-type: none"> • Building the region's research, technology and innovation capacity and its ability to commercialise and exploit the outcome of research and ideas by fostering research, technology and innovation. • Supporting entrepreneurship and assisting the growth and expansion of businesses. • Improving access to business finance, where there is a clear market failure, and by supporting and accelerating Welsh exports. • Promoting productivity by increasing the utilisation of and demand for the benefits of Information and Communication Technologies (ICT).
Priority 2	Creating an attractive business environment	<ul style="list-style-type: none"> • Supporting sustainable transport solutions to promote agglomeration and increase the accessibility of markets. • Providing targeted ICT infrastructure where there is clear evidence of market failure. • Increasing the supply of clean and renewable energy, while also managing the demand for energy. • Managing and mitigating environmental risk and developing the environmental infrastructure. • Promoting the environment as a driver for economic growth.
Priority 3	Building sustainable communities	<ul style="list-style-type: none"> • Supporting physical regeneration, the development of sites and premises, redeveloping derelict brownfield sites, regenerating degraded urban and rural landscapes, and improving the quality of public spaces. • Community economic development, through promoting a sustainable social enterprise sector and the development of social capital in deprived communities.

4 ASSESSMENT OF ALTERNATIVE OPTIONS

4.1.1 The SEA Directive requires the environmental report to identify the likely significant effects on the environment of implementing the Programme, as well as reasonable alternatives. The alternative options that were examined in the revised assessment of alternative options were determined by varying the funding of particular Priorities and Themes, as well as looking at the 'business as usual' case to ascertain the potential impacts without the Programme's funding (i.e. the Do Nothing scenario). The alternative options for funding of particular Priorities and Themes were produced by increasing and decreasing by 20% the funding to the part of the Programme particularly relevant to environmental improvement activities (Priority 2 Themes 3, 4 and 5). Hence the following alternative funding options were examined prior to finalisation of the Programme and re-organisation of the Priorities and Themes:

- The Proposed Option – with funding split by Priority in the following manner: Priority 1 = 47.1%, Priority 2 = 36%, Priority 3 = 15.1%, and the remainder allocated for Technical Assistance;
- Option A - with funding split by Priority in the following manner: Priority 1 = 45.4%, Priority 2 = 38.5%, Priority 3 = 14.4%, and the remainder allocated for Technical Assistance; and
- Option B - with funding split by Priority in the following manner: Priority 1 = 49%, Priority 2 = 33.5%, Priority 3 = 15.6%, and the remainder allocated for Technical Assistance.

4.1.2 The Do Nothing scenario and the Objective 1 Programme could not be compared quantitatively against the alternative funding options identified, due to differences in Priorities and Themes. However, they were compared qualitatively against the Proposed Option.

4.1.3 The assessment of the Do Nothing scenario indicates that with unfocussed economic growth and no supporting initiatives, there are likely to be adverse effects on all aspects of the environment (social, built and natural). It is difficult to justify or quantify the impacts of the Do Nothing scenario as being significant, mainly due to increasing pressure for sustainable development and reduced carbon economy, and new and current European Directives. Without the Programme intervention, the achievement of goals toward reducing resource and energy consumption, increased use of sustainable transport, and many other current goals would be harder to achieve and would take longer to achieve.

4.1.4 The assessment of the different funding distribution options indicated that, on the whole, Option A is predicted to perform slightly better overall against the draft Proposed Option in terms of beneficial environmental impacts and avoidance of adverse environmental impacts. The draft Proposed Option performs almost as well as Option A in Priority 1, not as well as Option A in Priority 2 but better than Option B, and not as well as Option B in Priority 3 but better than Option A.

4.1.5 The assessment therefore highlights areas where the draft Programme could be altered either in terms of the funding allocated to specific Priorities and Themes or by placing greater emphasis on selection criteria and avoidance/mitigation measures on activities within specific Themes. The key areas that would offset potential environmental impacts by increased funding are Priority 2 Themes 3, 4 and 5, with possible reduced funding for Priority 1 Themes 2 and 3. Alternatively, by strengthening the consideration of environmental issues within projects, adverse impacts could be avoided for possible activities in Priority 1 Themes 2, 3, and 4.

5 THE IMPACTS OF THE PROGRAMME

5.1.1 The key adverse environmental impacts of the draft Programme were identified as being likely to arise from increased economic development and the associated use of primary materials, primary fuels and energy, and the subsequent emissions to land, air and water as a result. These could further result in indirect adverse impacts on biodiversity, water quality and resources, landscape, and on the quality of life and health of the population.

5.1.2 However, the draft Programme was identified as offering a good opportunity to reduce the current overall negative impacts resulting from a lack of energy efficiency, climate friendly practices, and lack of cost-effective logistical planning. Moreover, the draft Programme would also contribute positively towards the enhancement and protection of biodiversity, water quality, soil quality, resource management, and cultural heritage and, in so doing, decrease and manage the total amount of greenhouse gases emitted into the environment.

5.1.3 Table 2 presents a summary of the potential impacts for each Priority and Theme as measured against the SEA's sustainability objectives.

Cumulative Impacts

5.1.4 Without mitigation or avoidance measures the following cumulative impacts could potentially occur:

1. Adverse cumulative effects on biodiversity at the local level as a result of new developments for some activities in Priority 1. These effects would arise predominantly from site-specific developments, which cannot be assessed at this strategic level;
2. Adverse cumulative effects could arise on discharges, water quality, quantity and usage where increased economic activity for some activities in Priority 1 result in increased pressure on these resources;
3. Adverse cumulative effects on air quality from locally small-scale emissions to air for some activities in Priority 1, where these would result in increased transport levels; and
4. Adverse cumulative effects on climate change due to potential small-scale contributions to carbon dioxide emissions from increased economic activity resulting from some of the activities in Priority 1, where increased transport may occur.

Table 2 Summary assessment of the draft Programme

(See next page for key to symbols.)

Objectives	PRIORITY 1				PRIORITY 2					PRIORITY 3	
	Theme 1	Theme 2	Theme 3	Theme 4	Theme 1	Theme 2	Theme 3	Theme 4	Theme 5	Theme 1	Theme 2
Protect and avoid damage or deterioration to habitats and species, and enhance or improve degraded habitats	✓?	?	?	?	✓?	?	✓	✓	✓	?	?
Protect and enhance water quality, and the water environment	✓?	?	?	?	✓?	?	✓	✓	✓	✓	?
Minimise consumption of resources (waste, materials, water, soils, minerals and aggregates)	✓?	x	?	?	✓	✓?	✓	✓	✓	x?	?
Minimise and/or reduce pollutant emissions to air	✓?	x	?	✓	✓	✓?	✓	✓	✓	✓?	?
Reduce contribution to climate change and encourage adaptation	✓?	x	?	✓	✓	✓?	✓✓	✓	✓?	?	?

Objectives	PRIORITY 1				PRIORITY 2					PRIORITY 3	
	Theme 1	Theme 2	Theme 3	Theme 4	Theme 1	Theme 2	Theme 3	Theme 4	Theme 5	Theme 1	Theme 2
Protect and enhance the countryside and coastline and the associated landscapes / seascapes of the region	?	?	?	?	✓?	?	✓	✓✓	✓	✓✓	?
Protect and enhance the historical and cultural heritage.	○	○	○	✓?	✓?	?	✓*	✓	✓	✓✓	○
Improve the quality of life of all citizens	✓?	✓?	✓	✓	✓?	✓?	✓	✓?	✓?	✓✓	✓✓
Protect and enhance the physical and mental well-being in the region	✓?	*?	✓	✓	✓?	✓?	○	○	✓?	?	✓✓
Protect and enhance the material assets of the region	○	✓?	?	?	○	○	○	○	?	✓✓	✓✓

Key to symbols

Major Beneficial	✓✓
Minor Beneficial	✓
Neutral	○
Minor Adverse	*
Major Adverse	**
Mixed	✓✓/* or ✓/**
Indeterminable	?

6 PROPOSED MITIGATION MEASURES

6.1.1 The following mitigation and avoidance measures were identified and recommended for inclusion in the selection of activities to be funded by the ERDF Convergence Programme, and also as requirements of relevant activities. The following measures are recommended areas for funding which should provide economic benefits as well as long-term environmental benefits or benefits that would extend across the region:

- Activities supporting growth in clean environmental technology that would aim toward reductions in carbon emissions (and the related factors that cause this);
- Activities focussing on improvements in fuel efficiency and technologies that benefit clean and efficient public transport;
- Activities promoting technologies that minimise waste;
- Incorporation of resource efficiency measures in supported activities; and
- Activities supporting improvements in clean technology.

6.1.2 The following measures were recommended for incorporation into funded activities where these may result in uses of materials/energy/transport:

- Promotion of sustainable transport;
- Use of existing public transport links, and development of green transport plans where appropriate;
- Incorporation of Environmental Management Systems wherever possible;
- Use of ICT to improve efficiency of materials and reduce resource/energy use specifically transport;
- Utilisation of the climate change adaptation tool at <http://www.ukcip.org.uk/resources/tools/adapt.asp>.
- Achievement of high standards of environmental performance for all buildings (e.g. the BREEAM standards); and
- Use of ICT provision to increase longevity of buildings (reduction in space/efficiency of product movements).

6.1.3 The following measures were recommended for incorporation into activities where these may result in development or increased activities in or near to natural areas:

- Support for and enhancement of designated nature conservation sites;
- Promotion of biodiversity and sustainable land use management for developed sites; and
- Prioritisation of development on brownfield sites.

6.1.4 Incorporation of the mitigation or avoidance measures summarised above is expected to result in reduced emissions, energy usage, improved conservation of resources, development of clean technology, and other activities that would prevent and reduce the existing effects on the environment from economic drivers, as well as avoid potential adverse and cumulative impacts of the Programme.

7 MONITORING

7.1.1 Monitoring of the potential adverse effects of the Programme will be undertaken alongside monitoring of the economic effects of the scheme, based on a range of environmental indicators which are currently measured and monitored by statutory authorities and the Welsh Assembly Government. Further detail on proposed monitoring arrangement is given in the full Environmental Report.

8 PROGRAMME REVISION

8.1.1 Following public consultation on the draft Environmental Report, the Environmental Report was updated to take account of the comments, significant among them being re-assessment of alternative options and identification of more detailed mitigation measures. The revised Environmental Report provided a detailed input for the finalised Programme.

8.1.2 Following revision of the Programme prior to its submission by WEFO to the Commission in mid-December 2006, a number of aims and indicative actions have been added which provide additional beneficial environmental impacts or offset any potential adverse environmental impacts. In particular these include increases in resource efficiency, reductions in air emissions (and indirectly climate change), and improvements in quality of life to a degree dominated by visual improvements to urban areas as well as increased/improved access to employment. Consequently, the adverse environmental impacts identified in the SEA are expected to be avoided as these are predominantly linked to the economic growth associated with the Programme which would arise to a similar extent in the Do Nothing scenario. The focussed actions of the Programme linked to the project selection stage, utilising checklists and the Programme's environmental sustainability objectives, should also help to avoid adverse environmental impacts.

ANNEX I – EQUALITY CROSS-CUTTING THEME MATRIX

SECTION 4: POTENTIAL IMPACT OF THE PROGRAMME ON THE CROSS-CUTTING THEMES

An analysis has been undertaken of the intended impact of supported activities on the Convergence Programme's equal opportunities and environmental sustainability objectives. This is represented in the form of matrix tables for each of the ERDF priorities and themes.

EQUAL OPPORTUNITIES

ERDF Priority 1: Building the knowledge based economy

Theme Equal Opportunities objective	Research and Development, technology and innovation	ICT Infrastructure and Information society for all
Increase the number of individuals facing multiple disadvantages, accessing employment and self-employment.		Widening access to ICT to remote and deprived communities allowing for greater integration.
Increase the number of women, Black and minority ethnic (BME) people and disabled people securing training and employment in higher paid and higher skilled sectors and self employment.	Support for mechanisms that enhance the skill level of specific under represented groups.	Widening access and removing barriers to specific groups; i.e. transport, alternative working arrangements, specific ICT applications.
Challenge occupational segregation by increasing the number of women and men training or re-training in non-traditional areas, focusing on areas	Support for mechanisms that enhance the skill level of women and men enabling them to compete in non-traditional areas of employment.	Widening access and removing barriers.

where, in the main there are skill shortages.		
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements.	Support for management in developing strategies that support equal opportunities.	

ERDF Priority 2: Improving Business Competitiveness

Theme	Entrepreneurship	Business finance
Equal Opportunities objective		
Increase the number of individuals facing multiple disadvantages, having equality of accessing employment and self-employment.		
Increase the number of women, Black and minority ethnic people and disabled people securing training and employment in higher paid and higher skilled sectors and self employment.	Targeted encouragement and support for under-represented groups who are currently not adequately supported. Pre- and post-start up, advice, information and support.	Support for previously excluded groups through specific targeted grant support.

Challenge occupational segregation by increasing the number of women and men training or re-training in non-traditional areas, focusing on areas where, in the main there are skill shortages.	Pre- and post-start up business support specifically targeted at women to ensure accessible and appropriate services to meet evidenced need.	Support for more women to gain access to grant support.
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements.	Support for projects, which are developing or improving good practice in the area of equal opportunities policies and practices.	Support for projects, which encourage partners to adopt equal opportunities policies and practices.

ERDF Priority 3: Developing Strategic Infrastructure

Theme Equal Opportunities objective	Sustainable Transport	Strategic Infrastructure
Increase the number of individuals facing multiple disadvantages, having equality of accessing employment and self-employment..	<p>Potential for measures that remove barriers to work associated with access to transport.</p> <p>Support for walking and cycling in order to promote healthier lifestyles.</p>	<p>Support for the development of vocational training centres, broadening access and encouraging participation.</p> <p>Support for the development and extension of access to HE in disadvantaged areas.</p>
Increase the number of women, Black and minority ethnic people and disabled people securing training and employment in higher paid and higher skilled sectors and self employment.	Potential for measures that support accessible public transport facilities.	Support for the development of specialist vocational training centres, raising skill levels within targeted groups.

Challenge occupational segregation by increasing the number of women and men training or re-training in non-traditional areas, focusing on areas where, in the main there are skill shortages.	Support for accessible public transport facilities and specifically those that address safety issues.	Support for the development of specialist vocational training centres, raising skill levels for women and men in non traditional areas of work.
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements.	Support for transport providers to monitor use and barriers to use, and promote improvements.	

ERDF Priority 4: Creating Sustainable Business Environment to Invest

Theme Equal Opportunities objective	Energy	Tackling Environmental Opportunities and risks for sustainable growth	Environment for growth
Increase the number of individuals facing multiple disadvantages, having equality of accessing employment and self-employment.			Potential to increase participation of local communities in leisure and recreational pursuits, improve the quality of life and contribute to long-term health and well being.
Increase the number of women, Black and minority ethnic people and disabled people securing training and employment in higher paid			Opportunities to break down attitudinal barriers in order to increase participation and increase opportunities at a local

and higher skilled sectors and self employment.			level.
Challenge occupational segregation by increasing the number of women and men training or re-training in non-traditional areas, focusing on areas where, in the main there are skill shortages.			Support for more women to take up opportunities and activities that seek to address the particular skills gap in the environmental goods and services sector.
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements.	Support for organisations developing or improving good practice regarding equal opportunities policies and practices	Support for organisations developing or improving good practice regarding equal opportunities policies and practices	Potential to develop strategies to encourage effective engagement of local communities ensuring equality within decision-making processes.

ERDF Priority 5: Building sustainable communities

Theme Equal opportunities objective	Physical Regeneration (including town centre renewal)	Community economic development (including social enterprise, social capital and access to services)
Increase the number of individuals facing multiple disadvantages, having equality of accessing employment and self-employment.	Support for projects which tackle social exclusion and isolation through the development of community facilities. Improving the physical environment in which	Developing and supporting community networks, including innovative techniques which enable communities to adapt and enhance their level of competitiveness.

	<p>people live, fostering a feeling of well being.</p>	<p>Support for projects which actively promote community participation in social enterprises, raising confidence and skill levels.</p> <p>Support for social capital for enterprises which provide employment opportunities.</p> <p>Support for new and improved community services which encourage and support community groups participate in community life.</p> <p>Support for safe and inclusive community transport solutions including better local connections.</p> <p>Support for projects aimed at community crime prevention schemes.</p> <p>Support for activities and services with links to employment, which aim to enhance social inclusion for all.</p>
<p>Increase the number of women, Black and minority ethnic people and disabled people securing training and employment in higher paid and higher</p>	<p>Support for projects which ensure sites and premises meet the needs of all their staff and customers e.g. safety and access issues.</p>	<p>Support to bridge the gap in financial support for social enterprises.</p> <p>Support for projects, which aim to</p>

skilled sectors and self	Support for projects which aim to ensure safe and accessible transport solutions.	provide financial support to the social and community enterprise sector.
Challenge occupational segregation by increasing the number of women and men training or re-training in non-traditional areas, focusing on areas where, in the main there are skill shortages.	<p>Support for facilities that address childcare needs, shops and leisure facilities.</p> <p>Support to ensure safe and accessible transport and building solutions.</p>	<p>A large percentage of social and community enterprises in Wales are made up of care businesses predominantly run by women. Support needs to be provided to encourage social and community enterprises to grow and expand and where appropriate branch out into new areas.</p> <p>Support to bridge the gap in financial support for social enterprises.</p> <p>Support to encourage women and men into non-traditional areas of work.</p> <p>Support for safe and inclusive community transport solutions including better local connections.</p>
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements	Support for organisations developing or improving good practice regarding equal opportunities policies and practices.	Support for new and existing social enterprises to develop systems that ensure equality of opportunity, including monitoring and feeding in improvements.

ANNEX J – ENVIRONMENT CROSS-CUTTING THEME MATRIX

Table1 Horizontal integration of environmental sustainability to minimize negative impacts and promote environmental improvement

Priority 1 – Building the knowledge based economy

Theme > Environmental sustainability objective V	Research and development, innovation and technology	Information Society for All
Reduce greenhouse gases/adapt to effects of climate change	Growth of some sectors could cause increase in greenhouse gases. Offset by stimulating growth of environmental technology contributing to reduced carbon emissions.	Some applications of ICT could reduce need to travel but overall increase in business growth likely to increase emissions. Offset by promoting applications of ICT that improve resource efficiency including energy use
Promote sustainable transport	Support for some sectors likely to have negative impact. Could be offset by focusing on improvements in environmental technology including fuel efficiency and on developments that benefit clean and efficient public transport	Overall business growth likely to cause an increase in road traffic. But applications of ICT should be promoted that improve the efficiency of transport or reduce the need for transport
Efficient use of natural resources	New technologies will be promoted that minimise waste. Resource efficiency should be a central aim of supported projects.	ICT applications that improve resource efficiency should be promoted.
Promote biodiversity and sustainable land management	Sites to be managed to protect and improve habitats and biodiversity. Priority on brownfield site developments.	Wireless applications of ICT can reduce the negative environmental effects of conventional communications systems in rural areas.
Improve local built environment, access to greenspace and biodiversity	High standards of environmental performance to be promoted for new and refurbished buildings.	The longevity of buildings can be increased through ICT provision. ICT systems that promote efficient energy usage of buildings should be supported.
Minimise environmental hazards safeguarding health	Some sectors may be encouraged that threaten human health through increased emissions. Minimise by promoting resource efficiency and promoting environmental technologies that minimise	Generally clean technology with minimal implications for human health but radio wave emissions from masts may cause health concerns although there is no proven risk to health.

	emissions and safeguard air quality.	
--	--------------------------------------	--

Priority 2: Improving business competitiveness

Theme > Environmental sustainability objective V	Entrepreneurship	Business Finance
Reduce greenhouse gases/adapt to effects of climate change	New businesses and expansion of existing business is likely to cause an increase in greenhouse gas emissions. Should be offset by support for clean environmental technology and resource efficiency.	Support for some growth sectors is likely to cause an increase in greenhouse gas emissions. Also higher emissions from increase in road traffic. Should be offset by support for the environmental goods and services sector including the development and implementation of clean environmental technology and resource efficiency initiatives.
Promote sustainable transport	Business growth likely to cause an increase in road traffic. Encourage business to locate near to public transport and also develop green transport plans.	Business growth likely to cause an increase in road traffic. Encourage business to locate near to public transport and also develop green transport plans.
Efficient use of natural resources	Resource efficiency should be a central aim of supported projects. Promotion of environmental management systems for supported businesses.	Resource efficiency should be a central aim of supported projects. Promotion of environmental management systems for supported businesses.
Promote biodiversity and sustainable land management	New and expanding businesses should promote sustainable land management and biodiversity	Sites developed through financial support should promote sustainable land management and biodiversity.
Improve local built environment, access to greenspace and biodiversity	High standards of environmental performance to be promoted for new and refurbished buildings.	Buildings developed or refurbished through financial support should achieve high standards of environmental performance.
Minimise environmental hazards safeguarding health	Potential negative impact from increased emissions as a result of business growth. Should be offset by promoting resource efficiency and promoting environmental technologies that minimise emissions and safeguard air quality.	Potential negative impact from increased emissions as a result of business growth. Should be offset by promoting resource efficiency and promoting environmental technologies that minimise emissions and safeguard air quality.

Priority 3 –Developing strategic infrastructure

Theme > Environmental sustainability objective V	Sustainable Transport	Strategic Infrastructure
Reduce greenhouse gases/adapt to effects of climate change	Elements of theme that support improvement to road infrastructure may encourage an increase in traffic and greenhouse gas emissions but this is offset by the strong support for initiatives that aim to reduce road traffic and emissions from transport	Improvements to infrastructure and improved communications will help reduce the need for travel reducing emissions. But this may be offset by business growth.
Promote sustainable transport	Focus of theme	Premises should be sited to be accessible by sustainable transport or special provision of sustainable transport options
Efficient use of natural resources	Overall balance of theme should reduce use of fossil fuels through the support for sustainable transport initiatives	Building design and maintenance should be to high standards of environmental performance. Facilities provided on site for the segregation and recycling of waste
Promote biodiversity and sustainable land management	Sustainable initiatives will reduce need for new roads and their negative impact on biodiversity.	Few negative impacts anticipated but siting and design of installations should be sympathetic to environment. Brownfield development will be encouraged. Opportunities should be presented through site design and management to promote biodiversity and sustainable land management
Improve local built environment, access and biodiversity	Positive effects of reduced congestion on built environment and improved walking and cycling routes	Siting and design of installations should be sympathetic to the local built and historic environment. Opportunities to improve access to greenspace and biodiversity will be encouraged
Minimise environmental hazards safeguarding health	Positive benefits of reduced congestion on air quality and improvements to road safety	Public may object to some installations because of perceived health problems and impact on landscape. Public consultation and high standards of installation will be promoted to limit visual impact. A variety of actions will promote reduced pollution risk and environmental hazards including the installation of sustainable urban drainage systems and the remediation of derelict and contaminated land

Priority 5 – Building sustainable communities

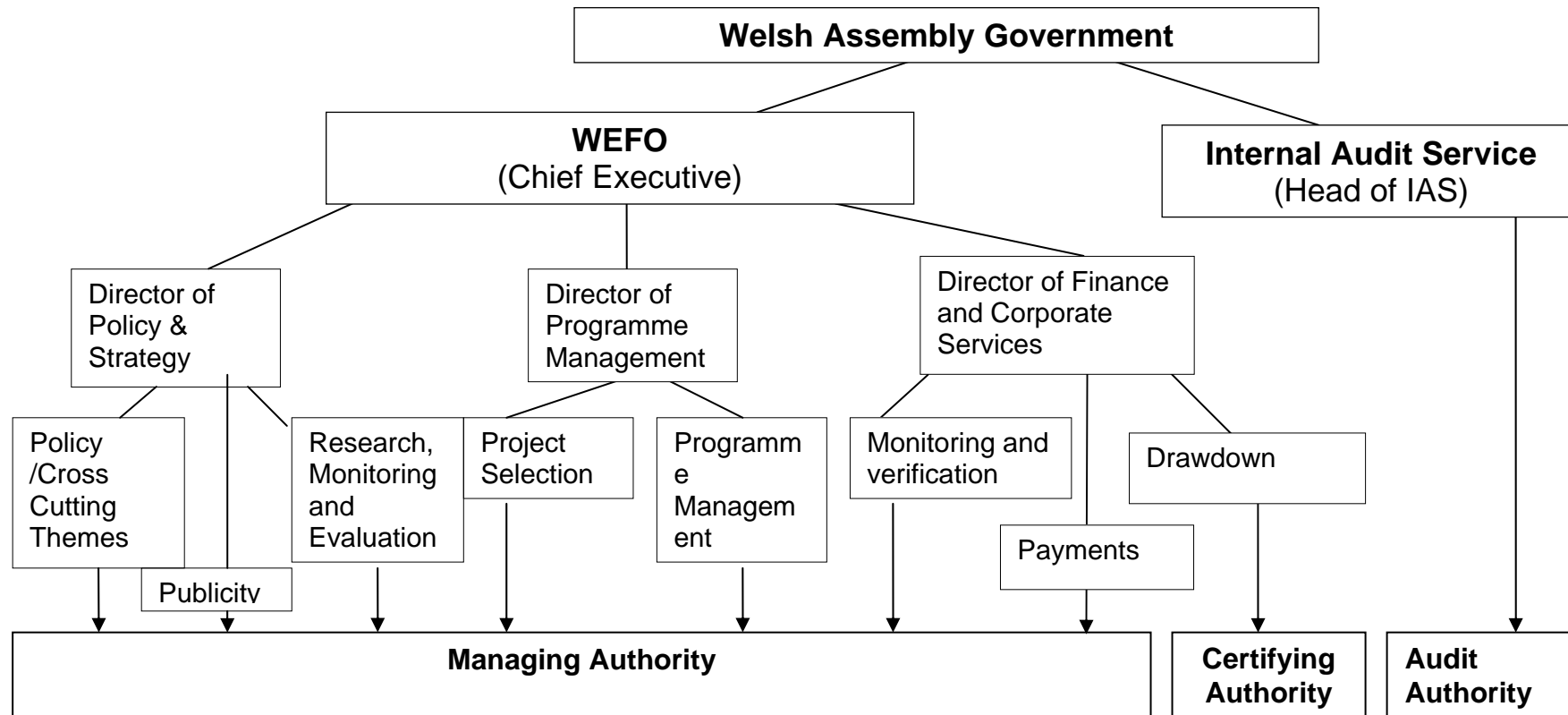
Theme > Environmental sustainability objective V	Physical regeneration (including town centre renewal)	Community economic development (inc. social enterprise)
Reduce greenhouse gases/adapt to effects of climate change	Positive benefits of high standards of environmental performance of new and refurbished buildings reducing energy use	Enterprises should be encouraged that promote energy efficiency and microgeneration in housing and business
Promote sustainable transport	Existing sustainable transport options will exist at many locations. Opportunities should exist to link physical regeneration with sustainable transport improvements supported under Priority 3	Promote sustainable solutions to community transport requirements
Efficient use of natural resources	The use of recycled materials for construction and refurbishment should be promoted. Occupiers of sites should be encouraged to adopt environmental management systems	Potential of social enterprises to provide services improve waste management should be encouraged. New or refurbished premises should have high standards of environmental performance. Encourage adoption of environmental management systems by enterprises to improve resource efficiency.
Promote biodiversity and sustainable land management	Brownfield site development will be prioritised. Positive benefits of remediation of derelict and contaminated sites and high landscaping standards. Brownfield sites with significant biodiversity or recreational value should be appropriately managed for community benefit	Encourage environmental appraisals and initiatives to improve local environments
Improve local built environment, access and biodiversity	New builds and refurbishments must achieve high standards of environmental performance and be sensitive to the locality. Protecting and enhancing biodiversity and provision of access to greenspace will be promoted.	High quality premises should improve local environment. Community environmental improvement initiatives to be encouraged to improve recreational opportunities

ANNEX J – ENVIRONMENT CROSS-CUTTING THEME MATRIX

Minimise environmental hazards safeguarding health	Remediation of contaminated sites and provision of access to greenspace will reduce pollution risk and benefit health and well being	Community environmental improvement initiatives should be positive in improving well being of local community
---	--	---

ANNEX K – ORGANOGRAM

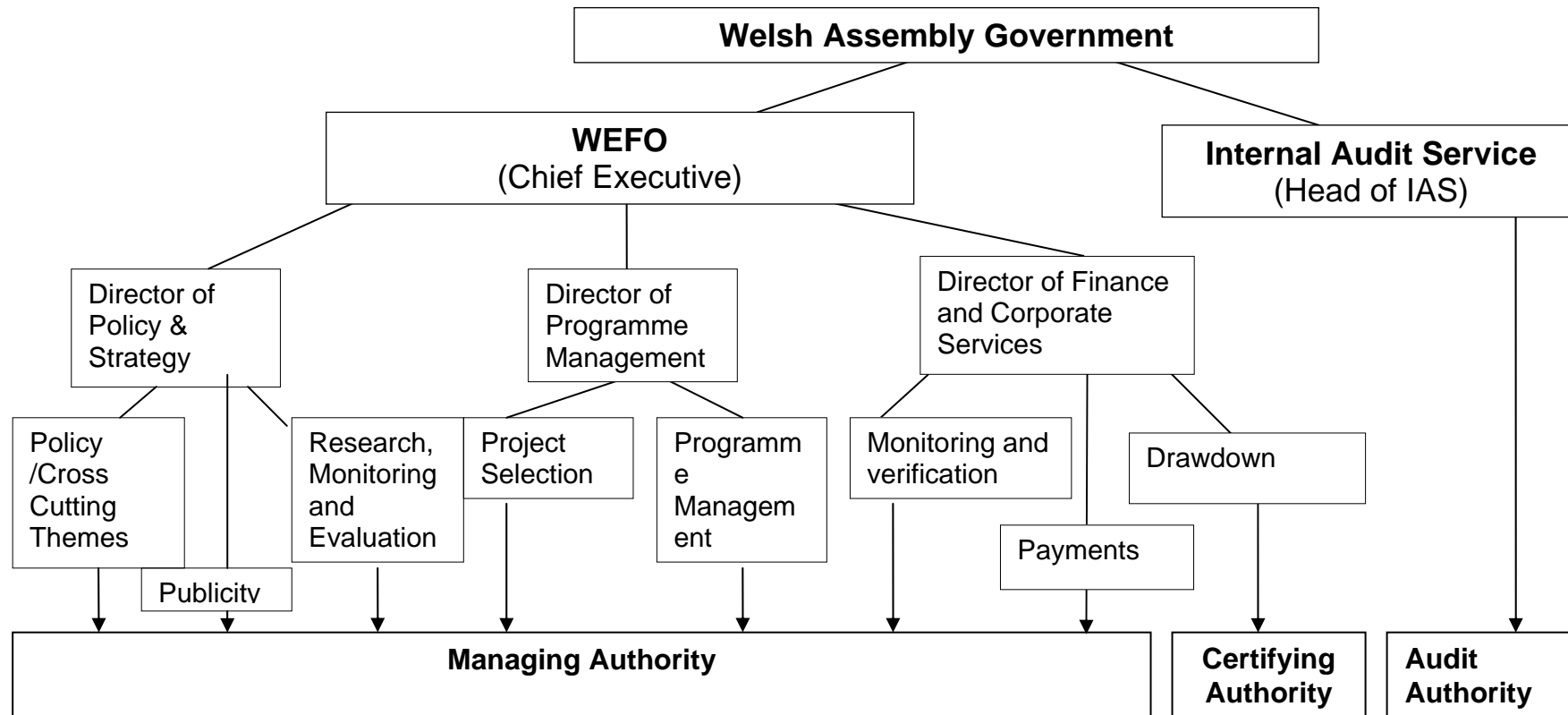
Welsh Assembly Government – Organogram Showing Structural Fund Authority



Note: Responsibilities are allocated so as to ensure appropriate separation of functions in accordance with the principles of sound financial management

ANNEX K – ORGANOGRAM

Welsh Assembly Government – Organogram Showing Structural Fund Authority



Note: Responsibilities are allocated so as to ensure appropriate separation of functions in accordance with the principles of sound financial management

ANNEX L – DETAILS OF THE CONSULTATION RESPONSES AND WHO PARTICIPATED

CONSULTATION SUMMARY

The Vision

Out of the 127 responses received, 65% agreed with the overall vision for West Wales & the Valleys, 26% of respondents did not express an opinion, and the remaining 9% did not agree. It was felt that the vision was ambitious, aligning with both the Lisbon and Gothenburg agendas.

The Analysis and SWOT

61% agreed with the overall analysis of the strengths, weaknesses, opportunities and threats facing the region, 9% did not agree and 30% did not answer. The main themes emerging in comments were the need to achieve a better balance between lower level and higher level skills, and the need for a greater recognition of environmental threats, including climate change.

The strategy, aims and objectives

69% agreed with the overall strategy set out in the Convergence programme documents, 6% did not agree, and the remainder did not comment. However, even amongst those that agreed there were polarised views on the degree to which the programmes should support Lisbon earmarking targets, with respondents from Local Government generally being less positive about earmarking resources, and respondents from Higher Education pressing for a stronger emphasis on Lisbon.

A number of respondents called for greater clarity on how the Wales Spatial Plan would be used in relation to the programmes, as well as requests for more information on strategic frameworks, an emphasis on the importance of partnership and the importance of developing skill levels. There was a significant call to strengthen the emphasis on the importance of tourism within the economy of West Wales & the Valleys and the part that cultural and heritage activities and businesses can play.

Monitoring and evaluation strategy

Nearly all of those who expressed an opinion (56 respondents) agreed with the monitoring and evaluation strategy, whilst the remainder did not comment. A number of respondents called for the provision of training, guidance and support for project level evaluations. Others emphasised the need for qualitative as well as quantitative measures and indicators. Many respondents

also suggested additional indicators and highlighted other areas they felt should be in this strategy.

Innovative actions and trans-national activities

Amongst those who commented, there was a generally positive response to the proposals for mainstreaming innovative actions and transnational activities, with a wide range of suggestions on potential themes.

The Priorities

The focus of ERDF Priority 1 – Knowledge and Innovation for Growth, was broadly welcomed, although a number of respondents suggested merging the theme on ICT infrastructure under Priority 2 with the ICT exploitation theme under Priority 1. Some respondents also suggested that the priority might be sub divided into two priorities, the first covering R&D and Innovation (and possible ICT) and the second entrepreneurship and business finance. A significant number of respondents emphasised the importance of developing stronger synergies with the EU's Framework Programme 7.

Responses to ERDF Priority 2 – Creating an Attractive Business Environment, were quite varied. A significant number of respondents emphasised the importance of transport and physical infrastructure for attracting businesses, with some, particularly local authorities, calling for a new theme on “strategic sites and premises”. Others cautioned against significant investments in road building and called for a stronger emphasis on investments in improving and safeguarding the environment, including addressing climate change issues.

Many respondents felt that ERDF Priority 3 – Building Sustainable Communities was too broadly focused and highlighted the potential for overlap with Priorities 1 and 2. Some suggested a stronger focus on town/village centre regeneration, while others suggested that physical regeneration should be transferred to Priority 2. Others welcomed the scope to support integrated strategies for regeneration and emphasised the importance of supporting community and social businesses.

Respondents were generally supportive of ESF Priority 1 – Increasing employment and tackling economic inactivity. Some respondents felt there could be stronger links drawn to improving the health of the workforce and tackling transport barriers. Others highlighted the needs of particular groups, including older workers, ex-offenders and post graduates.

The main issues raised on ESF Priority 2 – Improving Skills, concerned the balance of skills investment. Some respondents, including HEIs, argued for a stronger emphasis on higher level skills to support the knowledge economy (see also ERDF Priority 1), while others agreed with the strong focus on lower level and basic skills. Some respondents also highlighted the need for adequate provision for investments in the learning infrastructure.

There were very mixed views on ESF Priority 4 – Making the Connections. Some respondents strongly supported investments aimed at improving the quality of public services, while others questioned its inclusion in the programme. Most felt there was a need for this small priority to be carefully focused if it was to achieve a real impact.

Cross-cutting themes – Equal Opportunities and Environmental Sustainability

There was broad agreement to the approach to the cross cutting themes. Generally respondents welcomed the approach to mainstreaming cross cutting themes and where they disagreed, it was usually on specific details not the principle. The cross cutting themes should be seen as integral to projects not as an “add-on, bolt-on, or tick box exercise”. Support and guidance for project sponsors is seen as crucial.

Implementation arrangements

There was general support for the proposed 60/40 split between ERDF and ESF. Other respondents pressed for increases or decreases for certain priorities, largely reflecting their particular interest. For example HEIs generally argued for more investment in R&D and innovation, local authorities for Building Sustainable Communities and the Voluntary Sector for Community Economic Development.

Most respondents sought further information on the proposed approach to strategic implementation, particularly how strategic frameworks would work in practice and the role of partnerships.

There was overall support for a single all-Wales PMC, with a number of reservations. Perceived advantages were better co-ordination and resource management, with fewer demands on the private sector. Perceived problems were inability to focus on complexities of the Convergence region, widely differing needs between the Convergence and Regional competitiveness regions, and lack of clarity on the objectives of the different programmes and associated roles.

The changes made to the ERDF programme as a result of the consultation include:

- The programme has been re-structured into five rather than three priorities to give a clearer focus on what the key priorities are and to avoid single large priorities.
- The focus of the proposed ERDF Priority 1 (Knowledge and Innovation for Growth), has been strengthened. The theme on ICT infrastructure under Priority 2 has been merged with the ICT exploitation theme under

Priority 1. This priority has been divided into two priorities, the first covering R&D and Innovation and the second Entrepreneurship and Business Finance. The synergies with the EU's Framework Programme 7 have been strengthened.

- The proposed ERDF Priority 2 – Creating an attractive business environment, has also been split into two priorities: one covering transport and strategic infrastructure and the other energy and the environment. In response to the calls from some, particularly local authorities, a new theme on “strategic sites and premises” has been created. Furthermore, the priority on transport and strategic infrastructure will contain a theme covering strategic business sites and targeted education infrastructure investments.
- Sections of the Convergence Operational Programmes have been strengthened where gaps have been identified, for the strengths of higher education and the opportunities presented by tourism and ERDF Priority 5 – Building Sustainable Communities has been re-drafted to focus more clearly on areas of most need and opportunity.
- There was widespread, not unanimous, agreement with the proposal to establish a single Programme Monitoring Committee (PMC). During the consultation events there were concerns that PMC membership reflected vested interests, and engagement by PMC members has waned as the programmes have moved close to full commitment. The single PMC structure will be retained, and appointments will be made on merit rather than inviting representatives. We will seek to ensure that expertise is appointed covering all relevant sectors (eg private business, voluntary sector and local government) rather than seeking nominations. We will also need to ensure that whilst the Convergence area is the priority, the interests of the East Wales area are also covered. More detail is given in the Chapter 6, Implementation Arrangements.
- Further advice on Strategic Frameworks has been provided to stakeholders since the consultation and, in October 2006, WEFO consulted on initial proposals for Strategic Frameworks. Stakeholders continue to be updated on progress with Strategic Frameworks and the use of the Spatial Plan through the website, mailing lists and meetings with officials. These sections of the Operational Programmes have been strengthened.
- Consultees emphasised the need to include qualitative measures, as well as quantitative indicators, to give definitions of indicators, and that proposed indicators did not always align as well as they might with the objectives for the priority. The revised Operational Programme emphasises the link between monitoring and evaluation and the role of evaluation in reporting the qualitative aspect of project achievements. Definitions will be provided for all monitoring indicators in the Programme (as separate guidance, which will be checked with a

ANNEX L –CONSULTATION RESPONSES AND PARTICIPANTS

sample of project sponsors) and we believe that the final indicators better link to priority objectives. Indicators suggested through the consultation have been considered in this context and some have been included, for example, private sector investment.

- A number of excellent ideas have also been put forward by respondents on the mainstreaming of innovative actions and trans-national activities. These will be considered in the implementation of these aspects of the programmes.

LIST OF THOSE WHO RESPONDED TO THE CONSULTATION

	NAME	ORGANISATION
1.	Stephen Lord	PRIME Cymru
2.	Andre Misell	Diabetes UK
3.	Jeff Pride	HERIAN
4.	J H Hughes	
5.	Gwyneth Stroud	Wales Management Council
6.	Captain Wyn Parry	Stena Line Ports
7.	Prof Antony J Chapman	UWIC
8.	Alison Kinsey	Ceredigion Economic Regeneration Partnership
9.	Lisa Willis	Neath Port Talbot Obj 1 Partnership
10.	Ian Roffe	University of Wales Lampeter
11.	Gareth Jones	Blaenau Gwent Regeneration Partnership
12.	Zoe Brewis	Chwarae Teg
13.	Non Rhys	Federation of Small Business
14.	Owen Evans	BT
15.	Harry Thomas	Gwynedd CC
16.	F B Callus	CCET Coleg Gwent
17.	Peter Slater	Coalfields Communities Campaign
18.	K Sawyer	Neath Port Talbot CBC
19.	Prof Leslie Hobson	University of Glamorgan
20.	Gareth Jones	Blaenau Gwent CBC
21.	Beverley Penney	Ramblers Association
22.	Paul Orders	Cardiff Council
23.	Jocelyn Llewellyn	Job Centre Plus
24.	Phil Gummatt	HEFCW
25.	Huw Onllwyn Jones	Bwrdd yr Iaith Gymraeg
26.	Prof Paul Beynon-Davies	Ecommerce Innovation centre
27.	Alun M Thomas	Dwr Cymru Welsh Water
28.	Douglas Reid	Merthyr Tydfil CBC
29.	Alun Ffred Jones	Plaid Cymru
30.	Prof Sian Pope	University of Wales Bangor
31.	Claire Morris	EIN committee NAW
32.	Lucy Von Weber	South West Wales Tourism Partnership
33.	Sasha Davies	Ynys Mon
34.	Sian Williams	Tourism partnership North Wales

ANNEX L –CONSULTATION RESPONSES AND PARTICIPANTS

35.	Alun Jones	Menter a Busnes
36.	Owain Wyn	Royal Town Planning Institute
37.	Katie-jo Luxton	RSPB
38.	Ruth Coombs	Mind Cymru
39.	Gil Hurley	Prison Service
40.	Steve Lazell	South East Wales Economic Forum
41.	Peter Sishton	Sector skills Council for IT and Telcoms
42.	John Winton	Churches Tourism Network Wales
43.	Mike Clarke	Remploy
44.	Abigail Phillips	European and External Affairs Cttee NAW
45.	Abbie Hughes	Environment Agency Wales
46.	Julie Williams	Swansea University
47.	Edward Baldascino	Coleg Morgannwg
48.	David Lermon	Institute of Chartered Accountants
49.	Christine Chapman AM	Assembly Member
50.	Cerys Furlong	NIACE Dysgu
51.	Roger Thomas	CCW
52.	Peter Hynes	ILM group
53.	Gwyn Evans	Pembrokeshire CC
54.	Christine Holvey	Opportunity Wales
55.	Dot Collis	Planning Division, WAG
56.	Calvin Wynne Davies	Antur Waunfawr
57.	David Ware	Blaenau Gwent CBC
58.	Neville Davies	Carmarthenshire CC
59.	Mark Haliwell	Bridgend CBC Economic Partnership
60.	Geraint Hopkins	Wales Environment Link
61.	Zelie Flach	UNA (Private Sector)
62.	Julian Burrell	Wales Tourism Alliance
63.	Lee Elwell	TTFW
64.	Bob Brierley	SEWTA
65.	Paul Relf	CC Swansea
66.	Richard Crawshaw	South West Wales Economic Forum
67.	Gail Le Grove	National Child minding Association
68.	Matthew Price	SURTRANS
69.	Hannah Pitt	National Trust
70.	Gwennan Jones	University Innovation Bangor
71.	Mike German AM	Assembly Member
72.	Miss EMB Morgan	Ceredigion CC
73.	Sheila Potter	Conwy CC
74.	Marcus Judd	South West Wales Integrated Transport Consortium
75.	Joan Asby	PLANED
76.	David Seal	Wales Centre for Health
77.	Judith Stone	WCVA
78.	Simon Harris	Wales Co-op Centre
79.	Mark Richards	National Museum
80.	Simon Harris	Social Enterprise Network

ANNEX L –CONSULTATION RESPONSES AND PARTICIPANTS

81.	Claire Saralis	Chamber Wales
82.	Mark Potter	Probation Service
83.	Glen Peters	Rhos y gilwen Mansion
84.	Rory Francis	Coed Cadw Woodland Trust
85.	Ian Miller	Denbighshire CC
86.	Derek Walker	TUC
87.	Mike Jones	Vale of Glamorgan CC
88.	Dee Reynolds	Tourism Partnership Mid Wales
89.	Duncan Anstey	Torfaen Council
90.	Huw Lewis and Lynne Neagle	Assembly Members
91. a	Lowri Gwilym	WLGA
92.	Lorraine Miles	NPT Council for Voluntary Service
93.	Susan Spurrier	Big Lottery
94.	Martin Moore	Disability Wales
95.	Marion Morris	Carmarthenshire Regeneration partnership
96.	Marion Morris	Ceredigion Economic Regeneration Partnership
97.	Louise Huxtable	Expert Panel on Resources Management
98.	Rhian Phillips	Carmarthenshire CC
99.	Menna Thomas	Barnardos
100.	Peter Cole	Capital Region Tourism
101.	Rachel Jones	Skills for Business Network forum
102.	Byron Broadstock	Civil engineering contractors
103.	Nick Bodycombe	Cardiff University
104.	Peter Tyndall	Arts Council
105.	Peter Williams	Development Trusts Association
106.	Jo Charles	National Public Health Service
107.	Amanda Wilkinson	Higher Education Wales
108.	Ben Arnold	University of Wales Newport
109.	Anita Shaw	Techniquet
110.	Clare Jones	Newport CC
111.	Rhian Lloyd	Holyhead Forward
112.	Naz Malik	AWEMA
113.	Ieuan Evans	Tourism Advisory Panel
114.	Simon White	One Voice Wales
115.	Noel Lloyd	UW Aberystwyth
116.	Eirlys Jones	North Wales Tourism
117.	Ian Macintosh	Groundwork Wales
118.	Sian Hope	UW Bangor
119.	Jo Coulson	Mumbles Development Trust
120.	David Archer	Snowdonia National Park
121.	Fiona Jones	Fforwm
122.		Ethnic Business support Programme
123.	Carl Close	Police Service in Wales
124.	Peter Mortimer	RCT Valleys Joint Regeneration Officers Group
125.	Peter Mortimer	RCT Council

ANNEX L –CONSULTATION RESPONSES AND PARTICIPANTS

126.	Peter Mortimer	RCT Economic Regeneration Partnership
127.	Shane Wetton	Rural Community Action (RCA) and Community Regeneration Team - Conwy
128.	Berry Coffman	Greening the Valleys
129.	Richard Essex	RICS
130.	Robert Dangerfield	CORUS
131.	Carys Eyton Jones	British Waterways
132.	Emma Watkin	CBI
133.	Chris Johnes	Communities First Support Network

ANNEX M – INDICATIVE LIST OF STRATEGIC FRAMEWORKS

Spatial Frameworks

Sustainable Regeneration (ERDF Priority 3: Theme 2; ERDF Priority 4: Theme 3; ERDF Priority 5: Theme 1)

Overarching strategic framework co-ordinated by the Spatial Plan Area Groups, supported by EIN and EPC. The framework will have three strands, Strategic Infrastructure; Environment for Growth and Physical Regeneration, but each strand will be separately accounted for (i.e. there will be no cross-priority projects). There will be separate frameworks for each of the Spatial Plan areas.

Co-ordinating Organisation: Spatial Plan Area Groups, supported by Department of Enterprise, Innovation and Networks (EIN), Department of Education, Lifelong Learning and Skills (DELLS) and Department of Environment, Planning and Countryside (EPC).

Thematic Frameworks

Research, technology and innovation (ERDF Priority 1: Theme 1)

Co-ordinating Organisation: EIN, supported by DELLS

E Solutions (ERDF Priority 1: Theme 2 (Information Society and ICT Infrastructure))

Co-ordinating Organisation: EIN

Business Finance (ERDF Priority 2: Theme 2 (Business finance))

Co-ordinating Organisation: EIN

Business Solutions (ERDF Priority 2: Theme 1 (Entrepreneurship))

Co-ordinating Organisation: EIN

Sustainable Transport (ERDF Priority 3: Theme 1)

Co-ordinating Organisation: EIN

Climate Change (ERDF Priority 4: Theme 1 and Priority 4: Theme 2)

Overarching strategic framework co-ordinated jointly by EIN and EPC with two strands: Energy; and Climate Change Adaptation.

Co-ordinating Organisation: jointly co-ordinated by EIN and EPC

Environmental Risks – Waste Management (ERDF Priority 4: Theme 2)

Co-ordinating Organisation: EPC

Community Economic Development (ERDF Priority 5: Theme 2)

Co-ordinating Organisation: SJR

ANNEX N – STRATEGIC FRAMEWORK CO-ORDINATOR RESPONSIBILITIES

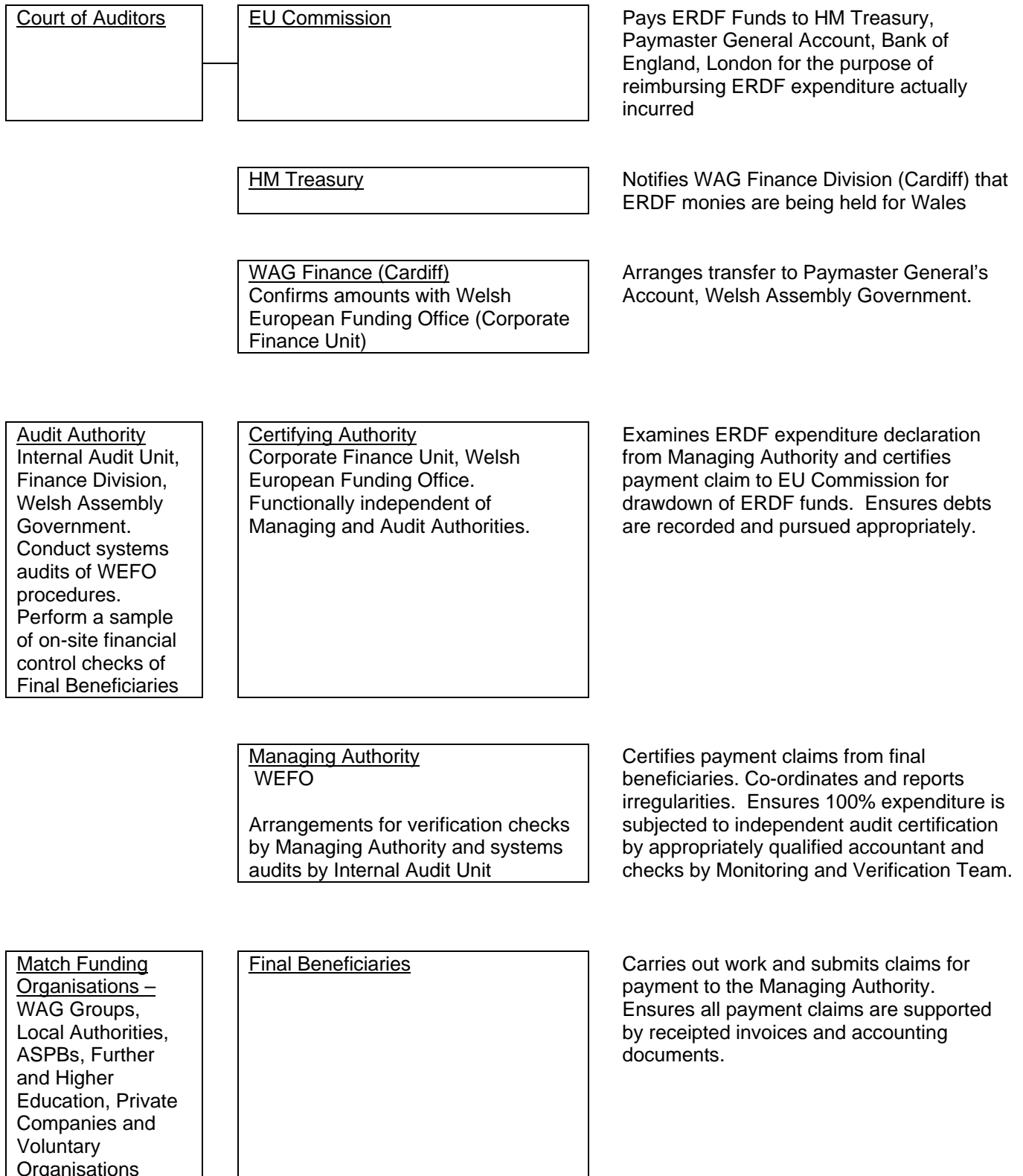
Strategic Framework co-ordinators will be responsible for:

- working with partnerships to develop, review and maintain the Framework;
- working with the Spatial European Teams to ensure effective spatial input to the Framework;
- securing agreement with the Managing Authority on the shape and content of the Framework in respect of its contribution to the Programme Priority;
- disseminating information about the Framework and promoting its aims and objectives;
- encouraging new and innovative approaches to delivering on Framework objectives;
- encouraging joined-up action on project development;
- handling enquiries about the Framework, together with the Managing Authority staff, and discussing project ideas with prospective sponsors;
- advising on an overall evaluation plan for the Framework and assisting the Managing Authority's Research, Monitoring and Evaluation Branch in the planning and implementation of evaluation exercises; and
- working with partnerships to develop, review and maintain the Framework.

ANNEX O – FINANCIAL FLOWS AND CONTROLS

West Wales and the Valleys ERDF Convergence Programme OP 2007-13

The Financial Flows and Controls



ANNEX P – SUMMARY OF THE MONITORING AND EVALUATION PLAN

1. Introduction

This Annex supplements the information provided in Chapter 6, Implementation Arrangements on monitoring and evaluation and provides the link to the full Monitoring and Evaluation Plan. The technical components of monitoring and evaluation are provided in the full plan.

The Monitoring and Evaluation Plan will be published on the Managing Authority website and will be updated at appropriate intervals. It will be developed in consultation with the Evaluation Advisory Group. The plan will be considered by the Programme Monitoring Committee. Section four of the Plan contains a two year forward work programme. This will be updated as work progresses.

2. Monitoring

As indicated in the Operational Programme, the approach taken to monitoring is two-fold: to monitor the context in which the Programme is being implemented; and to monitor specific and attributable outputs to the Programme, against which projects will report.

The Operational Programme contains both high-level tracking indicators (context indicators) and Programme-level indicators (at Priority level, some of which are aggregated to Programme level).

The high-level tracking indicators are derived from the short-listed Lisbon Structural Indicators and the Welsh Assembly Government's economic development strategy, *Wales: A Vibrant Economy*. They are used to monitor changes in the socio-economic context of the programme and will be reported against where appropriate in the Annual Implementation Report. These are to enable the PMC and others to assess the changing economic context in which the Operational Programme is being delivered and to form a background for assessment of progress.

Programme indicators relate to the effects of the intervention. They fall into three categories: output; result; and impact, and are linked together in a logical chain. These indicators are set at Priority level and they have been selected carefully to reflect the breadth of individual Priorities, while focusing on the key Priority objectives and the Cross Cutting Themes. They are to enable the Managing Authority, PMC and others to make an assessment of the direct contribution of the Programme.

Projects will be required to select all the relevant indicators from those available within the Priority from which they are being funded and they will be

given direction in this by the Managing Authority. The timescales and relevant milestones for reporting the monitoring data will be agreed with Managing Authority when the project is being developed.

Projects will be required, where relevant, to provide participant-level and enterprise-level information to the Managing Authority. To facilitate the collection process, the Managing Authority will provide projects with a template for the collection of participant details. This should allow project-level databases to interface with the PPIMS database. The participant, and enterprise, database will allow the Managing Authority to capture a significantly greater depth of data than is currently collected and to allow reporting of the category breakdowns required under Article 66(2) and Annex XXIII of the Implementing Regulation.

Article 66 states that the Managing Authority and the Monitoring Committee will carry out the monitoring by reference to the financial indicators and the indicators referred to in Article 37(1)(c), and specified in the Operational Programme under the Priority Axes.

The Managing Authority will report to the PMC for it to be able to satisfy itself as to the effectiveness and quality of the implementation and achievement of all the OPs. The style and types of reports required, along with the reporting timeframes, will be subject to consultation with the PMC.

In accordance with Article 67, WEFO, as the Managing Authority, will submit electronically an Annual Implementation Report to the Commission within six months of the end of each full calendar year of implementation. The Annual Implementation Report will be considered and approved by the Programme Monitoring Committee, in accordance with Article 65(d). The first report will be provided to the Commission by 30 June 2008.

3. Evaluation

Three levels of evaluation are planned for the Programmes. These are: Programme level; strategic framework; and project level. Each of these evaluation types will have distinctly different approaches but it is important to ensure that there is some commonality between the evaluations so that any issues arising are able to be examined in their entirety - see Section 3(c).

(a) Programme level evaluation

Articles 47 and 48 require the Managing Authority to ensure that evaluation of the Programme is undertaken, including evaluations at Priority level, as appropriate. The evaluations will assist with Programme implementation and will focus on both strategic (policy) and operational (process) needs and will help to improve the quality, effectiveness and consistency of the assistance. The Programme level evaluations will address the following issues:

- **Relevance:** are the Programme objectives appropriate?
- **Effectiveness:** have the objectives of the Programme been achieved?
- **Efficiency:** is the Programme cost-effective and what sort of value for money is being achieved?
- **Utility:** have the needs of the target groups been met or could more be done?
- **Sustainability:** will the Programme effects be sustained?
- **Synergy:** has the Programme complemented and enhanced the effects of related European and domestic policies and interventions?

Evaluation will be undertaken on a more flexible basis in the 2007-2013 Programmes in accordance with the Commission's emphasis on on-going evaluation. In practice, this means that the evaluation will be more demand driven, responding to policy and programme needs as opposed to regulatory imperatives.

These evaluations will be linked to Programme monitoring, in particular where Programme monitoring reveals a significant departure from the initial goals. Evaluation will also be undertaken where it is intended to substantially alter the design of the Programme or where there are any notable changes in the external environment. Programme level evaluation will be integrated throughout Programme delivery with the results of the evaluations potentially leading to changes in the scope or delivery of certain Priorities. In accordance with Article 48(3) the results of these evaluations will be sent to the PMC, the Commission and published on the website.

The Managing Authority has set out the following key principles to guide the potential areas of investigation through the on-going evaluation process.

- The need to investigate potential areas of risk. These areas reflect Programme activities which are ambitious, for example by their innovative nature or their dependence on external factors or demand or because the indicators themselves are experimental.
- Areas that lack of coverage through the routine monitoring system. This may be because indicators could not be identified or because their collection would entail a disproportionate resource requirement.
- Areas which are substantially over-achieving or under-achieving on targets. This may be because of a change in the external conditions or could reflect a need to amend the targets.

The responsibility for considering the launch of an evaluation relating to a departure from the profiled targets lies with WEFO. The Managing Authority acknowledges this is a complex area which encompasses more than simply relying on trigger points. Further guidelines will be developed in conjunction with the Evaluation Advisory Group.

The linkages between evaluation and Programme decision-making and the external context will be facilitated by a proactive approach to evaluation. This

will involve evaluators having a regular dialogue with policy and Programme stakeholders through the Evaluation Advisory Group, PMC and other for a.

The Ex Ante Evaluations (Article 48) for the Convergence Programmes (ERDF and ESF) were undertaken to ensure that resources are allocated optimally and to maximise the quality of plans for Programme implementation. It was an interactive process, with the consultants commenting on early drafts of Programme documents and revisions being made in light of these comments.

The Ex Post Evaluation, described under Article 49(3), will be undertaken by the European Commission in close co-operation with the Managing Authority. It will cover the extent to which resources were used, the effectiveness and efficiency of programming, and the socio-economic impact. The evaluation shall aim to draw conclusions for the policy on economic and social cohesion. It will identify the factors that have had an influence on the success or otherwise of the Programme and identify good practice. This evaluation will be completed by the end of 2015.

An indicative list of potential Programme level evaluations is presented below. The Managing Authority will make final decisions on the evaluations that should take place during the programming period based on advice from the Evaluation Advisory Group. This list excludes the Ex Ante and Ex Post evaluations discussed above. The indicative activities are:

- a review establishing the effectiveness of implementation, administration and delivery of the Programmes, for example establishing the effectiveness of the Strategic Frameworks;
- on-going evaluation linked to a significant departure from the goals initially set out and to support Programme revisions;
- an overall assessment of the Programme outcomes which includes an evaluation of the impact of the Programmes in the areas such as: job creation, SME creation, number of people helped into further learning, number of people helped into employment and the effectiveness of innovative activities. This work will complement the evaluation work linked to Strategic Frameworks; and
- a consideration of the Cross Cutting Themes of Equal Opportunities and Environmental Sustainability. This may be achieved through a dedicated research project to assess the integration of the Themes or considering the Cross Cutting Themes in other evaluations.

The Monitoring and Evaluation Plan includes details for the dissemination of findings. As a minimum all programme level evaluations will be presented to the PMC, sent to the Commission (Article 48(3)) and published on the Managing Authority website.

(b) Strategic Framework and project level evaluation

The Programme level evaluation activity will be complemented by project and Strategic Framework level evaluation. It is recognised that reporting against the monitoring indicators only provides a partial assessment of project progress and impact. For this reason the Managing Authority will strengthen its requirements for project and Strategic Framework level evaluation.

All project sponsors will be required to undertake or commission evaluations of their projects and have monitoring and evaluation plans agreed at the application stage. Strategic Frameworks will also be required to implement a monitoring and evaluation plan.

The Managing Authority will minimise the burden on projects while maximising the quality of the evaluation results and so the level and intensity of the evaluation activity will be proportionate to the size or risk of the project and will be agreed with the project sponsor at the development stage. Costs associated with undertaking evaluation will be deemed an eligible cost within project costs.

All project sponsors that are awarded £2 million grant or more (ESF or ERDF) for a single project and all projects involved in implementing ERDF-supported innovative or experimental actions as defined in the ERDF Programmes, as well as projects identified as Innovative under Article 7 of the ESF Regulation (1081/2006), will be required to have the project externally evaluated by independent contractors. Other projects will be expected to carry out or commission evaluation in line with the proportionality principle outlined in Article 13.

As a result of these enhanced requirements, guidance will be developed to assist with the development of evaluation plans and the selection of appropriate evaluation methods at the project development stage. This will build on guidance developed for the 2000-2006 Programmes. Where appropriate, the fieldwork tools that the Managing Authority used during the 2000 – 2006 Programmes will be made available to Strategic Frameworks and projects should they wish to use them.

Throughout the programming period the Managing Authority will ensure that the quality of a sample of project-level evaluations are assessed to ensure that the evaluations are of a suitably robust quality enabling project sponsors and other stakeholders obtain full value from evaluations.

The Managing Authority will work with Strategic Frameworks and projects to ensure that suitable evaluation governance procedures are developed.

(c) Linking the different levels of evaluation

It is important to ensure that the various levels of evaluation (Programme, Framework and project) will interact to maximise the benefit derived and prevent duplication. A set of common questions that projects within a specific

strategic framework will be expected to consider will be developed with the framework co-ordinator. The questions will assist the framework-level evaluations by allowing a synthesis of the project evaluations within a particular framework.

4. Resources

Within the Managing Authority there is a dedicated research, monitoring and evaluation (RME) unit. RME will manage all the Programme level evaluation and provide advice and guidance for Strategic Framework level evaluation and also to projects. The resource will be strengthened to reflect these enhanced requirements. RME will provide the secretariat to the Evaluation Advisory Group, (EAG). It will provide regular monitoring and evaluation reports to the PMC. The team will be part funded by Technical Assistance.

5. Planned activity for 2007/08

The key activity for the start of this period is the Ex Ante evaluations for all the Programmes and the Strategic Environmental Assessments for the ERDF Programmes.

Besides this there are four further tasks:

- To ensure that the EAG is formed;
- To agree the Monitoring and Evaluation Plan with EAG;
- To develop advice and guidance on monitoring and evaluation for Strategic Frameworks and projects; and
- To support Strategic Framework Co-ordinators in developing their evaluation plans.

ANNEX Q – SUMMARY OF CROSS-CUTTING THEMES LESSONS LEARNED FROM STRUCTURAL FUNDS PROGRAMMES 2000–2006

A Cross-Cutting Research Project¹ has reported a broad level of success with integrating the cross cutting themes into the Objective 1 programme 2000-2006. The model used to build the cross cutting themes into the programme was judged to have been successful. This involved, defining horizontal and vertical activities within the programme, which addressed environmental sustainability and equal opportunities objectives. These were based on the key environmental and equality issues in the Region that needed to be addressed.

A similar overall approach will be taken for the Convergence 2007-13 programme although a prime objective will be to help deliver outcomes identified in Welsh Assembly Government strategies that are consistent with European policy.

The inclusion of cross cutting theme targets within the Structural Funds programmes 2000–2006 was an important driver to encourage projects to address the cross cutting theme objectives. This also provided a means to monitor progress in meeting the cross cutting theme objectives. Specific issues identified for each theme are detailed below.

Environmental Sustainability

Although not a statutory requirement, the completion of a Strategic Environmental Assessment (SEA) within the current programme has been widely identified as an example of best practice. A commitment has been made to carry out an SEA on the Structural Funds programmes 2007–2013 to be fully compliant with the SEA Directive which came into force in 2004.

Specific examples of successful promotion of environmental sustainability in the Objective 1 programme 2000–2006 include:

- support provided for the development of the environmental goods and services sector of the Welsh economy;
- promoting the adoption of Environmental Management Systems by SMEs;
- prioritisation of developments on brownfield sites;
- promotion of high standards of environmental performance for new and refurbished buildings; and

¹ Cross-cutting Research Project (Objective 1 and 3 programmes 2000–2006), May 2006:
<http://www.wefo.wales.gov.uk/resource/RME-CCT-2006-e4535.pdf>

- support for projects based on the sustainable use of the natural environment that made a significant contribution to sustainable development.

In some areas the integration of environmental sustainability was less successful. Not all projects addressed the opportunities for integrating environmental issues and some environmental sustainability targets were missed because, for example, systems designed at the outset were not flexible enough to respond to changes. There were also delays in environmental infrastructure projects because of the lack of strategies at the programme outset, and delays with obtaining planning permission. Problems were experienced in attracting projects that focussed on more efficient use of water resources. Initially, support for land remediation projects was restricted to 'orphan sites' (sites not having an owner that would be responsible for pollution and remediation work). This proved to be a major restriction on potential projects and was amended subject to projects being able to demonstrate significant economic and social benefit.

A key finding of the research was the need to integrate the cross-cutting themes into projects at an early stage of development and this will be a key objective of the Convergence Programme. Strategies now exist that will help to identify and formulate major projects at an earlier stage in the programme that will make a significant contribution to environmental sustainability objectives. There may still be contention and delay in obtaining planning consents for large infrastructure projects in the energy and waste field.

The research indicated that the guidance produced for the Objective 1 Programme 2000–2006 on integration of environmental sustainability was well received. It is intended to build on this approach in the Convergence programme by inclusion of best practice examples.

Equal Opportunities

Specific examples of successful promotion of equal opportunities in the Objective 1 and 3 Programmes 2000–2006 include:

- a high number of new SMEs given advice owned by women, BME people and disabled people;
- significant numbers of additional childcare places created;
- a high percentage of initiatives addressing issues for disabled people, women and BME people;
- the reported percentage of BME people participating in the programmes was well above the working age population comparator; and

- a higher level of women supported through the programmes than would have been anticipated based upon their representation within the labour market generally.

The report also highlighted that more could have been achieved to encourage infrastructure development projects for childcare. Much of the funding has been spent on temporary crèche provision to support activities such as training. Furthermore, although the robustness of the data is open to question because of recording difficulties, participation rates for disabled people and Welsh speakers could also have been higher. More emphasis also needs to be placed on the more difficult issues around gender such as horizontal and vertical segregation and equal pay, from which project sponsors have tendered to steer away.

Improvements for future programmes.

The research identified a number of issues that could improve the integration of the cross-cutting themes in the 2007–2013 programmes including:

- early integration of the cross-cutting themes into projects at the first stage of development to prevent them from being seen as a bolt-on to projects;
- more detailed guidance on equal opportunities and how sponsors can integrate the cross-cutting theme into their project;
- ensuring that the output targets are agreed up front and are accommodated in the design of the monitoring and evaluating procedures when the administration arrangements for the programmes are put in place; and
- the continuation of the approach of horizontal and vertical integration of the themes, along with the work of the Cross-cutting Unit within WEFO and the external Cross-cutting Theme Group.

ANNEX R: CO-ORDINATION BETWEEN ERDF/ESF/EAFRD AND EFF

Operational Programme Priority	ERDF Interventions	ESF will support	EAFRD will support	EFF will support
<p>1. Building the Knowledge Based Economy</p>	<p><u>Research and Development, innovation and technology</u></p> <p>Embedding a culture of innovation and improvement in firms and demonstrating the benefits of innovation and science.</p> <p>Helping businesses to invest in R&D and develop new market led processes, products, technologies and services, particularly those with high growth potential.</p> <p>Developing management capacity to better equip firms to develop product and process improvements.</p> <p>Strengthening and maximising the capabilities of HE and, where appropriate, FE institutions to support businesses through knowledge transfer and commercialisation of research, and encouraging the development of innovative technologies.</p>	<p>Preparing young people and others, including disadvantaged groups, to access Higher Education (but not higher education provision itself), and STEM subjects – Science, Technology, Engineering and Mathematics.</p> <p>Developing skills such as leadership, management, enterprise and technical skills needed to support business development and growth.</p> <p>Action to raise the supply of individuals with higher level specific skills, including research.</p> <p>Training of research personnel from HE / FE institutions in business processes to support technology transfer to businesses or creation of spin out companies.</p>	<p>Provision of training and knowledge transfer support for the farming and forestry sectors;</p> <p>Support for research and development in the agriculture, forestry and agri-food sectors;</p> <p>Support for the development of innovative approaches and new products / processes in the agriculture, forestry and agri-food sectors;</p> <p>Support for the take-up of technology in the agriculture, forestry and agri-food sectors;</p> <p>Working at the local level i.e. below regional level:</p> <ul style="list-style-type: none"> Support for the application of the Leader approach to the piloting and development of innovative approaches / products and processes across a wide range of sectors; 	<p>Investment in innovation and technology in fishing and aquaculture sectors</p>

	<p><u>ICT Infrastructure and Information Society for All</u></p> <p>Encouraging firms to take-up ICTs</p> <p>Encouraging firms to embed and fully utilise ICTs.</p> <p>Addressing social and other barriers to ICT uptake and exploration by firms, citizens and communities.</p> <p>Promoting common platforms to encourage fair and open access to technologies.</p>	<p>Supporting the acquisition of ICT, generic and occupational skills in the workforce and support progression to Level 2, with demand led progression to Level 3.</p> <p>Training linked to the successful exploitation of ICTs by SMEs and community organisations.</p>	<p>Support for the take-up of ICTs by the agriculture and forestry sectors;</p> <p>Encouraging agri-food businesses to embed and fully utilise ICTs;</p> <p>Working at the local level i.e. below regional level:</p> <ul style="list-style-type: none"> • Encouraging communities and individuals to utilise ICTs; • Support for rural micro-enterprises to engage with and fully utilise ICTs; • Investment in local and community projects e.g. village halls, community centres etc. to encourage linkages to ICTs. 	<p>Encouraging computerised management of fishing activities</p>
<p>2. Improving Business Competitiveness</p>	<p><u>Entrepreneurship</u></p> <p>Supporting the start-up of new enterprises.</p> <p>Supporting the growth of existing enterprises, particularly those with capacity to grow.</p> <p>Promoting opportunities to grow the sectors in which West Wales and the Valleys is strong, or those which</p>	<p>Enabling individuals acquire the skills for sustainable self-employment, including in social enterprises.</p> <p>Raising levels of basic literacy and numeracy skills amongst existing workforce, supporting systems to enable employers identify and address skills needs, and helping workers and enterprises prepare for and adapt to new forms of work</p>	<p>Investment in rural businesses where they are involved in the agri-food sector including adding value and primary processing, purchasing inputs from local producers, meeting new retailing opportunities (market development), new manufacturing techniques; supply chain efficiencies etc.</p> <p>Working at the local level i.e. below regional level:</p>	<p>Improving the efficiency of capture, production and supply chains to maximise value and profitability in existing markets and also targeting new markets.</p> <p>Developing strong links between fishing and aquaculture sectors and subsequent processing.</p>

	<p>it is seeking to develop.</p> <p>Building the sustainability of community and social enterprises by increasing their economic contribution.</p>	<p>organisation and new technologies. Lifelong learning and training for managers and workers to develop skills in leadership, management, enterprise and technical skills needed for business development, growth, innovation and productivity.</p> <p>Improving research into skills needs and matching learning provision to meet labour market needs, reducing skills gaps and shortages. Training up to and including level 3 where there is market failure, e.g. where there are skills shortages, and amongst women, BME groups and other disadvantaged groups which are under-represented.</p> <p>Advice, support and training provision to enable individuals acquire the skills for sustainable self employment. ing social enterprises</p>	<ul style="list-style-type: none"> • Support for diversification into non-agricultural activities by farming families; • Provision of support to rural micro enterprises across a range of sectors, including activities focusing on the use of local products; new retailing, manufacturing or service industries meeting local needs; the development of the rural tourism product; development of the creative industries; delivery of essential services to the local community; • Support for enterprises that contribute to the development of new environmental technologies, are involved in renewable energy supply chains in producing, processing or end uses, new forestry enterprises, new products and markets, leading to more sustainable use of woodlands and the use of woodlands to deliver recreational and social benefits, provide the traditional trades required to maintain and enhance the landscape or cooperative ventures between rural businesses and/or with rural communities; 	
--	--	---	---	--

			<ul style="list-style-type: none"> • Support for developing bespoke rural skills not provided by mainstream programmes; • Support developing generic 'life skills' and business skills where not provided by mainstream programmes. 	
	<p><u>Business Finance</u></p> <p>Providing debt finance and venture capital to address market failures in financial support mechanisms required to create new SMEs and develop existing ones.</p> <p>Providing discretionary, focused grant support packages for businesses, including, but not linked to, high growth sectors.</p> <p>Supporting and accelerating Welsh export.</p>	Not applicable	<p>Supporting, developing the product and increasing the market for Welsh food and drink;</p> <p>Working at the local level i.e. below regional level:</p> <ul style="list-style-type: none"> • Providing discretionary focused grant support packages for small local businesses meeting a clearly determined local need. 	Not applicable
3. Developing Strategic Infrastructure for a Modern Economy	<p><u>Sustainable Transport¹</u></p> <p>Supporting key rail and road enhancements, particularly those on or closely linked to the TEN-T network, which improve accessibility to European markets.</p> <p>Reducing the level of car usage,</p>	Not applicable	<p>Working at the local level i.e. below regional level:</p> <ul style="list-style-type: none"> • Provision of support for local community transport provision. • Support for development of sustainable transport 	<p>Limited support for port and infrastructure developments directly related to the fishing industry</p> <p>Exploration of opportunities for shared distribution infrastructure for fishery products, thus reducing</p>

¹ Anything coming forward in this area will be subject to assessment by WEFO and Transport Policy colleagues to prevent duplication of funding and ensure joined-up working and added value

	<p>particularly single occupancy commuting.</p> <p>Increasing public transport usage and enhancing accessibility to employment opportunities and key services.</p> <p>Reducing congestion and carbon emission levels.</p> <p>Reducing road haulage of goods and encouraging rail and sea freight.</p> <p>Improving accessibility for people in the Programme to open up access to jobs, employment opportunities and key facilities.</p>		<p>options for community purposes and local tourism initiatives.</p>	<p>transportation usage and costs.</p>
	<p><u>Strategic Infrastructure</u></p> <p>Supporting the implementation of site infrastructure for the development of high quality business accommodation.</p> <p>Developing high quality business accommodation to support the creation and growth of modern businesses, the development of clusters, and attract inward investors.</p> <p>Supporting a small number of high impact learning infrastructure projects aimed at increasing the</p>	<p>Not applicable</p>	<p>Not applicable</p>	<p>Improvements to fishing ports, landing facilities, processing facilities, and aquaculture production units.</p>

	quality and effectiveness of the education and training system			
4. Attractive Sustainable Business Environment in Which to Invest and Work	<p><u>Energy</u></p> <p>Supporting clean energy developments and energy infrastructure to increase supply.</p> <p>Strengthening the energy R&D base and links between businesses and academia including the demonstration of future technologies.</p> <p>Encouraging the adoption of micro-generation and use of renewable.</p> <p>Energy conservation and energy efficiency measures to reduce demand.</p>	<p>Training for employers and workforce to support take-up and utilisation of innovations in the energy and resource efficiency fields by SMEs.</p> <p>Provision of training to support employers and employees in energy and resource efficiency.</p>	<p>Working at the local level i.e. below regional level:</p> <ul style="list-style-type: none"> • Support for the forestry sector for development of renewable products and technology e.g. biomass, short rotation coppice; • Supporting local clean energy schemes including support for the agriculture sector for on-farm projects; • Encouraging the use of renewable energy sources and local recycling schemes; • Support for local initiatives to conserve energy and improve energy efficiency; • Support for innovative pilot projects exploring new opportunities / products; 	<p>Promotion of adoption of fuel efficient methods of fishing</p>
	<p><u>Tackling Environmental Opportunities and Risks for Sustainable Economic Growth</u></p> <p>Improving inland and coastal flood defence infrastructure.</p> <p>Encouraging the efficient use, re-use and recovery of natural resources across all sectors of the economy.</p> <p>Measures to reduce green house gas emissions</p>	<p>Not applicable</p>	<p>Support for the agriculture and forestry sectors for the sustainable use, protection and management of land;</p> <p>Support for the agriculture sector for the protection of biodiversity and habitat ;</p>	<p>Promotion of investment in new technology and processes to mitigate/minimise environmental impacts.</p> <p>Exploration of opportunities for diversifying into more sustainable fishing practices</p>

	Removing sources of contamination		Support for contributions towards combating climate change Support for a Catchment Sensitive Farming	
	<u>Environment for Growth</u> Promoting the enhancement and protection of the natural, built and heritage environment. Increasing the economic potential of the environment.	Not applicable	See above.	Protecting marine and aquatic environment to maintain its attractiveness, and protecting and capitalising on the natural and architectural heritage.
5. Building Sustainable Communities	<u>Physical regeneration (including town centre renewal)</u> Supporting the integrated regeneration of the most deprived towns and villages by physical improvements to the urban fabric and the wider natural and built heritage. The activity will be carried out within the context of the relevant Spatial Plan strategy and in ways that involve local communities and organisations. Developing and delivering effective ways of engaging local communities and developing local networks with the aim of finding local solutions for regeneration activity.		Working at the local level i.e. below regional level: <ul style="list-style-type: none"> Supporting the regeneration of rural towns and villages by physical improvements to the built fabric and the wider natural and built heritage. Developing and delivering effective ways of engaging local communities and developing local networks with the aim of finding local solutions for regeneration activity through the Leader approach. 	Limited scope for Regeneration and development of coastal fisheries areas directly relating to the fishing industry
	<u>Community economic development</u> Encouraging access to, providing or improving services for local communities, where gaps in		Working at the local level i.e. below regional level: <ul style="list-style-type: none"> Support for local solutions 	Examine models for stronger community partnership in traditional

	<p>provision can be clearly evidenced.</p> <p>Increasing the economic contribution of the 'third sector'.</p>		<p>to issues of access to, provision of / improvement of services for rural communities.</p> <ul style="list-style-type: none"> • Provision of support for small-scale local community transport provision in rural areas • Increasing the contribution of the 'third sector'. 	<p>fisheries areas and their promotion</p>
--	---	--	--	--