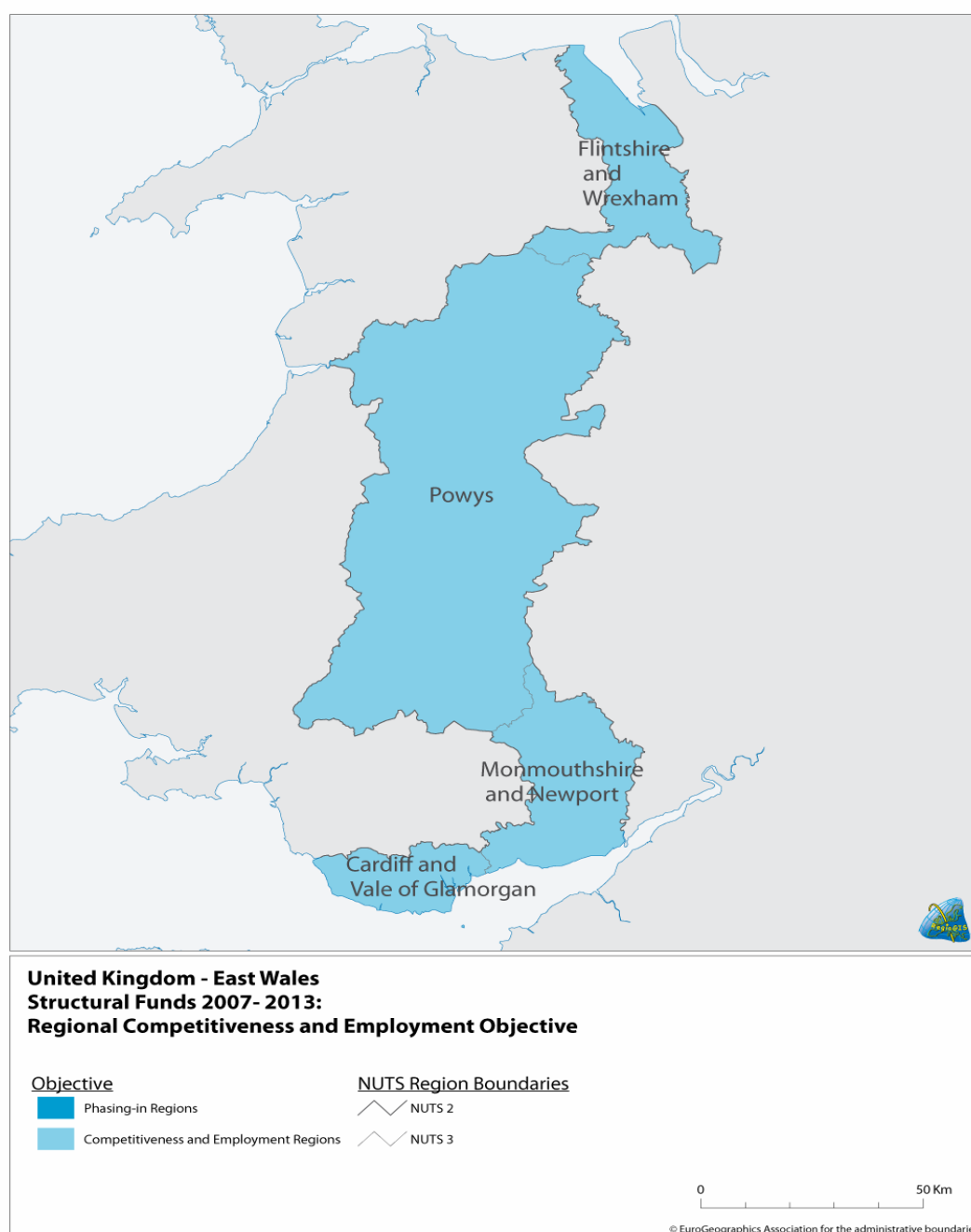


Full Analysis

Area Overview

1.1 The Competitiveness and Employment Programme for East Wales covers the Unitary Authorities of Cardiff; Flintshire; Monmouthshire; Newport; Powys; Vale of Glamorgan and Wrexham. The Region has an area of 7,650 Km² with a population of just over 1 million (36% of the total population in Wales).

Figure 1. Map of the East Wales Regional Competitiveness and Employment Programme Area



1.2 East Wales has a diverse mix of urban and rural areas that can be grouped into three distinct sub-areas:

- the urban industrialised border of Flintshire and Wrexham (the Dee Triangle) in the North East that is dependent on close cross-border collaboration with its English neighbours particularly West Cheshire;
- to the south is an extensive central rural area incorporating Powys and Monmouthshire containing many areas of natural beauty including the Brecon Beacons National Park; and
- the South-East corner is dominated by the cosmopolitan cities of Cardiff and Newport. Cardiff is a relatively small capital city with a population of 320,000 whilst Newport is seen as strategically important because of its advantageous position between Cardiff and Bristol as well as the rest of Southern England. Both Cardiff and Newport are important hubs and economic drivers for increasing prosperity in the adjoining areas of the South Wales and Gwent Valleys and beyond. South East Wales also benefits from beautiful countryside and the heritage coastal zone that is a key feature of the Vale of Glamorgan.

1.3 The rest of this Chapter sets out a picture of the socio, demographic, economic and environmental conditions across East Wales and explores the main differences between East Wales, the UK and the European Union as a whole. This analysis sets the scene for the targeted interventions under the ERDF Regional Competitiveness and Employment Programme described in later chapters.

1.4 The economy of East Wales is diverse and, for the most part, relatively prosperous, with GVA per head on a par with the UK average nevertheless, it is important to recognise that regional differences do exist within East Wales. With the limited funds available it will be vital for the funds to be targeted towards those activities that can have the greatest impact to build on the work already done under the Objective 2 Programme for strengthening sustainable, economic development.

1.5 Table 1 shows the population of East Wales by Local Authority area as well as the percentage share of total East Wales population in each Local Authority area. As Table 1 shows approximately 60% of the population of East Wales is located in South East Wales around the city regions of Cardiff and Newport. This spatial distribution of population should be considered alongside the analysis that follows.

Table 1. Population concentrations, East Wales

	Mid-2004 population (000s)	Percentage of total population of East Wales
Flintshire	150	14%
Wrexham	130	12%
Powys	131	12%
The Vale of Glamorgan	122	11%
Cardiff	317	29%
Monmouthshire	87	8%
Newport	140	13%
East Wales	1,077	100%
Wales	2,953	-

Totals may not add due to rounding

Source: Office for National Statistics

Economic Overview

1.6 Since 2001, the economy in East Wales, as for Wales as a whole, has shown significant improvements. Approximately 56,000 more people are in employment since 2001 and the unemployment rate in Wales has fallen to levels similar to the UK average. Average earnings have risen by more than 13% in real terms over the same period and have recently (between 2002 and 2004) been increasing at a faster rate than for the UK as a whole (see Figure 8). However, the economy is growing from a low base and Wales still had the third lowest average weekly earnings amongst UK regions and devolved administrations in 2005. Average gross weekly earnings for full-time adults in Wales were £455 in April 2005, 88.0 per cent of the average for the UK as a whole (Annual Survey of Hours and Earnings 2005, Office for National Statistics).

1.7 In East Wales the labour market has grown strongly in recent years. Table 2 shows that on the leading labour market indicators, East Wales has performed well with rising employment, and falling unemployment and economic inactivity. Despite this, East Wales has a lower employment rate and higher rates of economic inactivity than compared to the UK average. However East Wales out performs on the headline labour market indicators compared to the average for Wales and the countries of the European Union as a whole.

1.8 Long-term unemployment has been highlighted in the European Employment Strategy as a particular concern. The fall in long-term unemployment seen across East Wales is welcome news. Despite this fall long-term unemployment is still above the average for Wales and the UK as a whole. The UK Government has recently introduced measures including work-focussed interviews to assist individuals currently not in employment back into active engagement¹. These measures are expected to help the UK and its sub-regions to meet the targets and benchmarks in

¹ DEPARTMENT FOR WORK AND PENSIONS, 2006, A New Deal for Welfare: Empowering People to Work. Available at: http://www.dwp.gov.uk/aboutus/welfarereform/docs/A_new_deal_for_welfare-Empowering_people_to_work-Full_Document.pdf

the European Employment Strategy in relation to providing a new start for long-term unemployment individuals and increase participation in active labour market measures.

Table 2. Labour market summary, EU(25) comparison (percentage)

	2001	2005	Change over 2001
Employment rate (a)			
East Wales	69.5	71.4	1.9
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)			
East Wales	73.7	74.0	0.3
Wales	69.5	71.5	2.0
UK	75.2	75.3	0.1
EU(15)	69.1	70.1	1.0
EU(25)	68.7	71.0	1.3
Unemployment rate (c)			
East Wales	5.0	3.5	-1.5
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
Long-term unemployment rate (d)			
East Wales	30.7	22.4	-8.0
Wales	28.4	22.0	-6.4
UK	25.3	21.1	-4.2
EU(15)
EU(25)	..	45.5	..

(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

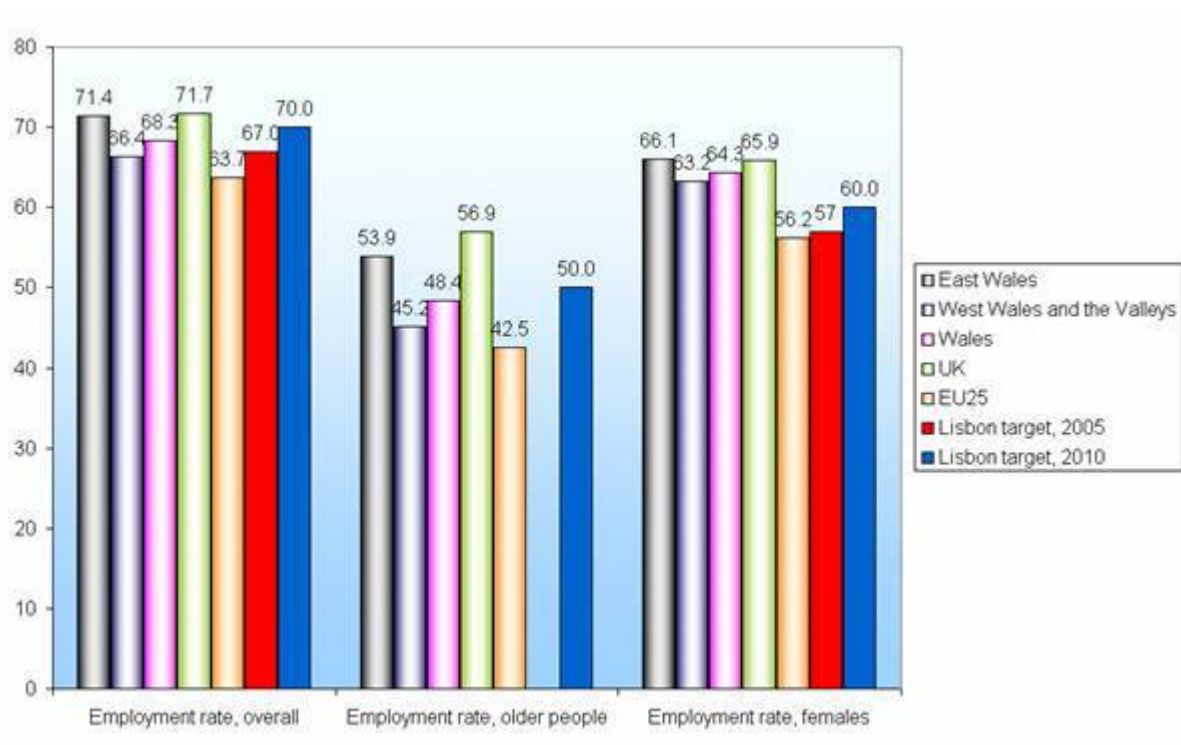
(d) Those unemployed for at least 12 months

.. Data unavailable.

Source: Eurostat

1.9 Figure 2 shows that East Wales exceeds the main Lisbon employment targets for 2005 and 2010. 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 sources². A more detailed discussion of labour market issues is available in labour market analysis for the ESF Competitiveness Programme.

Figure 2. Performance against Lisbon targets 2010

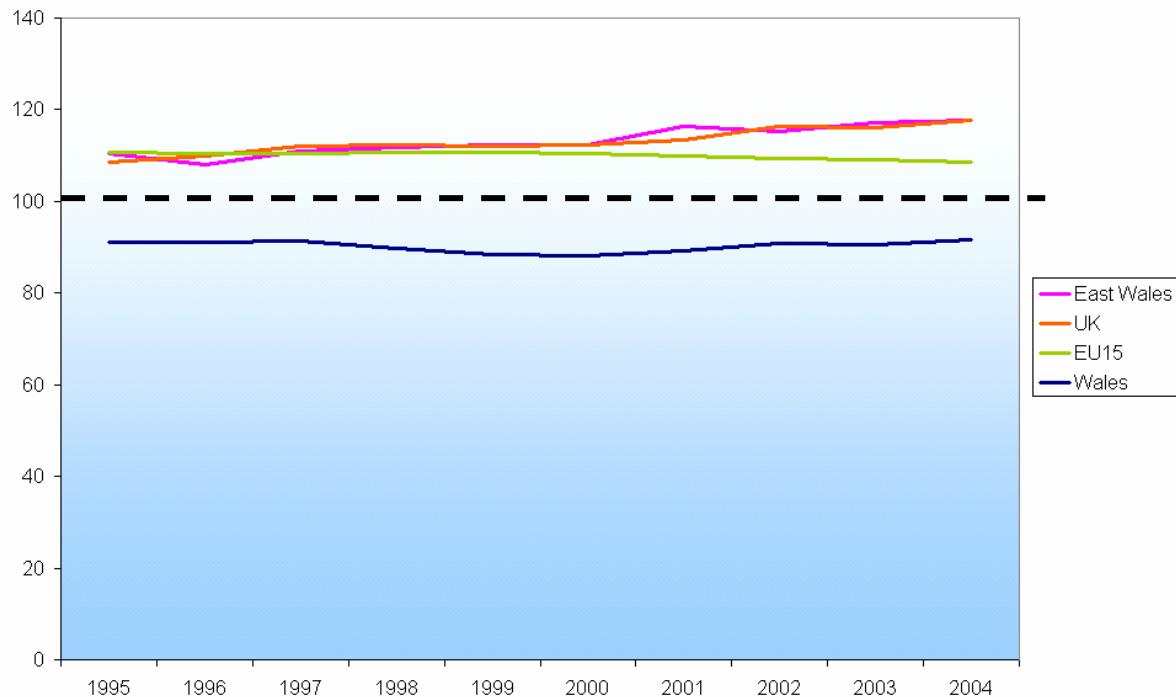


Source: Eurostat

1.10 Figure 3 shows that GDP per head in Wales has increased over recent years when compared to the average for the 25 countries of the EU. GDP per head across East Wales is above the average for Wales as a whole and is in line with the UK average, both of which are well above the average for the 25 countries of the European Union.

² 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&vindex=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 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

1.11 Analysis of the gap³ in GVA⁴ per head for Wales as a whole helps to explain why East Wales outperforms the average for Wales and provides an insight into the relative strengths of the sub-region.

1.12 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 the working age population that work in a given area (reflecting commuting patterns); and
- the average output or value-added per job⁵.

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

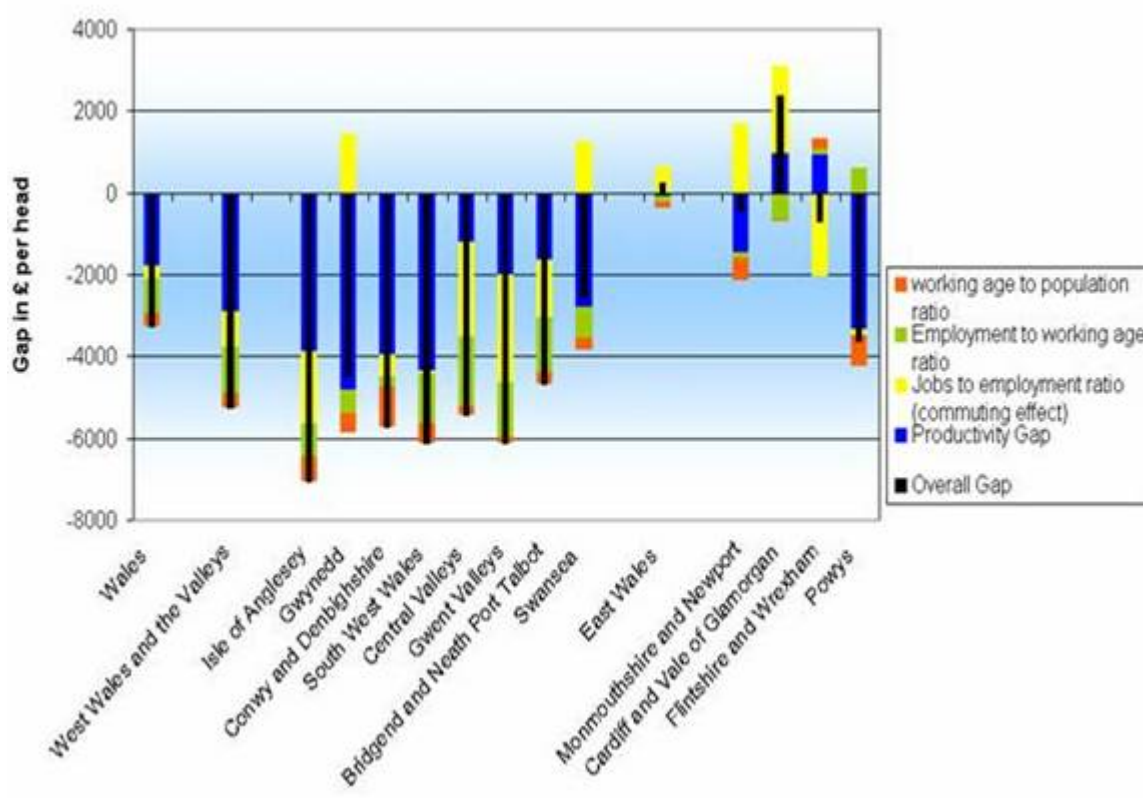
⁴ GVA is calculated as GDP minus indirect taxation and subsidies. Data comparing Wales to the EU average is only available as GDP per head.

⁵ Often referred to as productivity, although as illustrated later in the document, referring to productivity differences can be misleading, as aggregate productivity measures do not take account of the industrial structure of the economy.

1.13 Figure 4 compares the difference in GVA per head for Wales and the NUTS⁶ 2 and 3 regions of Wales compared to the average for the UK as a whole. 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. 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).

1.14 GVA per head in East Wales is approximately £250 higher than across the UK as a whole. The decomposition of this shows that it is the higher jobs to employment ratio that makes the main contribution to this. Offsetting the higher jobs to employment ratio is the lower employment to working age ratio (lower employment rate). East Wales does however have lower value added per job than compared to the UK as a whole this is particularly the case in some of the more rural areas of East Wales (Powys and Monmouthshire). This lower value added per job is discussed in more detail in following sections.

Figure 4. Decomposition of GVA per head differences across Wales compared to the UK average, 2001-2003 average



Source: Welsh Assembly Government based on ONS data

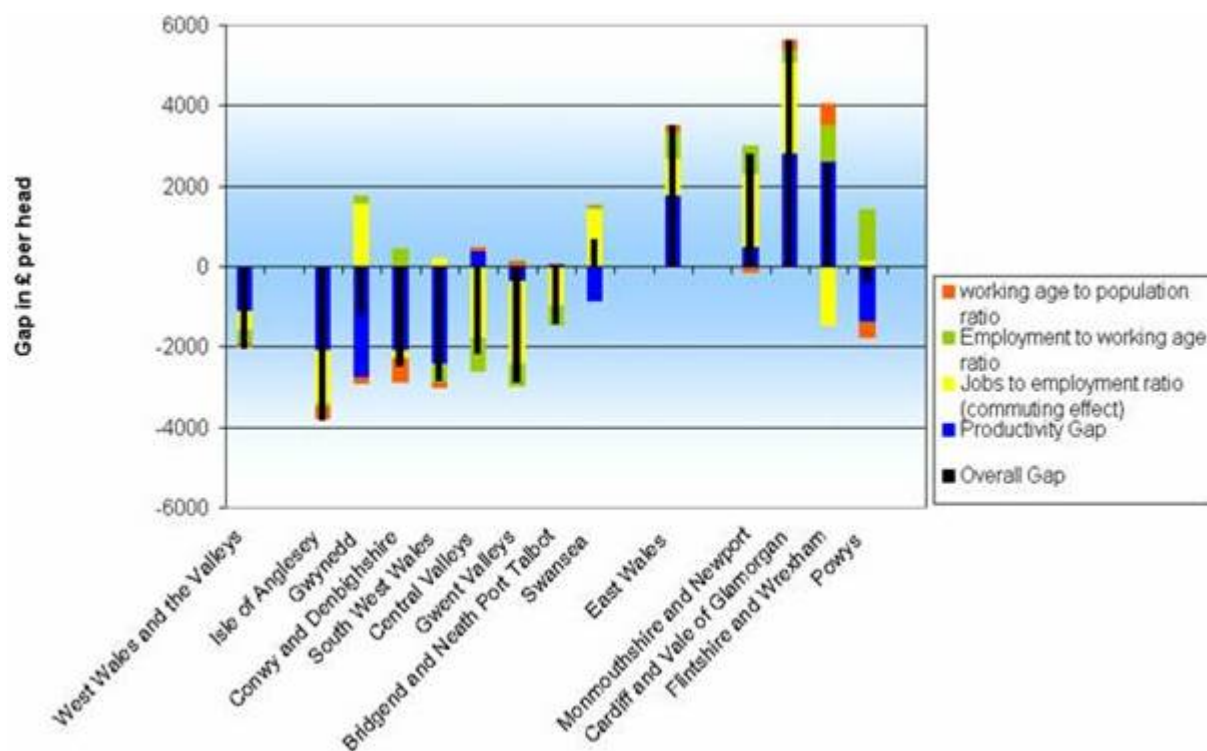
1.15 Figure 5 compares the difference in GVA per head for the sub-regions of Wales compared to the average for Wales as a whole. This analysis is useful as it helps to describe the overall gap for the programme areas, but also the breakdown of the overall gap for sub-programme areas.

⁶ Nomenclature of Territorial Units for Statistics. Further details are available at: http://europa.eu.int/comm/eurostat/ramon/nuts/introduction_regions_en.html

1.16 Across East Wales, overall GVA per head between 2001 and 2003 was around £3,500 above the average for Wales as a whole. As illustrated in Figure 5, approximately 50% of the overall gap can be explained by higher value-added per job (productivity). The relatively higher jobs to employment ratio (proportion of employed individuals working in East Wales) explains approximately 25% of the overall gap and is explained (in part) by the relatively high proportion of workers that commute into East Wales (Cardiff and Newport in particular) for employment. The remainder of the overall gap (approximately 20%) is explained by the relatively higher employment to working age ratio (employment rate).

1.17 Figure 5 does highlight the importance of East Wales as a driver for economic growth across Wales as a whole. Swansea is the only sub-region outside East Wales that has higher GVA per head than the average for Wales as a whole. The focus of the Competitiveness Programme is to ensure that East Wales continues to grow strongly by building on the successes of the region and addressing deficiencies that limit economic growth (economic inactivity for example). The high employment to jobs ratio reflect inward commuting, illustrating the role that East Wales (Cardiff and Newport in particular) has in supporting employment for individuals in more disadvantaged areas. This is discussed further in the assessment of commuting patterns in 'making Wales an attractive place to invest in and work'.

Figure 5. Decomposition of GVA per head differences across Wales, 2001-2003 average



Source: Welsh Assembly Government based on ONS data

1.18 A further measure of prosperity is gross disposable household income (GDHI)⁷. GDHI in Wales in 2004 was £11,278 or 88.0 per cent of the UK average, its highest relative level since 1996. However, GDHI in Wales is still the third lowest of all English regions and devolved countries. Within Wales, the estimates for 2004 show that GDHI per head in East Wales and West Wales and the Valleys were 91 per cent and 86 per cent of the UK average respectively.

1.19 This headline analysis above shows that the priorities identified in the Commission's Community Strategic Guidelines⁸ are highly relevant to the challenges facing East Wales. The following sections provide more detailed analysis focussing on:

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

Creating more and better jobs - Labour Market Analysis

1.20 The analysis above (Figures 4 and 5) showed that GVA per head in East Wales is above the average for Wales as a whole which highlights the role that East Wales performs as an economic driver within Wales as a whole. However compared to the UK as a whole, East Wales has lower value added per job explaining the majority of this gap.

1.21 As highlighted above the labour market of Wales has improved since the turn of the millennium and this is also true for East Wales. Since 2001, employment in East Wales has increased by approximately 16,000. Correspondingly, the employment rate in East Wales has increased by 1.1 percentage points to stand at 74.2%. This increase in the employment rate is below that seen across Wales as a whole, and despite this improvement, the employment rate for East Wales still lags that of the UK as a whole and is well below the UK aspiration of an 80% employment rate⁹.

1.22 Despite a recent rise, the unemployment rate across East Wales is still below the average for Wales and the UK as a whole. Since 2001 economic inactivity in East Wales has fallen by approximately 6,000, corresponding to a fall in the economic inactivity rate of 1.4 percentage points. Rates have converged during this period although economic inactivity rates for East Wales are still above the average for the UK as a whole (22.5% compared to 21.9%) with more than one in five working age individuals classified as economically inactive. Table 3 summarises the

⁷ 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).

⁸ EUROPEAN COMMISSION, 2005, Cohesion Policy in support of Growth and Jobs: Community Strategic guidelines, 2007-13., COM(2005) 0229. available from:

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

⁹ DEPARTMENT FOR WORK AND PENSIONS, 2006, A New Deal for Welfare: Empowering People to Work. Available at: http://www.dwp.gov.uk/aboutus/welfarereform/docs/A_new_deal_for_welfare-Empowering_people_to_work-Full_Document.pdf

headline labour market situation in East, Wales and the UK¹⁰ and more detail is given in the labour market analysis which accompanies the ESF Competitiveness Programme.

Table 3. Labour market summary

		2001	Year to March 2006	Change since 2001
Employment (a)				
East Wales	Level (000s)	478	495	16
	Rate (%)	(72.6)	(73.5)	(1.1)
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)				
East Wales	Level (000s)	23	25	2
	Rate (%)	(4.5)	(4.8)	(0.3)
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)				
East Wales	Level (000s)	152	146	-6
	Rate (%)	(23.9)	(22.5)	(-1.4)
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

Labour market analysis by disability, ethnicity, gender and age

1.23 Table 4 shows the changes in employment rates disaggregated by disability and ethnicity. Employment rates and economic activity rates for those with a disability (as defined by the Labour Force survey¹¹) across East Wales and Wales as a whole are lower than for those without any disability. Unemployment rates (which

¹⁰ Comparisons between Figure 7 and Figure 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>

¹¹ Disability is defined as work limiting disabled or Disability Discrimination Act disabled or both.

measures those able, willing and actively seeking employment) for those with a disability are considerably higher than for those without a disability. However, employment has grown and economic inactivity has reduced for this group over the years 2001-04. Recent research¹² 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.

1.24 Table 4 also shows that individuals from ethnic minorities fare worse in terms of labour market outcomes compared to the non-ethnic minority population across East Wales and Wales as a whole. However, some care should be taken when interpreting the figures for ethnic minorities due to the small sample sizes involved. While the data do demonstrate that individuals from ethnic minorities fare less well in the labour market it would not be wise to draw conclusions about trends given the data limitations.

1.25 Recent evidence¹³ 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 suggest 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.

¹² 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>

¹³ 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						
<i>East Wales</i>						
All Persons	72.6	73.9	23.9	22.9	4.7	4.2
Disabled	44.1	48.0	52.4	49.1	7.2	5.7
Not disabled	79.3	80.2	17.1	16.5	4.3	3.9
<i>Wales</i>						
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						
<i>East Wales</i>						
All Persons	72.6	73.9	23.9	22.9	4.5	4.1
Ethnic minority population (c)	52.8	58.4	43.0	34.7	7.1	10.5
Non-ethnic minority population	73.3	74.6	23.1	22.4	4.5	3.8
<i>Wales</i>						
All Persons	69.1	71.2	26.9	25.1	5.4	4.8
Ethnic minority population (c)	55.7	58.6	39.7	34.1	7.5	11.1
Non-ethnic minority population	69.3	71.5	26.6	24.9	5.4	4.6

(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 ethnic minorities.

Source: Annual Labour Force Survey / Annual Population Survey

1.26 A significant factor contributing to the employment growth in East Wales (and across Wales as a whole) has been the increase in the employment rate amongst women (see Table 5). The female employment rate has increased for every age bracket, but has been particularly pronounced for those aged between 50 and 59. Figure 6 however shows that the female employment rate still lags that for males. Potential barriers to employment are discussed in more detail below.

1.27 In contrast to the overall rise in employment rates for males, however, there has been a fall in male employment in the 16-24 age group across East Wales. Recent data¹⁴ (2003/04) shows that across Wales as a whole the number of young

¹⁴ OFFICE FOR NATIONAL STATISTICS, 2005 SB/80/2005. Participation of Young People in Education and the Labour Market 2003/04. Available at:

<http://www.wales.gov.uk/keypubstatisticsforwales/content/publication/post16education/2005/sb80-2005/sb80-2005.pdf>

people not in employment, education or training (NEET) has risen to 13% from 11% in 2002/03. It is widely acknowledged in the economic literature¹⁵ that for young adults education, skills and their labour market experiences are crucial for their future life chances, therefore time away from active engagement in the labour market can pose problems later in life for these individuals.

Table 5. Employment rates by gender (percentage)

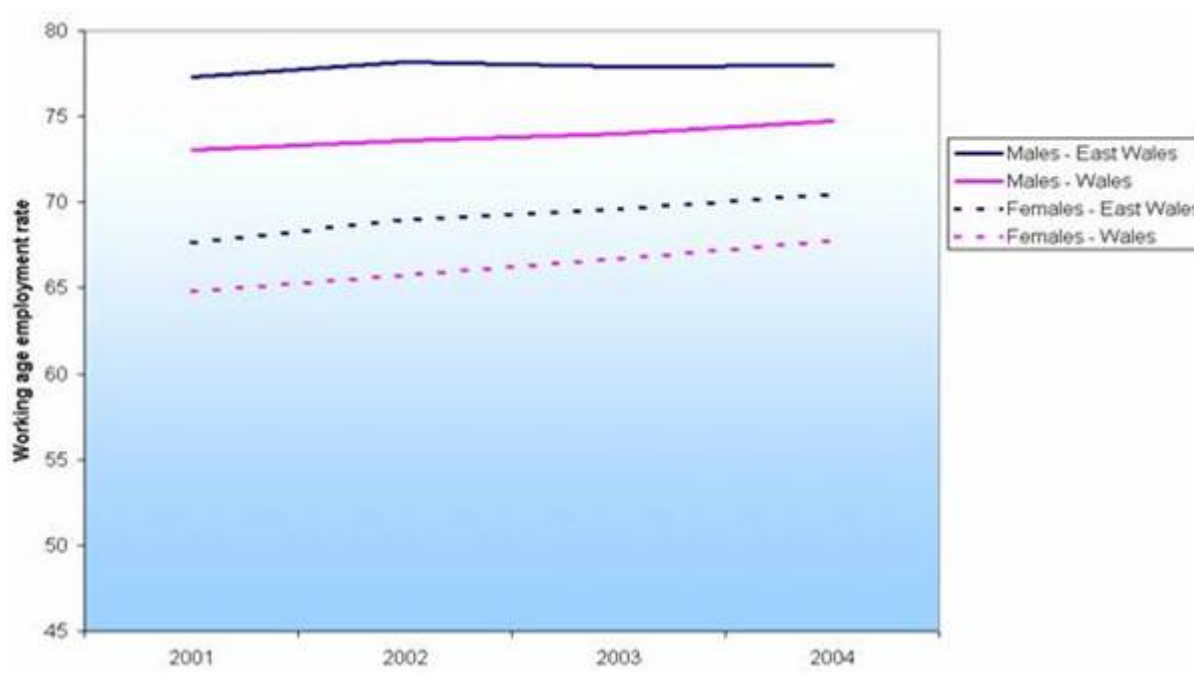
	East Wales			Wales		
	2001	2004	Change 2001-04	2001	2004	Change 2001-04
Males						
16-24	60.4	58.5	-1.9	58.0	59.7	1.7
25-34	87.2	87.8	0.6	85.6	85.2	-0.4
35-49	88.1	89.9	1.8	84.3	87.3	3.0
50-64	68.9	71.3	2.4	61.6	64.5	2.9
65+	9.6	8.3	-1.3	7.1	7.1	-
Working Age	77.3	78.0	0.7	73.1	74.8	1.7
Females						
16-24	55.1	59.6	4.5	52.7	56.7	4.0
25-34	69.8	72.0	2.2	69.2	70.9	1.7
35-49	75.9	76.7	0.8	72.7	75.3	2.6
50-59	62.8	69.0	6.2	58.5	62.9	4.4
60+	8.9	8.9	-	7.6	8.2	0.6
Working Age	67.6	70.5	2.9	64.9	67.8	2.9

Source: Labour Force Survey

1.28 Figure 6 shows the recent increase in the employment rates for men and women across East Wales and across Wales as a whole.

¹⁵ For example see. GREGG . P AND TOMINEY. E, 2001 [The Impact of Youth Unemployment on Adult Unemployment in the NCDS](#) *Economic Journal* vol 111, issue 475, F626-653

Figure 6. Employment rates, by gender



Source: Labour Force Survey

1.29 As noted above female employment rates have increased across all age brackets. In the upper age bracket (50-64) this is also true for male employment rates. A target set out in the Lisbon Strategy is for the employment rate for those aged 55-64 to reach 50% by 2010 and the employment rates for older workers in East Wales are above the Lisbon target of 50% across East Wales.

Earnings

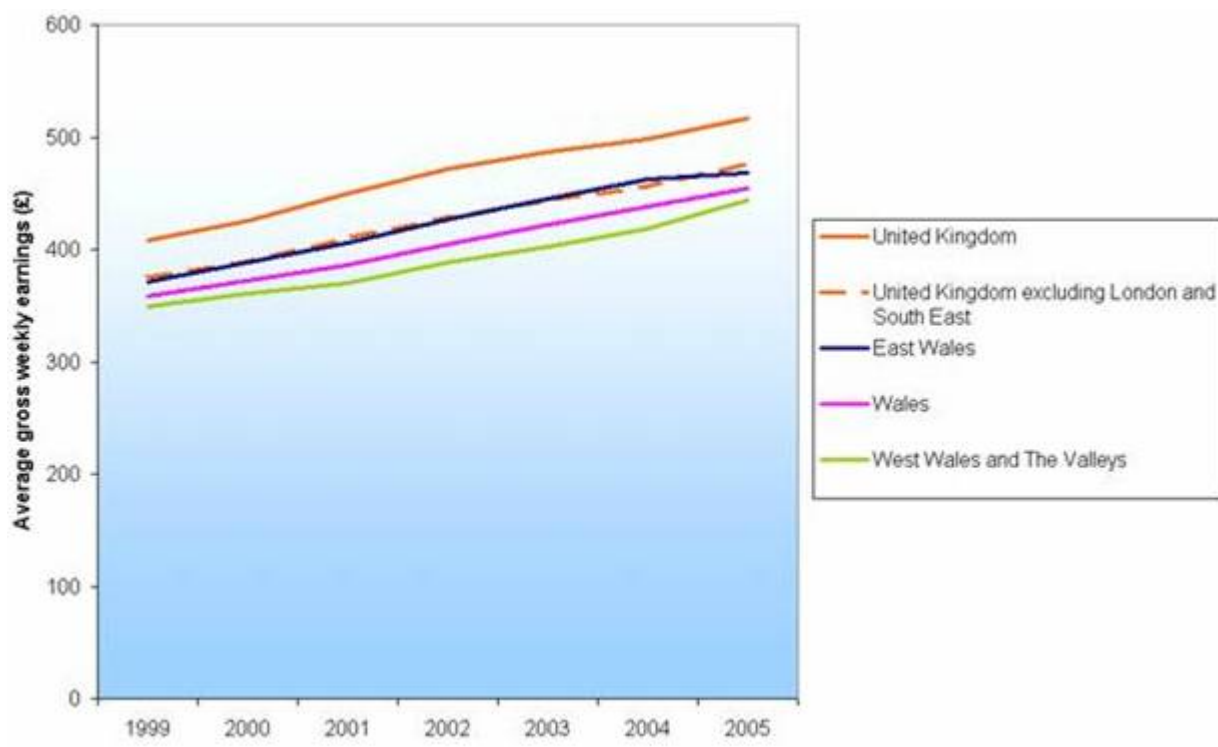
1.30 In keeping with the strong labour market performance in recent years in East Wales, average earnings have increased. Since 1999, average earnings in Wales have increased by 26% in nominal terms (13% in real terms¹⁶). Figure 7 shows that average earnings in East Wales have increased by approximately 27% in nominal terms since 1999 (13% in real terms). Average earnings across East Wales are much in line with the average for UK excluding London and the South-East of England. Overall, average earnings in East Wales are some 106% of the average for Wales as a whole which represents a slight increase since 1999 when average earnings in East Wales were 103% of the Welsh average. Within East Wales however, Powys and Monmouthshire have lower average earnings than for Wales as a whole and the second lowest for all local areas within Wales.

1.31 Compared to the average for the 25 countries of the European Union, average hourly earnings¹⁷ across the UK as a whole were nearly 23% higher according to the latest available data (2002). Data are not available at a Wales level or lower.

¹⁶ 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

¹⁷ Average hourly earnings have been used to control for differences in number of hours worked across the European Union.

Figure 7. 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

1.32 The earnings gap between men and women is lower in Wales and its sub-regions than the UK average (reflecting fewer very high paying jobs where the gap is the widest) and Welsh women fare better compared to their UK counterparts than Welsh men do in terms of average hourly earnings¹⁸. Female full-time hourly earnings (excluding overtime) in Wales (and across West Wales and the Valleys and East Wales) in April 2005 were 88% of the equivalent male figure. This was considerably above the average for the UK as a whole (82.7%). Despite some modest improvement since 1999, a differential still exists¹⁹.

¹⁸ 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.

¹⁹ Annual Survey of Hours and Earnings, 2005, Office for National Statistics

A horizontal stacked bar chart comparing three categories across three regions: East Wales, Wales, and UK. The x-axis represents the number of people, ranging from 0 to 25. The y-axis lists the regions. The legend indicates three categories: Other (incl. Retired) in dark blue, Looking after family home in pink, and Long-term sick in orange.

Region	Other (incl. Retired)	Looking after family home	Long-term sick
East Wales	5	7	7
Wales	5	7	10
UK	5	7	6

1.37 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. However, male economic inactivity rates rose during the 1980s and 1990s at a time when objective measures for health improved. Extensive research²⁵ in this area has led to an emerging consensus that a significant proportion of those with 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.

1.39 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

bernal of the Department for Work and Pensions. Available at: <http://www.dwp.gov.uk/asd/asd5/rports2005-2006/rrep342.pdf>

²⁶ FAGGIO. G AND NICKELL. S, 2005. Inactivity Among Prime Age Men in the UK. *CEP Discussion Paper* 673 available from: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

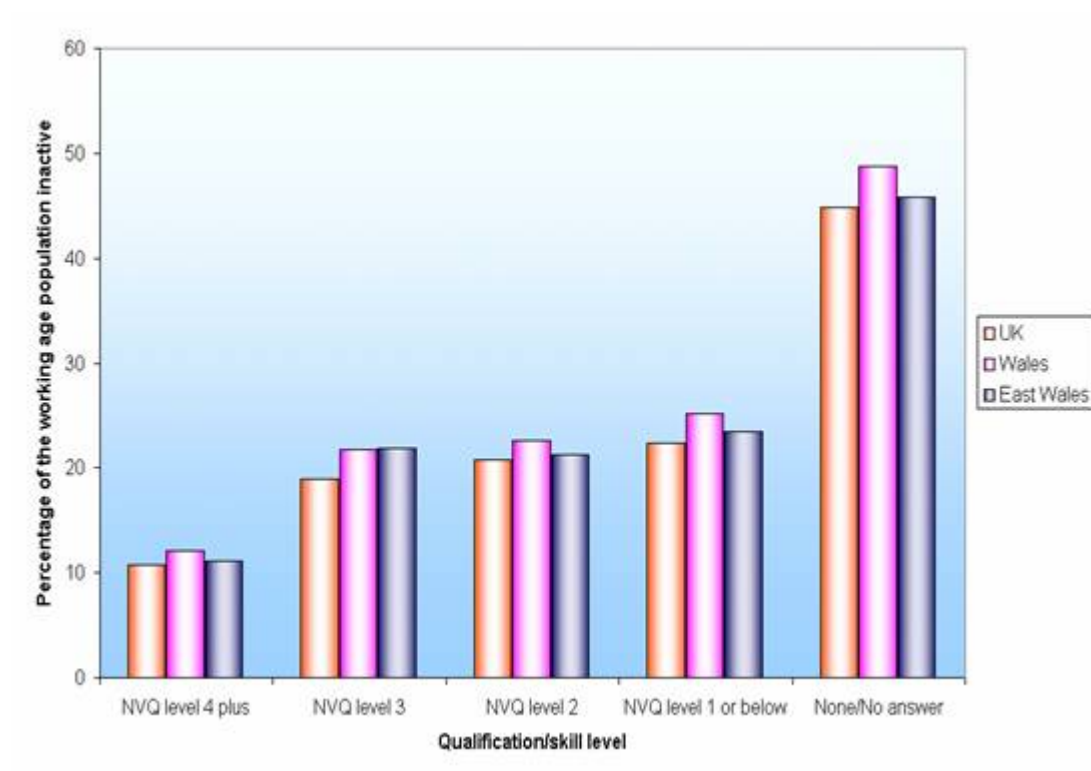
for labour has therefore had its greatest negative effects where the supply of such labour is highest, including parts of Wales. Furthermore, as it is much more difficult for unskilled people than for skilled people to migrate to places where the demand for their labour is relatively high, such spatial disparities have become entrenched²⁷.

1.40 The importance of skills/qualifications in determining labour market outcomes is illustrated in Figure 9. Figure 9 shows the economic inactivity in East Wales, Wales and the UK according to the individual's highest level of qualifications.

1.41 The major difference apparent in Figure 9 is the significantly increased economic inactivity seen amongst groups with no formal qualifications. As we move to progressively higher qualification/skill levels (moving from right to left on Figure 9), the economic inactivity rate for individuals within each cohort decreases. This is most significant, however, between no qualifications and level 1. Taking the analysis from Figure 9 suggests that where there is a high relative concentration of individuals with no formal qualifications a higher percentage of individuals are economically inactive.

²⁷ FAGGIO. G AND NICKELL. S, 2005. Inactivity Among Prime Age Men in the UK. *CEP Discussion Paper* 673 available from: <http://cep.lse.ac.uk/pubs/download/dp0673.pdf>

Figure 9. Economic inactivity rates by highest qualification, 2004 (per cent of the working age population)



Source: Labour Force Survey

1.42 The rise in female employment in general across Wales has focussed attention on the issue of childcare as a potential barrier to participation in the labour market²⁸. 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 8 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 UK²⁹. Research³⁰ indicates that subsidising childcare and increasing availability leads to an increase in employment for females and in particular lone parents, however the effectiveness of policy is greatest when policies are targeted

²⁸ 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>

²⁹ DUNCAN, A and Giles, C. 1996. Should we Subsidise Childcare and if so how? *Fiscal Studies*, Vol 17 pp. 39-61

³⁰ 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

and means tested. In addition to childcare there is a body of evidence³¹ that shows that the presence of elderly family members decreases participation in the labour market.

1.43 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, in the form of access to public transport have been highlighted as potential barriers especially for individuals living in rural areas³². Therefore, a coordinated approach is needed to reduce economic inactivity across East Wales³³.

Skills and Education

1.44 Analysis of the employment rate in East Wales (and indeed Wales as a whole) shows the increasing importance of skills in labour market outcomes. While the overall employment rate has increased slightly, the employment rate for those with no formal qualifications has fallen back a little. Skill sets and educational qualifications are therefore crucial for understanding labour market outcomes. Figure 10 compares the skills set for individuals across East Wales and Wales compared to the average for the UK as a whole. The chart is illustrated as a location quotient³⁴.

1.45 Encouragingly East Wales has a larger proportion of working age individuals with NVQ Level 4 and above than compared to the average for Wales and the UK as a whole. The only other area where East Wales has a different relative distribution of individuals than compared to the UK average is in relation to the proportion of working age individuals with NVQ Level 1 qualifications.

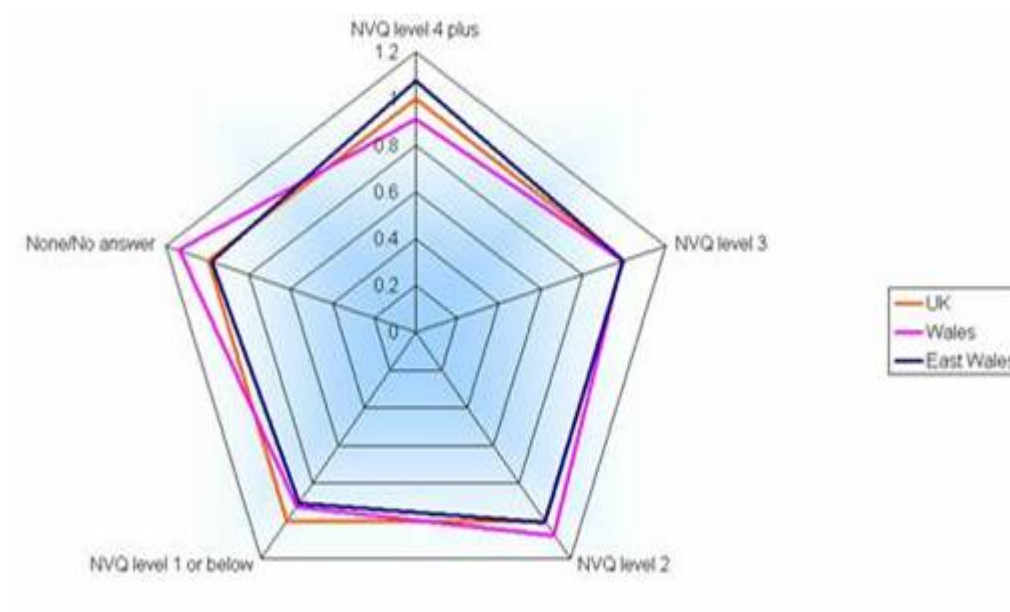
³¹ Greenhalgh, C. 1980. Participation and hours worked of married women in Great Britain. *Oxford Economics Papers* Vol 32, pp. 296-318

³² CARTMEL, F and FURLONG, A, 2000. Youth Unemployment in Rural Areas. A Report for the Joseph Rowntree Foundation

³³ BERTHOUD, R. 2003. Multiple Disadvantages in Employment: A Quantitative Analysis. A Report for the Joseph Rowntree Foundation

³⁴ 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.

Figure 10. Qualification/skill set, East Wales (UK=1)



Source: Labour Force Survey

1.46 Table 6 shows the highest qualifications held by individuals in East Wales and Wales broken down by individuals with and without a disability and individuals from minority ethnic groups and those not from minority ethnic groups. Individuals with a disability and from minority ethnic groups have, on average, lower levels of skill attainment than compared to individuals that are not disabled and are not from minority ethnic groups.

Table 6. 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	East Wales	12.0	71.5	50.2	30.3
	Wales	13.4	69.8	46.3	26.4
Disabled (a)	East Wales	26.6	55.5	34.4	20.1
	Wales	31.0	51.2	30.5	16.0
Ethnic minority population (b)	East Wales	24.2	54.6	39.3	28.2
	Wales	22.1	56.9	39.1	27.4
Non ethnic minority population	East Wales	14.5	69.0	47.4	28.3
	Wales	17.3	65.8	42.8	24.0

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

(b) All in ethnic minorities.

Source: Labour Force Survey

1.47 The level of skill attainment for women in East Wales and Wales, in general, are similar to that for men. There are two differences however. Firstly, women across

East Wales and Wales as a whole have higher attainment rates at level 4 and above. Secondly, a higher proportion of women in East Wales 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.

1.48 East Wales' relative advantageous position in skills/qualification attainment is not solely as a result of attainment post compulsory education. Pupils in East Wales out-perform the average for Wales as a whole. Across East Wales the percentage of pupils that achieve five or more GCSEs grade A*-C or vocational equivalent is above the average for West Wales and the Valleys and Wales as a whole. Pupils in East Wales also out-perform in the core subjects (English or Welsh, Maths and Science).

Figure 11. 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

1.49 Linked to the above analysis, East Wales has a higher proportion of pupils continuing in further education beyond the age of 16 than compared to the average for Wales as a whole. In total 76% of pupils in East Wales continue in schools or further education institutions following the final year of compulsory education compared to 74% across Wales as a whole. The attainment of pupils maintaining in further education post compulsory age is also higher across East Wales than Wales as a whole with 69% of pupils achieving 2 or more A/AS levels grade A-C or vocational equivalent compared to 68.2% for Wales as a whole.

1.50 As noted above skills are a very important in determining labour market outcomes for individuals. However, the skills of the labour force can also have implications for employers. The Future Skills Wales³⁵ 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 previous years' surveys. The skills most commonly

³⁵ 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/>

lacking amongst employees were generic skills such as problem solving skills, customer handling skills, communication skills and team working.

1.51 Analysis³⁶ 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 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.

Improving knowledge and innovation for growth

Output per Head in East Wales

1.52 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 2000³⁷). Productivity across the UK lags that of other major industrialised countries³⁸ and the importance of productivity on economic growth can not be underestimated, in 1999 it was estimated that if the UK were to match the productivity performance of the US, for example, output per head would be over £6,000 higher per person³⁹.

1.53 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 Wales and the UK lies mainly in lower value-added per job. Overall this explains around 50% of the total gap between Wales and the rest of the UK⁴⁰.

1.54 As highlighted above, East Wales has lower value added per job than compared to the UK as a whole (see Figure 4). Recent analysis⁴¹ of the variation in earnings per head across Great Britain suggests that most of the difference between Wales and Great Britain is due to three factors:

- an adverse occupational and industry mix with relatively few high value-added jobs, whether in company head offices and R&D departments 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

³⁶ Future Skills Wales, 2005, Future Skills Wales: Sector Skills Survey.

<http://www.futureskillswales.com/eng/content.php?cID=5&pID=1&zID=100&nhID=136>

³⁷ HW 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>

³⁸ For details see statistics from the Organisation of Economic Co-operation and Development, available at: http://www.oecd.org/topicstatsportal/0,2647,en_2825_30453906_1_1_1_1_1_1_1,00.html

³⁹ HW 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>

⁴⁰ 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>

⁴¹ RICE. P AND VENABLES. A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain, *CEP Discussion Paper* No.642,

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

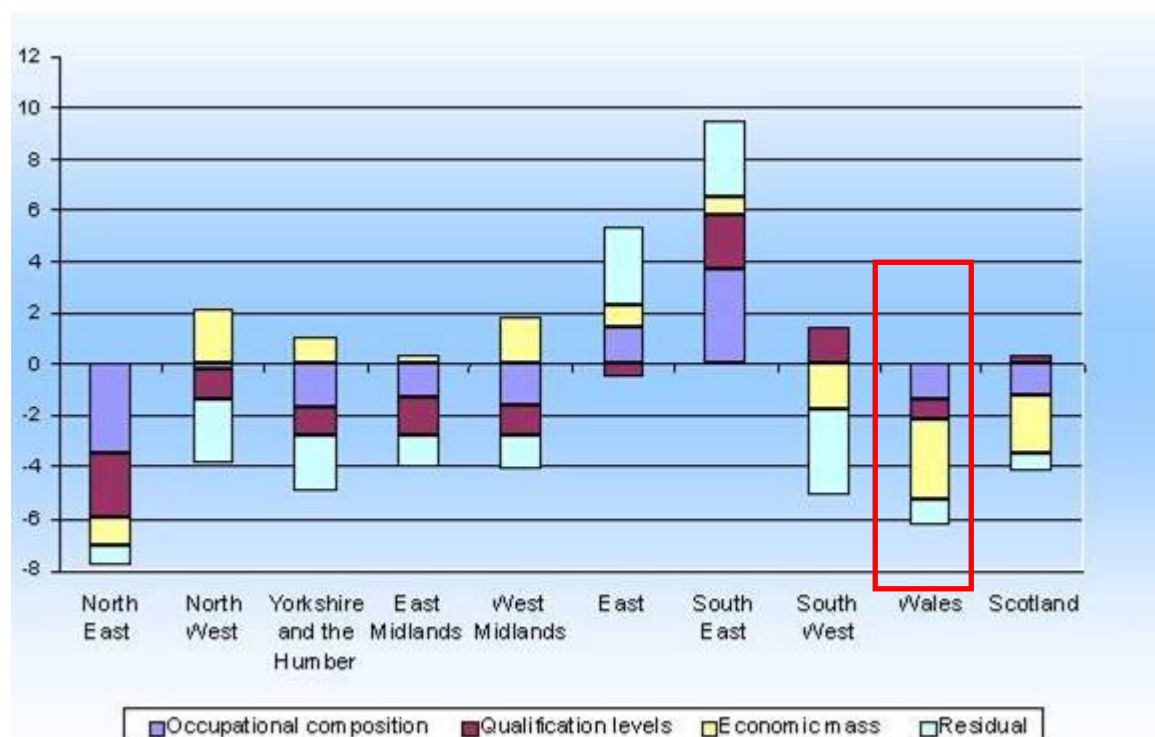
GRAHAM. D, 2005, Wider Economic Benefits of Transport Improvements: Link Between Agglomeration and Productivity. Department of Transport.

- important agglomeration benefits, due to Welsh town and cities being relatively small and much of Wales being sparsely populated and distant from major centres

1.55 Figure 12 illustrates findings of this research. It indicates that agglomeration effects explain a higher proportion of the earnings gap in Wales than for any other country or region of Great Britain. Four main sorts of mechanisms have been put forward to explain the relationship between agglomeration and output per head.

1.56 One such mechanism is technological spillovers. These arise as firms located within close proximity learn from being near other firms involved in related activities, so that they may 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 earnings per head.

Figure 12. Decomposition of earnings differentials (percentage difference from Great Britain average)(a)



(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*

1.57 The implications of agglomeration for policy making are not straightforward since it is difficult to generate economic mass in the short to medium term. However, agglomeration effects may be stimulated by appropriate investment in transport. Indicative estimates⁴² 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.

1.58 Evidence⁴³ 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.

1.59 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.

1.60 The type of evidence provided by Rice and Venables (2004)⁴⁴ and Graham (2004)⁴⁵ 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%.

1.61 The benefits derived from generating economic mass from transport investment vary by industry. Evidence⁴⁶ 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.

⁴² RICE, P AND VENABLES, A, 2004, Spatial determinants of productivity analysis for the regions of Great Britain, *CEP Discussion Paper* No.642

⁴³ 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

⁴⁴ Rice, P and Venables, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain', *CEP Discussion Paper* No.642.

⁴⁵ Graham, D. (2005), "Wider economic benefits of transport improvements: link between agglomeration and productivity: Stage 1 report", UK Department for Transport.

⁴⁶ Graham, D. (2005), "Wider economic benefits of transport improvements: link between agglomeration and productivity: Stage 1 report", UK Department for Transport.

1.62 In addition to agglomeration, skills and industrial structure are also found to be important factors in explaining Wales' lower productivity. While skills have been covered in the previous section the problems with Wales' industrial structure stem from an under representation in higher value-added service sector businesses, and lower capital intensity within businesses⁴⁷.

1.63 An important component of the south East Wales transport infrastructure is Cardiff International Airport. Recent evidence⁴⁸ has highlighted that international air links can be an important factor in the location decision of mobile service activities⁴⁹ and that the absence of available international air links can be a "show stopper" in terms of location decisions.

Industrial structure

1.64 In addition to agglomeration effects and skills, industrial structure also explains part of Wales' lower productivity. This is highlighted by Wales' sectoral approach adopted through Wales: A Vibrant Economy⁵⁰. Analysing Wales' industrial structure shows that Wales is over-represented in industries that have exhibited relatively lower growth rates, such as production industries and under-represented by industries, such as business services, which have experienced relatively higher recent growth at the UK level⁵¹. Figure 13 shows the relative concentration of industries in Wales according to the relative share of total civilian workforce jobs⁵² compared to the UK average as location quotients⁵³.

1.65 As Figure 13 shows East Wales is relatively over-represented in agriculture etc, production and public admin etc⁵⁴ (although it must be noted that in absolute terms agriculture accounts for only 2% of total employment in East Wales) and relatively under-represented in financial and business activities. The pattern for East Wales is similar to that of Wales as a whole although East Wales does have a slightly higher representation of workforce jobs in this latter industrial group.

⁴⁷ 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.

⁴⁸ DTZ PIEDA CONSULTING. 2006. Factors Influencing the Location of Mobile Traded Services.

⁴⁹ Mobile Service Activities involve services rather than products, are fairly mobile in their location choice, although this does not mean that they can or will locate anywhere and are not reliant on local markets. For a full description, please see. DTZ PIEDA CONSULTING. 2006. Factors Influencing the Location of Mobile Traded Services.

⁵⁰ *Wales: A Vibrant Economy*, Welsh Assembly Government's Strategy for Economic Development:

<http://www.wales.gov.uk/subitradeindustry/content/wave/wave-e.htm>

⁵¹ Annual Business Inquiry. A summary is available at:

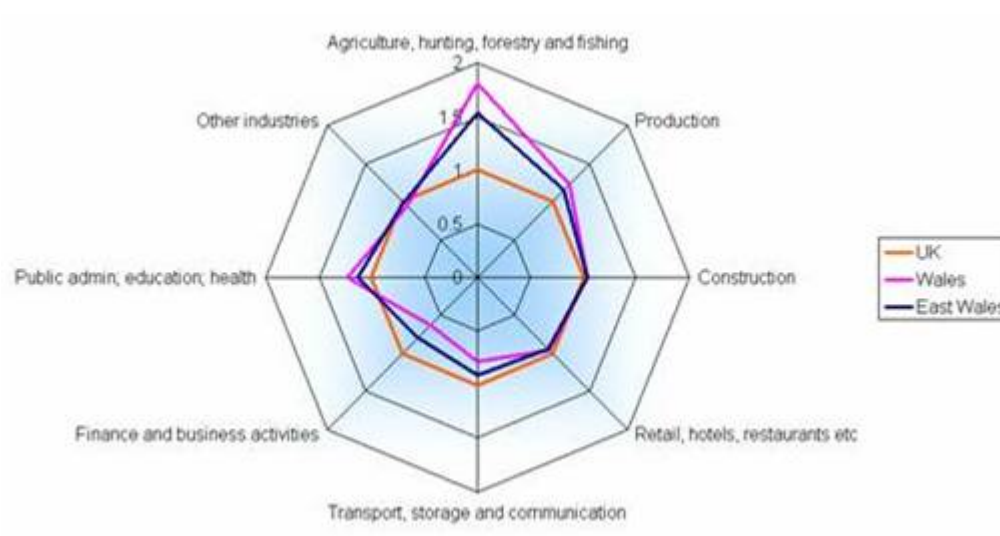
<http://www.wales.gov.uk/keypubstatisticsforwalesheadline/content/economy/2005/hdw200512161-e.htm>

⁵² 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.

⁵³ 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.

⁵⁴ 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.

Figure 13. Civilian Workforce Jobs by industry (UK=1)



Source: Office for National Statistics

1.66 Figure 14 shows civilian workforce jobs in East Wales as a bubble chart. The size of the bubble shows the relative employment share of the sector compared to the total employment in East Wales (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 East Wales compared to the UK average (see Figure 13). 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 Figure 14 and in the bottom half if employment in the sector has fallen.

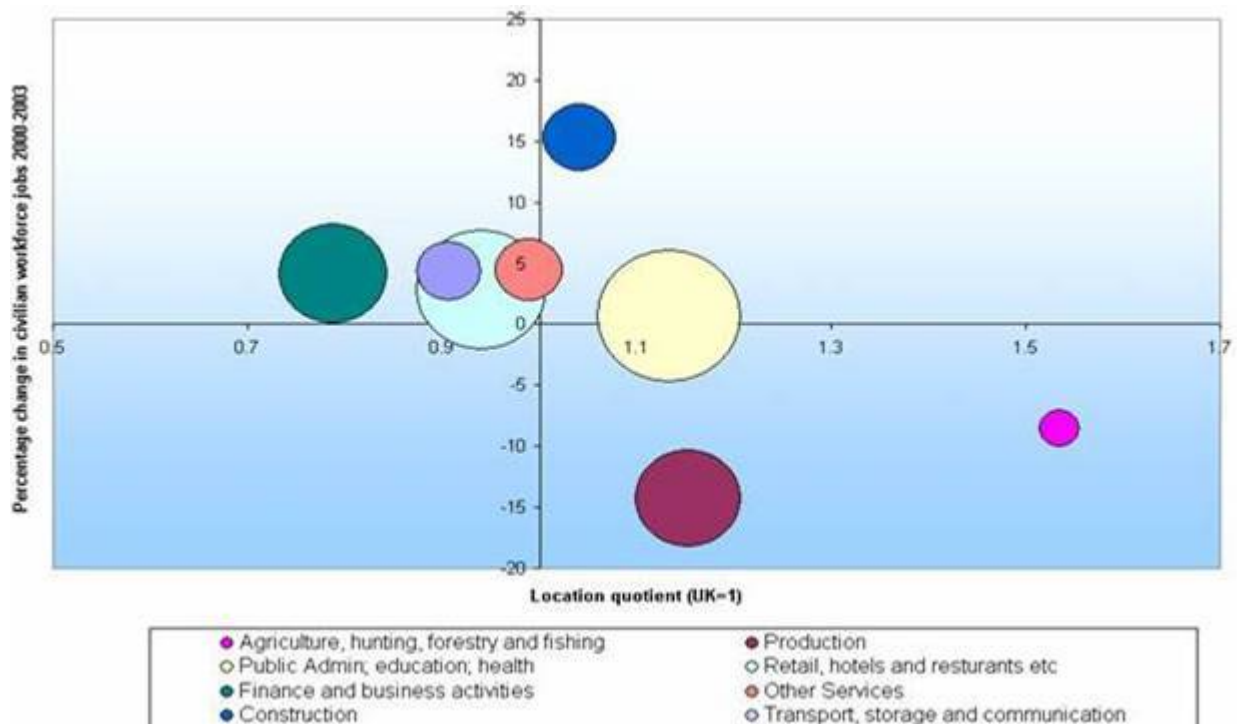
1.67 Figure 14 shows that in absolute terms, public administration, education and health is the largest sector in employment terms in East Wales representing some 26.6% of all civilian workforce jobs. Public administration, education and health is also a growing sector and is relatively over-represented in East Wales than compared to the UK average (as shown by its position in the top right hand section of Figure 14).

1.68 It is not however, due to the size of public sector employment where the industrial structure of East Wales impacts on productivity, rather it is in sectors such as agriculture and part of the production sector. The remaining sector that is relatively over-represented in East Wales (production) has also experienced a fall in employment since 2000. The sectors where East Wales is relatively under-represented (finance and business services, other industries and transport etc) have seen a rise in employment. However, these sectors have a relatively small percentage of total civilian workforce jobs in East Wales (as shown by the relatively small size of the bubble).

1.69 Figure 14 illustrates the over dependence of declining industries across East Wales. Although small in absolute terms, agriculture has seen a significant fall in civilian workforce jobs and is relatively over-represented in East Wales. Production has a large share of total employment in East Wales (15%) and is also in decline. In spite of this decline, the sector is still relatively over-represented in East Wales.

While industrial change is occurring across East Wales as illustrated by rising employment in service sector activities, these sectors are still relatively under-represented in East Wales and employ a relatively small proportion of total employment.

Figure 14. Civilian Workforce Jobs by Industry, Bubble Charts



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

1.70 Table 7 shows the data supporting Figure 14.

Table 7. Civilian Workforce Jobs, East Wales

	Percentage change in civilian workforce jobs 2000-2003	Percentage share of total employment, 2003
Agriculture, hunting, forestry and fishing	-8.5	2.2
Construction	15.3	7.2
Production	-14.2	14.9
Retail, hotels and restaurants etc	2.8	22.0
Transport, storage and communication	4.3	5.5
Financial and business activities	4.2	15.5
Public administration, education and health	0.7	26.6
Other industries	4.5	6.2
All industries	0.2	100.0

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

1.71 As Figures 4 and 5 show there are considerable differences in GVA per head across the sub-regions of East Wales. The industrial structure of the sub-regions of East Wales explain some of these differences. Although workforce jobs are not available by broad industry group for Local Authority areas in Wales⁵⁵ Figure 16 provides a breakdown according to the percentage of civilian workforce jobs in agriculture, production and construction and services.

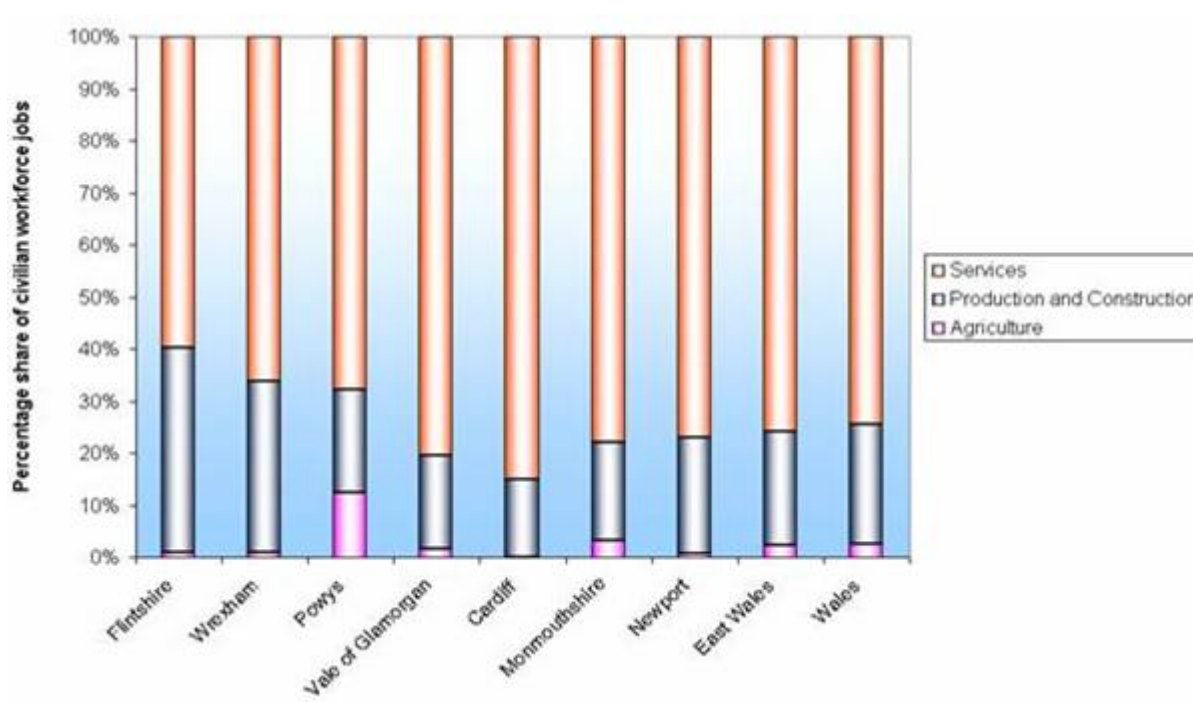
1.72 Figure 15 shows that there are considerable differences in the industrial composition of the civilian workforce jobs across East Wales. Flintshire and Wrexham have a relatively high proportion of civilian workforce jobs in production and construction than compared to East Wales and Wales as a whole and lower proportion of civilian workforce jobs in agriculture. Although GVA per head is below the UK average, Flintshire and Wrexham have value-added per job than the UK average (see Figure 4).

1.73 In contrast the prominently rural area of Powys has over 12% of civilian workforce jobs in agriculture and has the second lowest percentage of its civilian workforce in services of all Local Authorities in Wales⁵⁶. Link to the industrial structure of Powys, the main factor explaining lower GVA per head is lower output per head (see Figure 5). Cardiff and the Vale of Glamorgan, however have a high proportion of civilian workforce jobs in services and this helps explain the higher GVA per head of the sub-region compared to Wales as a whole (see Figure 5).

⁵⁵ It is important to use workforce jobs rather than the employee jobs series since the workforce jobs also includes self employment which can be particularly important where there are high concentrations of employment in agriculture.

⁵⁶ For Further Details see. OFFICE FOR NATIONAL STATISTICS 2005 Civilian Workforce Jobs by Industry, 2003. Available at:
http://new.wales.gov.uk/legacy_en/keypubstatisticsforwales/content/publication/economy/2005/sb14-2005/sb14-2005r.pdf

Figure 15. Civilian workforce jobs, percentage of total, East Wales 2003



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

Innovation, R&D and Entrepreneurship

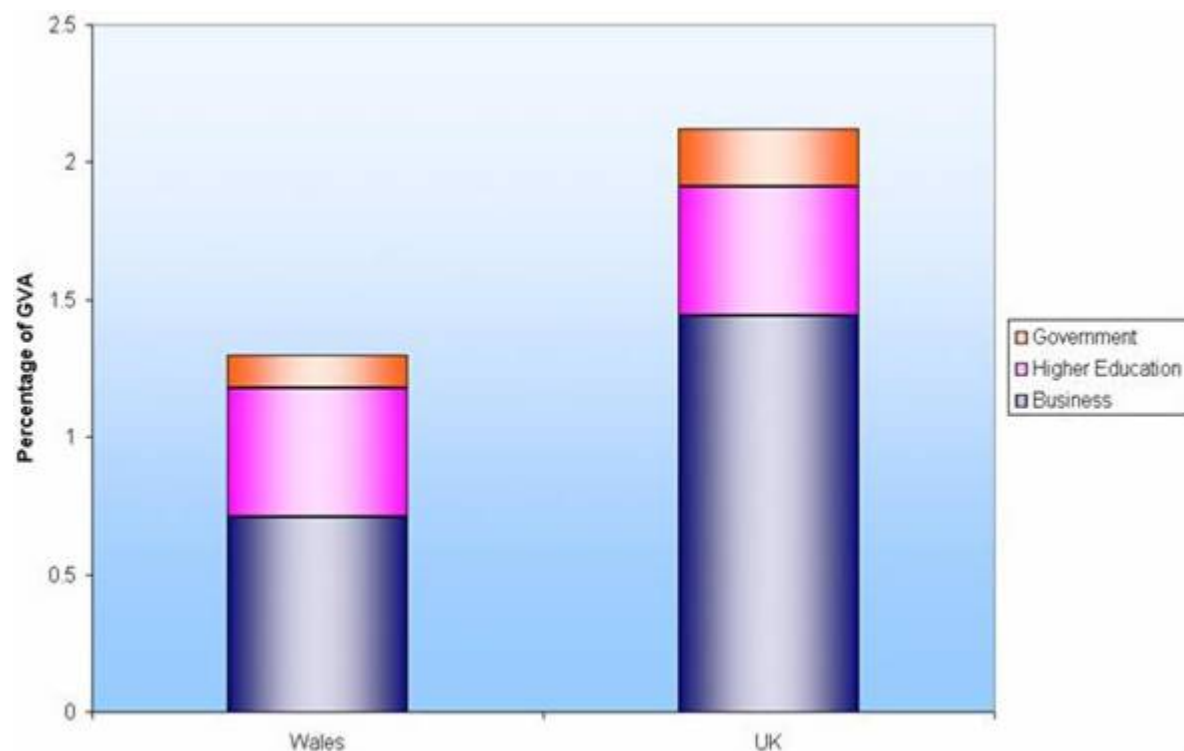
1.74 For individual businesses, the development of new products, process and services can be significant drivers for establishing a competitive advantage. Successful Innovation, R&D and entrepreneurship are at the heart of long-term economic development, and vital to the future prosperity of East Wales and Europe more widely. 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 output⁵⁷.

1.75 Figure 16 shows R&D⁵⁸ expenditure as a percentage of GVA in Wales and the UK and shows the decomposition of R&D expenditure according to the sector of investment (sub-Wales data is not available). As Figure 16 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 Strategy 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 close to, and on some measures above, the UK average.

⁵⁷ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence

⁵⁸ 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 16. R&D Expenditure, 2003 (percentage of GVA)



Source: Office for National Statistics

1.76 Table 8 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 8 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 8. 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

1.77 According to the latest available data from Eurostat, expenditure on R&D as a percentage of GDP for the UK as a whole (Regional figures are not available) is lower than for the 25 countries of the EU with expenditure in the region of 1.73% of GDP compared to 1.86% across the 25 countries of the EU.

1.78 Using data from the UK's Annual Population Survey East Wales had a higher proportion of total employment in R&D related activities than compared to Wales and the UK as a whole. In total 2.8% of all employment was in R&D related activities across East Wales compared to 2.3% for Wales and the UK respectively. A broader analysis of employment in high-tech sectors is presented in [table 8](#).

1.79 The Community Innovation Survey (CIS) is a survey conducted every 4 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 innovation⁵⁹. Between 1998-2000, 37% of Welsh businesses were identified as innovative active firms⁶⁰, this compares to 36% across the UK and 40% for the EU as a whole.

⁵⁹ Some care must be taken due to potential mis-reporting on innovation and variations between respondents on the definition of innovation.

⁶⁰ "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.

1.80 The Annual Small Business Survey⁶¹ includes information on innovative activities of SME businesses at the sub-Wales level. Of those businesses in the sample located in East Wales 48% stated to have introduced new or significantly improved products or services in the last 12 months. This compares to 44% across Wales as a whole and 35% across the UK. The proportion of SME businesses that stated they have introduced new/significantly improved processes is also higher in East Wales (36%) than compared to the average for Wales (32%) and the UK (25%) as a whole.

1.81 Evidence⁶² suggests that the appropriate use of ICT can have a positive impact on business productivity. Information on the use of ICT by SME businesses in Wales is collected via the Annual Small Business Survey. Headline results from the survey show that SME businesses in East Wales have a lower business use of ICT than across the UK as a whole. In total, 74% of SMEs in East Wales (Wales 74% and UK 81%) use ICT 'in some way' with accounting, communication and record keeping recorded as the main uses of business ICT.

1.82 Evidence⁶³ highlights the role that higher education institutions can play in technology exchange through collaborative research with the private sector, direct business starts and spin-offs. The Higher Education Business and Community Interaction Survey⁶⁴ provides an insight into higher education collaboration and technology transfer with the business and community sectors. In 2002-03 higher education institutions 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 Higher Education Institutions in the survey). Since 2001-02 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.

1.83 Higher Education Institutions can have a leading role in the formation of business start-ups⁶⁵. According to the Higher Education Business and Community Interaction Survey the number of new spin-off companies (not including staff and student start-ups) in Wales has fallen from the 2001-02 level of 22 (of which 18 have some HEI ownership) to stand at 14 (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 2002-03. 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

⁶¹ Further details are available at:

<http://www.wales.gov.uk/keypubstatisticsforwalesheadline/content/economy/edd-survey.htm>

⁶² 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>

⁶³ Rodgers E.M et al (2000) Assessing the Effectiveness of Technology Transfer Offices at U.S. Research Universities.

⁶⁴ 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

⁶⁵ WELSH ASSEMBLY GOVERNMENT. Welsh Assembly Government's Knowledge Economy Nexus report, 2004 Available at: <http://www.wales.gov.uk/subitradeindustry/content/known-econ-nexus-e.pdf>

start-ups and a total of 117 active firms 27 of which having survived for at least 3 years.

1.84 The Research Assessment Exercise provides quality ratings for research across all disciplines in higher education institutions. Ratings range from 1 to 5*, according to how much of the work is judged to reach national or international levels of excellence⁶⁶. In 2001 (the latest year available) Wales had 12 5* higher education departments, which represents a four fold increase since 1996 (previous assessment year). Wales' average weighted RAE score⁶⁷ was slightly below the average for the UK. However, since 1996 this has improved by 19%, which is slightly above the change seen across the UK as a whole (18%).

1.85 External trade of goods and services can be an important component of business performance⁶⁸. According to data from the Annual Small Business Survey 16% of SME businesses in East Wales sell (goods and services) outside the UK. This compares to 11% across West Wales and the Valleys and 13% across Wales as a whole. However, across the UK as a whole 21% of SME businesses sell outside the UK. Recent evidence⁶⁹ 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 an artefact, 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.

1.86 In addition to encouraging innovation a strong entrepreneurial culture can be an important factor in the creation of new business and the expansion of existing ones⁷⁰. 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 17 shows East Wales has a higher level of VAT registrations per thousand working age population than for Wales. However the VAT registration rate (for East Wales and Wales as a whole) is lower than for the UK as a whole. This has been a consistent trend throughout the 1990s and into the early 21st century.

⁶⁶ Further details are available at: <http://www.hero.ac.uk/rae/>

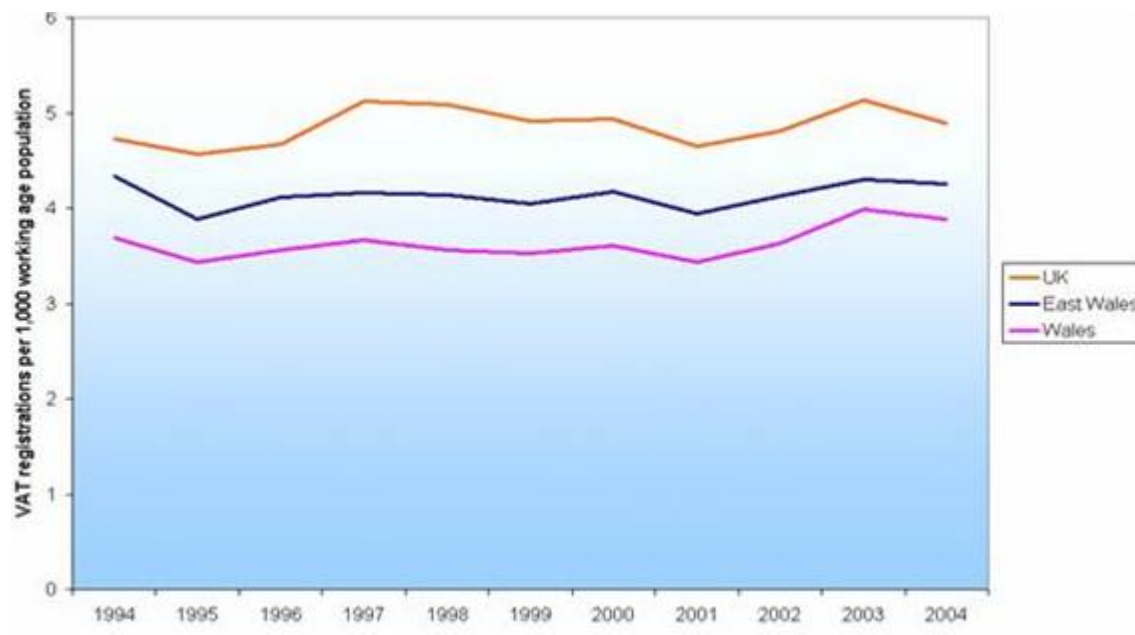
⁶⁷ Overall weighted averages ranks HEIs on a scale of 1-7 and takes account of the number of academic staff undertaking research

⁶⁸ 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.

⁶⁹ 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>

⁷⁰ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence

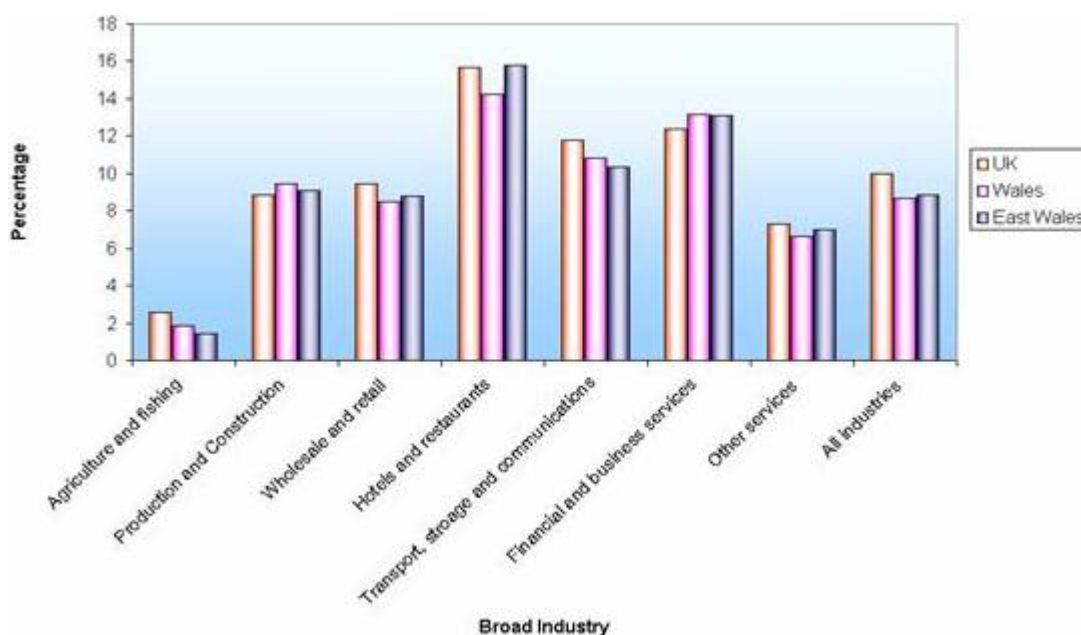
Figure 17. VAT Registrations per 1,000 working age population



Source: Small Business Service

1.87 Detailed analysis of VAT registrations by industry group helps to explain the relatively low VAT registration rate across East Wales and across Wales as a whole. Figure 18 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. East Wales, 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 18. VAT Registration rate, 2004 (percentage of stock at start of the year)



Source: Small Business Service

1.88 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-employment⁷¹ in East Wales is broadly representative of the picture for Wales as a whole. In total, self-employment represents just over 13% of total employment (13% Wales and 13% UK) in East Wales. Self-employment is concentrated in a handful of sectors, namely: construction (20%); retail etc (16%) and real estate and business activities (13%); and agriculture etc (11%). Self-employment rates across East Wales (and Wales in total) are broadly in line with the UK average (13%). The main difference is the sectoral breakdown where East Wales has a higher proportion of total self employment in agriculture and a lower proportion in real estate and business activities than the UK average.

1.89 The Global Entrepreneurship Monitor⁷² 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 East Wales had a TEA index of 5.4% which was below the average for the UK as a whole (6%) but above the all Wales average of 5.2%. 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%) and the North East of England at the bottom (3.84).

1.90 On an international level the TEA index for Wales in 2005 was above many of the leading countries of the European Union, 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 research⁷³.

1.91 Information on employment in high-technology sectors⁷⁴ 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 across. The data set is useful as it is possible to make comparisons across East Wales to that of the average for the 25 countries of the European Union. Figure 19 shows the latest data.

1.92 As Table 9 shows the proportion of employment in high and medium high-technology manufacturing and knowledge-intensive high-technology services in East Wales is below that of the UK and European averages representing just under 9.5% of total employment in the sub-region. The figure for East Wales is however higher than for Wales as a whole. This is partially explained by the relatively lower

⁷¹ Source: The Labour Force Survey

⁷² 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. It's 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/>

⁷³ 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.

⁷⁴ '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=PORTAL

representation of manufacturing employment in East Wales some of which is in high-technology sub-sectors.

Table 9. Employment in high and medium high-technology manufacturing and knowledge-intensive high-technology services, percentage of total employment

	2001	2004	Change since 2001
EU(25)	10.26	10.18	-0.08
EU(15)	11.17	10.46	-0.71
UK	11.93	10.00	-1.93
Wales	9.64	9.69	0.05
East Wales	10.04	9.41	-0.63

Source: Eurostat

Sites and premises

1.93 As recognised in “Wales: a Vibrant Economy” (WAVE)⁷⁵, creating an attractive business environment is a key priority in supporting and promoting sustainable economic development and growth. An important element of an attractive business environment is modern, high-quality business sites and premises which meet the current and future needs of modern business.

1.94 As recorded in the Property Strategy for Employment in Wales⁷⁶, 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. The Property Strategy identified that considerable opportunities in high quality, mobile investments in sectors like software and financial services are being lost to Wales and that one of the main reasons for this is the absence of quality buildings on high quality sites.

Business finance

1.95 Incentives in the form of business finance are highlighted as an important factor for some business location decisions⁷⁷. The UK has a well-developed and dynamic financial market that are argued to be amongst the most efficient in the world. The fact that some small businesses are unable to obtain finance is not, in itself, an indication of a market failure requiring government action. If markets are working efficiently then inefficient businesses, or those with inferior techniques and products will face difficulties in obtaining finance. However, there are failures in finance markets that mean the ‘right’ amount of finance is not always provided by the

⁷⁵ WELSH ASSEMBLY GOVERNMENT. 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>

⁷⁶ 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>

⁷⁷ DTZ PIEDA CONSULTING. 2006. Factors Influencing the Location of Mobile Traded Services.

market for reasons which are unconnected with the viability of the proposal⁷⁸. There is a justification therefore, for well targeted financial support where failures in financial markets have been well evidenced.

1.96 Recent evidence highlights areas where market failures in the provision of business finance may be prevalent. Arguments have, for example, been put forward suggesting at least some periods of difficulty in accessing provision of risk capital for specific seed, start-up and early-stage businesses⁷⁹, particularly for technology-based ventures⁸⁰. The DTI⁸¹ also points to market failures in support for subsidised venture capital for start-ups and early stage businesses. In addition, there may be some specific geographical⁸² issues in the nature and distribution of venture capital activity which have an impact on Wales. The OECD⁸³ for example report that the concentration of venture capital is in London and the South East meaning that peripheral areas may not have as good access to this source of business finance.

Making Wales a more attractive place to invest in and work

Demographic Trends

1.97 The evidence⁸⁴ suggests that one of the most important factors in business location decisions is the availability of skilled workers. This evidence suggests that urban and regional policy should attempt to attract people at least as much as attracting firms. This means providing good schools for children and amenities that are attractive to skilled, often younger workers. Safe streets are also found to be important.

1.98 Demographic patterns and in particular migration can provide an insight into the relative attractiveness of an area for individuals⁸⁵.

1.99 As Table 10 shows, since 1981 the overall population of East Wales has increased by 9.9%. In each of the ten year snap-shots the population of East Wales has been increasing at a steady rate. As Table 10 shows, this has not been the case across West Wales and the Valleys. In each of the ten-year snapshots, the population of East Wales has been increasing at a faster rate than for Wales as a whole.

⁷⁸ DTI, 2003, Improving access to finance for small businesses

⁷⁹ HM Treasury/Small Business Service (2003), Bridging the finance gap: a consultation on improving access to growth capital for small businesses, HMSO.

⁸⁰ However, this may reflect market preferences and perceptions of the expected returns for perceived project risk rather evidence of a significant market failure (Bank of England, 2001).

⁸¹ DTI (2004a), *Competing in the Global Economy – The Innovation Challenge*, DTI Economics Paper No. 7, Department of Trade and Industry, London.

⁸³ Baygan, G. (2003), "Venture Capital Policy Review: United Kingdom", Science, Technology and Industry Working paper 2003/1, Organisation for Economic Co-operation and Development, Paris.

⁸⁴ See for example, GLAESER, E, 2004 Four Challenges for Scotland's Cities, Available at:

<http://www.fraser.strath.ac.uk/Allander/AllanderPapers.htm>

⁸⁵ It must be noted that migration patterns are a factor of various interactions and not just relative attractiveness.

Table 10. Population change since 1981

	Level (000s)				Change (Percentage)			
	1981	1991	2001	2004	1981-1991	1991-2001	1981-2004	1991-2004
West Wales and the Valleys	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

1.100 Table 11 looks into more detail the components of population change across Wales, East Wales and West Wales and the Valleys. Table 11 shows that the natural population (i.e. the difference between births and deaths) of East Wales has been increasing. This increase has been predominately concentrated in city regions of Cardiff and Newport and contrasts with the general trend across Wales where the natural population has been falling. East Wales also benefits (in terms of population numbers) from net migration.

Table 11. Components of population change, 2001-04

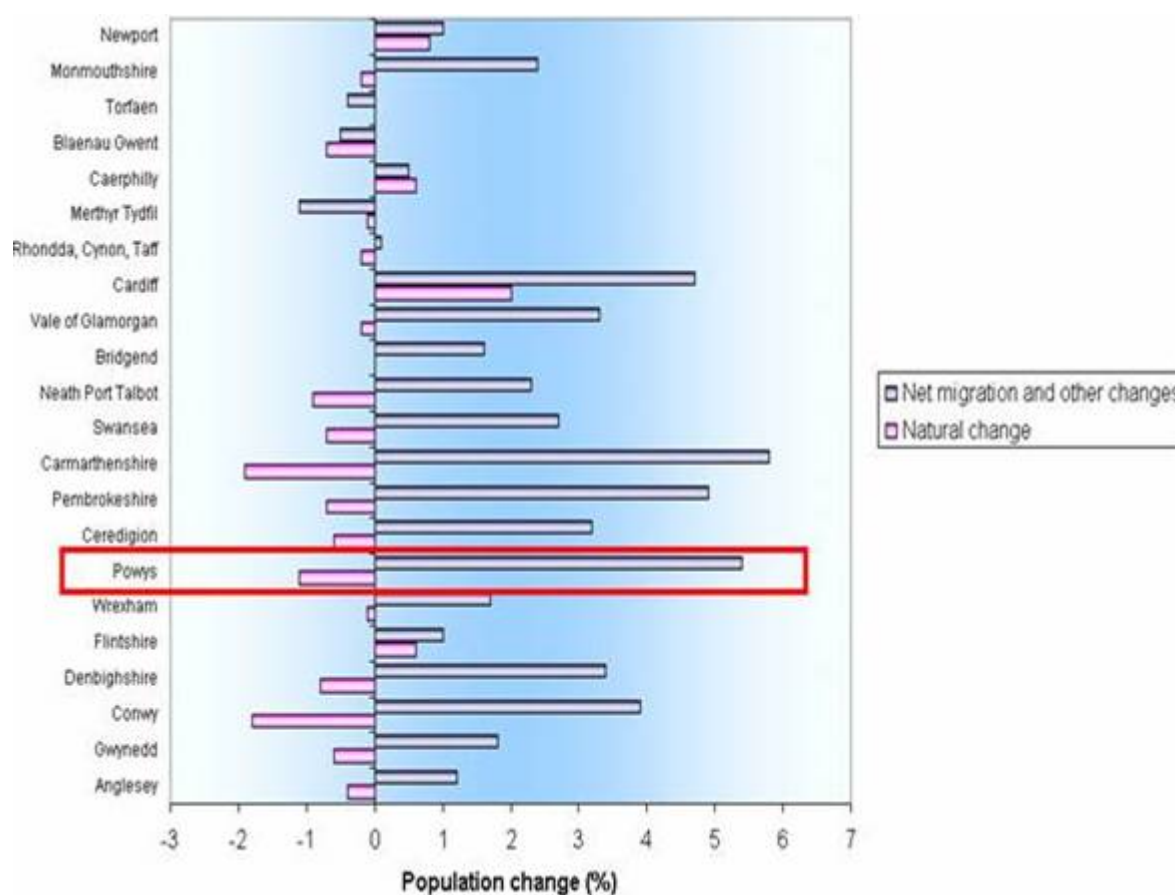
	Mid-2001 population	Live births	Deaths	Natural change	Net migration and other changes	Total change	Mid-2004 population
East Wales	1,056	35	33	2	20	22	1,077
West Wales and the Valleys	1,855	58	67	-9	29	21	1,876
Wales	2,910	93	99	-7	49	42	2,953

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

1.101 As Figure 19 shows, the main driver of population growth across East Wales is net migration and other changes. All of the Local Authority areas of East Wales have seen an increase in the population driven by net migration, with Powys showing the largest relative increase in the population from net in-migration. The sub-Wales analysis is presented in Figure 19. Migration patterns can be important as they can provide an insight into the relative attractiveness of an area for individuals⁸⁶.

⁸⁶ It must be noted that migration patterns are a factor of various interactions and not just relative attractiveness.

Figure 19. Local Authority analysis of population change, 2001-04



Source: Office for National Statistics

1.102 Table 12 shows average annual net migration according to age bands. This Table shows that East Wales is a net gainer in population for all age groups. Of particular note is the net in-migration of individuals of working age. Evidence⁸⁷ suggests that working individuals with higher skills are more socially mobile. This might suggest that East Wales is likely to benefit economically from in-migration of working age individuals. Recent evidence from Experian's Mosaic database⁸⁸ 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. Another interesting point from Table 12 is the net in-migration of individuals in the 16-24 age bracket. This goes against the overall trend for Wales as a whole and is suggestive that East Wales is attractive to younger individuals due to increased employment opportunities since individuals are less likely to migrate without a job or job offer⁸⁹.

⁸⁷ 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>

⁸⁸ Further details are available at: <http://www.business-strategies.co.uk/Products%20and%20services/Micromarketing%20data/Consumer%20segmentation/Mosaic.aspx>

⁸⁹ 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>

Table 12. Average annual net migration trends, 2002-04

Age Band	East Wales	Wales
0-15	672	3,262
16-24	1,099	-391
25-44	920	3,800
45-64	887	5,407
65+	194	1,364
All ages	3,772	13,442

Source: Office for National Statistics

1.103 Table 13 shows the average net annual migration figures according to origin and destination of migrants. Net in migration from England is driving the overall trend both across East Wales and West Wales and the Valleys. An interesting trend is the net out migration from East Wales to West Wales and the Valleys. This is driven in the main by large migration flows of people from Cardiff to areas in Caerphilly, Rhondda Cynon Taff and Bridgend.

Table 13. Average annual net migration trends area analysis, 2002-04

Age band	East Wales to West Wales and the Valleys	England to West Wales and the Valleys	Net immigration to West Wales and the Valleys	West Wales and the Valleys to East Wales	England to East Wales	Net immigration to East Wales
0-15	360	2,240	2,590	-360	1,030	672
16-24	-670	-820	-1,490	670	430	1,099
25-44	530	2,350	2,880	-530	1,450	920
45-64	490	4,020	4,520	-490	1,380	887
65+	170	1,010	1,170	-170	360	194
All ages	880	8,800	9,670	-880	4,650	3,772

Source: Office for National Statistics

1.104 There is evidence⁹⁰ 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.

1.105 In addition to internal migration (from within the UK) international migration also presents economic opportunities, especially following EU enlargement. Wales had the lowest percentage of total UK registrations with the Worker Registration

⁹⁰ 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>

Scheme between 1 May 2004 and 31 March 2006⁹¹; only 2% registered over the period representing just over 7,200 applications. Early evidence⁹² suggests that accession workers are continuing to go where the work is, helping to fill the gaps in our labour market, particularly in administration, business and management, hospitality and catering, agriculture, manufacturing and food, fish and meat processing. While there is limited evidence on the economic impact of migrant workers from the accession countries, the Ernst and Young ITEM Club⁹³ found overall the economic impact of migration from the new EU Member States has been modest but broadly positive.

Poverty and Deprivation

1.106 As noted above the availability of amenities including schools and social networks together with a relative lack of deprivation can be important factors in attracting firms and skilled individuals to a given locality. Relative absence of poverty can be an important consideration and a headline indicator for social policy. Table 14 provides information on relative income poverty⁹⁴ in Wales compared to the regions and devolved administrations of Great Britain.

1.107 In Wales, 21 per cent of the total population were in households in relative income poverty, a little higher than for Great Britain as a whole (20 per cent). A total of 19 per cent of working age adults and 18 per cent 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 above that for Great Britain as a whole, albeit marginally.

⁹¹ Accession Monitoring Report May 2004-March 2006, 2006, A Joint on-line Report by the Home Office, Department for Work and Pensions, HM Revenue and Customs and the Department for Communities and Local Government.

⁹² Accession Monitoring Report May 2004-March 2006, 2006, A Joint on-line Report by the Home Office, Department for Work and Pensions, HM Revenue and Customs and the Department for Communities and Local Government.

⁹³ Ernst and Young ITEM Club (2006) Economic Outlook for Business: Spring 2006 Issue Number 35, London: Ernst and Young. Available at: [http://www.ey.com/global/download.nsf/UK/Economic_Outlook_for_Business_04-06/\\$file/EY_ITEM_Economic_Outlook_Spring_Apr_06.pdf](http://www.ey.com/global/download.nsf/UK/Economic_Outlook_for_Business_04-06/$file/EY_ITEM_Economic_Outlook_Spring_Apr_06.pdf)

⁹⁴ Income poverty is defined as below 60 per cent of median household income. The results above are based on the 'after housing costs' measure but data are available in the full report on both a 'before housing costs' and 'after housing costs' basis.

Table 14. Risk of being in low-income groups after housing costs, percentage (3-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 3-year rolled averages.
Source: DWP, Households Below Average Income 2004/05

1.108 Recent evidence⁹⁵ has highlighted some of the trigger events that result in large changes in individual income levels and entry into poverty. One of the main events is a marital split which account for some 40% of entries into poverty. This has particular implications for lone parents. It is however important to look at repeat poverty spells. The average duration of being in poverty is 3.6 years and more time spent in poverty is associated with having more children, being a lone parent, being elderly and not working. The evidence highlights the importance of the labour market as a route out of poverty for those of working age and job retention is crucial in preventing entries into poverty. Particular help is required for certain groups that are at higher risk of entering poverty which include families with children and in particular lone parents.

1.109 The Welsh Index of Multiple Deprivation 2005 (WIMD)⁹⁶ is the official measure of deprivation for small areas in Wales. Deprivation is a wider concept than poverty. Poverty means not having enough money (or other essentials) 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 deprivation⁹⁷. Figure 20 summarises the overall scores of deprivation across Wales.

⁹⁵ JENKINS, S (2006) Poverty dynamics, family background and attainment: BHPS evidence. Seminar to the Welsh Assembly Government.

⁹⁶ For further details see: <http://www.wales.gov.uk/keypubstatisticsforwales/wimd2005.htm>

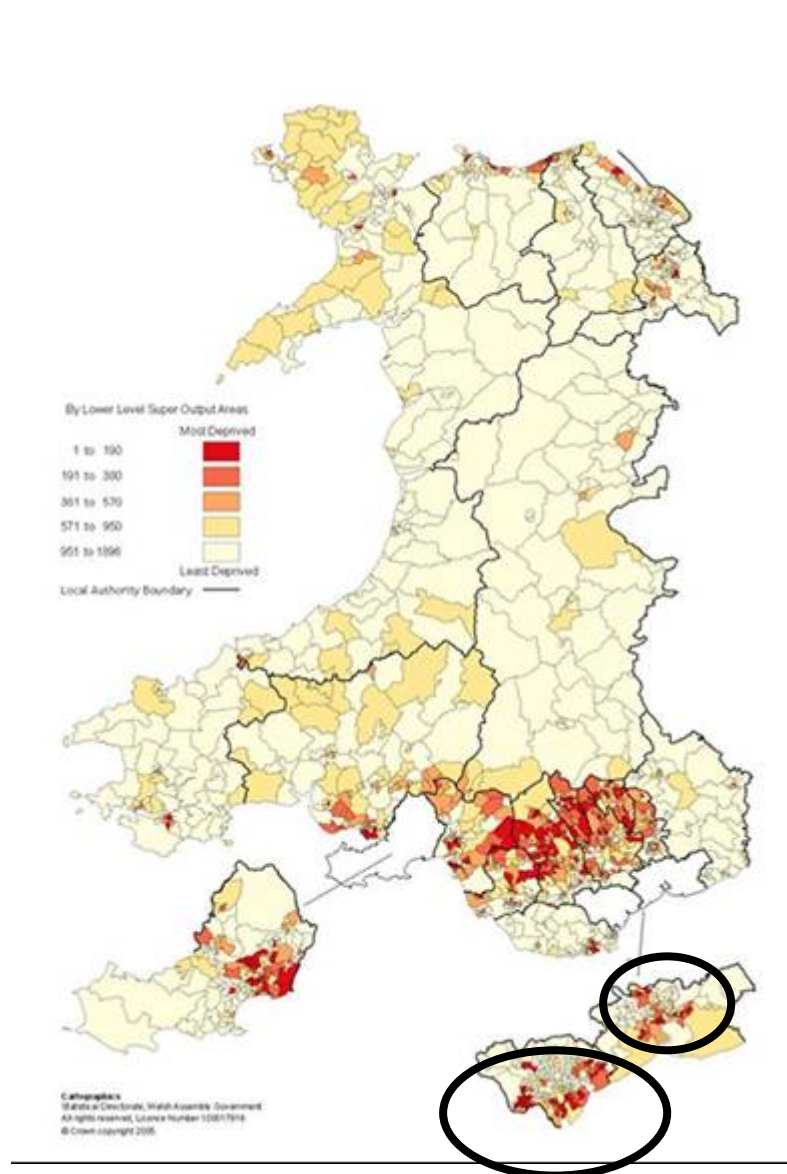
⁹⁷ Income, employment, health, education, housing, access to services and environment.

1.110 As highlighted in Figure 20, areas of the upper valleys have the highest relative concentration of deprivation across Wales as a whole⁹⁸. However, there are pockets of deprived areas within East Wales. These areas are predominately in the Cardiff and Newport. Indeed, the most deprived area in Wales is located in Cardiff. This finding highlights a trend apparent in Figure 20 in that some of Wales' most deprived areas also have a high concentration of residents from Black and Ethnic Minority (BME) groups. The clearest example is found in Wales' most deprived super output area (Butetown 2) which has a higher percentage of its population from BME groups.

1.111 While rural deprivation is an issue in Wales, particularly in terms of access, overall the most deprived areas of East Wales are in urban areas. Within Powys (predominantly rural in nature) overall deprivation is low as shown by the light colours on Figure 20. The most deprived areas within Powys are actually urban in nature and are Newtown South and Welshpool Castle. The areas that are the most deprived within East Wales are located within the urban centres of Cardiff and Newport.

⁹⁸ Although city wards of Cardiff, Newport and Swansea also suffer from high relative deprivation.

Figure 20. Overall Index of Multiple Deprivation

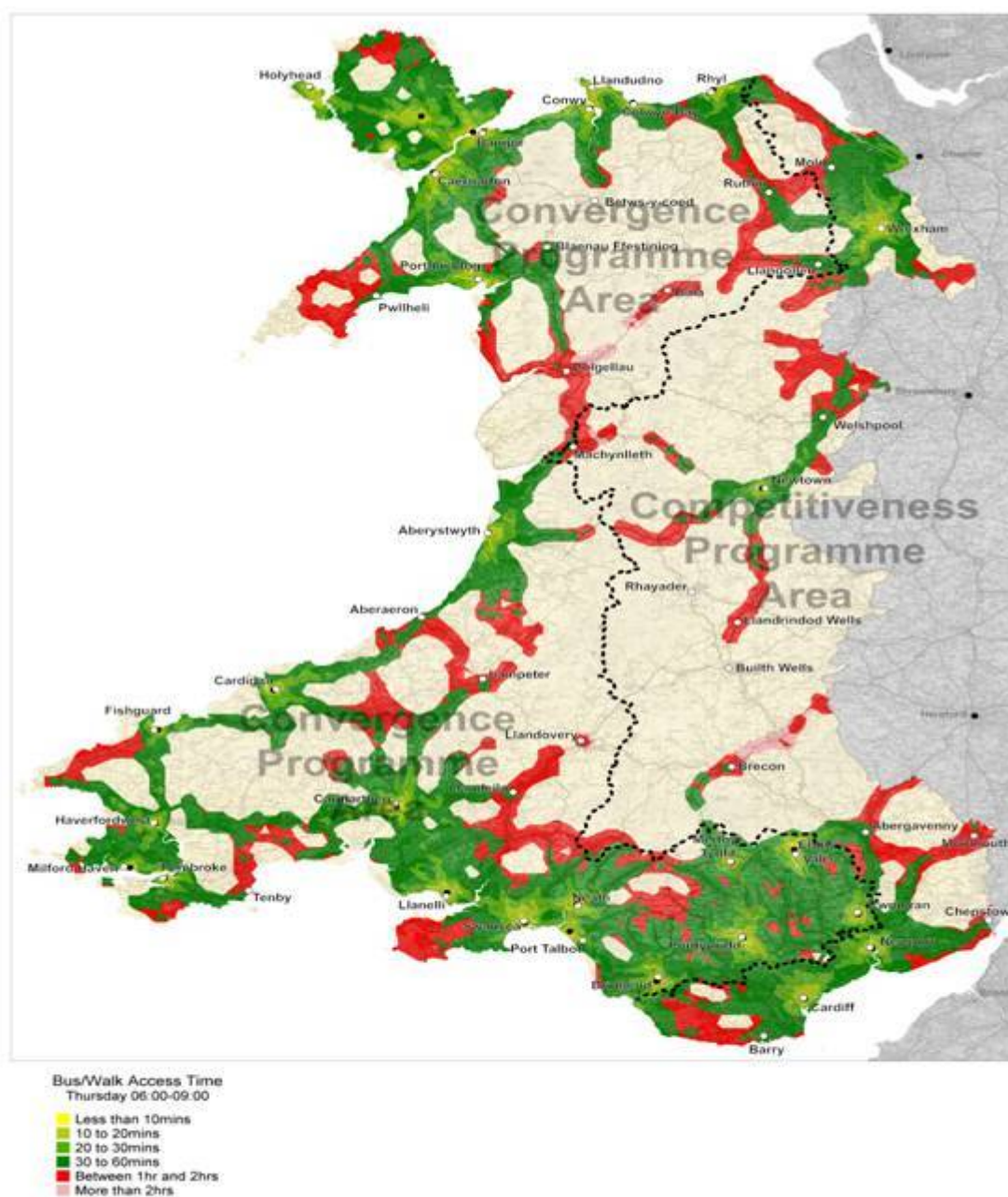


Source: Welsh Index of Multiple Deprivation 2005

1.112 Much of East Wales has good transport links with main centres. The following chart shows that access to key employment centres in Wales⁹⁹ is, in the main, less than one hour by bus and walking. The south and northern areas of East Wales also have relatively good access to key employment centres by car although in parts of Powys journey time can be 30-60 minutes.

⁹⁹ 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. The Wales Spatial Plan, November 2004. Available at: <http://www.wales.gov.uk/themesspatialplan/content/spatial-plan-e.htm>

Figure 21. 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

1.113 Transport patterns are highlighted by analysis of commuting patterns. Figure 23 shows the net commuting flows within Wales. Analysis of commuting flows in the

South Wales Valleys¹⁰⁰ shows that the largest new outflows are to the Local Authorities of Cardiff and Newport.

1.114 The analysis of commuting provides interesting evidence to support the analysis presented in Figure 5 highlighting the role that parts of East Wales plays in providing employment opportunities in more deprived areas of Wales. Within Cardiff and Newport the net flows are from deprived areas to Cardiff and Newport with net flows of approximately 6,000 people from Caerphilly, over 4,000 from Rhondda Cynon Taff, over 2,000 from Bridgend and over 1,000 from Merthyr Tydfil. These sizeable flows support the notion that parts of East Wales do act as an economic hub for employment opportunities from outside the region and in particular to some of the more deprived areas in Wales covered under the Convergence Programme.

1.115 A recent study highlighted that, 'Access to, and the availability of, transport will often play an important part in determining the boundaries of a labour market in which an individual can look for work. For example, the size of the labour market in which an individual can look for work is likely to be larger the easier and less costly it is to travel. Transport related problems that reduce the size of the labour market in which an individual operates, therefore, are likely to seriously restrict the potential job opportunities from which they might choose. Since the costs of travelling between home and work can be prohibitively high for many of the economically inactive' (Blackerby et al 2003). This is true in urban areas like Cardiff and Newport. In a recent survey¹⁰¹ of the economically inactive in urban hot spots in Wales¹⁰² 43% of respondents agreed that transport problems make it difficult for them to find a job.

1.116 This analysis suggests that enhancing transport accessibility will 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 such as Cardiff and Newport. Within East Wales, therefore, enhancing the transport infrastructure has a clear role in creating agglomeration effects (as discussed in improving knowledge and innovation for growth) but also in promoting social cohesion and regeneration of deprived areas through improving accessibility and thus removing a barrier to employment.

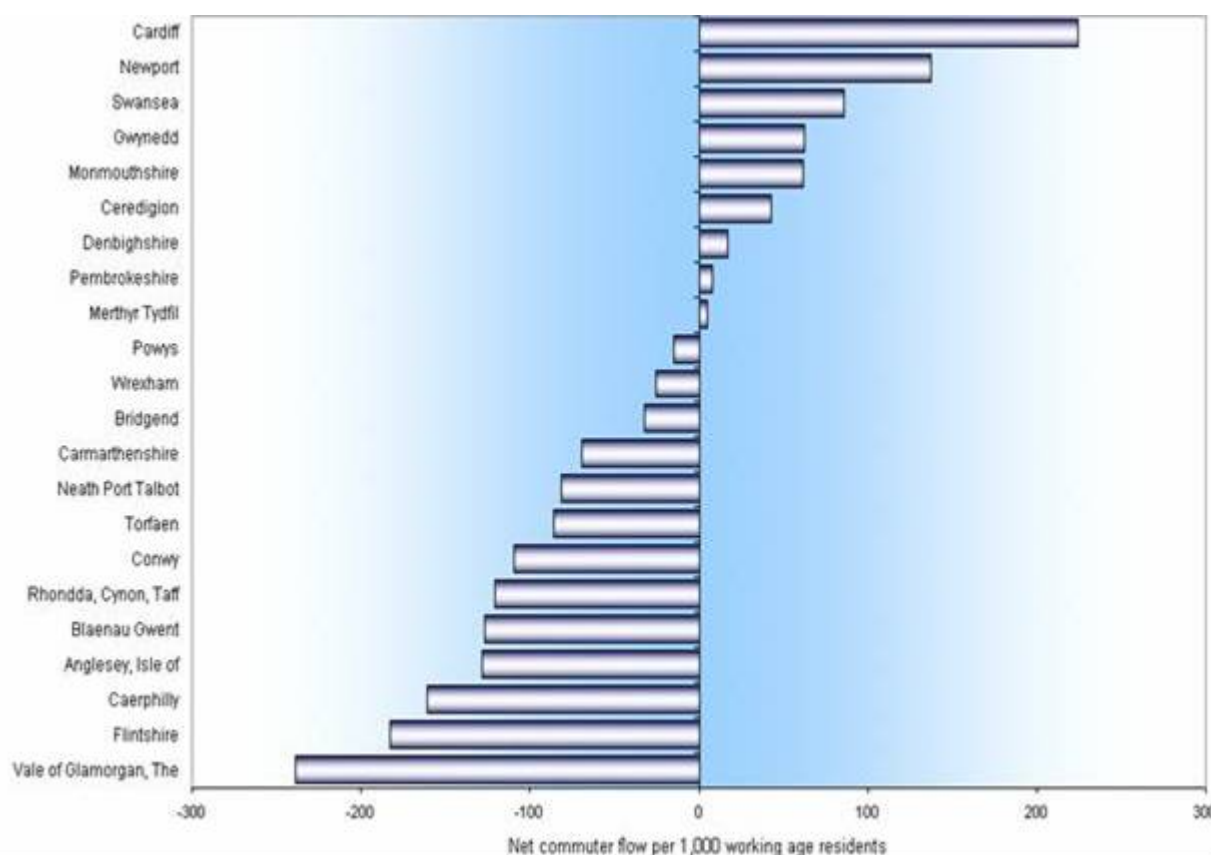
¹⁰⁰ ONS, 2005, Statistics on Commuting in Wales, 2004.

<http://new.wales.gov.uk/docrepos/40382/40382313/403824/economy/econ-2005/sb76-2005.pdf?lang=en>

¹⁰¹ BLACKERBY, D et al. 2003 Identifying Barriers to Economic Inactivity in Wales Part 2. A Report for the Economic Research Unit of the Welsh Assembly Government, Available at: <http://new.wales.gov.uk/docrepos/40382/40382313/293077/40382322021/403829/barriers-part2-e.pdf?lang=en>

¹⁰² Defined as Ringland (Newport), Ely (Cardiff), Townhill (Swansea);

Figure 22. Net in-commuting flows as a proportion of the working age population, 2004



Source: Office for National Statistics

1.117 These transport patterns do however present a number of challenges which need to be addressed in order to facilitate the development of the transport network in East Wales. In particular, in recent years road traffic has increased faster than in the rest of the United Kingdom, and it is expected to grow by as much as 20 per cent over the coming decade. This translates into increased levels of congestion and a deterioration in journey times, particularly in the morning and evening peaks. There are also issues around access to key services, particularly in the more rural parts of the Programme area, reflecting an increasing trend towards the centralisation of service provision and a reduction in locally-provided facilities. At the same time, there are increasing concerns about the growing environmental impact of transport, particularly emissions of greenhouse gases. All of this points to the need for a balanced series of interventions which will contribute to the development of a sustainable transport system and help to secure the economic, social and environmental goals set out in this Programme.

The Environment

1.118 Although individuals' characteristics are viewed in the academic literature¹⁰³ as more important in determining economic outcomes, evidence on the significance

¹⁰³ 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.

of 'place' shows that the overall attractiveness of a town or region can have a significant impact on the economic outcomes of the inhabitants¹⁰⁴. 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. A high quality environment provides an essential basis for the delivery of 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.

1.119 Air quality is a headline environmental indicator. Reduction targets for the 'basket of emissions'¹⁰⁵ were agreed at the Convention on Climate Change in Kyoto, Japan in December 1997. 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.

1.120 The use of renewable and waste as a form of energy is an important component in reducing the amount of greenhouse gases emitted. Latest data from the Department for Trade and Industry shows that a very low proportion of total energy consumption is generated from renewable or waste sources. However, the figure for Wales and especially for West Wales and East Wales (to a lesser extent) is above the average for Great Britain as a whole and above most other regions of Great Britain.

1.121 As Highlighted in the UK's Energy Review¹⁰⁶, '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 Scheme¹⁰⁷ 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 of information about costs and benefits, absence of appropriate incentives, and lack of motivation among consumers¹⁰⁸.

1.122 Climate change in particular is highlighted as an important factor for sustainable development as highlighted in The Sustainable Development Action Plan

¹⁰⁴ Dynamic Small Towns: Identification of Critical Success Factors. Report for the Economic Research Advisory Panel 2002

¹⁰⁵ Basket of emissions refers to six greenhouse gases (Carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆))

¹⁰⁶ DTI, 2006, The Energy Challenge, the UK Government's Energy Review:

<http://www.dti.gov.uk/files/file31890.pdf>

¹⁰⁷ Further details on the Home Energy Efficiency Scheme are available at:

<http://new.wales.gov.uk/topics/housingandcommunity/housing/energyandfuel/saving/?lang=en>

¹⁰⁸ DTI, 2006, The Energy Challenge, the UK Government's Energy Review:

<http://www.dti.gov.uk/files/file31890.pdf>

of the Welsh Assembly Government¹⁰⁹. Climate change in many ways goes to the heart of the way we live because it is influenced by our use of energy, natural resources and land in modern society and economy. The goal now is to move towards a `low-carbon` economy and to take action to adapt to the effects of climate change in its many guises.

1.123 While climate change is not a unique feature of East Wales, The National Assembly for Wales has a binding legal duty to pursue sustainable development in all it does. This is built into its constitution through section 121 of the Government of Wales Act¹¹⁰.

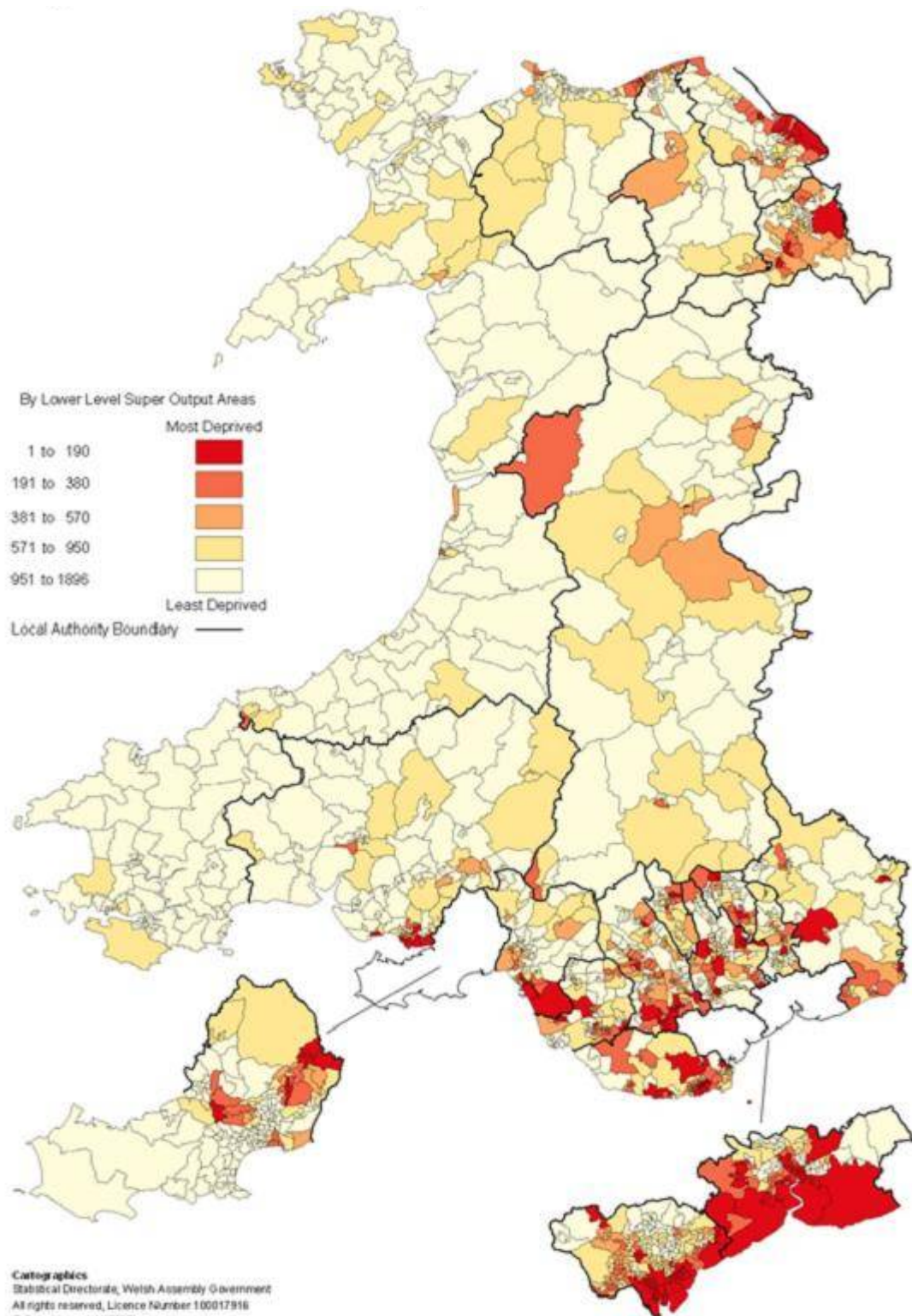
1.124 The environment domain from the WIMD 2005 is intended to model the factors related to the physical environment which may affect quality of life. The domain includes indicators such as air quality, air emissions, access to waste disposal site, relative proximity to Environment Agency regulated industrial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

1.125 As shown in Figure 23 overall environmental quality as measured through the WIMD across East Wales varies considerably. Across Powys and Monmouthshire the general picture is one of relatively good environmental quality. In Cardiff and Newport however the relative environmental quality is lower. This is generally concentrated in the areas surrounding the docks of Cardiff and Newport and the heavy industrial areas.

¹⁰⁹ 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>

¹¹⁰ Government of Wales Act 1998. Available at: <http://www.opsi.gov.uk/acts/acts1998/19980038.htm>

Figure 23. Physical Environment Deprivation



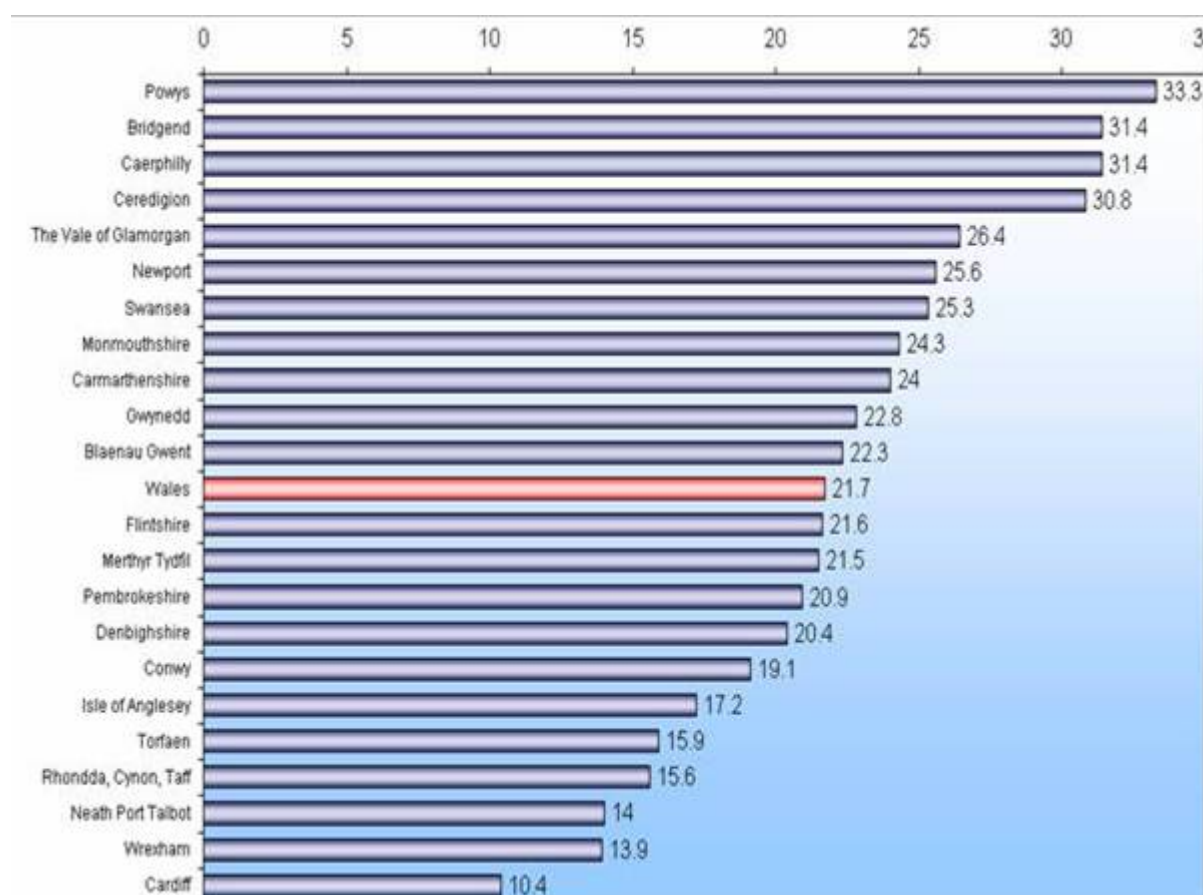
Source: Welsh Index of Multiple Deprivation 2005

1.126 Effective waste management has become a critically important aspect in the drive to protect and enhance the environment. The EC Landfill Directive and the Welsh Assembly Government's waste strategy Wise About Waste provide a blueprint for major changes in the management of the Region's waste.

1.127 Since 1996/97 the percentage of municipal waste recycled or composted has increased over 5 fold. However, as Figure 24 shows there are significant spatial variations across Wales. These variations are illustrated by looking at the Local Authorities that make up East Wales. Powys has the highest percentage of municipal waste recycled or composted, while Cardiff has the lowest.

1.128 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 landfill¹¹¹.

Figure 24. Percentage of municipal waste recycled or composted, 2003/04



Source: Municipal Waste Management Survey

¹¹¹ DTI, 2006, Study of Emerging Markets in the Environment Sector

1.129 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 from the DTI¹¹² 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. They can also help to create new markets, promote competitiveness and enhance corporate reputations, whilst simultaneously providing social and environmental benefits'.

1.130 Based on the results of a recent mapping survey¹¹³, 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 companies¹¹⁴ 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.

1.131 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.

SWOT Analysis

1.132 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 East Wales 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.

¹¹² DTI, 2006, Technology strategy, key technology area: Sustainable Production and Consumption.
<http://www.dti.gov.uk/files/file27991.pdf?pubpdfload=06%2F1210>

¹¹³ Quantum Strategy and Technology, 2007 Mapping the Environmental goods and services sector in Wales.

¹¹⁴ 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)

Table 5 East Wales SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> -Higher GVA per head than across Wales as a whole, explained by favourable labour market conditions and higher value-added per worker. -Higher employment rate and low unemployment rate than the average for Wales and the UK as a whole. -Higher average earnings than across Wales as a whole with relative position (compared to Wales as a whole) improving over recent years. -Lower gender pay gap than across the UK as a whole. -Higher proportion of working age individuals with NVQ Level 4 and above qualifications/skills than compared to the average for Wales and the UK as a whole. -Higher proportion of pupils achieving good A-Levels (A*-C) than across Wales as a whole. -higher self-reported product/service and process innovation than compared to the average for Wales and the UK as a whole. -Rise in income generated from collaborative research between higher education institutions and public and other organisations in Wales than across the UK as a whole. -Four fold increase in the number of 5* rated higher education departments in Wales according to the latest Research Assessment Exercise (RAE) -Increase in population driven by in-migration suggest that East Wales is a desirable place to live. -Good quality natural environment and 	<ul style="list-style-type: none"> -Lower value added per job than the UK average, explained in part by a lower representation of employment in higher value added service sector and a higher representation of employment in lower value added production and agricultural sectors. -Lower GVA per head across Powys than compared to Wales as a whole. -Average earnings across Powys and Monmouthshire the second lowest in Wales. -Higher dependency ratio than compared to the European average explained by a higher representation of individuals above the working age. -Higher economic inactivity rates than for the UK as a whole with more than 1 in 5 of the working age population economically inactive. -Lower employment rate than the UK average. -Higher long-term employment rate than for Wales and the UK as a whole. - Higher unemployment rate amongst disadvantaged groups (disabled individuals and individuals from Black & minority ethnic groups) -Lower female employment rate compared to the equivalent male rate. -Adverse skills profile for individuals with a disability compared to those without a disability. -Higher proportion of pupils leaving compulsory education without any formal qualifications than across Wales as a whole. -Low levels of basic skills across Wales as a whole (sub-Wales data not

<p>heritage in many areas of East Wales making the area attractive to individuals and investors with scope for increased tourism.</p> <p>-Overall, relatively low levels of overall deprivation, although pockets of high deprivation exist.</p>	<p>available) than compared to England.</p> <ul style="list-style-type: none"> - Rise in the number of young people not in employment, education or training (NEET). -A higher proportion of females across East Wales do not have any formal qualifications than compared to males. -High proportion of females working in part-time employment. -High levels of deprivation found in areas with a high concentration of residents from BME groups. -Higher risk of being in low income groups in Wales than across Great Britain as a whole, with the exception of child poverty. -Relative over representation of employment in declining industries (production and agriculture et al) and relative under representation in higher value-added service sector industries than compared to the UK average. -Low R&D expenditure, especially in the business sector. -Lower rate of VAT registrations than compared to the average for the UK as a whole. -Many parts of East Wales need to improve its management for waste in response to stricter EU legislation in these areas. -Difficulties in the take-up and accessibility of some ICT developments. -Lower proportion of SMEs trading goods and services outside the UK than across the UK as a whole.
Opportunities	Threats
<p>-Potential for East Wales to benefit from agglomeration effects from South East Wales</p>	<p>-Recent fall in male youth employment. Evidence shows that early interaction with the labour market can be vital in</p>

<ul style="list-style-type: none"> -Continuation of in-migration of working age individuals adding to the potential workforce. -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. -Potential to build on the established networks with higher education institutions. -Opportunities to promote economic development through maximising the potential of Wales' natural environment including the coastal and inland waterways and other heritage assets. -Potential to exploit the opportunities in the growing environmental goods and services sector, in particular energy management and renewable energy sector and the waste management sector. -Opportunities to develop eco-innovation and innovations technologies in achieving sustainable production and consumption. 	<p>future life chances.</p> <ul style="list-style-type: none"> -Continuation of the decline in traditional sectors where East Wales has a large proportion of employment. -Falling demand for low-skilled individuals cited as principal cause for higher economic inactivity in East Wales. As demand continues to fall social issues become entrenched. -Nearly 1 in 5 businesses reporting a skills gap in Wales. -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) -Wales' CO₂ emissions need to be reduced to meet the UK's commitments under the Kyoto protocol. -Challenges posed by climate change. <ul style="list-style-type: none"> - negative impacts on natural environment from diffuse pollution and overgrazing -Higher risk of entering poverty for lone parents and workless households with dependent children
---	--

References

- 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
- 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.
- CARTMEL, F and FURLONG, A, 2000. Youth Unemployment in Rural Areas. A Report for the Joseph Rowntree Foundation
- 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 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
- 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 from: 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 from: <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>

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/>

http://www.wtbonline.gov.uk/upload/pdf/watersports_tourism_strategy_eng.pdf

Available at: <http://www.wales.gov.uk/subitradeindustry/content/know-econ-nexus-e.pdf>

WELSH ASSMEBLY GOVERNMENT STARTEGY AND COMMUNICATIONS GROUP, 2004.
Review of Economic Inactivity. Available at:

[illegible]

<http://www.wales.gov.uk/themessustainabledev/content/action-plan-e.pdf>

<http://www.wales.gov.uk/subitradeindustry/content/wave/wave-e.htm>

<http://www.wda.co.uk/resources/WDAProperty1.pdf>

<http://www.countryside.wales.gov.uk/fe/master.asp?n1=366&n2=213&n3=368>

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

[illegible]

Use of Commission core indicators

Commission core indicators¹ have, where relevant, been integrated into the Programme. WEFO 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 category breakdown information

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 the Priority-level indicators

Transport (16, 17, 20 – 23, 25)

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.

- (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 timesavings 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 timesavings 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 Priority-level indicators

Renewable energy (39-42)

- *(23) Number of projects – This will be collected through management information
- *(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 category breakdown information
- (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

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

Priority level Indicators and logic chain

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.

The indicator “Enterprises adopting or improving equality 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. This Priority also included the Environmental Sustainability indicator “Enterprises adopting or improving Environmental Management Systems”.

Output	⇒	Result	⇒	Impact
Enterprises assisted <i>of which:</i> <i>to utilise ICT to promote innovative capacity</i> Enterprises financially supported		Gross jobs created		Net jobs created
		Profit benefit		Increase in turnover
				Increase in company-level GVA
		Investment induced		Increase in turnover
				Increase in company-level GVA
		Products, processes or services registered		
		New or improved products, processes or services launched		Sales of products, processes or services
		Enterprises adopting or improving Environmental Management Systems		

	Enterprises adopting or improving equality strategies and monitoring systems	
Collaborative R&D	Products, processes or services registered	
	New or improved products, processes or services launched	Sales of products or processes
	Enterprises created	Net enterprises created
	Gross jobs created	Net jobs created
	Investment induced	Increase in turnover Increase in company-level GVA

Under the flexibility facility allowed for by Art 34(2) of the general regulation, the following indicators will be available to capture ESF activity funded through this Priority.

Output	⇒	Result	⇒	Impact
Participants		Participants gaining qualifications		
		Participants completing courses		

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” will allow for monitoring against Equal Opportunities objective 2. The indicator “Enterprises adopting or improving equality 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 Priority also included the Environmental Sustainability indicator “Enterprises adopting or improving Environmental Management Systems”.

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

enterprise		
Social enterprises assisted	Investment induced	Increase in turnover
	Profit benefit	Increase in turnover
Social enterprises financially supported	Gross jobs created	Net jobs created
	Enterprises adopting or improving Environmental Management Systems	
	Enterprises adopting or improving equality strategies and monitoring systems	

Under the flexibility facility allowed for by Art 34(2) of the ERDF implementing regulation, the following indicators will be available to capture ESF activity funded through this Priority.

Output	⇒	Result	⇒	Impact
Participants		Participants gaining qualifications		
		Participants entering employment		Participants in employment at 12 months
		Participants completing courses		

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 indicator “Enterprises adopting equality 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
Enterprises assisted	Gross jobs created	Net jobs created
	Enterprises operating Environmental Management Systems at a level that requires monitoring and reporting of carbon emissions	
	Renewable energy generated	
	Energy saved	
	Reduction in greenhouse emissions	Net reduction in greenhouse emissions
	Investment induced	Increase in turnover
	Enterprises adopting or improving equality and diversity strategies and monitoring systems	Increase in company level GVA
Environmental risk management initiatives	People benefiting from flood protection measures	
	Waste reduced reused or recycled	

Under the flexibility facility allowed for by Art 34(2) of the ERDF implementing regulation, the following indicators will be available to capture ESF activity funded through this Priority.

Output	⇒	Result	⇒	Impact
Participants		Participants completing courses		
		Participants entering further learning		

Priority 4

The following table provides baseline information and targets, where appropriate, for this Priority.

Output	⇒	Result	⇒	Impact
Regeneration schemes		Premises created or refurbished		Occupancy rates
		Jobs accommodated		
		Enterprises accommodated		
		People accessing services		
		Gross jobs created		Net jobs created

Under the flexibility facility allowed for by Art 34(2) of the ERDF implementing regulation, the following indicators will be available to capture ESF activity funded through this Priority.

Output	⇒	Result	⇒	Impact
Participants		Participants completing courses		
Participants receiving support with caring responsibilities				

Lessons Learned Summary

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.

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.

The papers reviewed are listed in the Bibliography in Annex A. These include:

- The MTEs and MTEUs of the Structural Fund Programmes in Wales carried out in 2003 and 2005 respectively
- A selection of the MTEs and MTEUs of Structural Fund Programmes across the rest of the UK, carried out in 2003 and 2005 respectively, 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.
- Other WEFO, UK and European Commission reports as shown in the attached bibliography.

Summary of key conclusions and recommendations

Below are summarised the key conclusions and recommendations relevant to the development of the 2007 – 2013 Structural Fund 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 E – Ex Ante Evaluation

National Assembly for Wales

**Ex Ante Evaluation of the 2007 – 2013 ERDF
Competitiveness 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

Contents

	Page
Executive Summary	6
1. Introduction and study approach	10
<i>Evaluation process and approach.....</i>	<i>11</i>
<i>Evaluation objectives</i>	<i>12</i>
<i>Community added value</i>	<i>13</i>
<i>Conclusions.....</i>	<i>14</i>
2. Appraisal of Analysis.....	15
<i>Appraisal of the first draft of the Analysis.....</i>	<i>16</i>
<i>Overall conclusions from the second appraisal of the Analysis</i>	<i>17</i>
<i>Recommendations and page-by page appraisal following the second draft of the Analysis.....</i>	<i>20</i>
<i>Discussion of added value</i>	<i>21</i>
<i>Conclusions and recommendations</i>	<i>21</i>
3. Programme strategy rationale and internal and external consistency.....	23
<i>Chapter overview</i>	<i>23</i>
<i>Rationale.....</i>	<i>26</i>
<i>Objectives and Priorities of the Programme.....</i>	<i>27</i>
<i>Validity of the theory.....</i>	<i>37</i>
<i>Financial allocations.....</i>	<i>38</i>
<i>The case for and against public intervention.....</i>	<i>39</i>
<i>'Trade-offs' inherent within the proposed strategy</i>	<i>40</i>
<i>Summary and recommendations – Rationale</i>	<i>42</i>
<i>Internal consistency</i>	<i>43</i>
<i>Consistency with regional and national policies and the Community Strategic Guidelines</i>	<i>46</i>
<i>Consistency with UK strategies and policies.....</i>	<i>57</i>

	<i>Consistency with Welsh strategies and policies.....</i>	<i>60</i>
	<i>Consistency with other Structural Funds Programmes</i>	<i>68</i>
	<i>Summary and recommendations – Consistency with national, UK and EU policies..</i>	<i>70</i>
	<i>UK Strategy and Policies</i>	<i>71</i>
	<i>Community added value</i>	<i>72</i>
4.	Appraisal of proposed implementation systems, monitoring and evaluation, and indicators/targets	74
	<i>High level recommendations.....</i>	<i>75</i>
	<i>Designation of Authorities</i>	<i>77</i>
	<i>Partnership.....</i>	<i>78</i>
	<i>Implementation.....</i>	<i>79</i>
	<i>Payment bodies</i>	<i>80</i>
	<i>Monitoring and evaluation</i>	<i>80</i>
	<i>Publicity and information</i>	<i>82</i>
	<i>Target setting</i>	<i>82</i>
	<i>Added value in the Implementation chapter.....</i>	<i>83</i>
	<i>Conclusions.....</i>	<i>84</i>
5.	Strategic Environmental Assessment.....	85
	<i>The SEA process</i>	<i>85</i>
	<i>The Programme</i>	<i>89</i>
	<i>Assessment of alternative options</i>	<i>89</i>
	<i>The environmental impacts of the Programme</i>	<i>91</i>
	<i>Cumulative impacts.....</i>	<i>91</i>
	<i>Proposed mitigation measures.....</i>	<i>92</i>
	<i>Monitoring</i>	<i>93</i>
	<i>Programme revision.....</i>	<i>93</i>
6.	ASSESSMENT OF CHANGES MADE IN RESPONSE TO RECOMMENDATIONS	95
	<i>Recommendations relating to the Analysis</i>	<i>95</i>
	<i>Recommendations relating to the appraisal of the strategy</i>	<i>96</i>

	<i>Recommendations relating to implementation arrangements</i>	100
	<i>Conclusions</i>	102
7.	CONCLUSIONS AND RECOMMENDATIONS	103
	<i>Appraisal of the Analysis</i>	104
	<i>Appraisal of the strategy – rationale and internal/external consistency</i>	105
	<i>Implementation</i>	107
	<i>Minor editing points</i>	108
	<i>Added value and lessons learned</i>	109
	<i>Overall conclusion</i>	110

EXECUTIVE SUMMARY

This document is the final report of the Ex Ante Evaluation of the 2007 – 2013 ERDF Regional Competitiveness and Employment Programme for East Wales (EW), carried out by DTZ on behalf of WEFO. This summary provides an overview of the content of each chapter and the main conclusions from each stage of the evaluation.

It is worth highlighting at this point that the ex ante evaluation process has been characterised by an ongoing, iterative dialogue between WEFO and DTZ, with outputs from each stage of Programme development and evaluation feeding through into the next. The nature of this document is reflective of this process, and of the extent to which WEFO has implemented the vast majority of recommendations, or have committed to implementing recommendations outwith the Operational Programme document. Each chapter provides an overview of the recommendations that were made and whether these were implemented.

As far as possible we have kept the contents of the main body of the report relevant to the most recent version of documents provided to DTZ and have placed historical content into Annex D.

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 exercise. 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 those of the Lisbon agenda, and adding value through the method of implementation.

Each element of the Ex Ante Evaluation is covered in detailed chapters, as summarised below.

Chapter 1 provides an overview of the study brief and the requirements of the Ex Ante Evaluation, and details the methodology and approach of the evaluation process. Our approach has been to make the Ex Ante Evaluation as formative as possible while acknowledging that much of the Operational Programme (OP) design has been guided by a wider partnership. Throughout the evaluation there was ongoing dialogue between WEFO and DTZ. One or more drafts of each element of the Programme were supplied to DTZ and recommendations were made with a view to strengthening the Programme and making its provisions as clear, consistent and strategic as possible.

It is concluded that the process of producing the Programme and carrying out the Ex Ante Evaluation has followed the requirements of the Draft Working Paper on Ex Ante Evaluation (European Commission, October 2005) that the process be an interactive and iterative process.

Chapter 2 contains the appraisal of the Analysis undertaken by the Welsh Assembly's Economic Advice Division (EcAD). This Analysis was carried out in order to identify the key challenges and areas of need and opportunity for Structural Funds intervention in East Wales that the Programme could potentially address. Following the appraisal of the first draft, a number of recommendations were made with a view to improving the range of data used and making the document a more robust basis for formulating Programme Priorities.

WEFO provided DTZ with a second draft of the Analysis and it was evident that recommendations had been implemented in a number of areas including: providing analysis that demonstrates EW's role as an economic hub for West Wales and the Valleys (WWV); explaining the limitations regarding the employment rates for ethnic minorities; and strengthening the Analysis that underpinned the 'Improving Knowledge and Innovation for Growth' section. A number of recommendations remained outstanding in the second draft. However, in the production of the OP the vast majority of these have been addressed.

Where recommendations or comments have not been accepted or implemented, WEFO has provided reasons as to why it was not deemed appropriate to implement these.

Chapter 3 contains the appraisal of the Programme's strategy and discusses the rationale of the strategy as well as the internal consistency of the Programme (i.e. the extent to which Priorities are complementary and not duplicative or contradictory) and the degree to which the Programme fits with other Welsh, UK and EU strategies and policies. A number of recommendations were made in order to strengthen the rationale of the strategy. These related mainly to ensuring that justifications for interventions were well-evidenced and that clear links were drawn between the findings of the Analysis and the provisions of the Programme strategy and Priorities.

A lesser number of recommendations were made with regard to the consistency of the Programme, reflecting the high level of both internal and external consistency of the Programme.

Chapter 4 provides the appraisal of the implementation arrangements developed for Programme management, including an appraisal of monitoring and evaluation measures and an overview of the process of setting targets for the selected indicators devised for each Priority of the Programme. A number of recommendations were made in order to strengthen the robustness of various aspects of the arrangements set out for implementing, managing and running the Programme. WEFO has actioned the vast majority of recommendations made in this regard, and while some will be implemented within the Programme, others will be addressed through documentation that will be produced after the Programme is adopted (for example in the Monitoring and Evaluation Plan).

Chapter 5 provides an overview of the Strategic Environmental Assessment (SEA), carried out by Royal Haskoning acting as sub-consultants to DTZ. This chapter provides a summary of the key processes of the SEA, 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 is provided in Annex C.

Chapter 6 discusses the extent to which recommendations made by DTZ were accepted by WEFO and how they were implemented. Although the vast majority of recommendations have been taken on board and implemented, in a number of areas WEFO felt it was not appropriate or not possible to implement recommendations. In these cases, WEFO generally provided sound arguments as to why recommendations were not implemented. Chapter 6 provides a brief overview of the key areas where comments were implemented. The full details of all recommendations made and WEFO's response can be found in Annex D.

Chapter 7 draws a number of conclusions based on the OP and the process of evaluation. It is concluded in this chapter that the vast majority of recommendations have been implemented, which greatly strengthens the Programme in terms of the content of the Analysis, the strategy rationale, its internal and external consistency and the arrangements for implementing the Programme and carrying out monitoring and evaluation. The financial allocations, which have been refocused to increase funding for Priorities that directly address Lisbon priorities, are appropriate, especially given the size of the Programme. The OP should thus serve as a robust and strategic framework for implementing the Programme.

In addition to the chapters outlined above there are a number of annexes containing additional information relevant to the evaluation, which are as follows:

Annex A: Bibliography

Annex B: Summary of key lessons learned from previous programmes in Wales, the UK and EU

Annex C: Strategic Environmental Assessment – Full report

Annex D: Details of recommendations made

1. INTRODUCTION AND STUDY APPROACH

- 1.1. This chapter provides an overview of the Ex Ante Evaluation of the 2007 – 2013 ERDF Regional Competitiveness and Employment Programme for East Wales (EW). 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 regulations¹, the Programme is required to undergo an iterative evaluation process in which outputs from each stage feed through into the next stage.
- 1.2. For each element of the Programme WEFO supplied DTZ with one or more drafts, based on which DTZ made a number of recommendations relating to strengthening the robustness and validity of the Programme. The vast majority of comments and recommendations have been implemented by WEFO in preparing the OP. Further, WEFO has agreed to take forward many recommendations throughout the implementation, monitoring, and evaluation of the Programme. The content of the chapters within this document discuss the various stages of evaluation and Programme development, as well as the extent to which recommendations have been accepted and implemented.
- 1.3. In carrying out this evaluation, DTZ's approach has been to work closely with WEFO 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 that goes beyond what is contained in this document, and the key outputs are evident in the changes to the OP that resulted from our ongoing involvement with WEFO.
- 1.4. Consequently, this report does not focus on the exhaustive list of recommendations and how these have been implemented by WEFO. While

¹ The 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 can be viewed from: <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2006:210:SOM:EN:HTML>

this detail is contained in Annex D, the main body of the report focuses on providing an overview of the key areas where recommendations were implemented and how these affected the OP.

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 Analysis that investigated the priority needs, market failures and opportunities of the East Wales (EW) area through to the arrangements outlined by WEFO for implementing the Programme, WEFO provided DTZ with an initial draft. This was then appraised by DTZ and recommendations made. Revised drafts were then submitted by WEFO to DTZ. The process of evaluation has thus been an ongoing dialogue with outputs from each stage feeding into the next.
- 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 (discussed in Chapter 4) 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 as flexibly as possible 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 WEFO 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 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 based on an initial paper supplied by WEFO. Both of these documents are annexed to this report (see Annexes D and C respectively).
- 1.10. We also worked with WEFO to develop indicators and targets for the Programme. We are currently providing advice and recommendations on the methodology WEFO are using to derive the targets for the Programme and work is ongoing in this regard.

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 Analysis of the area to determine whether it used the appropriate data and drew valid conclusions from that data and thus correctly identified the key issues in the area. DTZ then assessed whether the Priorities of the Programme sufficiently reflect the key problems and areas of opportunity in EW. 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 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 processes in place for implementing the Programme, including monitoring and evaluation arrangements. Again, this involved working closely with WEFO and providing recommendations on each draft of the OP.

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 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. It adequately identifies and seeks to address the relevant issues in order to fulfil the objectives for East Wales regarding economic, social and environmental progress. As such it will serve well as the key guidance document for the ERDF Competitiveness Programme.

2. APPRAISAL OF ANALYSIS

- 2.1. This chapter provides an overview of DTZ's appraisal of the Analysis of East Wales. This Analysis has been produced by the Welsh Assembly's Economic Advice Division (EcAD) in order to determine the key challenges and areas of need within the East Wales area that Structural Funds interventions could address. The purpose of Analysis is thus to underpin the ERDF Competitiveness Programme (hereafter referred to as "the Programme") and help to decide the Programme's Priorities for intervention.
- 2.2. The evaluation is required to appraise the appropriateness of this Analysis as a basis for formulating Programme Priorities by investigating a number of issues relating to the use of data and the conclusions drawn from the data. Each draft of the Analysis has been appraised by DTZ according to the Structural Funds ERDF regulations, the Draft Working Paper on Ex Ante Evaluation and our knowledge of both the region and of the appropriate data sources on the issues facing the region. Where recommendations were made, such as those relating to including additional data, it was with a view to making the Analysis more robust. 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. This chapter first provides an overview of our appraisal of the first draft of the Analysis and then an overview of our appraisal of the second draft of the Analysis, including an assessment of the data used. Next it assesses the extent to which the recommendations that followed from the second draft have been implemented and finally presents conclusions. The relevant section of Annex D relating to this chapter provides full details of the page-by-page appraisal of the Analysis that was carried out on the second draft of the Analysis.
- 2.4. Overall, it is concluded that the second draft of the Analysis is a very well written and constructed document. It is appropriately structured and the structure is directly related to the priorities of the Lisbon agenda. In general,

the data sources used were found to be credible, most of the evidence presented points to the conclusions drawn, and the links between evidence and conclusions are well explained. The Analysis draws out the advantages of EW as an economic hub for the surrounding area as well as highlighting areas of need in certain areas within EW. The vast majority of recommendations have been implemented and the Analysis thus forms a robust foundation for developing the strategy of the Programme. The coherence with the Lisbon agenda and the high degree of robustness of the Analysis implies that the Programme can provide significant Community added value in relation to economic and social cohesion.

Appraisal of the first draft of the Analysis

2.5. DTZ appraised the first draft of the Analysis (submitted by WEFO on 28 April 2006) and made a number of comments and recommendations. At this stage it was recommended that additional data sources were used. These included:

- European Labour Force Survey;
- Other comparable Eurostat datasets;
- Global Entrepreneurship Monitor (GEM);
- OECD Science Technology & Industry (STI) Scoreboard;
- Statistics on Welsh 5* Research Assessment Exercise (RAE) departments from Centres of Excellence for Technology and Industrial Collaboration (CETIC) Programme;
- Annual Business Inquiry (ABI);
- European Innovation Scoreboard;
- Labour Force Survey;
- Higher Education Business Interaction Survey (HEBIS); and

- Environmental Goods & Services (EGS) data.

2.6. The DTZ appraisal of the Analysis was submitted to WEFO on 19 May 2006. A number of recommendations were provided regarding the content of the Analysis and use of data. These are discussed in more detail in the following sections.

Overall conclusions from the second appraisal of the Analysis

2.7. A second draft of the Analysis was submitted by WEFO to DTZ on 6 November 2006. DTZ then appraised this draft of the Analysis and assessed the extent to which recommendations previously made had been implemented. The main recommendations that had been implemented were evident in the following areas:

- Some analysis was included demonstrating EW's role as an economic hub for WWV, although at this stage it was again recommended this be strengthened further.
- The limitations regarding the employment rates for ethnic minorities were explained.
- The analysis of young people not in education, employment or training (NEET) was strengthened.
- The analysis underpinning the 'Improving Knowledge and Innovation for Growth' chapter had been greatly strengthened and all of DTZ's recommendations made with regard to this section were taken on board.

2.8. The second draft of the Analysis was considered to be a much better-written and constructed document than the first draft. It is appropriately structured around the following headings, which link it strongly with the Lisbon Agenda:

- Area overview;
- Economic overview;

- Creating more and better jobs;
- Improving knowledge and innovation for growth; and
- Making Wales a more attractive place to invest in and work.

2.9. Further, in the final version of the Analysis that appears in the OP, a section has been added on 'The Environment', which discusses climate change and sustainable development and the goal of moving towards a 'low-carbon' economy. This section also includes additional text on the Environmental Goods and Services (EGS) sector in Wales, as previously recommended by DTZ.

2.10. This structure is directly related to the priorities of the Lisbon agenda. The discussion of data is clear, well explained and relevant to the challenges facing East Wales. As regards the data, there are a number of specific questions that the appraisal of the Analysis should answer, taken from the Draft Working Paper on Ex Ante Evaluation (European Commission, October 2005) and from WEFO's project specification document. These are discussed 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 can all be considered credible.

- ***Are the conclusions based on sufficient evidence?***

Most of the evidence as presented points to the conclusions that have been drawn and the links between the evidence and the conclusions are well explained. There are occasions where conclusions have not been drawn from the data presented, such as the environmental information in the 'Making

Wales a More Attractive Place to Invest in and Work' chapter. There are also occasions where the conclusions drawn are based on marginal evidence, such as the need to increase employment even though East Wales (EW) outperforms Wales, the UK and the EU(25) in terms of employment numbers.

- ***Can any of the evidence be interpreted in a different way?***

In some cases, clear, evidence-based conclusions are drawn on the socio-economic profile of EW. However, there is a lot of analysis that serves to demonstrate EW's advantageous position compared to West Wales and the Valleys (WWV) and, in some cases, the UK. Here, it is possible to conclude that Structural Funds intervention is not appropriate.

- ***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?***

For the most part, the appropriate comparators are used (EW is compared to Wales, UK and EU data).

- ***Has there been sufficient sub-regional analysis where appropriate?***

Yes.

- ***Is the Analysis relevant, accurate, comprehensive & up-to-date?***

The Analysis is up-to-date, comprehensive and accurate. Given the focus of the Programme on strengthening identified areas of competitive advantage, the Analysis adequately demonstrates the advantageous position of EW versus WWV, the UK and EU(25). That being said it is appropriate that areas of socio-economic and environmental challenges are identified by the Analysis in

order to acknowledge issues that may detract from achieving the Competitiveness Programme objectives.

- ***Are there any gaps in the Analysis?***

In the second draft of the Analysis there was still a gap in the form of a lack of analysis of the EGS sector in Wales. However, in the OP some text has been added which discusses the size of the sector in Wales in terms of the number of firms and people employed, and the types of operations these firms are active in.

Recommendations and page-by page appraisal following the second draft of the Analysis

- 2.11. This section provides an overview of the main recommendations that were made following the second draft of the Analysis to ensure that the Analysis fully conforms to EU regulations and guidance, with an assessment of how they have been implemented for the OP. On the whole these were implemented by WEFO and the resulting OP has been strengthened as a result. Full details of the recommendations made are provided in Annex D.
- 2.12. It was recommended that the argument that EW acts as an economic hub for the surrounding region be strengthened by including, for example, travel to work information. WEFO accepted this comment and added details of the numbers commuting to Cardiff and Newport from surrounding areas. As mentioned above, a discussion of the growing importance of the EGS sector has been added, and data has been added on the number of pupils who achieve 'A' level qualifications as recommended.
- 2.13. However, key comments that were not implemented concern the recommendation to include forecast information, as WEFO feels that this information is not reliable enough. In addition, the recommendation to include European gross weekly earnings data was not implemented, as there was an issue with locating comparable data.

2.14. In addition to the more general recommendations made, a page-by-page appraisal of the Analysis was carried out by DTZ. A number of suggestions were made in this assessment, all of which were addressed by WEFO. The actions taken by WEFO in response to these recommendations are detailed in Annex D. In general, these recommendations related to including more specific data and making conclusions drawn from the data clearer.

Discussion of 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 Competitiveness 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 Competitiveness 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.

Conclusions and recommendations

2.17. The Analysis chapter of the OP is a very well written and constructed document. It is appropriately structured under the following headings:

- Area overview;

- Economic overview
- Creating more and better jobs;
- Improving knowledge and innovation for growth; and
- Making Wales a more attractive place to invest in and work
- The Environment

2.18. 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 challenges facing East Wales.

2.19. A number of recommendations were made previously by DTZ in order to strengthen the Analysis and ensure that the Analysis fully conforms to EU regulations and guidance, and in the main these have been accepted and implemented by WEFO. In the very few cases where recommendations were not accepted or implemented, reasons have been provided. 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. This chapter provides an appraisal of the Programme's strategy, assessing its rationale, the internal consistency of the Programme objectives, and Priorities and the external consistency with other Welsh, UK and EU strategies and policies. This chapter is therefore structured around these three key areas:

- Appraisal of the rationale
- Appraisal of internal consistency
- Appraisal of external consistency with other strategies

3.2. Further, after appraising these three key elements, this chapter discusses the extent to which the Programme demonstrates added value with regard to the strategy.

3.3. As regards the rationale of the strategy, the evaluation focuses on the key strategic challenges outlined in the Analysis and assesses the appropriateness of the policy response outlined in the OP in the form of Priorities. Further, the extent to which financial allocations and the policy mix are suitable are discussed, as is the extent to which the Priorities are valid in terms of the findings of the Analysis.

3.4. DTZ has found that, in general, the rationale of the ERDF Competitiveness Programme is well developed and that for the most part, there is a strong link between the key challenges facing East Wales (EW), the policy response and the key elements of the Programme in terms of Priorities.

3.5. A number of recommendations were made previously by DTZ with regard to the rationale of the Programme, the vast majority of which have been implemented. The recommendations essentially related to strengthening the link between the Analysis and the strategy, making the arguments for

intervention more explicit and in some cases providing greater justification for certain target areas of funding. In some cases this required that the evidence base (i.e. the Analysis) be more detailed otherwise consideration would have to be given to the appropriateness of including activities (e.g. support for innovation or entrepreneurial activity) in the Priorities.

- 3.6. As regards the internal consistency, the Programme has a high degree of internal consistency with few conflicts between Priorities. The Programme has an appropriate balance between 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.
- 3.7. DTZ previously recommended that since the overarching strategy of boosting economic growth and all its related activities could/will lead to increased demand for energy, this conflict with the sustainable energy use objectives of Priority 3 should be addressed in the Programme. WEFO has consequently provided an 'Environmental Sustainability' matrix as an annex to the OP that addresses this issue and suggests how projects may mitigate against such impacts.
- 3.8. Further, on DTZ's recommendation, WEFO has clarified the potential overlap that was identified between the high growth businesses and key sector support in Priority 2 and Priority 3. While 'high growth businesses' refers to in-company growth, the latter refers to the overall business environment.
- 3.9. As regards external consistency, the evaluation considered consistency with EU, UK, and other Welsh strategies and policies as well as with other Structural Funds programmes in Wales.
- 3.10. For the most part, the Programme is consistent with the policies and strategies at a European level and fits well with the Community Strategic Guidelines and the Lisbon priorities. A number of recommendations made previously by DTZ have been implemented. These relate to more fully embedding Equal Opportunities in the Programme, including more detail on

encouraging biodiversity rather than just safeguarding it, highlighting the role of sustainable development in Priority 1 and Priority 4, and including more detail on how sustainable development can be integrated in the day-to-day implementation of the Programme.

3.11. DTZ also previously recommended that the rationale for excluding Themes mentioned in the Commission's Competitiveness Regulations be detailed. WEFO had advised that this point would be addressed through the inclusion of an additional table covering the requirements of Article 37(3). The OP now contains a detailed table outlining the key challenges for EW and the corresponding Programme interventions. However WEFO advise that in line with the small size of the Programme it was decided not to detail the rationale for excluded Themes and to concentrate on chosen interventions.

3.12. The only recommendation that remains outstanding is that support for Innovation Poles could be made an explicit part of the Programme to make it more consistent with the Lisbon agenda.

3.13. The Programme strategy is largely consistent with UK policy and strategies. The key relevant UK policy framework is that provided by the National Strategic Reference Framework (NSRF), and the Programme has been assessed against the overarching objectives and provisions of this framework. Each Priority of the Programme is found to contain a number of activities relevant to NSRF themes.

3.14. DTZ has found a high degree of fit between the Programme strategy and Welsh policy and strategy. However, a few areas for further consideration have been identified:

- The link between Priority 4 and W:AVE should be explored and highlighted; and
- Spatial targeting should be explored in greater detail in the Programme.

3.15. DTZ has found a high degree of fit between the ERDF Competitiveness Programme strategy and the ESF Competitiveness Programme. DTZ

recommended that one area where more clarity could be achieved was with regard to supporting ERDF Competitiveness Priorities 1 and 2 further through consideration of linking skills development in ESF Competitiveness Priority 2 with the need for higher level, entrepreneurial and technical skills. WEFO implemented this by including detail on the ESF 'Flexible Facility'² in the ERDF Competitiveness Priorities section.

Rationale

3.16. 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.

3.17. The potential environmental trade-offs within the Programme are detailed in the SEA (see Chapter 5 and Annex C). The rest of this section is structured in the order of the five areas above.

² The 'flexible facility' is outlined in Article 34(2) of Regulation (EC) 1083/2006 of 11 July 2006. This allows for the ERDF and ESF Programmes to finance, in a 'complementary manner and subject to a limit of 10% of Community funding for each priority axis of an operation programme, actions falling within the scope of assistance from the other Fund, provided that they are necessary for the satisfactory implementation of the operation'.

Objectives and Priorities of the Programme

3.18. The Priorities for the Programme are:

- Knowledge and innovation for growth;
- Competitiveness for growth;
- Environment for growth; and
- Integrated regeneration for growth.

3.19. The Analysis is structured around the following six areas:

- Area overview;
- Economic overview;
- Creating more and better jobs – Labour Market Analysis;
- Improving knowledge and innovation for growth;
- Making Wales a more attractive place to invest in and work; and
- The Environment.

3.20. At the highest level, there is clear crossover between the Analysis and the Programme strategy. 'Creating/improving knowledge and innovation for growth' is common to both the Analysis and the strategy, and there is overlap between making Wales a more attractive place to invest in and work (Analysis) and building sustainable communities and creating an attractive business environment (strategy). References to the environment (Analysis) clearly link to the 'environment for growth' Priority within the Programme. However, it is more appropriate for the ESF Competitiveness Programme to address certain issues raised in the Labour Market Analysis, for example in relation to skills and education and tackling inactivity.

Key strategic challenges

- 3.21. The Programme strategy details the key strategic challenges for EW. EW performs well when compared to the rest of Wales on almost all of the main economic indicators. Indeed, in terms of Gross Value Added (GVA), EW is ahead of the UK, driven by the success of the economies of Cardiff and Newport. A more detailed analysis highlights two main factors underpinning this performance. The main factor that explains the higher GVA per capita is the high jobs to employment ratio, reflecting the commuting effect where people from outside EW travel in to EW to work. The second point is that value-added per job ('productivity') is lower in EW than across the UK – a fact that is disguised by the commuting effect. The lower value-added per worker is 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.
- 3.22. Whilst the industrial mix of EW 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. W:AVE (Section 3.72 ff) identifies a range of ten sectors that are seen as critical for economic growth.
- 3.23. It was recommended previously by DTZ that the link between the Analysis and the Programme be made more explicit, and that key elements of the strategy be clearly evidenced in the Analysis. For example, one recommendation related to making clearer how the Programme intends to use the W:AVE sectors in terms of deciding on interventions. Another recommendation called for evidence in the Analysis on how agglomeration effects affect productivity in EW, as a lack of agglomeration is credited in the strategy with affecting productivity in EW. As with many other specific recommendations made by DTZ in respect of providing a more robust basis for the strategy, WEFO included further information in the Analysis.

3.24. The second strategic challenge is outlined as the need to increase the number of higher value-added jobs. Although the region has a favourable skills profile, over one fifth of the population is economically inactive. This issue is dealt with in the ESF Competitiveness Programme

3.25. This section of the OP has been considerably strengthened through the inclusion of a table, which outlines the key challenges for EW and maps these to the relevant Priority from both the ERDF and ESF Programmes. It was previously noted by DTZ that no other strategic challenges were identified in the Programme strategy. Challenges outlined in the Analysis that were not discussed included: the low spend on business R&D, the need to support technology transfer out of Higher Education Institutions (HEIs), the low skills level and employment prospects of those with a disability or of a black or minority ethnic (BME) origin and pockets of deprivation in Cardiff and Newport, in particular.

3.26. DTZ therefore previously recommended that the Programme should make reference to the strategic challenges facing EW identified in the Analysis, and WEFO has included the above-mentioned table. Although the low skills level and employment prospects of those with a disability or of a BME origin are not detailed in this table they are discussed within the Cross Cutting Theme section of the strategy chapter.

Policy response

3.27. This section of the OP has been strengthened following recommendations made and revisions to the Consultation Document. Originally, the vision set out in the Consultation Document was to create a thriving, vibrant and entrepreneurial region at the cutting edge of sustainable development, with its citizens living in an attractive and safe environment, rich in its cultural and natural heritage. The two key drivers to achieve this were noted as:

- Helping businesses to move continually up the value chain and increase the value-added per job, thereby raising productivity and earnings; and

- Providing an attractive environment to live and work, including regeneration of the most deprived communities.

3.28. It was not clear how exactly the key drivers would contribute to the vision. Specifically, the following questions arose:

- A vibrant entrepreneurial region is generally seen to relate to factors such as business start-up activity, innovation, fostering entrepreneurial spirit, etc. While helping to move existing businesses up the value chain can be seen as a component of creating an entrepreneurial region, it seems too narrow to capture this element of the vision;
- The aspiration to be at the cutting edge of sustainable development required more explanation – for example, did this refer to some kind of comparison with other regions? Sustainable development encompasses three elements (economic, social and environmental) but the drivers appeared to focus only on the first two

3.29. DTZ recommended that the link between the vision and the drivers needed to be made more explicit. In this regard the OP makes reference to the objectives of the Community Strategic Guidelines in shaping the Competitiveness Programme to include policies and actions to address the challenges of building an enterprising and flexible business sector and promoting innovation and R&D in order to promote long-term competitiveness. The revised OP now includes a table to set out explicitly the link between the various elements of the Guidelines and the Programme interventions.

3.30. The policy response now also notes the need for a more strategic approach to the 2007 – 2013 Programming period with a strengthening of the focus on the Lisbon and Gothenburg agendas for growth, jobs and sustainable development.

Concentration of resources

3.31. High-level thinking on funding for each Priority in relation to current spending is set out in the OP. The intention is to increase spending on Priority

1 ERDF (knowledge and innovation) somewhat in order to place a stronger emphasis on the Lisbon priorities. Following a recommendation made previously by DTZ, the rationale for this is explained in the OP chapter on Financial Provisions and relates, appropriately, to refocusing funding on Lisbon priorities.

Priorities suggested by the Analysis

3.32. Breaking the Analysis down into the constituent issues that are identified leads to the following list of priorities:

- Improve the industrial mix of Wales by attracting higher value-added industries;
- Move businesses in low value-added sectors further up the value chain;
- Increase agglomeration (perhaps by improving infrastructure or creating virtual agglomeration through networks);
- Increase the higher-level and technical skills of the Welsh workforce (ESF);
- Support and increase business R&D spend;
- Increase the number of high value-added jobs (including R&D and high/medium technology-based jobs) in businesses and increase the number of researchers in Higher Education Institutions (HEIs).
- Improve the use of ICT services by businesses to improve innovation;
- Increase knowledge and technology transfer out of HEIs; and
- Increase the number of high quality sites for businesses to locate to by refurbishing existing stock (and developing brownfield land in partnership with others).

Programme strategy

3.33. The Priorities for the Programme have been identified as:

- Promote a high value-added economy by improving knowledge and innovation for growth;
- Promote competitiveness and growth;
- Create the right business environment; and
- Build sustainable communities.

3.34. In addition, the Programme will contribute to the two Cross Cutting Themes of Environmental Sustainability and Equal Opportunities.

3.35. Table 3.1 summarises the Priorities and objectives as set out in the draft Programme strategy. No Themes are identified within the Priorities. The Priorities are intended by WEFO to deliver the Lisbon objectives.

Table 3.1 Summary of Priorities and Themes

Priority 1: Knowledge and innovation for growth

Objective: This Priority aims to promote a high value-added economy by fostering R&D and innovation for growth.

Priority 2: Business competitiveness and growth

Objective: This Priority aims to assist the growth and expansion of new and existing business ventures, particularly enterprises with the capacity for high growth.

Priority 3: Environment for growth

Objective: This Priority aims to build an attractive environment for businesses to grow and flourish.

Priority 4: Regeneration for Growth
Objective: This Priority aims to provide carefully targeting support for the physical regeneration of the most deprived communities.

Priority 1: Knowledge and innovation for growth

- 3.36. The rationale for support for knowledge and innovation for growth comes from the lower value added per job ('productivity') in EW along with the need to develop greater research and innovation capacity in businesses. The unfavourable sectoral mix of EW is also highlighted.
- 3.37. For the most part, Priority 1 maps closely on to the needs identified within the Analysis. The need to increase business expenditure on R&D has been demonstrated, as has the lower value added per job and the unfavourable industrial composition of Wales. There is also a reference to transferring technology out of HEIs into businesses in East Wales, which again is backed up by evidence in the Analysis that this is a weakness in EW. Thus, the link has been made here between the issues and the Priority.
- 3.38. According to the Analysis Wales scores very highly on measures for innovation and this would suggest that there is not a problem in this area. However, increasing innovation amongst Welsh businesses is highlighted as a potential activity. The one area where the evidence supports the lower innovative capacity of East Wales firms is that of using ICT to support innovation. Here, intervention can be justified on the basis of need.
- 3.39. The issue of support for SMEs in the environmental goods and services (EGS) sector is mentioned here (and covered in depth in Priority 3). It was previously recommended by DTZ that further analysis of the EGS section in EW be undertaken if it is to be included as part of the Priority. WEFO has provided an overview of this sector in the OP, including number of firms and employees, the main activities of firms in the sector and recent growth experience of the sector.

Priority 2: Business competitiveness and growth

- 3.40. The focus of this Priority is on helping EW's businesses to expand. The rationale underpinning this focus is that the entrepreneurial activity in EW is below that of the rest of the UK. The number of VAT registrations can be used as a proxy for entrepreneurial activity and evidence shows that these are below the UK average. The explanation for this is given as the unfavourable industrial composition of EW. It is suggested that perhaps the identified (and evidenced) issue of the unfavourable industrial mix of Wales could also be relevant to Priority 1: Knowledge and Innovation for Growth. The number of people who are self employed (below the VAT threshold) is broadly in line with UK averages. Additionally, the Global Entrepreneurship Monitor's Total Early Stage Entrepreneurial Activity index shows that EW is ranked about mid-way of all the regions and devolved administrations of the UK and scores highly when compared to other European Union countries. These two facts would suggest that entrepreneurship is not an issue in EW although it does serve to highlight an area of opportunity for the Competitiveness Programme to build on abilities already evident within EW to further advance the competitive advantages of the region.
- 3.41. There is an element of this Priority that relates to the supply of business finance. The Analysis discusses potential market failures with regard to business finance and suggests that where the market fails to provide the 'right' amount of finance for whatever reason, there is a justification for targeted intervention.
- 3.42. The Priority also references the need to improve the ability of businesses to maximise the opportunities that exist in export markets. The Analysis underpins this, demonstrating the comparatively low level of EW export activity.
- 3.43. If the aim is to move existing businesses up the value chain, then it should be considered whether this intervention would be better sited under Priority 1: Knowledge and Innovation for Growth. However, WEFO has considered this recommendation and concluded that the actions for Priority 1

and 2 are complementary, with Priority 2 catering for growth in areas not necessarily covered by R&D but still important to the East Wales economy.

Priority 3: Environment for growth

- 3.44. The aim here is to develop an integrated approach to building an attractive environment for businesses to grow, to mitigate and adapt to the effects of climate change, to promote the environment as an economic driver and by encouraging energy efficiency and the promotion of renewable energy.
- 3.45. In the Consultation Document, managing the demand for energy was not identified as an issue. It was previously recommended by DTZ that either the situation should be analysed to identify the issue, or this part of the Priority should be removed. In response WEFO provided the Environmental Sustainability matrix as an annex to the OP which assesses the potential impacts of activities within each Priority on energy demands. The detail in this matrix suggests that projects will be encouraged to consider the impacts of activity on energy demand and act to mitigate negative impacts where possible (i.e. by being energy efficient where possible).
- 3.46. Certain other 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.
- 3.47. We strongly recommended further analysis in the EGS sector as it is such a key tenet of the Lisbon agenda. As mentioned before, this recommendation was implemented through the inclusion of analysis of this sector in the Analysis chapter and in the Priorities chapter. However, consideration also needs to be given to where any related intervention best fits, if evidence can be identified to support it. There is an argument that says that support for eco-innovation may fit best under the Knowledge and innovation for growth Priority (Priority 1) in order that it does not become marginalised.

Priority 4: Integrated regeneration for growth

- 3.48. This Priority will focus on carefully targeted approaches to tackling local deprivation. The Priority will focus on supporting town centre renewal, the development of sites and premises, redeveloping derelict brownfield sites and regenerating degraded urban and rural landscapes.
- 3.49. Whilst the provision of high quality sites and premises has been evidenced in the Analysis as a key factor in business location decisions, DTZ previously recommended that further analysis should be undertaken of the number and quality of sites and the issue of brownfield and degraded sites in EW if this is to be a key objective of the Programme. Following this, the Analysis was extended to include an assessment of demand for and availability of particular types of sites and premises which concludes that there is a lack of supply of modern buildings and sites available for development. However the issue of brownfield and degraded sites is not discussed specifically other than by implicit reference to a lack of 'quality sites'.

Alternative policy mix

- 3.50. The Ex Ante Evaluation should 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 can be best addressed by the proposed Priorities.
- 3.51. The key strategic challenges arise from the lower value-added per job, an issue that is disguised by the high level of GVA per head from the commuting effect seen in EW. Priority 1 clearly aims to move businesses up the value chain by increasing knowledge and innovation for growth. Whilst Priority 2 also focuses on business growth, through improving business competitiveness, there is little evidence to support the proposed interventions and there appears to be some overlap with the aims of Priority 1.
- 3.52. Priority 3 does not directly link into the key strategic challenge 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 should be made clearer to the strategic challenge which the Programme seeks to address. In this regard, WEFO has suggested that the link between the physical environment and deprivation is covered in the Equal Opportunities section of the OP.

Validity of the theory

3.53. Sections 3.17 – 3.19 of this report identified that in the most part the Priorities 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.

3.54. In general, it was previously suggested by DTZ that it was difficult to determine how exactly the Analysis has been used to derive the Priorities and that the link could be made more explicit. In this regard, WEFO has included more detail in the strategy and the Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis of the OP to strengthen this aspect of the Programme, as well as including a comprehensive table to map the key challenges for EW to the policy response.

3.55. DTZ is aware that further detail on the case for each Priority and the associated rationale for intervention is contained within the later chapters of the OP but a more structured argument would be helpful. An example of this would be:

- The Analysis suggests that there is a need to reduce greenhouse gases.
- This is reflected in Wales: A Vibrant Economy (W:AVE) and the Environment Strategy and renewable energy generation is seen as a key contributor to reducing greenhouse gases.
- At the EU level there are a number of targets and strategies aimed at increasing renewable generation.

- Consequently under Priority 2 we have introduced a focus on increasing the supply of clean and renewable generation.

3.56. With regard to DTZ's previous recommendation that a stronger structure, setting out the underlying theory, analysis and policy for each Priority, should be presented, WEFO has strengthened each of the Priorities set out in the Priority chapter of the OP. For example, Priority 1 now makes reference to the low take-up of ICT in more remote rural parts of the EW region as a basis for intervention and makes reference to EU policy in this regard. Similarly, Priority 4 now contains additional detail on relevant overarching European policies.

Financial allocations

3.57. The financial allocations are detailed in the OP, with some supporting text discussing the rationale for the allocation of funding across each of the four Priorities. The OP notes the emphasis of the Community Strategic Guidelines on focusing resources geographically as well as thematically on the investments that are fundamental for increasing long-term competitiveness. In this regard the OP notes the pockets of deprivation that exist in EW, particularly in Cardiff, which contains the area with the highest deprivation score in Wales. Therefore although not directly linked to a Lisbon target the Programme will continue to support aspects of rural and urban regeneration, albeit at a reduced level than originally designated.

3.58. The thematic allocation of funding has been drawn up with the Lisbon priorities in mind, although other guidance (such as W:AVE) has also been taken into consideration. Therefore, given the Lisbon priorities, the largest portion of funding (44% of Structural Fund available) is directed at Priority 1 to support R&D and innovation. Priority 2 and 3 will received around 19% of the funding with the remainder (around 14%) allocated to Priority 4.

3.59. This refocusing of funding on areas that will support Lisbon targets and contribute towards jobs and growth is appropriate, given the overall direction and size of the Programme.

The case for and against public intervention

3.60. As highlighted in the Draft Working Paper on Ex Ante Evaluation (European Commission, October 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.

3.61. DTZ previously recommended that 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 carried out of whether market failures are evident.

3.62. Although WEFO initially indicated that this point is covered in the strategy in some individual cases (e.g. business finance), DTZ recommended that there was scope for making this more explicit by including a specific reference to an overarching case for intervention in terms of market failure. WEFO has now fully implemented this recommendation, and in the strategy

chapter it is made clear that interventions under the Programme will only be targeted at identified market failures.

3.63. 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 the limited amount of money available to EW and the consequent need to ensure resources are targeted at those areas where market failures are most acute.

3.64. In response to DTZ's recommendation that the underlying argument for intervention be made more explicit, WEFO has provided additional details about the rationale for each Priority in the Priority chapter of the OP.

3.65. Notwithstanding the above generic rationale, DTZ has assessed each of the Themes within the four Programme Priorities against the four causes of market failure above. This more detailed assessment can be found in Annex D, where Table A1 assesses the economic rationale for intervention against each Priority, with some accompanying commentary.

'Trade-offs' inherent within the proposed strategy

3.66. Due to the high level of internal consistency (discussed in the following section), DTZ does not believe that there are substantial negative trade-offs between the Priorities identified, aside from the potential environmental trade-offs arising from the focus on increased economic activity on one hand, and

the focus on the environment on the other. As is discussed in the next section, there is a high degree of complementarity between the remaining three Priorities. Even within the environmental objectives there is scope for complementarity between Priority 1 ((knowledge and innovation for growth; support for research, technology and innovation) where support for SMEs in the EGS sector is highlighted and the objectives of Priority 3.

3.67. The restructuring of financial allocations that has taken place during Programme development represents a trade-off within the Programme. The increase of funding in favour of interventions that focus on Lisbon priorities entailed a reduction in funding for regeneration. In an even broader sense there may be trade-offs depending on the choice of intervention. That is to say, by selecting a particular path of policy the Programme forgoes the opportunity to intervene in a different way. It is for this reason that it is vital that the chosen Priorities are strongly linked to the key challenges and opportunities in EW.

Summary and recommendations – Rationale

- 3.68. DTZ has found that, in general, the rationale of the ERDF Competitiveness Programme is well developed and that there is a strong link between the key challenges facing EW, the policy response and the key elements of the Programme in terms of Priorities and Themes.
- 3.69. DTZ made a number of recommendations with a view to strengthening the rationale of the strategy and ensuring that Priorities were logical conclusions from the outcomes of the Analysis and based on needs that were sufficiently evidenced. In this regard, a great number of recommendations were implemented which strengthen the Programme strategy. The links between the Analysis and Priorities have been made more explicit in a number of areas. The two drivers for achieving the vision have been couched in explanatory text. Further analysis of the EGS sector has been included which provides a more robust basis for including support for environmental technologies as an activity under Priorities 1 and 3.
- 3.70. The strategy chapter makes clear that market failure is always the underlying cause for intervention. The table added to the OP that outlines the challenges for East Wales and the consequent intervention by the Programmes emphasises the justification for intervention, drawing on the market failures and other problems of East Wales evidenced in the Analysis. This table, although contained within the ERDF OP also highlights where ESF interventions will be relevant.

Internal consistency

Introduction to internal consistency section

3.71. In assessing the internal consistency of the Programme, the task of the evaluator as set out in the specification for this 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.

3.72. 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 (steps (i) and (ii) above).

3.73. A discussion of the broad financial allocations for each part of the strategy (step (iii) above) has been provided in sections 3.56 – 3.58 of this report. Consequently, this section concentrates on steps (iv) and (v).

Conflict between Priorities

3.74. DTZ has not identified any notable conflict between the Priorities. Rather, there are potential complementarities between Priorities. For example, Priority 1 (knowledge and innovation for growth; support for research, technology and innovation) could complement the range of activities within Priority 3 such as managing and mitigating environmental risk or managing the demand for energy. There is also substantial complementarity

between the indicative activities to boost knowledge and innovation for growth (Priority 1) and to boost competitiveness for growth (Priority 2).

3.75. However, a number of more minor issues are noted below for further consideration by WEFO:

- 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 the sustainable energy use objectives of Priority 3. In this regard the Environmental Sustainability matrix annexed to the OP identifies areas of potential conflict within each Priority between Priority objectives and the objectives of Priority 3. Several solutions to help mitigate against negative environmental impacts are identified in this matrix.
- Support for the Environmental Goods and Services sector may better fit within Priority 1. This would complement other activities in the field of research, development, innovation, enterprise and business support and not marginalise the environmental sector from other key sectors. In keeping with Lisbon it may be appropriate to include the support within both Priorities 1 and 2 and to make this explicit in the text (see recommendation above).
- There is potential cross-over between Priority 1 and Priority 2 in respect to key sector support and support for high growth businesses. It was previously recommended by DTZ that this should be clearly explained within the text, or Priorities 1 and 2 should be merged. WEFO has advised that while the former relates to the general business environment, the latter refers to 'in company' growth. However, the description of Priorities 1 and 2 still both refer to targeting sector growth (for example growth of the Environmental Goods and Services sector is discussed in Priority 1) and the intended distinction could possibly be made clearer in the OP.

Policy risk

3.76. The Commission has advised that the Analysis should cover policy risk involved in the choice of priorities. Arising from a concern that Structural

Funds interventions were becoming increasingly risk-averse, this aims to explore the balance between more standard interventions that are 'easier' to implement and those that are inherently more risky but might have a bigger impact³. In this context, risk is interpreted as the risk of delivering the outcomes, i.e. whether the intervention works. The impacts of the policy are the outcomes if the policy delivers, i.e. the outcomes if the policy has worked on the overarching objectives of the 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.

3.77. 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 the relevant section of Annex D relating to this chapter contains a headline risk assessment of each Priority and the indicative activities that could be supported under the Priority. This indicates the potential scale of policy risk alongside potential impacts of the associated intervention.

3.78. Overall, the Programme contains a range of interventions that are risky but also promise high impacts. These are especially prevalent in Priority 1 and in related areas of Priorities 2 and 3 linked to ICT and renewable energy. Overall, the evaluators consider the Programme to be well balanced in terms of policy risk.

3.79. 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, where Priorities are set but not Themes or Measures. This in turn should enable a higher degree of flexibility in the way targets are set (for example taking into account uncertainty and longer-term impacts).

³ European Commission Draft Working Paper on Ex Ante Evaluation, October 2005, p. 9

Summary and recommendations – internal consistency

3.80. The Programme has a high degree of internal consistency, with few conflicts between Priorities.

3.81. The Programme has an appropriate balance between 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. Where there was an identified conflict between the objectives of Priority 3 and the activities of the remaining three Priorities regarding the environmental impact, the inclusion of the Environmental Sustainability matrix addressed these potential issues.

3.82. One area where the internal consistency could be strengthened is covered by the following recommendation:

- Potential overlaps between high growth businesses and key sector support between Priorities 1 and 2 should be explored in more detail.

Consistency with regional and national policies and the Community Strategic Guidelines

Introduction consistency with national, UK and EU policies

3.83. This section provides an assessment 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.

3.84. The section is structured as follows;

- Consistency with European policy and Community Strategic Guidelines

- Consistency with UK strategies and policies
- Consistency with Welsh strategies and policies
- Consistency with other Structural Funds Programmes

3.85. In general it is concluded that the Programme is consistent with EU policies and fits well with the Community Strategic Guidelines and Lisbon priorities as well as other strategies such as Equal Opportunities. Some recommendations to further align the Programme with EU policies are provided.

3.86. Similarly, the Programme is largely consistent with UK policy and strategy, and the fact that only one recommendation relating to increasing the consistency remains outstanding is reflective of how closely aligned the Programme is with the key UK policies.

3.87. As regards other Welsh strategies and policies, a number of policy documents were reviewed including Wales: A Vibrant Economy (W:AVE), Wales: A Better Country (W:ABC) and the Wales Spatial Plan. In general, the Programme has a good fit with other Welsh policies and very little further work was recommended to further align the Programme with other policies.

3.88. However, one area identified where the Programme could be strengthened was with regard to the Wales Spatial Plan. The Programme does refer to spatial targeting, and the strategy chapter discusses the characteristics of each region of EW. However, the Community Strategic Guidelines specify that resources should be targeted geographically as well as thematically. Therefore it is recommended that it is made more explicit which areas of East Wales could be targeted for funding, either due to an identified need or competitive advantage in the area. For example, the industrial North East region has been identified as requiring improvements to its natural and physical assets. Therefore it may be the case that funds for certain activities under Priorities 3 and 4 could be more effectively concentrated here, rather

than be dispersed in smaller amounts around the region. This is especially true given the small size of the Programme.

Consistency with European policy and the Community Strategic Guidelines

3.89. DTZ has appraised the consistency of the Programme strategy with the key European policies and strategies including Structural Funds Regulations for 2007 – 2013, Community Strategic Guidelines, the Third Report on Economic and Social Cohesion, the Lisbon Strategy, equal opportunities policies and the Gothenburg Agenda / Environmental Sustainability policies. The level of fit between the Programme and each of these strategies/policies is discussed in turn.

Structural Funds Regulations for the period 2007 – 2013

3.90. Article 5 of the Regulations⁴ relates to Competitiveness programming. It states that efforts should be focused on sustainable development strategies whilst promoting employment.

3.91. Areas of consistency between the regulations and the ERDF Competitiveness Programme include:

- Supporting research and technological development, and enhancing R&TD capacity;
- Stimulating innovation and entrepreneurship;
- Creating financial instruments to support SMEs;
- The environment and risk prevention;
- Energy efficiency and renewable energy production;
- Mitigating environmental problems, regenerating brownfield and derelict land;

⁴ Regulation (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 which can be viewed from: <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2006:210:SOM:EN:HTML>

- Support for tourism and the promotion of the region's natural assets in a sustainable manner; and
- Investments in culture, including protection, promotion and preservation of cultural heritage.

3.92. There are themes identified in the Competitiveness regulations that are not identified as explicit Priorities for support under the ERDF Competitiveness Programme strategy. The table below lists these and shows whether these are contained within other parts of the Programme:

Table 3.2 – Coverage of themes from the regulation not explicitly covered in the Programme		
Regulation theme	Covered in another Priority?	Extent of coverage
Transport and telecommunications networks	Priority 1 - ICT	In part (ICT). No transport coverage.
Incubation facilities for SMEs	Not explicitly	N/A
Clean and sustainable public transport	Not explicitly	N/A
Natural and technological risk prevention measures	Priority 3	In part. Needs to be more explicit.

3.93. Overall, the Programme covers most of the key themes contained in the regulations. It is also clear from the table above that a number of the other themes are picked up within the Programme without having an explicit Priority to cover them. While there are some themes not picked up, in the view of the evaluators this represents a useful focusing of the Programme in line with Commission guidelines on the new programming period. A large range of Priorities and Themes would distract from this focus.

3.94. While it is acknowledged that the OP explains that the Programme must be more strategic and selective in its approach, it is nevertheless still suggested by DTZ that the rationale for selecting certain areas over others (i.e. innovation over transport) be more explicitly set out. In this instance, WEFO explained that due to the nature and size of the Programme, the OP would detail the rationale behind interventions that are included, rather than those that are not. In this regard, a table has been added to the OP in accordance with Article 37(3) of the General Regulation,⁵ which details the rationale for interventions.

Cohesion policy in support of growth and jobs: Community Strategic Guidelines 2007 – 2013

3.95. The Community Strategic Guidelines 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 sections 3.117 – 3.123 of the present report.

3.96. 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, promoting entrepreneurial activity, improving adaptability of workers and enterprises and increasing investment in human capital.

⁵ Council Regulation (EC) No 1083/2006 available from:
http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_210/l_21020060731en00250078.pdf

3.97. It is clear that the ERDF Competitiveness Programme maps very closely to these broad priorities. In particular Priorities 1 and 2 fit well with the second and third bullet points whereas Priority 4 fits well with the first. The priorities that relate to creating more and better jobs are covered in more detail in the ESF Competitiveness Programme, but are also implicit in the ERDF Competitiveness Programme.

3.98. In conclusion, then, the Programme has a high degree of fit with the Community Strategic Guidelines 2007 – 2013.

The Third Report on Economic and Social Cohesion

3.99. The priorities identified for Member States in the Third Report on Economic and Social Cohesion that apply to the ERDF Competitiveness Programme are summarised by the following headings:

- Narrowing disparities in regional competitive factors;
- Improving infrastructure endowment;
- Strengthening human capital;
- Strengthening social cohesion;
- Continuing to narrow disparities in innovative capacity;
- Ensuring access to basic services;
- Narrowing regional disparities in income;
- Supporting foreign direct investment (FDI); and
- Building the knowledge economy.

3.100. It is clear that the Programme Priorities map very closely onto most of these cohesion priorities.

3.101. There are occasions where this is not the case, as outlined below:

- Strengthening human capital. However, this is a key tenet of the ESF Competitiveness Programme so this is not an issue.
- Ensuring access to basic services. This is mentioned in the Analysis and the Programme Priorities but is not an explicit Priority.
- Supporting FDI is not mentioned.

3.102. It was previously recommended by DTZ that support for FDI and access to basic services could be made an explicit part of the Programme, however WEFO has stated that the focus of the Programme is on indigenous enterprises.

The Lisbon Strategy

3.103. 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.

3.104. The Priorities identified in the ERDF Competitiveness Programme are:

- Knowledge and innovation for growth;
- Competitiveness for growth;
- The Environment for growth; and
- Building sustainable communities.

3.105. At the highest level there is some crossover between Lisbon and Programme Priorities. Creating knowledge and innovation for growth is common to the Lisbon and the ERDF Competitiveness 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 Competitiveness Programme, but is also implicit in the ERDF Competitiveness Programme, as moving businesses up the value chain implies the need for a more highly skilled workforce and additional growth would increase employment opportunities.

3.106. Under the Lisbon Strategy headings outlined above, there is one key theme that is not covered within the Priorities of the ERDF Competitiveness Programme:

- Establishment of Innovation Poles⁶ to bring together high technology SMEs, universities and business/financial support.

3.107. The evaluators accept that much was done in supporting innovative actions in the current programming period (such as support for the Techniums⁷) and that the proposed Programme can build on what is already in place. In addition, with limited resources it would not be possible to manifest the Innovation Pole in a physical sense. However, a revenue-based co-operation programme between enterprises, research institutions and training centres could be supported.

Recommendation: Support for Innovation Poles could be made an explicit part of the Programme.

⁶ Innovation and competitiveness poles are close cooperative association between enterprises, training centres and public- or private-sector research institutes within a defined geographical area. See for example p. 16 of 'Implementing the Community Lisbon Programme' available from http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0488en01.pdf where Member States are invited to develop regional and national policies for innovation clusters and poles, using the support offered by the European Structural Funds.

⁷ Six centres of excellence around the country for specific sectors of the technology industry.

Equal Opportunities

- 3.108. Gender equality, especially in relation to the workplace, has been a feature of European policy since the Treaty of Rome. Over time, this has been broadened out to encompass Equal Opportunities for a range of groups. Equal Opportunities is an important feature of Structural Funds, with a special emphasis within ESF. Equal Opportunities is a Cross Cutting Theme (CCT) in the 2000 – 2006 programming round and is also proposed to be a CCT in the new round of funding.
- 3.109. Equal Opportunities are discussed within a separate chapter of the OP on CCTs. The chapter covers both the ERDF Competitiveness and the ESF Competitiveness Programmes. Most of the focus of Equal Opportunities is on the ESF Competitiveness Programme and the labour market. There does not appear to be any explicit targeting of these issues in the ERDF Competitiveness Priorities. Within the Rationale section of the CCT chapter, 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 types of intervention could be supported by ERDF funding. However, the specific objectives outlined for the Competitiveness Programme may be more appropriate, and more readily tackled by ESF interventions rather than ERDF.
- 3.110. It was therefore previously recommended by DTZ that more could be done to consider how ERDF Competitiveness funding can contribute to Equal Opportunities, for example in relation to companies assisted and jobs assisted and jobs created and safeguarded. With regard to this recommendation, WEFO has included an equal opportunities matrix within an Annex to the OP in order to further embed Equal Opportunities in the ERDF Competitiveness Programme.

The Gothenburg Agenda / Environmental Sustainability

3.111. 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.

3.112. There is strong consistency between the Gothenburg Agenda and the ERDF Competitiveness Programme in the areas of combating poverty and social exclusion, in particular in relation to Priority 4 (Regeneration for growth).

3.113. In general, the social and economic implications of an ageing society are not within the gift of Structural Funds to directly address. However, regeneration for growth and environment for growth will help to increase in-migration and decrease out-migration that will contribute to this objective. Indirectly, through environmental improvements, the Programme will also impact on health.

3.114. The environmental sustainability of the Programme is discussed in the OP 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.

3.115. In terms of biodiversity, the main focus in the Consultation Document was on protecting biodiversity rather than any active measure to promote it.

The exception is that actions to enhance degraded habitats will be promoted. However, DTZ previously recommended that more detail on encouraging biodiversity rather than safeguarding it would be useful. In this respect Priority 3 has been strengthened in the OP to include the integration of actions to improve habitats and bio-diversity into projects.

3.116. In terms of climate change, it is desirable for the OP to acknowledge that measures to increase the efficiency of energy use and energy conservation will be counterbalanced by higher demand for energy due to increased economic activity associated with the Programme. DTZ previously made a recommendation to this effect and this area also represents a strengthening of the OP where a table has been provided in an Annex to the main document, outlining how activities under each Priority might cause environmental concerns. This table also suggests how projects might mitigate against such negative impacts.

3.117. The Ex Ante Evaluation should consider in how far the CCT of Sustainable Development (SD) has been considered and integrated into the ERDF Competitiveness Programme. This can be in terms of integration of SD in each of the Priorities and also across the Programme as explored in the section of the OP on CCTs.

3.118. In terms of inclusion of SD in the Priorities, the main focus on environmental sustainability is in Priority 3. It was suggested that 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 4 (Regeneration for growth). This is covered by the provision of the Environmental Sustainability Matrix, which appears as an Annex to the OP.

3.119. 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. It was previously advised by DTZ that detail would 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). Again, as above, the Environmental Sustainability Matrix addresses these issues by stating that projects will be encouraged to integrate sustainability objectives into projects, environmental management systems will be promoted to supported businesses, and projects will be encouraged to offset potential additional harmful effects of activity (for example by being more energy efficient).

Consistency with UK strategies and policies

National Strategic Reference Framework

3.120. The consistencies between the ERDF Competitiveness Programme and the National Strategic Reference Framework (NSRF) are outlined below, by Programme Priority:

Priority 1: Knowledge and innovation for growth

3.121. This Priority is consistent with the following NSRF themes:

- R&D, innovation, technology. Encouraging HE and business to promote technological development, technology transfer and commercialisation. Developing new technologies for energy/resource efficiency; and
- Developing ICT infrastructure.

Priority 2: Creating an attractive business environment

3.122. This Priority is consistent with the following NSRF Themes:

- Supporting entrepreneurship;
- Improving access to business finance (investment and export assistance); and
- More favourable environment for enterprise, including support for new and existing enterprises.

Priority 3: Environment for growth

3.123. This Priority is consistent with the following NSRF themes:

- Supporting heritage/cultural regeneration; and
- 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).

Priority 4: Regeneration for growth

3.124. 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; and
- Local employment/community development/social enterprise and social capital.

3.125. It was identified that in order to make the Programme fully consistent with the NSRF, the following themes in the framework should be prioritised in the Programme:

- Supporting cluster development and centres of excellence; and
- Creating enterprise opportunities within the education system.

3.126. However, WEFO has indicated that this is covered by the reference to HEIs in Priority 1.

UK National Reform Plan

3.127. 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 focus on priorities that had greater relevance to ESF-related Priorities. The 2005 UK National Reform Plan focuses on three broad areas:

- Macroeconomic stability for jobs and growth;
- Increasing employment opportunities for all; and
- Promoting productivity growth.

3.128. The first area 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 Competitiveness Programme. The second area covers issues of relevance to the ESF Competitiveness Programme.

3.129. The final area 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;
- Promoting effective, market-based policies to ICT usage by businesses and public authorities; and

- Increasing business resource efficiency and reducing waste.

3.130. The National Reform Plan also notes that the responsibility for economic development lies with the Welsh Assembly.

3.131. The first bullet point above is covered within the ESF Competitiveness 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 ERDF Competitiveness Programme. While the ERDF Competitiveness 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.

3.132. The remaining bullet points link directly to Priorities pursued within the ERDF Competitiveness Programme. Overall, the Programme thus fits well with the National Reform Plan and contributes to its overall objectives.

Consistency with Welsh strategies and policies

3.133. 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. These are discussed individually below. A further 14 documents have also been reviewed. Summary comment in respect of these is included.

Wales: A Vibrant Economy

3.134. 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). W:AVE is consistently referenced throughout the ERDF Competitiveness Programme strategy.

3.135. W:AVE sets the strategic framework for the 2007 – 2013 European Structural Funds Programmes 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 Competitiveness Programme include:

- Support for R&D, innovation and ICT capacity (links to Priority 1 of the ERDF Competitiveness Programme);
- Supporting businesses and sectors with growth potential, including the ten key sectors (links to Priorities 1 and 2 of the ERDF Competitiveness Programme);
- Increasing competitiveness through entrepreneurship, investment and trade (links to Priority 2 of the ERDF Competitiveness Programme); and
- Encouraging clean energy generation and resource efficiency (links to Priority 3 of the ERDF Competitiveness Programme).

3.136. Priority 4, which is predominantly focused on disadvantaged communities, does not have this strong link to the key priorities in W:AVE.

Recommendation: The link between Priority 4 and W:AVE should be explored and highlighted.

3.137. In light of these overlaps between W:AVE and the ERDF Competitiveness 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 4, which does not have a strong link to either Lisbon or W:AVE.

Wales – A Better Country

3.138. 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.

3.139. Overall there is substantial consistency between Wales – A Better Country and the ERDF Competitiveness 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.

3.140. 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;
- Enhancing the built and natural environments 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.

3.141. Spatial targeting is identified within Wales – A Better Country. This is to be delivered through the Wales Spatial Plan. Equal Opportunities are a key element throughout. There is a strong sense of leaving a positive legacy for future generations.

3.142. There are no clear areas of inconsistency between Wales – A Better Country and the ERDF Competitiveness Programme strategy. However, the issue of support for the Welsh language is highlighted within Wales – A Better Country but not clearly evident in the ERDF Competitiveness Programme Strategy. WEFO may wish to consider strengthening references to this topic.

Recommendation: WEFO may wish to consider strengthening references to support for the Welsh language.

Skills and Employment Action Plan

- 3.143. The Skills and Employment Action Plan (SEAP) has greater direct relevance to the ESF Competitiveness Programme than to the ERDF Competitiveness Programme. However, where it is relevant to the ERDF Competitiveness 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 these up.
- 3.144. 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 coordinated business 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.
- 3.145. Priority 4 of the Programme, Regeneration for growth, 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 System⁸ should increase capacity within the provider network to meet increased sector demand for particular skills. The investment highlighted in Priority 4 may have the potential to stimulate demand for skills in certain sectors, such as construction, which could be integrated with workforce skills development.
- 3.146. 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. 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 OP does not explicitly mention social enterprises in this context.

Wales Spatial Plan

3.147. The Wales Spatial Plan, adopted by WAG in November 2004, sets out 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 ERDF Competitiveness 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.

3.148. 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 East Wales 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 Competitiveness region and the Spatial Plan areas.

3.149. There is a requirement by the Commission outlined in the Community Strategic Guidelines to consider how the funds are going to be targeted thematically and spatially. The document does not specify any spatial targeting aside from making reference to the Spatial Strategy. The Programme

⁸ ELWa has developed a new integrated National Planning and Funding System (NPFS) for post-16 provision, live since 2005.

Analysis suggests that certain issues are more prevalent in particular parts of the region. It would be useful if these were used as a starting point for a broad spatial targeting. For example, Cardiff and Newport are identified as having a relatively high GVA, with Powys having a particular problem with lower value-added jobs. While there are difficulties with too rigid spatial targeting (for example reducing the ability to react to changing socio-economic circumstances), a broad indication in the OP of where spatially concentrated issues require specific interventions would be useful, especially in the light of a limited pot of money.

3.150. This does not require reproducing the analysis underpinning the Spatial Plan 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 OP, making it explicit how and in how far the Programme will use the Spatial Plan in its delivery.

3.151. The Commission has explicitly requested that regions consider territorial cohesion and the specific territorial characteristics such as mountain areas. 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.

Recommendation: Spatial targeting should be explored in greater detail in the OP.

3.152. It is noted that the OP contains a good deal of spatial analysis throughout the Analysis and the strategy, however the OP is clear that, with the exception of Priority 4, it is not proposed to target the Programme spatially. The resources through Priority 4 will be focused on a small number of geographical areas and will be implemented largely through the Wales Spatial Plan Area Groups.

Our Environment Our Future

3.153. The Strategic Environmental Assessment of the ERDF Competitiveness Programme addresses consistency between the Programme strategy and 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. A key finding of the SEA report is that the Programme is aiming to contribute positively to a number of environmental objectives. The SEA report proposes a number of measures to mitigate against any negative environmental impact arising from increased economic activity.

3.154. The SEA Environmental Report notes that:

- The economic activities promoted by the Programme are targeted at improving the efficiency of commercial enterprises in order to make them competitive with those in other regions. On the whole this will predominantly benefit existing enterprises, with some limited growth in new enterprises. Consequently the scale of negative environmental impacts predicted to result from the Programme is limited, as activities are on the whole focused at efficiency and progress into areas of the economy with large growth potential, which includes the environmental sector. Furthermore, many of the Programme's identified activities are targeted at conservation to improve competitiveness, which should have an overall beneficial impact on materials/energy/water resource use, and subsequent indirect benefits on many aspects of the environment.
- The dominant adverse environmental impacts are seen to arise from the key economic driver of increased development and the associated use of primary materials, primary fuels and energy, and the subsequent emissions to land, air and water as a result. However the focus is on efficiency for existing businesses, and incorporating those efficiencies in new businesses. Any negative environmental effects arising from economic growth would be considerably offset by the promotion of resource efficiency and conservation to improve the competitiveness of enterprises in this region. Thus many beneficial environmental impacts relating to reduction of resource use (water,

fuel, energy, and materials) as well as the refurbishment and reuse of existing assets are expected. This is expected to result in the management of, and decreases in, the total amount of greenhouse gases emitted into the environment. See Chapter 5 and Annex C of the present report for further detail.

Other Welsh strategies

3.155. 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.

3.156. In summary DTZ has found a very good fit between each strategy and the ERDF Competitiveness Programme strategy. The degree of relevance of each strategy to the Programme varies across documents. However, DTZ has not identified any areas of conflict.

3.157. There is a good degree of consistency across Welsh policy and strategy in general and the Lisbon and Gothenburg agendas, particularly moving towards the creation of more and better jobs. Sustainable development is a consistent theme within strategic documents.

3.158. 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; and
- Stronger statements could be included in relation to the scale of renewable energy creation and energy efficiency gains.

Consistency with other Structural Funds Programmes

ESF Competitiveness Programme

3.159. There is strong complementarity between the ERDF Competitiveness and ESF Competitiveness Programmes. 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 opportunity will need to be provided in order to retain highly skilled individuals.

3.160. It was noted by DTZ that there was potential for much stronger complementarity between ERDF Competitiveness Priorities 1 and 2 and ESF Competitiveness Priority 2. It was previously recommended by DTZ that ESF Competitiveness Priority 2 could be rewritten or more closely linked to the aspirations of ERDF Competitiveness Priorities 1 and 2 insofar as the development of higher level, entrepreneurial and technical skills is necessary for the achievement of the aims of the ERDF Competitiveness Priorities.

WEFO agreed with this recommendation and implemented it not only in regard to ERDF Competitiveness Priorities 1 and 2 but also within ERDF Competitiveness Priorities 3 and 4. This has been effected through the inclusion in the OP of text detailing the 'Flexibility facility' in each of the Priorities of the ERDF Competitiveness OP.

3.161. This additional text highlights areas of particular complementarity between the two Programmes and outlines the potential for use of the Community Regulations that allow ERDF funding to be used in conjunction with ESF. In addition, Priority 1 now highlights the potential for ESF to contribute towards training for ICT and innovation, whilst Priority 2 now notes the potential for management training under ESF funding to benefit the business competitiveness objectives.

3.162. There is now a higher degree of fit between ERDF Competitiveness Priority 4 and ESF Competitiveness Priority 1 (increasing employment and reducing inactivity). ERDF Competitiveness Priority 4 focuses on regeneration initiatives to promote the physical improvement of deprived urban and village townscapes and create economically competitive, socially inclusive and sustainable communities.

Other Structural Funds Programmes

3.163. There is an extremely high degree of complementarity between the ERDF Competitiveness Programme and the ERDF Convergence Programme. The ERDF Convergence Programme Priorities are:

- R&D, Innovation and ICT;
- Improving business competitiveness;
- Developing the strategic infrastructure;
- Energy and the environment; and
- Building sustainable communities.

3.164. It can be seen that these ERDF Convergence Priorities map very closely onto the four ERDF Competitiveness Priorities of:

- Knowledge and innovation for growth;
- Competitiveness for growth;
- The environment for growth; and
- Regeneration for growth.

3.165. Where there is crossover and a pan-Wales intervention is planned, it will be important to ensure consistency between the two Programmes.

European Agricultural Fund for Rural Development and the European Fisheries Fund

3.166. The OP makes reference to the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF). Whilst Programmes should be complementary, it is important that duplication is avoided. To this end, the ERDF Competitiveness OP highlights areas where overlaps may occur with the EAFRD and EFF Programmes and outlines how the Welsh Assembly Government will ensure that resources are targeted appropriately while avoiding duplication or 'double-funding'. The OP outlines clearly the demarcation between the Programmes, as well as areas of complementarity in order to maximise value-added from each respective area of Programme funding.

Summary and recommendations – Consistency with national, UK and EU policies

Consistency with EU policies

3.167. For the most part, the ERDF Competitiveness Programme is consistent with policies and strategies at a European level and fits well with the Community Strategic Guidelines and the Lisbon priorities. The Programme

has been strengthened primarily as a result of the OP drawing a more distinct link between the Programme Priorities and the impacts on environmental sustainability, equal opportunities and climate change, and containing more detail on how these issues can be embedded in the Programme.

- 3.168. Although the majority of recommendations have been implemented, the design of the ERDF Competitiveness Programme could be strengthened to be fully consistent with European strategies and policies with regard to support for Innovation Poles being made an explicit part of the Programme since this is a key tenet of the Lisbon Agenda.

UK Strategy and Policies

- The Programme strategy is largely consistent with UK policy and strategy. The Programme was found to be almost fully consistent with the key UK policy framework, the National Strategic Reference Framework, with each Priority addressing several themes of the Framework. An area of weakness that was identified was a lack of reference to supporting clusters and creating enterprise opportunities in the education system. However WEFO has indicated that this will be addressed through the activities in Priority 1 that focus on collaborations between HEIs and businesses.

Welsh strategies and policies

- 3.169. 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 4 and W:AVE should be explored and highlighted; and
- Spatial targeting should be explored in greater detail in the Programme.

With regard to this second recommendation, it is acknowledged that the Programme does refer to and assess different issues faced by different

geographical areas of EW. However, it is at Priority level where more specific targeting could take place.

Other Structural Fund Programmes

- DTZ has found a high degree of fit between the ERDF Competitiveness Programme and the ESF Competitiveness Programme. It was recommended that the skills development activities in ESF Competitiveness Priority 2 be more closely linked to the need for higher level entrepreneurial and technical skills to support the activities linked to R&D, innovation and ICT in ERDF Competitiveness Priorities 1 and 2. In this regard, WEFO acknowledged the potential for complementarity and referred to the mechanism by which a proportion of funding for ERDF interventions can be allocated for ESF-type activity, and vice-versa.

Community added value

- 3.170. 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 Analysis indicates that the Programme can add value to Community priorities, as well as providing financial added value, in terms of additionality and leverage effects.
- 3.171. 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.
- 3.172. 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 paper 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.

3.173. In terms of financial provision, it is clear that the Programme will leverage in significant match funding from the Welsh public sector. Every resource provided by Structural Funds is to be matched by 1.5 times this resource from Welsh public funds⁹. At present, the level of envisaged private sector match funding has not been detailed in the OP.

3.174. 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.

⁹ The exception being TA, which is matched on a on-for-one basis.

4. APPRAISAL OF PROPOSED IMPLEMENTATION SYSTEMS, MONITORING AND EVALUATION, AND INDICATORS/TARGETS

4.1. This chapter contains the appraisal of implementation arrangements made as part of the Ex Ante Evaluation for the ERDF Competitiveness Programme. It also includes an overview of the target setting process.

4.2. The Commission's Draft Working Paper on Ex Ante Evaluation 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.

4.3. Broadly in line with the headings noted above, the Implementation Chapter of the OP is organised according to the following headings:

- i. Designation of Authorities;
- ii. Partnership;
- iii. The Programme Monitoring Committee;
- iv. Implementation;
- v. Payment Bodies;
- vi. Eligibility of Expenditure;
- vii. Audit Arrangements;

- viii. Use of the Euro;
- ix. State Aids;
- x. Procedure for Financial Flows;
- xi. Programme and Project Information System (PPIMS);
- xii. Computerised Exchange of Data;
- xiii. Monitoring and Evaluation;
- xiv. Measures for Monitoring the Programme in relation to the Strategic Environmental Assessment; and
- xv. Publicity and Information.

4.4. 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.

4.5. It is concluded that the majority of recommendations made on earlier drafts of the Implementation Chapter have been accepted and addressed by WEFO, either in the OP itself or within arrangements to be made outside the OP, such as the Monitoring and Evaluation Plan. Several of the recommendations will be addressed through a revision to the section on Strategic Frameworks, which WEFO has committed to carrying out.

High level recommendations

4.6. 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 significant 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, it was previously recommended by DTZ that the rationale for introducing such changes as the new electronic Knowledge Management system (PPIMS) and the creation of Strategic Frameworks should be explored in more detail.

4.7. WEFO agreed with both these recommendations and subsequently included a new PPIMS section in the OP. The Strategic Framework section has been revised to illustrate the rationale – i.e. that previous Programme evaluations identified that the overall impact of the Programme can be enhanced through a more ‘joined-up’ approach to project activity and headline Programme objectives.

4.8. Setting up new systems is inherently more risky than continuing to use the previously tried and tested systems. The Implementation Chapter of the OP should explore risks involved 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. DTZ previously made the following recommendation with regard to risk:

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.

4.9. Although a risk assessment is not detailed, the OP does now outline that the Managing Authority will monitor, manage and mitigate the risks associated with the implementation of these new approaches.

4.10. More generally, there is a need to explore all implementation risks alongside potential mitigation approaches. In this regard it was previously recommended that a high-level risk register should be included in the Implementation Chapter of the OP. However WEFO declined to specifically implement this recommendation stating that the reference is made to risk management and mitigation in the revised section referring to Strategic Frameworks.

4.11. One further area where the ERDF Implementation Chapter could explore provisions further is with regard to Social Partners (SPs) and Social Partner Actions. This is detailed in the ESF Competitiveness Programme Implementation Chapter, but could also be relevant to ERDF. For example, some exploration of the involvement of voluntary groups in regeneration or business in interventions aimed at business support would have been helpful. WEFO has indicated that although engagement with SPs is covered throughout the text, details on how the ERDF Competitiveness Programme will interact with SPs will not be as specific as they are in the ESF Competitiveness Programme.

Designation of Authorities

4.12. The Implementation Chapter of the OP highlights that the different Authorities (Managing Authority and Certifying Authority) will be within WEFO but functionally separated, with different responsibilities and management arrangements. DTZ previously 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 (IAS) which is independent of WEFO) is compatible with the objectives of functional separation. DTZ also previously recommended that there should be an explanation of the underlying objectives and potential limitations of functional separation within WEFO.

4.13. The OP now notes the requirement for functional separation as contained in Article 58(b) and a link to WEFO organizational charts has been included.

- 4.14. 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. It was previously recommended by DTZ that the importance of IAS verifying the audit trail and ensuring compliant record keeping, including if necessary paper copies, should be highlighted. WEFO agreed to and actioned this recommendation.

Partnership

- 4.15. A target of 40% representation of women on the Programme Monitoring Committee (PMC) was mentioned in the Consultation Document and DTZ suggested that this should perhaps be a 'minimum of 40%'. WEFO has subsequently amended this text in line with DTZ's recommendation. DTZ previously 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 which should have some representation such as black and ethnic minorities? Is private sector representation desirable?
- 4.16. With regard to this recommendation, the OP now highlights how the PMC will be chaired and from which areas and particular bodies the majority of membership shall be constituted. Private, public and voluntary sector groups are to be represented, as are environmental and equal opportunity interests.
- 4.17. The PMC's role in setting project selection criteria is highlighted in the OP. DTZ previously recommended that detail should be given on how this fits with the role of the Strategic Frameworks. The OP now discusses the role of the PMC in working with the Managing Authority in implementing the OP through the Strategic Frameworks and will advise the Managing Authority in ensuring that the Strategic Frameworks operate in line with the objectives of the OP.
- 4.18. It was previously recommended by DTZ that an indication of what criteria will drive project selection would be useful. However WEFO has

stated that these criteria will be produced within six months of adoption of the Programme (outlined in the 'Duties of the Monitoring Committee' section).

Implementation

- 4.19. Earlier drafts of the OP suggested that fewer projects will result in 'deeper' interventions. DTZ recommended that a brief explanation of this concept would be helpful. WEFO has advised that this terminology has been removed from the revised Strategic Framework section, although the term is still used in the Strategy chapter of the OP.
- 4.20. A number of key documents are highlighted in this section of the OP but only the Wales Spatial Plan (WSP) 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. With regard to this recommendation WEFO have removed the section specifically relating to the WSP and instead discuss how it relates to implementation throughout the Implementation Chapter and the rest of the OP.
- 4.21. DTZ recommended that more detail on the implementation of Strategic Frameworks would be useful, especially in terms of setting out the role of individual projects, project sponsors, the Framework board and the Framework lead (i.e. who does what, when). In particular, it should be made clear how different functions (planning, co-ordination, evaluation, provision of audit/monitoring information, integration of Cross Cutting Themes) are allocated and which activities by whom can receive Technical Assistance.
- 4.22. The revised section on partnership and Strategic Frameworks now details more clearly the various stages of the OP – from preparation, to implementation, to monitoring and evaluation – and the role and duties of the PMC and various authorities in each of these elements of Programme management.

- 4.23. There was a reference in the Consultation Document to ‘very close links’ between Strategic Frameworks under Competitiveness and Convergence. It is not clear what this means in practice and it was previously recommended by DTZ that the relationship between the Strategic Frameworks under Competitiveness and Convergence should be specified. WEFO has indicated that they are currently seeking further information in order for this comment to be addressed.

Payment bodies

- 4.24. In the Consultation Document, information was given on the electronic claims system, Programme and Project Information Management System (PPIMS). It was previously recommended by DTZ that 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 data). WEFO accepted this recommendation and included a new section titled ‘Information Systems (PPIMS)’ in the OP.

- 4.25. Further, the OP text notes that WEFO will have the option of paying certain organisations in advance. Is this on request or does WEFO carry out any assessment of the organisation before it agrees to pay in advance?

Monitoring and evaluation

- 4.26. 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. It was previously recommended that more detail on the role of regular monitoring and evaluation in reporting progress to the wider stakeholders in Wales would be helpful. The OP now highlights that the PMC sub-committees will have responsibility for monitoring and advising the main PMC on the Programme. Further, an Evaluation Advisory Group (EAG) will be formed by the Managing Authority which will

advise and assist in designing the Monitoring and Evaluation Plan and ensuring that the findings of evaluation are disseminated widely.

4.27. WEFO has advised that work to collect and report on these details is currently underway.

4.28. Where the Ex Ante Evaluation is discussed, reference should be made to the independent and objective nature of the external evaluators (DTZ).

4.29. Further it was also recommended that an indication of what evaluation capacity building will take place would be useful as part of the section on 'Managing Monitoring and Evaluation'. WEFO has implemented this by including the detail on the EAG, as discussed above, and including further information in the Technical Assistance Priority.

4.30. WEFO has advised that they are waiting on more information in this regard.

4.31. With respect to the evaluation arrangements for Strategic Frameworks it is not clear whether projects within Strategic Frameworks also need to be evaluated separately (i.e. an evaluation of the Strategic Framework itself and each project sponsored within it through the project sponsors' evaluation responsibilities). With regard to this recommendation that the requirements for evaluation of individual projects and/or of the Strategic Frameworks within which they are situated should be clarified, WEFO has advised that this will be fully covered in the Monitoring and Evaluation Plan, to be produced after adoption of the OP.

4.32. Further, it is not clear whether the £2m threshold refers to individual projects or any project sponsor who, in total, receives more than £2m (over what period?).

Recommendation: It should be made clearer whether the £2m threshold refers to individual projects or any project sponsor who in total receives more than £2m, and over what period.

Publicity and information

- 4.33. 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. Regarding this recommendation, WEFO has added text to the OP explaining that the Communication Plan will demonstrate the potential added value of Structural Funds in Wales.

Target setting

- 4.34. This section describes the target setting exercise for the Programme. Initially it was envisaged that the monitoring data from the 2000-2006 Objective 2 Programme in Wales could be used as a basis for formulating benchmarks and targets for the 2007-2013 Convergence Programme, based on the costs of interventions and the funding available.
- 4.35. However it was concluded that, since it was not possible to map the Objective 2 Programme sufficiently closely to the ERDF Competitiveness Programme, another methodology for setting targets would be required. In addition, no benchmarking data was available on the average costs of interventions of the type envisaged for ERDF Competitiveness in Wales.
- 4.36. 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. This is currently being considered by WEFO.
- 4.37. The next steps therefore involve WEFO finalising the targets with advice from DTZ and through negotiations with the Commission.

Added value in the Implementation chapter

- 4.38. 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.
- 4.39. 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.
- 4.40. The lessons learned exercise 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.
- 4.41. 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.
- 4.42. 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.

Conclusions

- 4.43. The vast majority of recommendations relating to implementation arrangements have been actioned. A number of these have been agreed by WEFO at present and will be addressed through the revision of the Strategic Frameworks section of the OP or within other arrangements outwith the Programme, such as the Monitoring and Evaluation Plan.

5. STRATEGIC ENVIRONMENTAL ASSESSMENT

5.1. This chapter provides an overview of the Strategic Environmental Assessment (SEA) carried out with regard to the 2007 – 2013 ERDF Competitiveness Programme. Royal Haskoning carried out the SEA in association with DTZ and the full report can be found in Annex C. The SEA seeks to ensure that the Programme meets to 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 overview provided in this chapter is structured as follows:

- The SEA process;
- The Programme;
- Assessment of alternative options;
- The environmental impacts of the Programme;
- Proposed mitigation measures;
- Monitoring; and
- A summary assessment of the OP.

The SEA process

5.2. 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) guidelines¹⁰, and the Handbook on SEA for Cohesion Policy 2007 – 2013¹¹. The following summarises the process followed for the SEA.

¹⁰ "A Practical Guide to the Strategic Environmental Assessment Directive", ODPM, 2005.

¹¹ Handbook on SEA for Cohesion Policy 2007-2013, Greening Regional Development Programmes Network, 2006.

STAGE 1

5.3. The initial (Screening) stage of the SEA was carried out in parallel with the Programme's development. The following steps were taken:

- Identify plans, programmes and environmental protection objectives of relevance;
- Develop SEA objectives and indicators;
- Consult 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

5.4. The second (Scoping) stage involved consultation with statutory consultees (the Countryside Council for Wales, Environment Agency Wales, and Cadw). This entailed the production and review of a Scoping Report, which presented the findings of Stage 1 for comment. The Scoping Report was revised and then used as a basis for Stage 3.

STAGE 3

5.5. The third stage involved the production of the draft Environmental Report. The report included the following:

- An assessment of the effects of the Programme, and alternatives to the proposed Programme, on the environment;
- Proposals for mitigating any adverse environmental effects and assessment of measures already taken to mitigate adverse effects; and
- Proposals for monitoring the environmental effects of the Programme.

5.6. Following this, the draft Environmental Report was made available for public consultation.

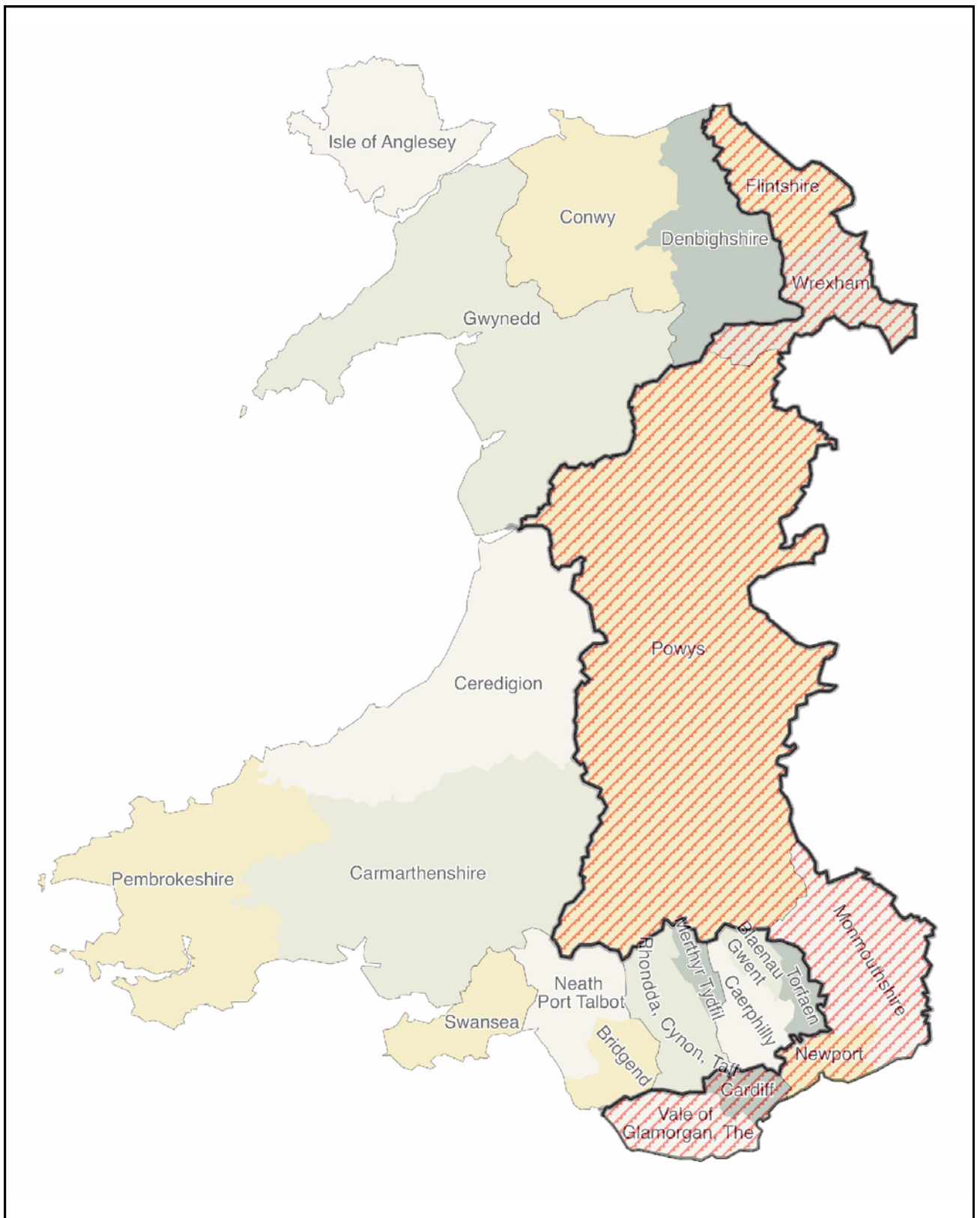
STAGE 4

- 5.7. The fourth stage involved integrating the concerns, issues and impacts raised in the public consultation phase 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.

How does the SEA link into the development of the Programme?

- 5.8. The SEA was carried out in conjunction with the development of the Programme. It has identified possible environmental impacts, and possible measures to avoid or mitigate those impacts. The report has been presented to the Programme authors for consideration in preparing the finalised OP.

Figure 5.1 The area eligible for Programme funding



The Programme

- 5.9. Table A3 in Annex D presents a summary of the Programme Priorities, as re-assessed following revision of the draft Programme following public consultation. Sections 5.20 – 5.21 summarise the changes to the Programme following public consultation and the consequent changes to the assessment of likely environmental benefits and impacts.

Assessment of alternative options

- 5.10. The SEA Directive requires the environmental report to identify the likely significant effects on the environment of implementing the Programme, as well as the likely significant environmental effects of reasonable alternatives. The alternative options that were examined in the revised assessment of alternative options were determined by varying the funding allocations of particular parts of the Programme, as well as looking at the ‘business as usual’ case to ascertain the potential environmental impacts without the Programme funding (i.e. the Do Nothing Scenario). The following alternatives were examined and results presented within the draft Environmental Report:

- The Proposed Option – with funding split by Priority in the following manner: Priority 1 = 41.3%, Priority 2 = 30.9%, Priority 3 = 15.5%, Priority 4 = 10.3%, and the remainder allocated as Technical Assistance;
- Option 1 - with funding split by Priority in the following manner: Priority 1 = 43.0%, Priority 2 = 32.3%, Priority 3 = 12.0%, Priority 4 = 10.8%, and the remainder allocated as Technical Assistance; and
- Option 2 - with funding split by Priority in the following manner: Priority 1 = 40.0%, Priority 2 = 30.0%, Priority 3 = 18.0%, Priority 4 = 10.0%, and the remainder allocated as Technical Assistance.

- 5.11. The alternative options were produced by varying the funding to the part of the Programme particularly relevant to environmental improvement activities (Priority 3). In Option 1 the funding allocation of the Priority was set

at 12%, the lower limit of the range suggested in the main Programme Consultation Document, with a corresponding increase across the rest of the Programme proportionate to the value of each Priority under the Proposed Option. In Option 2, the funding allocation of the Priority was set at 18%, the upper limit of the range suggested in the main Programme Consultation Document, with a corresponding increase across the rest of the Programme.

5.12. The Do Nothing scenario could not be compared quantitatively against the alternative funding options identified, due to significant differences in Priorities. However, they were compared qualitatively against the Proposed Option.

5.13. 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 quantify the environmental impacts of the Do Nothing option, mainly due to increasing pressure for sustainable development and reduced carbon economy, and new and current European Directives. Without the Programme funding, the goals of reducing resource and energy consumption, increasing use of sustainable transport, and many other current goals would be harder to achieve and would take longer to achieve.

5.14. Overall, the results indicate that the Proposed Option provides a level of funding for particular Priorities that does appear to provide slightly greater overall benefits and reduced impacts than the other two options. In particular, the Proposed Option provides a greater degree of funding for Priority 3 activities than Option 1. These activities are more likely to be projects that are focused on specific sites and locations that provide greater opportunity for biodiversity improvements, which would arise on implementation but would not continue to increase in scale of benefit in the medium to long term. In comparison to Option 2, the Proposed Option provides greater regional-level and efficiency/conservation improvements. Furthermore, the Proposed Option contains a lesser amount of funding for Priority 2 activities than Option 1, which have a greater likelihood of resulting in potential minor adverse

environmental impacts, but provides good opportunities for environmental benefits through Priority 3 and 4, as well as additional (and larger in scale) funding for sustainable transport initiatives in Priority 1 than Option 2, but less than Option 1. Therefore, as the Proposed Option is predicted as providing a balanced range of benefits both regionally and at a more local level, it was recommended that the Proposed Option be selected.

The environmental impacts of the Programme

5.15. The dominant adverse environmental impacts are seen to arise from the key economic driver of increased development and the associated use of primary materials, primary fuels and energy, and the subsequent emissions to land, air and water as a result. However the focus is on efficiency for existing businesses, and incorporating those efficiencies in new businesses. Any negative environmental effects arising from economic growth would be considerably offset by the promotion of resource efficiency and conservation to improve the competitiveness of enterprises in this region. Thus many beneficial environmental impacts relating to reduction of resource use (water, fuel, energy, and materials) as well as the refurbishment and reuse of existing assets are expected. This is expected to result in the management of, and decreases in, the total amount of greenhouse gases emitted into the environment. See Annex C of the present report for further detail.

5.16. Table A4 in Annex D to the present report gives a summary of the potential impacts for each Priority of the draft Programme as assessed against the SEA's sustainability objectives.

Cumulative impacts

5.17. The following cumulative environmental impacts were predicted to occur as a result of the draft Programme:

1. Biodiversity: a cumulative benefit is predicted from improvements in water quality, reduction of discharges, reductions in water abstractions, and many other activities that contribute to resource efficiency and conservation. Effects

would occur across the region due to the nature of the reductions, but also catchment-specific benefits would occur where water resource in rivers is an existing issue;

2. Air quality: a cumulative environmental benefit is expected on emissions to air and air quality arising from the efficiency and conservation measures targeted within three of the Priorities, and from the various indirect effects that would further influence reductions in emissions to air. The regional spread of these long-term benefits could potentially result in a significant environmental benefit; and
3. Climate change: in terms of reducing the contribution to climate change, the environmental benefits resulting from reductions in air emissions and the overall focus on efficiency and conservation are anticipated to result in regionally experienced benefits in terms of reduced greenhouse gas emissions.

Proposed mitigation measures

- 5.18. The extent and scale of potential adverse environmental impacts resulting from the Programme are limited. On the whole, their low probability also means that there is difficulty in identifying specific measures to avoid or reduce the potential environmental impacts. However, the following mitigation and avoidance measures were identified and recommended for inclusion in the selection of activities to be funded by the Programme:

1. Influence where possible export sectors to achieving supply and transport efficiencies (link with Priority 2) to minimise transport volume increases, and increase use of sustainable freight transport methods;
2. Raise awareness of initiatives to minimise energy use in ICT, as well as the incorporation of energy and resource efficiency measures in all areas;
3. Fund ICT recycling and re-use initiatives;
4. Include measures in tourist site / scheme developments to improve links with public transport hubs; and

5. Use best practice construction waste reduction measures on site developments.

5.19. The following measures are recommended to enhance the environmental benefits arising from the Programme:

1. Provide clear opportunity for funding activities to target biodiversity (habitats and species) enhancement;
2. Encourage the location of appropriate activities so as to be accessible by public transport; and
3. Projects should utilise the climate change adaptation tool on <http://www.ukcip.org.uk/resources/tools/adapt.asp>.

Monitoring

5.20. 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 that are currently monitored by statutory authorities and the Welsh Assembly Government. Further detail is given in the full Environmental Report.

Programme revision

5.21. Following public consultation on the draft Environmental Report, the Environmental Report was updated to take account of the comments regarding the Programme itself and the SEA Environmental Report.

5.22. The Priorities and indicative activities in the final Programme have not been significantly reorganised, though some key improvements have been made. The key areas of change are the indicative activities in Priorities 1, 2, 3 and 4, namely:

- Priority 1 – the addition of activities that develop innovative community or public transport schemes;

- Priority 2 - the addition of “Environmental Management Systems (EMS)” as a recommendation for best practice in funding activities;
- Priority 3 – the removal of activities encouraging waste and resource management facilities, and investing in waste management;
- Priority 3 - the inclusion of “cultural” reasons for the sustainable development of the environment and natural resources;
- Priority 3 – the addition of activities that develop clean urban transport and sustainable transport that will encourage tourism;
- Priority 4 – the inclusion of improving the physical environment, habitats and biodiversity as an area of possible funded activities; and
- Priority 4 – the addition of activities that develop sustainable transport schemes which link communities to employment centres.

5.23. Table A4 in Annex D presents a summary of the potential environmental impacts for each Priority of the final Programme as assessed against the SEA’s sustainability objectives.

5.24. The mitigation measures recommended in the draft Environmental Report and following public consultation have been considered by WEFO in producing the Operational Programme and specifically within its implementation section. The Programme would stimulate economic growth and its associated environmental impacts, but the extent of these impacts would be significantly less, or even reduced in localised areas, compared to economic growth without the Programme (i.e. the Do Nothing scenario). Furthermore, appropriate evaluation of projects to be funded against the Programme’s sustainability objectives and against site suitability criteria would ensure that overall long-term social and environmental benefits and minimal adverse impacts will occur.

6. ASSESSMENT OF CHANGES MADE IN RESPONSE TO RECOMMENDATIONS

6.1. This chapter provides a discussion of the extent to which recommendations made by DTZ for each element of the Programme have been implemented. The structure of this chapter follows that of the Programme and of the rest of this report, covering:

- Recommendations relating to the Analysis;
- Recommendations relating to rationale of the strategy and internal/external consistency; and
- Recommendations relating to implementation arrangements, including monitoring and evaluation.

6.2. It is concluded that the vast majority of recommendations have been implemented, and the OP is a more robust and strategic document as a result. This chapter does not detail every recommendation that was implemented. Rather, it provides an overview of the key areas where recommendations were made. Full details of the recommendations made and WEFO's response can be found in Annex D.

Recommendations relating to the Analysis

6.3. The main purpose of appraising the Analysis is to ensure that the data and the way in which it is used is appropriate and that valid conclusions are drawn from the data, as the Analysis and the conclusions reached form a basis for deciding upon the Programme strategy and Priorities. The Analysis chapter of the OP is very well written and constructed, with the structure and content closely following the priorities of the Lisbon agenda.

6.4. All of the recommendations made which related to making more use of data have been addressed by WEFO. While some have not been implemented due to problems encountered with the data, the Analysis has been strengthened in a number of key areas. For example, some analysis has been included which further demonstrates the role of East Wales (EW) as

an economic hub for the West Wales and the Valleys (VWV). Given that the Competitiveness Programme has a focus on identifying and exploiting areas of opportunity in order to build competitive advantage in the region, this was an important addition to the Analysis.

6.5. The analysis of young people not in education, employment or training (NEET) was strengthened, as was the analysis underpinning Priority 1: Improving Knowledge and Innovation for Growth, where all DTZ's recommendations in this area were addressed. It was identified that the environmental goods and services (EGS) sector in Wales is a key target sector of Priority 1 (and 2), and thus required some analysis as a basis for the importance placed on this sector in the strategy.

6.6. The one area where WEFO declined to accept and implement a recommendation was with regard to including forecast information. In this instance it was felt by WEFO that the data was not reliable enough to include. As mentioned above, other cases where recommendations were not implemented are where the data was found to not be directly comparable with other areas or had omissions that made it unusable for the purpose of the Analysis.

Recommendations relating to the appraisal of the strategy

Rationale

6.7. The appraisal of the rationale of the strategy had a number of key objectives to address. It was necessary to assess the rationale of the Programme in terms of its objectives and Priorities; the underlying theory and validity of that theory; the financial allocations; the case for and against public intervention; and the 'trade-offs' inherent in the proposed strategy. Therefore recommendations were made with a view to strengthening the Programme in respect of these key areas. The OP itself recognises that, especially given the size of the Programme, interventions must be strategic and focused. Therefore it is fundamental that the strategy is in line with the findings of the Analysis and that those activities that are identified as targets for intervention

are those that are evidenced clearly in the Analysis as areas of key need or opportunity. Similarly, it is important that the strategy makes clear the links between analysis, policy and Priorities and the rationale behind allocating funds in the selected proportions.

- 6.8. In respect of the numerous recommendations that were made in this regard, WEFO has made the links to policies (such as the NSRF and the Lisbon strategy) much clearer. However some scope remains to make more explicit reference in the strategy to the specific findings of the Analysis, which was carried out in order to underpin the strategy. Recommendations were also made in relation to providing greater evidence in the Analysis of certain areas of intervention such as the supply of business finance and the environmental goods and services (EGS) sector in Wales.
- 6.9. Business finance is discussed in the Analysis with reference to potential market failures as a basis for intervention. WEFO has also provided an overview of the EGS sector in Wales, identifying the size of the sector in terms of firms and employees, the types of activities firms are involved in, and the rapid growth of the sector in recent years. The Analysis now provides a basis for the focus on this sector in the Programme strategy.
- 6.10. It was suggested that if support was to be provided for interventions aimed at managing demand for energy then more detail should be included in the Analysis. In light of this recommendation, WEFO has produced a detailed 'Environmental Sustainability' matrix, which outlines how projects might be managed to promote efficient energy use.
- 6.11. It was recommended that WEFO should consider moving those issues in Priority 2 that can be evidenced (such as moving businesses up the value chain or improving the industrial composition of Wales) to Priority 1. However, WEFO was of the opinion that the actions for Priority 1 and 2 are complementary and that Priority 2 can cater for growth in areas not necessarily covered in R&D but still important to the EW economy.

- 6.12. In conclusion, as regards the rationale, the majority of recommendations have been implemented and the OP is a more robust and strategic document as a result.

Internal Consistency

- 6.13. The Programme was found to have a high degree of internal consistency, and as a result very few recommendations were needed in this area. It was however recommended that the conflict between the environmental objectives of Priority 3 and the activities supported in the other three Priorities (aimed at increasing growth, which in turn increases demand for energy and potentially increases transportation use) should be addressed within the Programme.

- 6.14. In response to this WEFO produced the Environmental Sustainability matrix, which can be found as an annex to the OP. This analyses each Priority against a number of environmental issues (i.e. reducing greenhouse gases and promoting sustainable transport) and identifies key areas of potential conflict. The matrix makes suggestions as to how projects will be managed and encouraged to adopt practices that mitigate or limit negative environmental impacts. For example under Priority 2 it is acknowledged that business growth is likely to cause an increase in greenhouse gas emissions. It is therefore suggested in the matrix that projects will be encouraged to adopt environmental management systems and will be supported in adopting clean environmental technology.

External consistency – EU policies and strategies

- 6.15. It was concluded that the Programme is for the most part consistent with EU policies and strategies. The Programme is closely aligned with the Community Strategic Guidelines and the Lisbon priorities. Several suggestions were made by DTZ previously in order to ensure that the Programme is fully consistent with EU policies and a number of these were implemented. For example it was suggested that the Programme could be more explicit about embedding Equal Opportunities and also could focus on promoting biodiversity rather than just safeguarding it. These

recommendations were both implemented by WEFO, which strengthens the cross-cutting aspects of the Programme. Similarly it was recommended that more detail should be included on how sustainable development will be integrated in the day-to-day implementation of the Programme. This recommendation is addressed through the Environmental Sustainability matrix discussed above.

- 6.16. WEFO has, in line with the relatively small size of the Programme in terms of funding, suggested that the OP focus on justifying the specified interventions rather than discussing the interventions *not* included in the Programme. The strategy chapter has been greatly strengthened by the inclusion of a table that maps the key strategic challenges to the Programme interventions. However DTZ has recommended that the rationale for excluding themes set out in the Competitiveness regulation should be set out in the Programme.

Consistency with UK policies and strategies

- 6.17. Again, a high level of consistency with UK strategies and policies was found and as a result few recommendations remained outstanding by the time the OP was produced. One recommendation outstanding is that supporting clusters and creating enterprise opportunities in the education system should be considered, and the rationale for included or excluding these activities should be set out. WEFO has responded that the reference to HEIs in Priority 1 addresses these points.

Consistency with Wales strategies and policies

- 6.18. DTZ found a high degree of consistency between the Programme and other strategies and policies for Wales. As a result few recommendations were required on this issue. One key area where a recommendation was made was with regard to spatial targeting. The OP provides good details regarding the geographical characteristics of each region of EW and the various advantages and disadvantages of each. Both the Analysis and strategy are strong in this regard. However, there still remains scope, given size of the Programme and Commission guidelines, that funds be targeted

geographically as well as thematically (as acknowledged in the Financial Provisions section of the OP). More detail could be given in the OP on how funds might be most strategically targeted in order to maximize the potential benefits and added value.

Consistency with other Structural Funds (SF) Programmes

- 6.19. In general, DTZ found a good level of fit between the ERDF Competitiveness Programme and other SF Programmes in Wales (such as the ESF Competitiveness Programme and the ERDF Convergence Programme) and it was not necessary to make many recommendations in this regard. It was recommended that a closer linkage between the skills development of ESF Competitiveness Priority 2 and the need for higher level, entrepreneurial and technical skills to achieve the aims of ERDF Competitiveness Priorities 1 and 2 should be considered. WEFO implemented this by adding details to all of the ERDF Competitiveness Priorities, highlighting specific areas for potential complementarity and making clear how Article 34(2) (of Regulation (EC) 1083/2006 of 11 July 2006), might be invoked to utilize ERDF funding in conjunction with ESF.

Recommendations relating to implementation arrangements

- 6.20. As noted in Chapter 4 of this report the majority of recommendations relating to the implementation arrangements have been accepted and actioned by WEFO. Examples include the introduction of a section in the OP discussing the new Knowledge Management system (PPIMS) and the inclusion of additional text highlighting how the Communication Plan will demonstrate the potential added value of Structural Funds in Wales.
- 6.21. Several recommendations have been agreed to by WEFO but will be implemented outwith the OP. For example DTZ previously recommended that more detail on what criteria will drive project selection would be useful. WEFO advise that this will be provided as part of the eligibility criteria produced within six months of adoption of the OP.

6.22. As regards Strategic Frameworks (SFs), WEFO revised the OP to explore in more detail the rationale behind the introduction of SFs, as recommended by DTZ. Several other recommendations were addressed through the revision of this section including;

- The interaction of the PMC with the Strategic Frameworks should be explored, for example in relation to project selection criteria; and
- The role of the Wales spatial plan in implementation needs to be refined and explained in more detail.

6.23. It should be noted that as regards risk management DTZ previously recommended that a high-level risk register be included in the Implementation chapter. WEFO declined to include this, advising that the revised Strategic Framework section includes a reference to risk management and mitigation by the Managing Authority.

6.24. DTZ previously made a number of recommendations relating specifically to monitoring and evaluation. Whilst WEFO has agreed with these, at this time work is still underway to gather the appropriate information and implement the following recommendations:

- More detail on how evaluation capacity will be built up in this funding period would be helpful; and
- The requirements for evaluation of individual projects and/or of the Strategic Frameworks within which they are situated should be clarified.

6.25. Aside from the risk register discussed above, the only other recommendation related to implementation that WEFO declined to action was DTZ's suggestion that the OP could perhaps explore in more detail how the Programme will interact with Social Partners (such as voluntary groups and businesses). However WEFO responded that engagement with Social Partners is referenced throughout the text of the Implementation chapter and the rest of the OP, and that details of interactions with Social Partners will not be as specific as those given in the ESF Competitiveness OP.

Conclusions

- 6.26. Overall the extent to which WEFO has implemented recommendations has been noteworthy and the OP is a more robust document as a result. Annex D provides the full details of the recommendations made and how WEFO responded to each.

7. CONCLUSIONS AND RECOMMENDATIONS

7.1. This chapter provides a summary of the Ex Ante Evaluation and draws together the main conclusions from each element of the appraisal. This chapter also assesses the extent to which the evaluation has achieved its objectives, as set out by European regulations and the study brief provided by WEFO.

7.2. The evaluation has a number of tasks to address, namely to produce:

- An appraisal of the Analysis of the East Wales (EW) area;
- An appraisal of the extent to which the rationale of the Programme and its strategy are targeted at the areas of both need and opportunity in the EW area;
- An appraisal of the extent to which the Priorities of the Programme are internally consistent and free from any gaps or duplication;
- An evaluation of the extent to which the Programme is consistent with other Welsh, UK and EU strategies and policies and other Wales Structural Funds Programmes;
- An appraisal of the implementation arrangements for the Programme, including the arrangements for monitoring and evaluation of the Programme and the indicators and targets set for each Priority;
- An appraisal of the extent to which recommendations made by DTZ were implemented by WEFO, and how this affected the development of the OP; and
- A discussion of how the Programme seeks to maximise Community added value and incorporates the lessons learned from evaluations of previous Programmes.

7.3. The remainder of this chapter provides an overview of the main findings against each of the six key areas of evaluation listed above.

Appraisal of the Analysis

- 7.4. The evaluation is required to assess the strength of the Analysis as a basis for formulating Programme Priorities. It is essential that the data used is reliable and that data is used in a valid way so that the conclusions drawn from the data correctly identify potential areas for Programme intervention.
- 7.5. It is concluded that the Analysis section of the OP is a very well-written and structured document. The structure appropriately follows the priorities of the Lisbon agenda. The majority of recommendations made by DTZ with regard to making the Analysis a more comprehensive and valid basis for helping to decide Programme Priorities have been implemented by WEFO.
- 7.6. On occasions where recommendations have not been implemented it is with regard to WEFO's query of the reliability of data (particularly with regard to forecast information) or of comparability of wider UK and EU(25) data with Welsh sources. Given the focus of Competitiveness funding on exploiting areas of opportunity to enhance competitive advantage, the Analysis appropriately highlights the importance of EW as an economic hub for the rest of Wales, but also identifies areas of weakness within the region.
- 7.7. The version of the Analysis in the OP has an additional section on the environment which is a welcome addition given the sustainable development objectives of the Programme, and the targeting of the EGS sector in Priorities 1 and 2.
- 7.8. Overall it is concluded that the Analysis makes good use of credible sources of data, the evidence presented points to the conclusions drawn and the links between evidence and conclusions are well-explained. The vast majority of recommendations have been implemented and the Analysis thus forms a robust foundation for the strategy of the Programme.

Appraisal of the strategy – rationale and internal/external consistency

- 7.9. In order to appraise the strategy fully DTZ assessed the strategy in terms of three key areas – its rationale, internal consistency and external consistency.
- 7.10. To appraise the rationale, the strategy was assessed according to the how far it is appropriate in terms of the findings of the Analysis and the needs/opportunities identified. In this respect a number of recommendations were made in order to ensure that the interventions were well evidenced, and that the link between the Analysis and the strategy was clear. Many of the recommendations were implemented which makes the overall Programme a more coherent and valid document. WEFO provided additional detail in the Analysis to justify certain interventions (for example support of the EGS sector) and considered suggestions made by DTZ regarding the structure and content of Priorities.
- 7.11. Regarding the internal consistency of the Programme, DTZ found a satisfactorily high level of consistency with very little in the way of overlap or conflict between Priorities. However, there is one area of potential conflict that arises from the impact that activities under Priorities 1, 2 and 4 might have upon the environment, which may contradict the objectives of Priority 3. Following DTZ's recommendation that this conflict should be explored in the Programme WEFO has devised an 'Environmental Sustainability' matrix which is annexed to the OP. This highlights areas where Priorities may conflict and identifies ways in which projects can be managed or encouraged to mitigate against potential negative impacts.
- 7.12. The Programme was assessed against a number of Welsh, UK and European strategies and policies as well as other Structural Funds Programmes in Wales. For the most part, the Programme is consistent with the policies and strategies at a European level and fits well with the Community Strategic Guidelines and the Lisbon priorities. A number of recommendations made by DTZ have been implemented. These relate to

more fully embedding Equal Opportunities in the Programme, including more detail on encouraging biodiversity rather than just safeguarding it, highlighting the role of sustainable development in Priority 1 and Priority 4, and including more detail on how sustainable development can be integrated in the day-to-day implementation of the Programme.

7.13. DTZ also recommended that the rationale for excluding Themes mentioned in the Commission's Competitiveness Regulations be detailed. WEFO has advised that this point will be addressed through the inclusion of an additional table covering the requirements of Article 37(3). The only recommendation that remains outstanding is that support for Innovation Poles could be made an explicit part of the Programme to make it more consistent with the Lisbon agenda.

7.14. The Programme strategy is largely consistent with UK policy and strategies. The key relevant UK policy framework is that provided by the National Strategic Reference Framework (NSRF), and the Programme has been assessed against the overarching objectives and provisions of this framework. Each Priority of the Programme is found to contain a number of activities relevant to NSRF themes.

7.15. DTZ has found a high degree of fit between the Programme strategy and Welsh policy and strategy. However, one area where WEFO has implemented a recommendation but there remains scope for further detail is with regard to spatial targeting. DTZ note that the Analysis and strategy identify the individual characteristics of various regions within EW. However further details could be provided on how funding could be more strategically targeted, especially given the size of the Programme and the requirement of the CSG that funding be targeted geographically as well as thematically.

7.16. DTZ has found a high degree of fit between the ERDF Competitiveness Programme strategy and the ESF Competitiveness Programme. DTZ recommended that one area where more clarity could be achieved was with regard to supporting ERDF Competitiveness Priorities 1 and 2 further through

consideration of linking skills development in ESF Competitiveness Priority 2 with the need for higher level, entrepreneurial and technical skills. WEFO implemented this by including detail on the ESF 'Flexible Facility' in the ERDF Competitiveness Priorities section.

- 7.17. The OP appropriately identifies that while the Programme should complement other Structural Funds (SF) programmes, duplication should be avoided.

Implementation

- 7.18. As regards the implementation arrangements the vast majority of DTZ's recommendations have been addressed in the latest OP. For example WEFO has introduced a new Knowledge Management system (PPIMS) and implemented the recommendation that further detail on this be included in the OP. Other recommendations will be implemented through documentation and guidance to be produced by WEFO following the adoption of the Programme. For example DTZ have advised that more detail on what criteria will drive project selection would be useful. WEFO state that this will be produced as part of the eligibility criteria, produced within six months of adoption of the OP.
- 7.19. WEFO is currently revising the section on Strategic Frameworks and DTZ is advised that this will address recommendations made in relation to explaining the underlying rationale for the Frameworks, as well as other issues relating to their monitoring and evaluation, the interaction of the PMC with the Strategic Frameworks and the role of the Wales Spatial Plan in implementation.
- 7.20. With regard to risk management DTZ previously recommended that a high-level risk register should be included in the Implementation Chapter of the OP. However WEFO declined to implement this recommendation, stating that reference will be made to risk management and mitigation in the revised Strategic Framework section.

7.21. The only other recommendation related to implementation that WEFO declined to action was DTZ's suggestion that the OP could perhaps explore in more detail how the ERDF Competitiveness Programme will interact with Social Partners (such as voluntary groups and businesses). However WEFO responded that engagement with Social Partners is referenced throughout the text of the Implementation Chapter and the rest of the OP, and that provisions will not be as specific as those outlined in the ESF Competitiveness OP.

7.22. As part of the monitoring and evaluation of the Programme, a set of indicators has been drawn up for each Priority. These are detailed within the Priorities chapter of the OP. DTZ is currently in the process of working with WEFO to finalise a methodology for the target setting exercise and to set targets against the relevant indicators. It is anticipated that these targets will be provisionally based on achievement under the 2000 – 2006 East Wales Objective 2 / T ERDF Programme through a mapping exercise to align previous programme activities and indicators with Priorities and indicators of the ERDF Competitiveness Programme.

7.23. It is anticipated that these provisional targets and any gaps in the mapping exercise will be supplemented/amended through the use of additional benchmarking data (i.e. from National Statistics, other Wales programmes and other national Structural Funds programmes), and from discussions with policy staff and programme management staff within WEFO.

Minor editing points

7.24. Throughout the OP there are typing and editing errors. In most cases, these cannot be misinterpreted and do not change the meaning of the OP. The following provides examples of editorial errors.

- There are a number of spelling and grammatical errors, for example in the third bullet in section 2.2; section 2.90; section 3.27; and section 7.3.
- 2.14 “GVA per head in East Wales is approximately £250 higher than across the UK as a whole” but in 2.20 there is the contradictory statement “However

compared to the UK as a whole, East Wales has lower GVA per head, with lower value-added per job explaining the majority of this gap.”

- 2.78 – mentions that spin-off companies down from 2001-02 level but this level is not made clear. Should it be the 2001-02 level of 22?
- 4.65 – the sentence “Spatially targeted regeneration initiatives to improve (promote or support be better?) the physical improvement of deprived urban and....”

7.25. DTZ have only provided examples and therefore advise that WEFO ensure that the OP is carefully proof read prior to final submission.

Added value and lessons learned

7.26. 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.

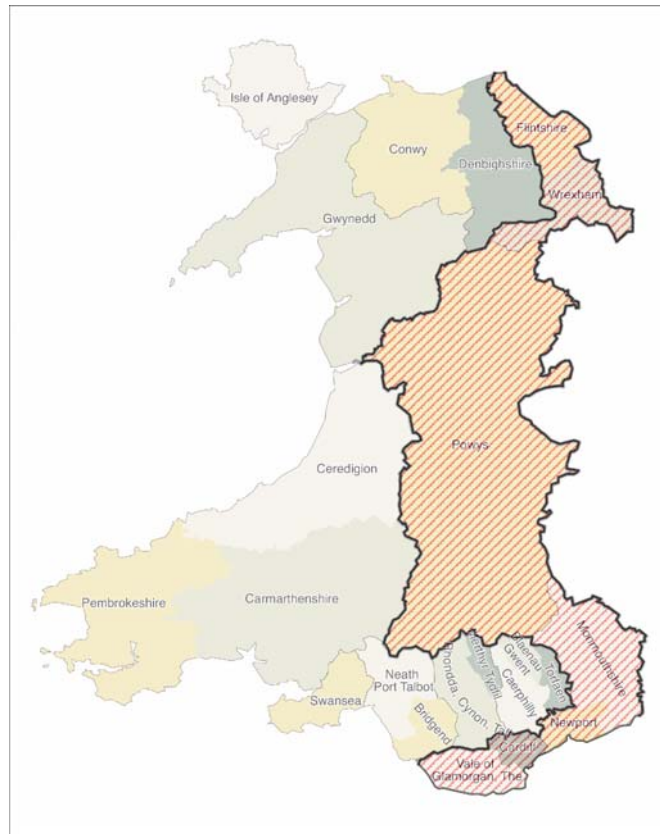
7.27. The integration of the lessons learned from previous programmes is discussed throughout the OP. Those drafting the Programme interacted with the recommendations and conclusions arising from the Lessons Learned exercise at an early stage and as a consequence the Programme embodies, as far as possible 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 throughout, aiming to maximise Community added value with the new Programme.

Overall conclusion

- 7.28. Overall, it is concluded that the majority of recommendations have been implemented and the OP is a more robust and strategic document as a result. The recommendations which remain outstanding have been detailed throughout this evaluation, however very few substantial comments remain unaddressed. The OP document should therefore serve as a solid foundation to take forward the objectives and the vision for East Wales.

Annex F – Non-technical Summary of the SEA



East Wales ERDF Regional Competitiveness and Employment Programme

Strategic Environmental Assessment (SEA)

Non-Technical Summary

DTZ / Royal Haskoning on behalf of the
Welsh European Funding Office

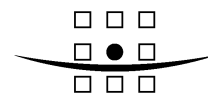
March 2007
Final Report
9R9459

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	East Wales ERDF Regional Competitiveness and Employment Programme Strategic Environmental Assessment (SEA) Non-Technical Summary
Document short title	ERDF Competitiveness 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/CompP.NTS.v6.1/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

EAST WALES ERDF REGIONAL COMPETITIVENESS AND EMPLOYMENT 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 East Wales Regional Competitiveness and Employment 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 was carried out in parallel with the Programme’s development. This stage was comprised of the following steps:

- Identify plans, programmes and environmental protection objectives of relevance;
- Develop SEA objectives and indicators;
- Consult 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, Environment Agency Wales, and Cadw). This entailed the production and review of a Scoping Report which presented the findings of Stage 1 for comment. The Scoping Report was revised and then used as a basis for Stage 3.

¹ “A Practical Guide to the Strategic Environmental Assessment Directive”, ODPM, 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, which included the following:

- an assessment of the effects of the Programme, and alternatives to the proposed 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 phase 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.

3 THE PROGRAMME

- 3.1.1 Table 1 presents a summary of the Priorities in the final Programme, which were re-assessed following revision of the draft Programme following public consultation. Section 8 summarises the changes to the Programme and the consequent changes to the assessment of likely environmental benefits and impacts.
- 3.1.2 The main difference between the draft Programme and the final Programme is that the Priorities of the final Programme were re-worded, and additional activities added which provide the opportunity to fund sustainable transport schemes and which increase the opportunity for funding physical environment and biodiversity related interventions.

Figure 1 The area eligible for Programme funding

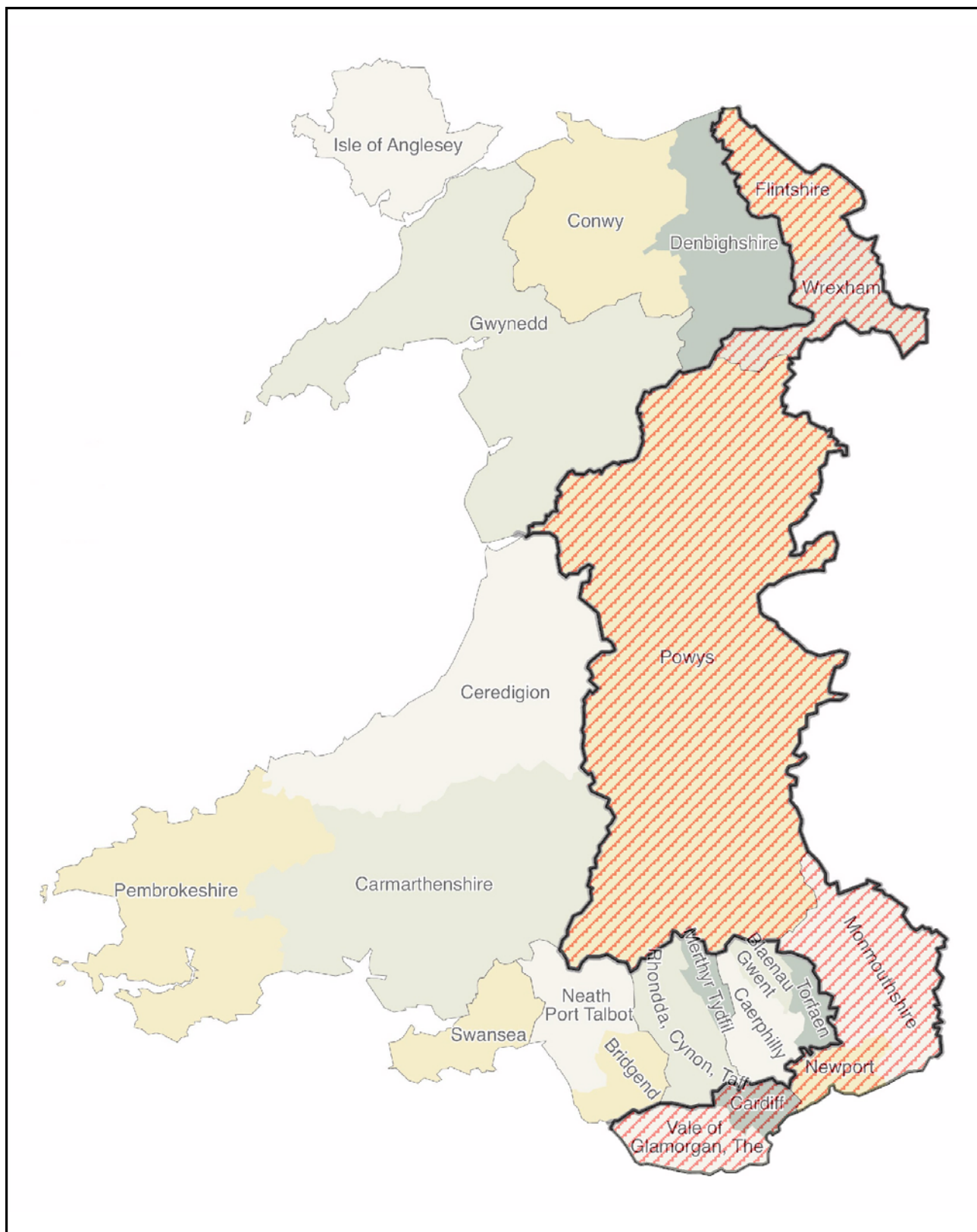


Table 1 Summary of the final Programme Priorities

Programme reference	Priority	Indicative activity
Priority 1	Knowledge and innovation for growth	<ul style="list-style-type: none"> • initiatives to support firms to develop new and improved products, processes and services, and access new markets; • management training and exposure to new ideas at all levels in firms; • collaborative research initiatives between HE institutions and businesses (in line with the Welsh Assembly Government's strategies and in new and emerging areas promising strong economic impact where Wales can excel) and tackling cultural barriers to fuller partnership working between business and the academic community; • where there is a clear case for it and in line with the Lisbon agenda and Welsh Assembly Government strategies, strengthening the research and development capability, capacity and quality of HE (and FE) institutions, in strategically important areas, which may, exceptionally, include promoting their ability to access key funds from, for example, UK Research Councils and FP7; • building the research capacity of businesses and other organisations to help them gain access to the resources of HE and FE institutions in Wales and beyond; building an effective, active protection, management and commercialisation system for the region's intellectual property and research output; • stimulating the adoption, exploitation and embedding of innovative e-business by SMEs; • stimulating the innovative use of advanced and integrated ICT solutions; and • developing innovative community or public transport schemes, for example, demand responsive transport.

Programme reference	Priority	Indicative activity
Priority 2	Business competitiveness and growth	<ul style="list-style-type: none"> • building on existing experience of the Entrepreneurship Action Plan and other Assembly Government initiatives, but extending targeted support to drive change and raise awareness among existing businesses of key issues and best practice including that in relation to environmental management systems; • focusing on consistency and improvements in the delivery and the availability of general pre- and post-start support provision (which may include issues relating to both diagnostics and implementation); • supporting new and existing businesses facing additional barriers and assisting them to overcome hurdles that may be limiting growth; • extending the use of automated support and facilitating the development of the private sector delivery market such as mechanisms to allow SMEs, including Social Enterprises to purchase intelligently from the open market, coupled with support to develop the market itself; • addressing development and succession planning issues; supply chain development activity and the identification of supply voids; • identifying natural clusters and new supply chain opportunities and providing support to facilitate growth and development and networking; • establishing public and private loan, equity and commercial investment products across a range of business segments; and • supporting businesses seeking to trade overseas.
Priority 3	Environment for growth	<ul style="list-style-type: none"> • encourage businesses to make more effective and efficient use of resources and to minimise the amount of waste produced; • investments in increasing resource efficiency and management; • sustainable use of the environment and natural resources for cultural, recreation and tourism that also have significant economic benefits for rural regeneration; and • encouraging clean urban transport and sustainable transport that will encourage tourism.

Programme reference	Priority	Indicative activity
Priority 4	Integrated regeneration for growth	<ul style="list-style-type: none"> • refurbishment and / or demolition and environmental improvements of derelict buildings for economic including by Small and Social Enterprises, with the possibility for associated limited site decontamination and reclamation; • small-scale town centre renewal and the rehabilitation of public spaces to make them safe and accessible; • improving the physical environment and improving habitats and facilitating biodiversity; and • sustainable transport schemes which link communities to employment centres.

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 assessment of alternative options were determined by varying the funding of particular Priorities, as well as looking at the 'business as usual' case to ascertain the potential impacts in the absence of Programme funding (i.e. the Do Nothing scenario). The following alternatives were examined and the results of the assessment presented within the Environmental Report:

- The Proposed Option – with funding split by Priority in the following manner: Priority 1 = 41.3%, Priority 2 = 30.9%, Priority 3 = 15.5%, Priority 4 = 10.3%, and the remainder allocated as Technical Assistance;
- Option 1 - with funding split by Priority in the following manner: Priority 1 = 43.0%, Priority 2 = 32.3%, Priority 3 = 12.0%, Priority 4 = 10.8%, and the remainder allocated as Technical Assistance; and
- Option 2 - with funding split by Priority in the following manner: Priority 1 = 40.0%, Priority 2 = 30.0%, Priority 3 = 18.0%, Priority 4 = 10.0%, and the remainder allocated as Technical Assistance.

4.1.2 The alternative options were produced by varying the funding to the part of the Programme particularly relevant to environmental improvement activities (Priority 3). In Option 1 the funding allocation of the Priority was set at 12%, the lower limit of the range suggested in the main Programme Consultation Document, with a corresponding increase across the rest of the Programme proportionate to the value of each Priority under the Proposed Option. In Option 2, the funding allocation of the Priority was set at 18%, the upper limit of the range suggested in the main Programme Consultation Document, with a corresponding decrease across the rest of the Programme.

- 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 quantify the impacts of the Do Nothing scenario, mainly due to increasing pressure for sustainable development and reduced carbon economy, and new and current European Directives. Without the Programme funding, goals such as reducing resource and energy consumption, increasing use of sustainable transport, and many other current goals would be harder to achieve and would take longer to achieve.
- 4.1.4 Overall, the results indicate that the Proposed Option provides a level of funding for particular Priorities that does appear on balance to provide overall benefits and reduced impacts than the other two options. In particular, the Proposed Option provides a greater degree of funding for Priority 3 activities than Option 1. These activities are more likely to be projects that are focussed on specific sites and locations, which provide greater opportunity for biodiversity improvements, which would arise on implementation but would not continue to increase in scale of benefit in the medium- to long-term. Whereas in comparison to Option 2, the Proposed Option provides greater regional level and efficiency/conservation improvements within Priorities 1 and 2. Furthermore, the Proposed Option contains a lesser amount of funding for Priority 2 activities than Option 1, which have a greater likelihood of resulting in potential minor adverse environmental impacts, but provides good opportunities for environmental benefits through Priority 3 and 4, as well as additional (and larger in scale) funding for sustainable transport initiatives in Priority 1 than Option 2, but less than Option 1. Therefore, as the Proposed Option is predicted as providing a balanced range of benefits both regionally and at a more local level, it is recommended that the “proposed option” is selected.
- 4.1.5 The following paragraph describes some of the reasoning why in our view the loading of funding on the purely environment focussed Priority, Priority 3, does not necessarily result in significant benefits occurring in comparison to the other funding variations, and why adverse impacts are not necessarily avoided.
- 4.1.6 The options assessment requires a range of underlying assumptions to be made. This is because of variability in predictions of the size and nature of future economic growth and the inherently high-level and non-specific nature of the Programme. The influence of assumptions is particularly evident when examining the effects of Priorities 1 and 2, which relate to a number of different sectors of the economy and are likely to have long-term effects, and have a stronger regional influence than Priorities 3 and 4, as a result of the potential activities and the amount of funding (at least twice that of Priorities 3 and 4). In contrast, Priorities 3 and 4 are more likely to result in projects which are site- or location-specific, and are more likely to achieve relatively short- to medium-term localised benefits rather than long-term benefits.

5 THE IMPACTS OF THE PROGRAMME

- 5.1.1 The dominant adverse impacts are seen to arise from the key economic driver of increased development and the associated use of primary materials, primary fuels and energy, and the subsequent emissions to land, air and water as a result. However, there is limited influence or focus on economic growth *per se*. Rather, the focus is on efficiency for existing businesses, and incorporating those efficiencies in new businesses. Therefore, economic growth is seen as being limited within this Programme, and any growth would be considerably offset by the promotion of resource efficiency and conservation to improve the competitiveness of enterprises in this region. Thus many beneficial impacts relating to reduction of resource (water, fuel, energy, and materials) as well as the refurbishment and re-use of existing assets are expected. This is expected to result in the management of, and decreases in, the total amount of greenhouse gases emitted into the environment.
- 5.1.2 Table 2 presents a summary of the potential impacts for each Priority of the draft Programme as assessed against the SEA's sustainability objectives.

Cumulative Impacts

- 5.1.3 The following cumulative impacts were predicted to occur as a result of the draft Programme:
1. Biodiversity: a cumulative benefit is predicted from improvements in water quality, reduction of discharges, reductions in water abstractions, and many other activities that contribute to resource efficiency and conservation. Effects would occur across the region due to the nature of the reductions, but also catchment specific benefits would occur where water resource in rivers is an existing issue;
 2. Air quality: a cumulative benefit is expected on emissions to air and air quality arising from the efficiency and conservation measures targeted within three of the Priorities, and from the various indirect effects that would further influence reductions in emissions to air. The regional spread of these long-term benefits could potentially result in a significant benefit; and
 3. Climate change: in terms of reducing the contribution to climate change, the benefits resulting from reductions in air emissions and the overall focus on efficiency and conservation are anticipated to result in regionally experienced benefits in reductions of greenhouse gas emissions.

6 PROPOSED MITIGATION MEASURES

6.1.1 The extent and scale of potential adverse impacts resulting from the Programme, its Priorities and indicative activities are limited. On the whole, their low probability also means that there is difficulty in identifying specific measures to avoid or reduce the potential impact. However, the following measures would be likely to avoid or reduce direct physical impacts of the proposed Programme:

1. Influence where possible export sectors to achieving supply and transport efficiencies (link with Priority 2) to minimise transport volume increases, and use of sustainable freight transport methods;
2. Raise awareness of initiatives to minimise energy use in ICT, as well as incorporation in all efficiency and conservation activities;
3. Fund ICT recycling and re-use initiatives and processes;
4. Include, in tourist site / scheme developments, measures to improve or link with public transport hubs; and
5. Use best practice construction waste reduction measures on site developments.

6.1.2 The following measures are recommended to enhance the benefits relating from the Programme:

1. Provide clear opportunity for funding activities to target biodiversity (habitats and species) enhancement;
2. Encourage the location of appropriate activities so as to be accessible by public transport; and
3. Projects should utilise the climate change adaptation tool on <http://www.ukcip.org.uk/resources/tools/adapt.asp>.

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 monitored by statutory authorities and the Welsh Assembly Government. Further detail and proposed indicators can be found 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 comments received. The revised Environmental Report provided a detailed source of information for WEFO in producing the final Operational Programme document.

8.1.2 Following a parallel public consultation on the Programme itself, the Priorities and indicative activities in the final Programme have not been significantly reorganised although some key improvements have been made. The key areas of change are the indicative activities, namely:

- Priority 1 – developing innovative community or public transport schemes has been included as an indicative activity;
- Priority 2 – “Environmental Management Systems (EMS)” has been added as a recommendation for best practice in funding activities;
- Priority 3 – the removal of activities encouraging waste and resource management facilities and investing in waste management;
- Priority 3 – the inclusion of “cultural” reasons for the sustainable development of the environment and natural resources; and
- Priority 3 – clean urban transport and sustainable transport that will encourage tourism have been included as indicative activities;
- Priority 4 – improving the physical environment, habitats and biodiversity has been included as an indicative activity; and
- Priority 4 – sustainable transport schemes which link communities to employment centres have been included as indicative activities.

8.1.3 Table 2 presents a summary of the potential impacts for each Priority of the final Programme as assessed against the SEA’s sustainability objectives.

8.1.4 Residual environmental impacts are the impacts that are predicted to remain following implementation of mitigation measures. The mitigation measures recommended in the draft Environmental Report have been input into the design of the final Programme. The Programme would stimulate economic growth and its associated environmental impacts, but the extent of these impacts would be significantly less, or even reduced in localised areas, compared to economic growth without the Programme (i.e. Do Nothing). Furthermore, appropriate evaluation of projects to be funded against the Programme’s sustainability objectives and against site suitability criteria would ensure that overall long-term social and environmental benefits and minimal adverse impacts will occur.

Table 2 Summary assessment of the final Programme

Objectives	Predicted environmental impacts of Priority			
	1	2	3	4
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/✓	✓	?x/✓
Minimise and/or reduce pollutant emissions to air	?/✓	?x/✓	✓	✓
Reduce contribution to climate change and encourage adaptation	?/✓	?x/✓	✓	✓
Protect and enhance the countryside and coastline and the associated landscapes / seascapes of the region	✓	✓	✓	✓
Protect and enhance the historical and cultural heritage.	?	?	✓	?x
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	✓	?x/✓	✓	✓

Key to symbols

Major beneficial	✓✓
Minor beneficial	✓
Neutral	O
Minor adverse	x
Major adverse	xx
Mixed	✓✓/x or ✓/xx
Indeterminable	?

ANNEX G - INDICATIVE LIST OF STRATEGIC FRAMEWORKS

Supplying young people with skills for learning and future employment (ESF Priority 1: Themes 1 & 2)

Providing young people with the skills needed for employment, including school and community based interventions to tackle under-achievement and support for disadvantaged young people.

Co-ordinating Organisation: Department for Education, Culture and Welsh Language

Increasing Employment and Tackling Economic Inactivity (ESF Priority 2: Themes 1 & 2)

Helping more people into work through active labour market interventions, addressing barriers to employment, including promoting healthier lifestyles, and helping people to remain in work by reducing the risk of becoming unemployed or moving into long-term inactivity.

Co-ordinating Organisation: Dept for Education, Culture and Welsh Language supported by Dept for Economy & Transport, Department for Health and Social Services (DHSS), Office of the Chief Medical Officer (OCMO) and Job Centre Plus.

Improving the skills base of the workforce (ESF Priority 3: Theme 1)

Improving basic skills in literacy, numeracy and ICT and helping low skilled workers to gain the skills and qualifications to improve their employability and support progression in employment

Co-ordinating Organisation: Dept for Education, Culture & Welsh Language supported by Dept for Economy & Transport

Workforce development and learning systems: Skills for the Knowledge Economy

(ESF Priority 3: Theme 2)

Improving systems for workforce development, addressing skills gaps and shortages, targeted support for higher level skills development and supporting the adaptability of workers and businesses.

Co-ordinating Organisation: Dept for Education, Culture & Welsh Language supported by Dept for Economy & Transport.

Gender equality in employment

(ESF Priority 3: Theme 3)

Promoting gender equality in employment and tackling the causes of the gender pay gap, including segregation in the labour market

Co-ordinating Organisation: Dept for Education, Culture & Welsh Language

Modernising and improving the quality of our public services - Making the Connections

(ESF Priority 4: Themes 1 & 2)

Transforming public services through more effective collaborative working and building capacity to deliver higher quality services

Co-ordinating Organisation: Department of Public Services and Performance (DPSP) - Making the Connections Team, supported by Public Services Management Wales (PSMW)

ANNEX H: POTENTIAL IMPACT OF THE PROGRAMMES ON EQUAL OPPORTUNITIES OBJECTIVES

An analysis has been undertaken of the intended impact of supported activities on the Competitiveness programme's equal opportunities objectives. This is represented in the form of matrix tables for each of the ERDF priorities.

ERDF Priority 1: Knowledge and innovation for growth

Equal Opportunities objective	
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 innovative processes which support higher graduate skills especially in the areas of science, engineering, technology and management.
Challenge gender role stereotyping by increasing the number of women and men moving into non-traditional areas of employment	Support for innovative processes which support higher graduate skills especially in the areas of science, engineering, technology and management.
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 training in developing strategies that support equal opportunities.

ERDF Priority 2: Business Competitiveness and Growth

Equal Opportunities objective	
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	<p>Targeted encouragement and support for under-represented groups who are currently not adequately supported. Pre- and post-start up, advice, information and support.</p> <p>Support for previously excluded groups through specific targeted loans and equity investment.</p>
Challenge gender role stereotyping by increasing the number of women and men moving into non-traditional areas of employment	<p>Pre- and post-start up business support specifically targeted at women to ensure accessible and appropriate services to meet evidenced need.</p> <p>Support for innovative ways to encourage more women to take up loans and equity investment.</p>
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements	<p>Support for projects, which are developing or improving good practice in the area of equal opportunities policies and practices.</p> <p>Support for mechanisms, which encourage partners to adopt equal opportunities policies and practices.</p> <p>Support for actions which encourage businesses to positively explore a more diverse workforce.</p>

ERDF Priority 3: Tackling Climate Change

Equal Opportunities objective	
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	
Challenge gender role stereotyping by increasing the number of women and men moving into non-traditional areas of employment	
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements	<p>Support for projects, which are developing or improving good practice in the area of equal opportunities policies and practices.</p> <p>Support for mechanisms, which encourage partners to adopt equal opportunities policies and practices.</p> <p>Support for actions which encourage businesses to positively explore a more diverse workforce.</p>

ERDF Priority 4: Regeneration for Growth

Equal Opportunities objective	
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	Support for innovative ideas which aim to go beyond compliance on disability access and safety issues.
Challenge gender role stereotyping by increasing the number of women and men moving into non-traditional areas of employment	Support for childcare infrastructure aimed at tackling deprivation with a focus on inactivity.
Increase the number of employers and training organisations that develop equality and diversity strategies, including monitoring systems and methods of feeding in improvements	<p>Support for projects, which are developing or improving good practice in the area of equal opportunities policies and practices.</p> <p>Support for mechanisms, which encourage partners to adopt equal opportunities policies and practices.</p> <p>Support for actions which encourage businesses to positively explore a more diverse workforce.</p>

Annex I. Analysis of the effects of the four Priorities on the Environmental Sustainability objectives

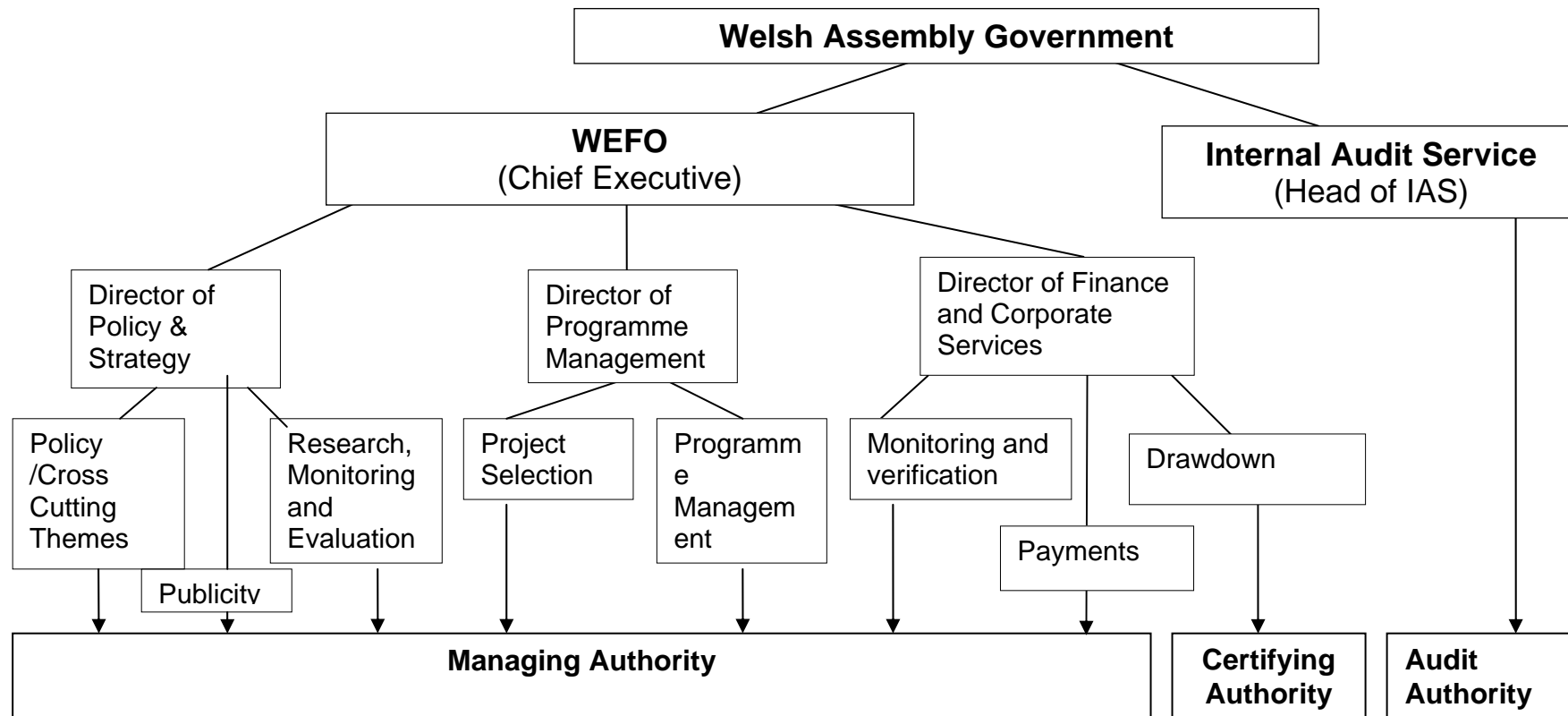
Priority Environmental sustainability objective V	P1 Knowledge and innovation for growth	P2 Business competitiveness and growth	P3 Tackling Climate Change	P4 Regeneration for Growth
Reduce greenhouse gases/adapt to effects of climate change	Growth of some sectors could cause increase in greenhouse gases. Offset by stimulating growth of clean environmental technology contributing to reduced carbon emissions and by encouraging business to adopt environmental management systems	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 clean environmental technology and resource efficiency. and by encouraging business to adopt environmental management systems	Positive effect of support for clean and renewable energy, increased resource efficiency and waste management.	Improvements to the environmental performance of buildings will reduce carbon emissions. Some activities likely to increase tourism and thus increase transport emissions.
Promote sustainable transport	Support for business growth likely to have negative impact through increasing road traffic. Could be offset by encouraging businesses to locate near to public transport links and by	Business growth likely to cause an increase in road traffic. Encourage business to locate near to public transport and also develop green transport plans.	Positive effect of support for sustainable transport. Encourage projects to maximize opportunities to use public transport and develop green transport plans	Urban renewal schemes to be encouraged to integrate actions that promote public transport. Traffic management schemes should improve fuel efficiency and reduce air

	developing green transport plans.			pollution
Efficient use of natural resources	New technologies will be promoted that minimise waste. Resource efficiency should be a central aim of supported projects. Resource efficiency benefits will be obtained through EMS	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.	The use of recycled construction material will be encouraged. Supported businesses will be encouraged to develop EMS where appropriate.
Promote biodiversity and sustainable land management	Opportunities for businesses to promote sustainable land management and biodiversity through appropriate site management will be encouraged..	Sites developed through financial support should promote sustainable land management and biodiversity.	Projects will be encouraged to integrate actions to improve habitats and biodiversity.	Improvements in habitats and biodiversity will be important elements of projects focussed on sustainable use of the environment for economic benefit. Environmental improvements that promote biodiversity and sustainable land management will be integrated into urban renewal schemes
Improve local built environment, access to greenspace and biodiversity	Buildings developed or refurbished should achieve high standards of environmental	Buildings developed or refurbished through financial support should achieve high standards	Minimal opportunity to support this objective within Priority	Buildings developed or refurbished should achieve high standards of environmental

	performance.	of environmental performance.		performance. Opportunities to improve access to greenspace and biodiversity will be promoted
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 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.	Promotion of resource efficiency and environmental technologies will contribute to minimising emissions and safeguard air quality.	Remediation of contaminated and derelict land will reduce hazards to human health. An improved urban environment will promote a sense of well being

ANNEX J – ORGANOGRAM

Welsh Assembly Government – Organogram Showing Structural Fund Authority Responsibilities



Note: Responsibilities are allocated so as to ensure appropriate separation of functions in accordance with the principles of sound financial management

Details of Consultation responses

The Vision

Of the 33 responses received, 26 agreed with the overall vision for East Wales, as outlined in the consultation documents. The remaining 7 gave no answer.

The Analysis and SWOT

Out of the 33 responses, 20 agreed with the analysis of strengths, weakness, opportunities and threats, while the remaining 13 provided no specific answer to the question.

5 respondents would have liked to see more emphasis on transport within the ERDF Programme. Some respondents commented that they would welcome further details on the disparities between the different areas contained within the East Wales region. Others called for more emphasis on the importance of Tourism and Higher Education in the region.

The Strategy

Out of the 33 responses analysed thus far, 7 did not answer the question, 23 agreed with the strategy whilst 3 did not agree.

Comments included: that the role of sustainable transport was recognised but was not developed in the programme; the need to ensure that Spatial Plan groups are 'fit for purpose'; and that the contribution of Higher Education (HE) was "seriously undervalued" in the Programme.

Monitoring and evaluation strategy

Of the 33 responses 19 agreed with this question, 1 disagreed while 13 gave no answer.

Comments included: support for the approach of having fewer, better, more focused priority level indicators; and that there was incongruence between the programme level indicators and priorities of the programme.

Innovative actions and trans-national activities

Of the 33 respondents 21 had some suggestions for relevant themes, whilst 12 gave no answer.

Innovative actions suggested included: integrated transport, digital collaboration, NEETs and Pathways to employment. Comments on

transnational activities included: the need to build on previous successful European cooperation projects e.g. those through (especially) EQUAL, URBAN and INTERREG. Also need to build on TASK (themes included knowledge-based regional economies and technological innovation).

The Priorities

ERDF Priority 1 – Knowledge and Innovation for Growth: Concerns were expressed about the need to acknowledge the role of transport in promoting growth; the omission of social economy actions from the Priority; that there as too much concentration on links with HE, and the need more on ICT.

ERDF Priority 2 – Business Competitiveness and Growth: Concerns were expressed about the lack of reference to transport or social enterprises in the Priority.

ERDF Priority 3 – Environment for Growth: There was strong support for the inclusion of the Priority.

ERDF Priority 4 – Regeneration for Growth: Concerns were expressed by some over the small amount of funding allocated to this Priority.

Cross Cutting Themes – Equal Opportunities and Environmental Sustainability

Equal Opportunities: Overall, 18 respondents agreed with the proposals, and 8 agreed with some aspects but disagreed with others. The remaining 8 made no comment or didn't refer to the theme.

It was stressed that the principle of equal opportunities needs to be integrated into all aspects of the running of the programme from the start and that early specialist support to project developers in determining aims and objectives and planning implementation was crucial.

Environmental Sustainability: Overall, 18 respondents agreed with the proposals, and 8 agreed with some aspects but disagreed with others. The remaining 8 made no comment or didn't refer to the theme.

One respondent believed the detail regarding environmental sustainability in the Operational Plan to be insufficient, particularly compared with that given to equal opportunities.

Implementation arrangements

Spatial targeting: Out of the 34 responses received, 17 agreed with the need for a degree of spatial targeting, 5 disagreed, and 12 offered no comment or didn't answer the question as asked.

Proposal for a single PMC: Out of the 33 responses received, 18 agreed with the proposals for the Programme Monitoring Committee, 4 disagreed, and 11 offered no comment or didn't answer the question as asked. However, a number of comments and observations were listed such as assurances

sought that Competitiveness would be given sufficient consideration at PMC meetings.

Strategic Implementation: With regards to the proposals for strengthening strategic implementation, out of 34 responses received, 23 were in agreement with the question, 1 disagreed, and 10 offered no comment or didn't answer the question as asked. On the issue of whether delivery mechanisms should be the same as those proposed for the West Wales and the Valleys Programmes, 13 agreed, 0 disagreed, and 21 offered no comment or did not answer the question as asked.

Changes to the Programme as a result of the consultation responses

Analysis: Increased detail on the variances with between the three sub-regions

Strategy: Strengthening the link between the analysis and priorities and an increased emphasis on European policies

Priorities: Inclusion of transport actions across three Priorities

Cross cutting themes: strengthening and inclusion of matrices

Implementation: further details on the plans for Strategic Implementation

Respondents	
Arts Council for Wales	Monmouthshire County Council
Big Lottery Fund	National Museum of Wales
British Waterways	North East Wales Institute of Higher Education (NEWI)
Capital Region Tourism	Newport County Borough Council (CBC)
Cardiff Council	Opportunity Wales
Careers Wales	Powys Council for Voluntary Action
Chwarae Teg	Powys County Council
Community Transport Association (CTA)	Remploy Ltd
Countryside Council for Wales	Royal Institution of Chartered Surveyors (RICS)
Deeside College	RSPB
Education, Lifelong Learning and Skills Committee	South East Wales Transport Alliance (Sewta)
Enterprise, Innovation and Networks (EIN) Committee	Skills for Business Network
Environment Agency Wales	Tourism Training Forum Wales
ETC Ltd	University of Wales Newport
European and External Affairs Committee	Vale of Glamorgan Council
Fairbridge	Wales Centre for Health
Flintshire County Council	Wales Council for Voluntary Action (WCVA)
G4S Justice Services	Welsh Local Government Association (WLGA)
HEFCW	Wrexham Children's Information Bureau
Job Centre Plus	Wrexham County Borough Council (CBC)

Indicative List of Strategic Frameworks

Spatial Frameworks

Sustainable Regeneration:

ERDF Regional Competitiveness and Employment Priority 4
(and Convergence 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 Regional Competitiveness and Employment Priority 1
(and Convergence ERDF Priority 1: Theme 1)

Co-ordinating Organisation: EIN, supported by DELLS

Business Finance

ERDF Regional Competitiveness and Employment Priority 2
(and convergence ERDF Priority 2: Theme 2 (Business finance))

Co-ordinating Organisation: EIN

Business Solutions

ERDF Regional Competitiveness and Employment Priority 2
(and convergence ERDF Priority 2: Theme 1 (Entrepreneurship))

Co-ordinating Organisation: EIN

Climate Change

ERDF Regional Competitiveness and Employment Priority 3
(and convergence 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

ANNEX M – STRATEGIC FRAMEWORK CO-ORDINATOR RESPONSIBILITIES

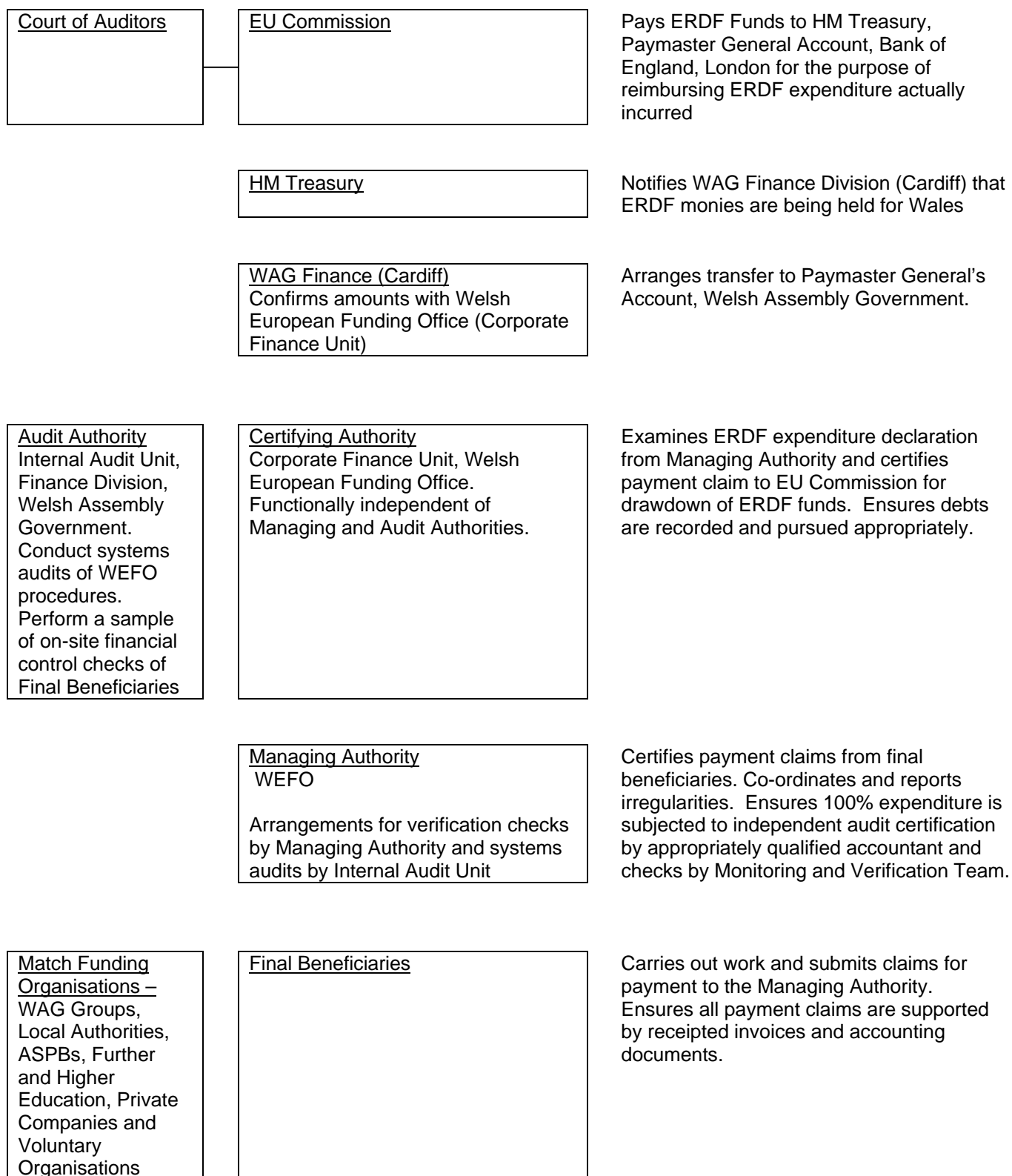
Strategic Framework co-ordinators will be responsible for:

- 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 N – FINANCIAL FLOWS AND CONTROLS

East Wales ERDF Regional Competitiveness and Employment Programme OP 2007-13

The Financial Flows and Controls



ANNEX O – 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 P – 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 and 3 programmes 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 Competitiveness Programme 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 Competitiveness 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.

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 Competitiveness 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 Q: CO-ORDINATION BETWEEN ERDF COMPETITIVENESS/ESF/EAFRD AND EFF

Operational Programme Priority	ERDF Interventions	ESF will support	EAFRD will support	EFF will support
1. Knowledge and Innovation for Growth	<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 higher education (HE) and, where appropriate, further education (FE) institutions to support businesses through knowledge transfer and commercialisation of</p>	<p>Improving research into skills needs and matching learning provision to meet labour market needs, reducing skills gaps and shortages.</p> <p>Training linked to the successful exploitation of ICT by SMEs and community organisations.</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 	<p>Investment in innovation and technology in fishing and aquaculture sectors</p> <p>Encouraging computerised management of fishing activities</p>

	<p>research, and encouraging the development of innovative technologies;</p> <p>Ensuring businesses continue to evolve, collaborate, and develop their use of ICT through good e-business practice and maximisation of innovation; and</p> <p>Promoting innovative sustainable transport solutions</p>		<p>innovative approaches / products and processes across a wide range of sectors;</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>2.Business Competitiveness and Growth</p>	<p>Supporting the start up of new enterprises</p> <p>Developing the capacity of SMEs to make the best use of private sector business support provision and facilitating the development of market-based services;</p> <p>Developing the capacity of existing businesses to grow, identify new opportunities, seek new markets, and become more competitive and innovative;</p> <p>Ensuring integrated support mechanisms with appropriate solutions to address company requirements; that is, working with skills, innovation, property, finance etc.;</p> <p>Facilitating, where appropriate, networking and development opportunities and addressing specific sectoral requirements; and</p>	<p>Supporting systems to enable employers to identify skills needs to meet existing and new business opportunities, and help workers and enterprises prepare for new forms of work.</p> <p>Supporting the acquisition of basic literacy, numeracy, ICT, generic and occupational skills in the workforce</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> <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 	<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>Providing targeted debt finance and venture capital to address market failures in financial support mechanisms required to create new SMEs and develop existing ones.</p>		<p>development of the rural tourism product; development of the creative industries; delivery of essential services to the local community;</p> <ul style="list-style-type: none"> • 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 	
--	--	--	---	--

			<p>landscape or cooperative ventures between rural businesses and/or with rural communities;</p> <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>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> <p>Providing discretionary focused grant support packages for small local businesses meeting a clearly determined local need.</p>	
--	--	--	---	--

<p>3. Environment for Growth</p>	<p>Encouraging the adoption of micro-generation and use of renewable;</p> <p>Energy conservation and efficiency measures to reduce demand;</p> <p>Encouraging the efficient, re-use and recovery of natural resources across all sectors of the economy; and</p> <p>Measures to reduce green house gas emissions.</p>	<p>Not applicable</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; <p>Support for innovative pilot projects exploring new opportunities / products;</p> <p>Support for the agriculture and forestry sectors for the sustainable use, protection</p>	<p>Promotion of adoption of fuel efficient methods of fishing</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>
----------------------------------	---	-----------------------	---	---

			<p>and management of land;</p> <p>Support for the agriculture sector for the protection of biodiversity and habitat ;</p> <p>Support for contributions towards combating climate change</p> <p>Support for a Catchment Sensitive Farming</p>	
4. Regeneration for Growth	<p>Spatially targeted regeneration initiatives to promote the physical improvement of deprived urban and village townscapes together with integrated activities in support of building sustainable communities</p>	Not applicable	<p>Working at the local level i.e. below regional level:</p> <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. 	<p>Limited scope for Regeneration and development of coastal fisheries areas directly relating to the fishing industry</p> <p>Examine models for stronger community partnership in traditional fisheries areas and their promotion</p>

			<p>Working at the local level i.e. below regional level:</p> <ul style="list-style-type: none"> • Support for local solutions to issues of access to, provision of / improvement of services for rural communities. • Increasing the contribution of the 'third sector'. 	
--	--	--	--	--