

Regional Competitiveness and Employment – ERDF

Europe and Wales: Investing in your future

East Wales
Regional Competitiveness
and Employment

Operational Programme
European Regional
Development Fund

2007-2013



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Llywodraeth Cymru
Welsh Government

Welsh European Funding Office

WELSH EUROPEAN FUNDING OFFICE

**EAST WALES REGIONAL COMPETITIVENESS AND
EMPLOYMENT PROGRAMME**

**OPERATIONAL PROGRAMME FOR THE
EUROPEAN REGIONAL DEVELOPMENT FUND
2007-2013**

(24 September 2010)



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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East Wales ERDF Regional Competitiveness and Employment Programme

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Introduction

Our vision for East Wales is of a thriving, vibrant and entrepreneurial region, at the cutting edge of sustainable development. Its citizens living in an attractive and safe environment, rich in its cultural and natural heritage.

Our ambition is for East Wales to continue to grow as a thriving and competitive region that has a highly skilled and innovative workforce. It is a region that will continue to be at the forefront of the European Union's (EU) drive to be a beacon of economic, social and environmental progress to the rest of the world. East Wales will be an exemplar of a region competing effectively in a world market and providing an attractive world-class environment in which all people in all areas want to live, work and play. For the foreseeable future it will continue to act as an economic driver for the prosperity of people living across all parts of Wales.

This is the European Regional Development Fund (ERDF) East Wales Regional Competitiveness and Employment Operational Programme. Together with the European Social Fund (ESF) Operational Programme, it sets out the Welsh Assembly Government's strategy and priorities for the economic, social and environmental regeneration of East Wales over the period 2007–2013. The value of the ERDF grant allocated to the Programme is €72.452m with a likely total Programme value, including the Match Funding element, of in excess of €180m.

The strategy set out in this document is based on an analysis of the region's needs and aspirations, together with an assessment of the Structural Funds programmes 2000–2006. It has been developed in the context of the objectives of the European Union's Lisbon and Gothenburg economic reform agendas and key Welsh Assembly Government national policies, including *Wales: A Better Country*, *Wales: A Vibrant Economy*, the *Wales Spatial Plan*, *Wales Sustainable Development Scheme – Starting to Live Differently*, the *Skills and Employment Action Plan*, *Learning Country 2*, and the *Environment Strategy for Wales*.

The document comprises six main chapters which are:

Chapter 2: the **Summary Analysis**, which summarises the region's current strengths, weaknesses and needs, as well as the opportunities, priorities and challenges ahead. A more detailed analysis is included in Annex A.

Chapter 3: the **Strategy**, which sets out the strategic objectives to overcome the weaknesses and to exploit the opportunities identified in the Analysis;

Chapter 4: detailing the **Priorities** including the indicative activities and targets.

Chapter 5: **Cross Cutting Themes**, sets out the objectives and the approach for ensuring that the commitment to the two themes, Equal Opportunities and

Environmental Sustainability, is mainstreamed across all aspects of the Programme.

Chapter 6: **Implementation Arrangements**, sets out the overarching principles for the strategic delivery of the European Structural Funds, including details on implementation arrangements, partnership arrangements, and the financial management provisions.

Chapter 7: **Financial Provisions**, sets out the financial allocations by Priority and Year as well as providing indicative categorisations of these expenditures.

Additionally, Annexes include further detailed information to support the main chapters.

EXECUTIVE SUMMARY

Introduction

1.1 The agreement of the European Council and the European Parliament on the EU budget for 2007-2013 means that East Wales qualifies for support under the Regional Competitiveness and Employment Objective.

1.2 This document is the European Regional Development Fund (ERDF) Regional Competitiveness and Employment Operational Programme for East Wales. Together with the complementary European Social Fund (ESF) Operational Programme, it sets out the Welsh Assembly Government's strategy and priorities for the economic, social and environmental regeneration of East Wales over the period 2007–2013. It provides East Wales with the opportunity to build on the significant progress made under the Objective 2 and 3 programmes 2000 – 2006.

1.3 The region will receive total Community funding of €136m to support the two Programmes. The ERDF programme, will receive Community funding of €72.452m, which when combined with national public and private funding will provide in excess of €180m to boost growth and jobs over the period 2007-2013.

Summary Analysis

1.4 The Summary Analysis details the region's current strengths, weaknesses and needs, as well as the opportunities, priorities and challenges ahead.

1.5 It highlights the success of the East Wales area where GDP per capita is very much in line with the UK average and is above the average for the 25 countries of the European Union. The labour market of East Wales is performing very well compared to Wales, the UK and the EU averages, with high employment and low unemployment. However, these averages disguise variations that exist within the region with some of the poorest geographical areas in Wales, as defined by the Welsh Index of Multiple Deprivation, being in East Wales. The NUTS 3 area of Cardiff and the Vale of Glamorgan has significantly higher GVA per head than the UK average with the other parts of East Wales having lower GVA per head than the UK average.

Strategy

1.6 The Strategy sets out the key objectives which will enable the Programme to support continued growth in the region and to address continuing weaknesses that do exist, as well as to exploit the opportunities identified in the Analysis. The Strategy has been developed in the context of both the European Commission's Integrated Guidelines for Growth and Jobs and the Community Strategic Guidelines for Cohesion 2007–2013. It explains how EU funds will be concentrated to maximise the potential for growth and

jobs and to add value to the Welsh Assembly Government's strategies for supporting sustainable economic development.

1.7 The policy response is designed to: help businesses to move continually up the value chain and increase the value-added per job, thereby raising productivity, earnings and employment. This complements the approach in the ESF Operational Programme which aims to raise skills and increase employment.

1.8 The new Structural Fund programmes for 2007-2013 will have a stronger focus on the Lisbon and Gothenburg strategies for growth, jobs and sustainable development as set out in the *Community Strategic Guidelines for Cohesion* approved by Member States. The objectives and priorities of the East Wales programmes are consistent with the Lisbon and Gothenburg strategies and have been developed in the context of the UK National Strategic Reference Framework (NRSF) which explains how the Structural Funds will contribute to the overall UK National Reform Programme (NRP) for growth and jobs.

1.9 To maximise the impact from the Structural Funds, the Regional Competitiveness and Employment programmes will be aligned with relevant Welsh Assembly Government policies for delivering sustainable growth and jobs. These include:

- *Wales: A Better Country* – the Welsh Assembly Government's broader strategic policy agenda;
- *The Wales Sustainable Development Scheme – Starting to Live Differently*;
- *Wales: A Vibrant Economy* – the economic development strategy for Wales;
- *The Wales Spatial Plan*;
- *The Environment Strategy for Wales*;
- *The Learning Country 2: Vision into Action* – the lifelong learning strategy for Wales; and
- *The Wales Skills and Employment Action Plan 2005*.
- and from 2010 *Economic Renewal: a New Direction*.

1.10 The overall aim of the Regional Competitiveness and Employment programmes is:

To make East Wales a vibrant, entrepreneurial region at the cutting edge of sustainable development

1.11 The key drivers to achieving this through the ERDF programme are by:

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

(b) Creating an attractive environment for people to live and work, including through the regeneration of the region's poorest communities.

1.12 The success of the Programme will be assessed by tracking progress against a range of economic indicators, notably employment, earnings and GVA, in absolute terms and relative to other parts of the UK and EU. Indicators and targets for individual priorities will also be closely monitored and will be aggregated to provide programme level indicators and targets. The programme will also be subject to evaluation.

Priorities

1.13 The programme will be implemented through a simplified structure comprising four main priorities plus a Technical Assistance priority.

Priority 1: Knowledge and innovation for growth: will promote a high value-added economy by fostering R&D, Innovation ICT usage for growth.

Priority 2: Business competitiveness and growth: will assist the growth and expansion of new and existing business ventures, particularly enterprises with the capacity for high growth.

Priority 3: Tackling climate change: will support the development of clean and renewable energy, promote resource efficiency and manage environmental risks.

Priority 4: Regeneration for growth: will provide carefully targeted support for the physical regeneration of the most deprived communities.

A separate Technical Assistance priority (Priority 5) will ensure the efficient and effective management of the Programme.

1.14 The cross-cutting themes of equal opportunities and environmental sustainability will be fully integrated into these priorities. The programme will also support Innovative Actions and Transnational/Inter-regional Co-operation.

Financial Allocation

1.15 75% of ERDF Regional Competitiveness and Employment resources (and 86% of the combined ERDF and ESF resources) will be targeted at those categories of investment which will contribute most to achieving the Lisbon objectives for growth and jobs as defined in Article 8 of Regulation (EC) 1083/2006. This means more investment in areas such as research and development, innovation, entrepreneurship, the information society, environmentally friendly products and processes and renewable energy. At the same time, it is recognised that investments linked to urban and rural regeneration, community economic development, environmental and risk prevention remain important drivers for growth and jobs, even though they will not contribute directly to the Lisbon earmarking targets.

Implementation

The programme has been developed in partnership and will also be implemented in partnership. A single all-Wales Programme Monitoring Committee (PMC) will oversee the implementation of the Regional Competitiveness and Employment and the Convergence programmes in Wales. Strategic Frameworks will strengthen programme delivery and ensure projects are focused on key headline objectives and targets. There will also be a stronger emphasis on regional collaboration in the development of strategies and projects, in the context of the Wales Spatial Plan.

CHAPTER 2: SUMMARY ANALYSIS

Area Overview

2.1 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). The following map shows the eligible Programme area for Wales.

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

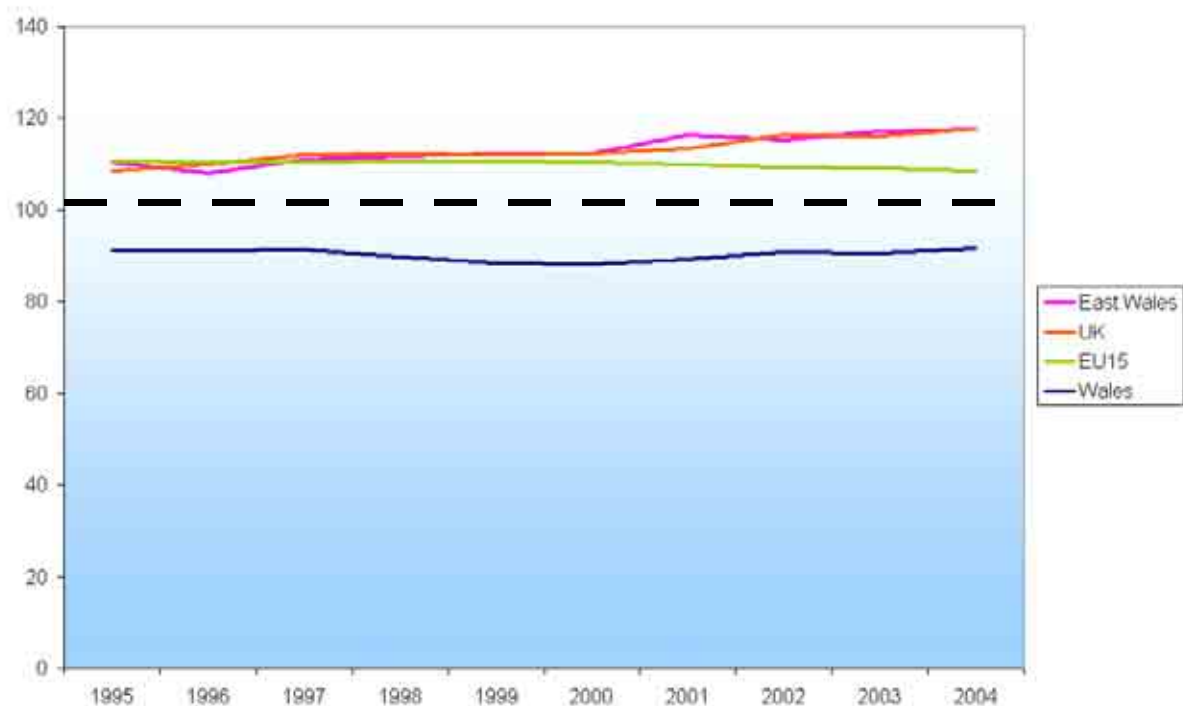


2.2 The rest of this Chapter sets out a picture of the socio, demographic, economic and environmental conditions across East Wales and explores the main differences between East Wales, the UK and the European Union as a whole. This analysis sets the scene for the targeted interventions under the ERDF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

2.3 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.

2.4 Figure 2 shows that 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.

**Figure 2. GDP per head (Purchasing Power Parities (a))
EU25=100 (b)**



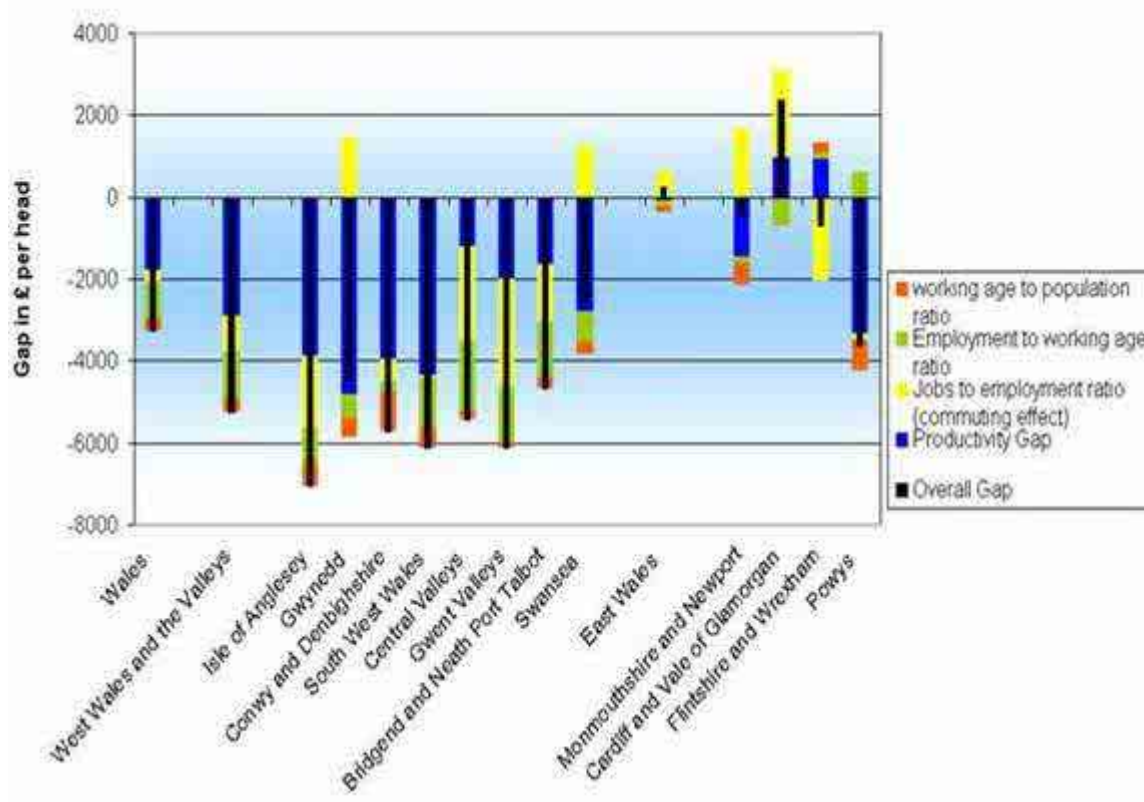
(a) Purchasing Power Parities (PPPs) are currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies. In other words, they eliminate the differences in price levels between countries in the process of conversion

(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

2.5 Figure 3 compares the difference in GVA per head for Wales and the NUTS¹ 2 and 3 regions of Wales compared to the average for the UK as a whole. 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 3. Decomposition of GVA per head differences across Wales compared to the UK average, 2001-2003 average



Source: Welsh Assembly Government based on ONS data

2.6 Figure 3 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 and Employment 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.

¹ Nomenclature of Territorial Units for Statistics. Further details are available at: http://europa.eu.int/comm/eurostat/ramon/nuts/introduction_regions_en.html

2.7 This headline analysis above shows that the priorities identified in the Commission's Community Strategic Guidelines² 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

2.8 In East Wales the labour market has grown strongly in recent years. Table 1 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.

2.9 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.

² 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

Table 1. 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

2.10 In contrast to the overall rise in employment rates across East Wales, there has been a fall in male employment in the 16-24 age group. Recent data³ (2003/04) shows that across Wales as a whole the number of young people not in employment, education or training (NEET) has risen to 13% from 11% in 2002/03. It is widely acknowledged in the economic literature⁴ that for young adults education, skills and their labour market experiences are crucial for their future life chances, therefore time away from active

³ OFFICE FOR NATIONAL STATISTICS, 2005 SB/80/2005. Participation of Young People in Education and the Labour Market 2003/04. Available at:

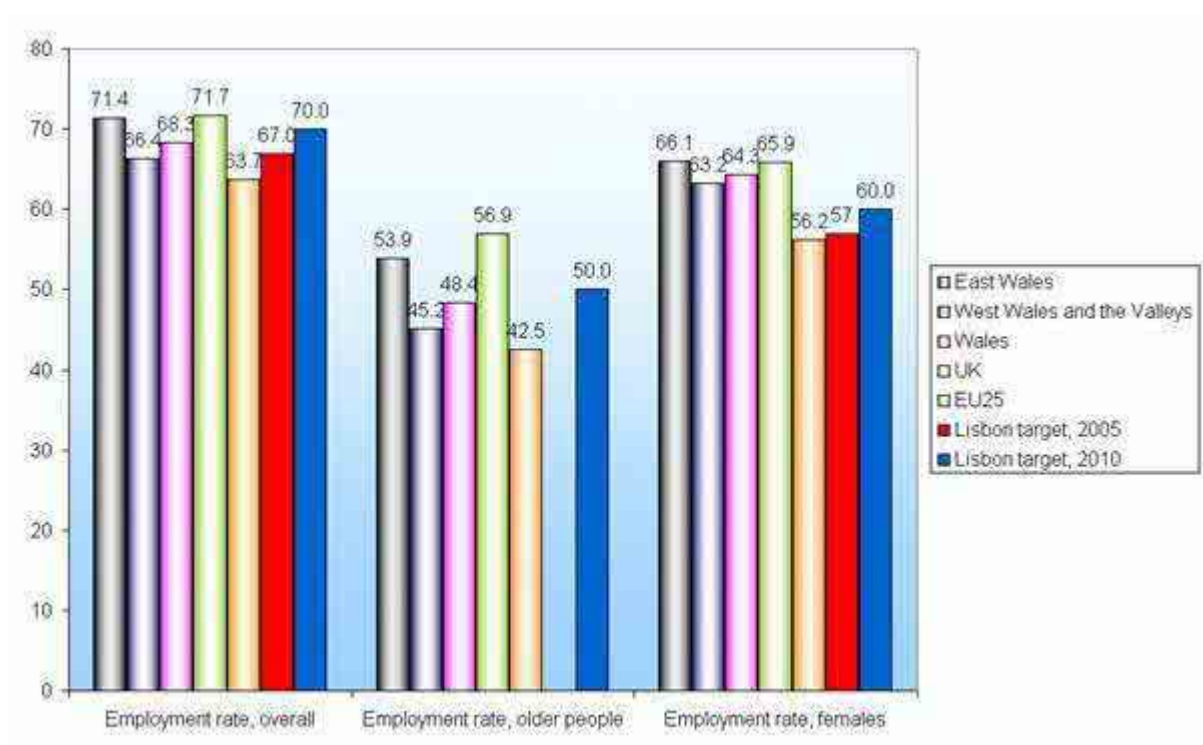
<http://www.wales.gov.uk/keypubstatisticsforwales/content/publication/post16education/2005/sb80-2005/sb80-2005.pdf>

⁴ 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

engagement in the labour market can pose problems later in life for these individuals.

2.11 Figure 4 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 15-64⁵. A more detailed discussion of labour market issues is available in labour market analysis for the ESF Competitiveness and Employment Programme.

Figure 4. Performance against Lisbon targets 2010



Source: Eurostat

2.12 There is a broad consensus in the literature that a change in the composition of the demand for labour lies at the heart of the analysis of trends in the labour market over the last couple of decades. Basically, the relative labour market position of low skilled people has worsened across the developed world, with the effects taking the form of lower relative pay and/or lower employment rates⁶.

⁵ 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 sources. An overview of the methodology for the European Labour Force Survey is available at:

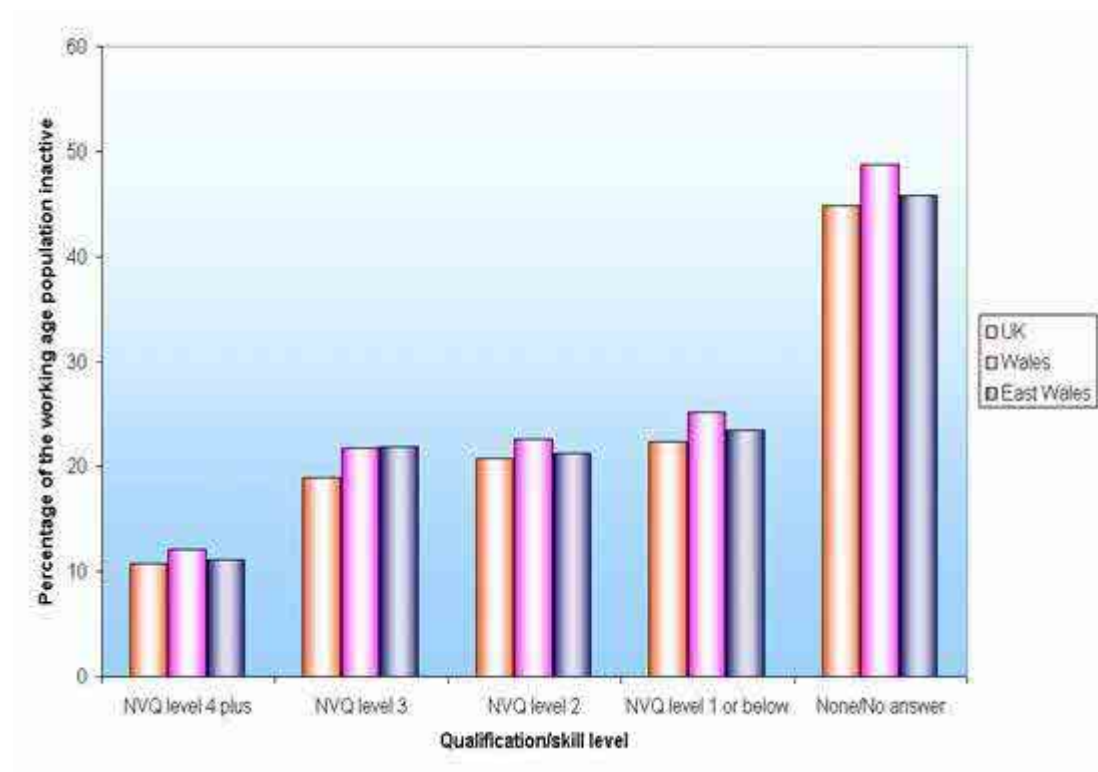
http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136184,0_45572601&_dad=portal&_schema=PORTAL&screen=ExpandTree&open=%2Fpopul%2Flabour&product=EU_population_social_conditions&nodeid=71140&vindex=4&level=2&portletid=39994101_QUEENPORTLET_92281242&scrollto=0#LABOUR_MARKET

An overview of the UK labour market data sources is available at:
<http://www.statistics.gov.uk/about/data/guides/LabourMarket/default.asp>

2.13 The importance of skills/qualifications in determining labour market outcomes is illustrated in Figure 5. Figure 5 shows the economic inactivity in East Wales, Wales and the UK according to the individual's highest level of qualifications.

2.14 The major difference apparent in Figure 5 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 5), the economic inactivity rate for individuals within each cohort decreases. This is most significant, however, between no qualifications and level 1.

Figure 5. Economic inactivity rates by highest qualification, 2004 (per cent of the working age population)



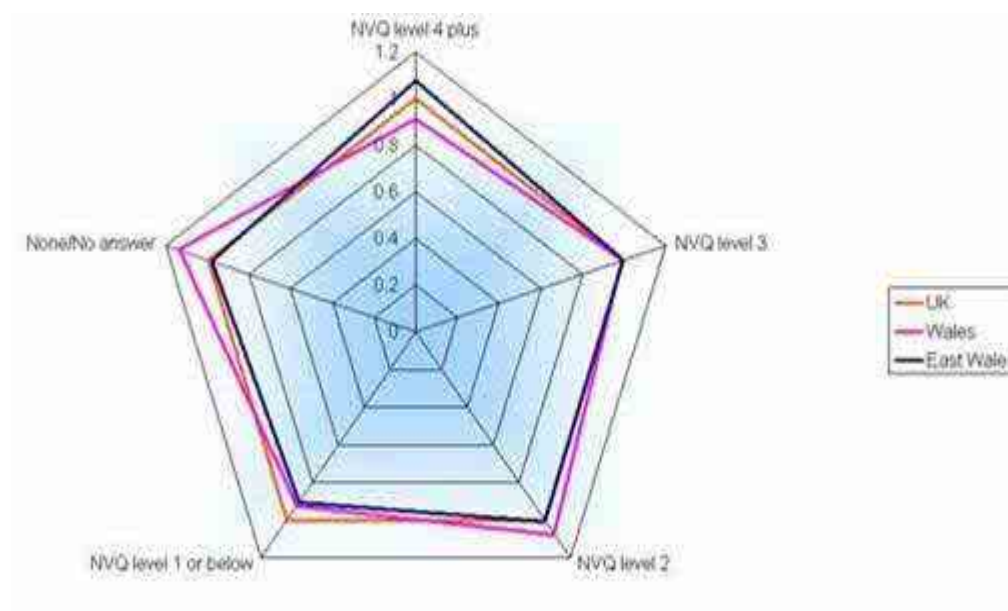
Source: Labour Force Survey

2.15 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 (Figure 6). This is not only encouraging in terms of overall labour market outcomes for individuals but a highly skilled workforce is an important factor for business competitiveness and developing the knowledge economy. 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

⁶ 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>

qualifications. While East Wales does have a lower proportion of working age individuals without any formal qualifications than compared to the average for Wales and the UK as a whole there are still some 95,000 working age individuals without any formal qualifications.

Figure 6. Qualification/skill set, East Wales (UK=1)



Source: Labour Force Survey

IMPROVING KNOWLEDGE AND INNOVATION FOR GROWTH

ANALYSIS OF THE VALUE-ADDED GAP IN WALES

2.16 Long-term economic growth and increases in earnings depend crucially on raising value-added per job in the economy. As highlighted above, East Wales has lower value added per job than compared to the UK as a whole (see Figure 3). Recent analysis⁷ 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

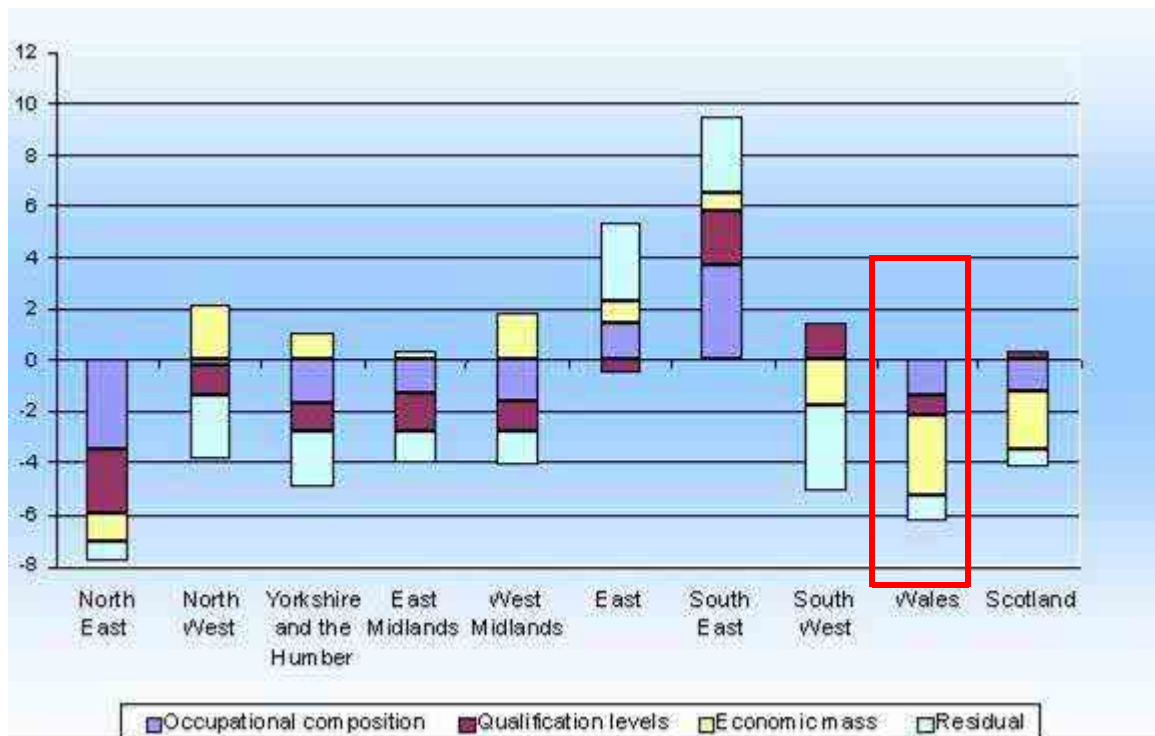
⁷ RICE, P AND VENABLES, A, 2004, 'Spatial determinants of productivity analysis for the regions of Great Britain, *CEP Discussion Paper* No.642, BODDY, M AND HUDSON, J, 2005, Meeting the Productivity Challenge A report for the South West of England Regional Development Agency. Available at: http://download.southwestrda.org.uk/file.asp?File=/res/general/meeting_the_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

2.17 Figure 7 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. 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 businesses⁸. These issues are central to the policy response developed within the Competitiveness and Employment Programme and are discuss further below.

Figure 7. Decomposition of earnings differentials (percentage difference from Great Britain average)(a)

⁸ 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.



(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*

Industrial structure

2.18 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 level⁹.

2.19 Figure 8 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. 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 8 and in the bottom half if employment in the sector has fallen.

2.20 Figure 8 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-

⁹ Annual Business Inquiry. A summary is available at:

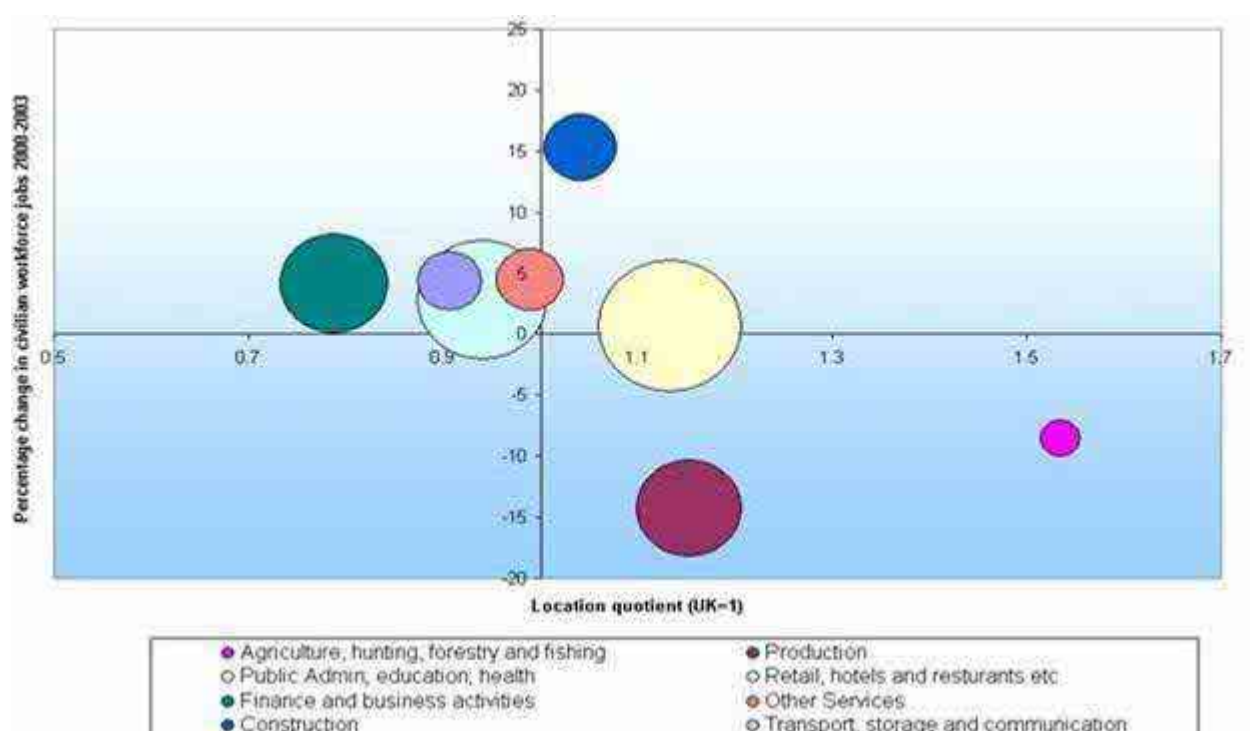
<http://www.wales.gov.uk/keypubstatisticsforwalesheadline/content/economy/2005/hdw200512161-e.htm>

represented in East Wales than compared to the UK average (as shown by its position in the top right hand section of Figure 8).

2.21 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, part of the production sector and the relatively low representation of high value added service sectors. While the sectors where East Wales is relatively under-represented (finance and business services, other industries and transport etc) have seen a rise in employment, 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).

2.22 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 8. Civilian Workforce Jobs by Industry, Bubble Charts



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

2.23 As Figure 3 shows 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 explains some of these differences. 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. 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 Wales¹⁰. Linked to the industrial structure of Powys, the main factor explaining lower GVA per head is lower output per head (see Figure 3). 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 3).

Innovation, R&D and Entrepreneurship

2.24 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 output¹¹.

2.25 Overall R&D expenditure as a percentage of GVA across Wales (sub-Wales data are not available) is below the average for the UK as a whole at 1.3% of total GVA, primarily reflecting lower R&D expenditure within the business sector. 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%. Again this mainly reflects the industrial structure of the Welsh economy (with, for example, relatively low representation of pharmaceutical companies that have high R&D spend).

2.26 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.

2.27 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 innovation¹². Between 1998 and 2000, 37% of Welsh businesses were identified as innovative active firms¹³, this compares to 36% across the UK and 40% for the EU as a whole.

2.28 Evidence¹⁴ suggests that the appropriate use of ICT can have a positive impact on business productivity. Information on the use of ICT by

¹⁰ 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

¹¹ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence

¹² Some care must be taken due to potential mis-reporting on innovation and variations between respondents on the definition of innovation.

¹³ "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.

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.

2.29 Evidence¹⁵ 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 Survey¹⁶ provides an insight into higher education collaboration and technology transfer with the business and community sectors. While income generated through collaborative research with the private sector increased between 2002/03 and 2003/04 the number of university spin-off businesses fell to just 14 from 22 in the previous year.

2.30 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 ones¹⁷. 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 9 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.

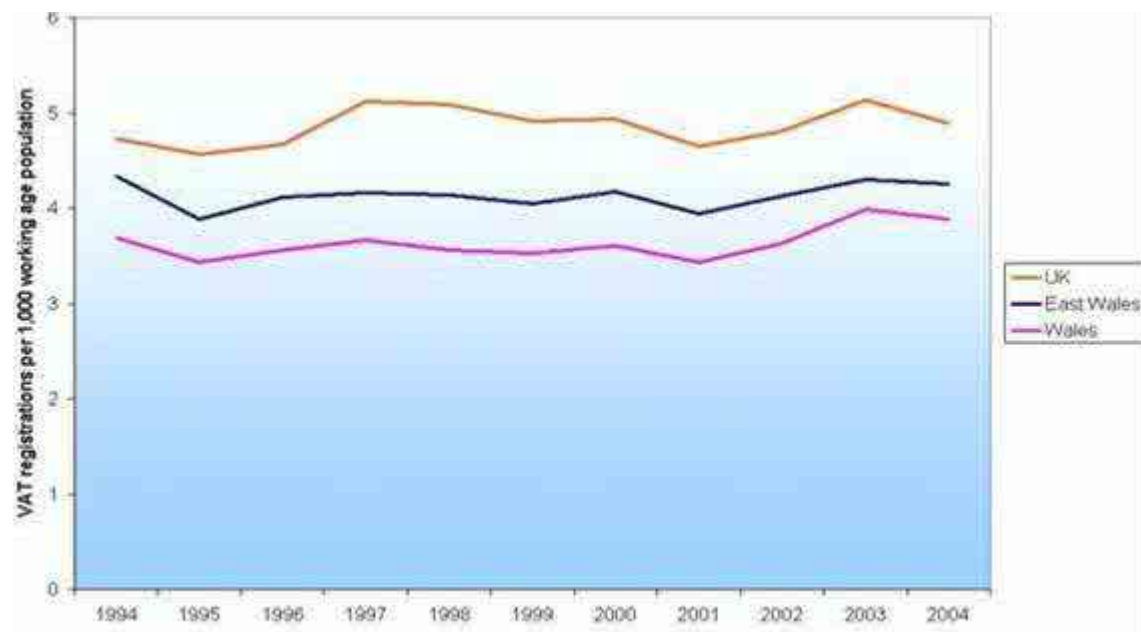
Figure 9. VAT Registrations per 1,000 working age population

¹⁴ 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>

¹⁵ Rodgers E.M et al (2000) Assessing the Effectiveness of Technology Transfer Offices at U.S. Research Universities.

¹⁶ 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

¹⁷ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence



Source: Small Business Service

2.31 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. 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.

2.32 The Global Entrepreneurship Monitor¹⁸ 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%).

Business finance

2.33 Incentives in the form of business finance are highlighted as an important factor for some business location decisions¹⁹ particularly for high value added mobile service sectors of the economy. Recent evidence highlights areas where market failures in the provision of business finance

¹⁸ 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/>

¹⁹ DTZ PIEDA CONSULTING. 2006. Factors Influencing the Location of Mobile Traded Services.

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 businesses²⁰, particularly for technology-based ventures²¹. The DTI²² 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 geographical²³ issues in the nature and distribution of venture capital activity which have an impact on Wales. The OECD²⁴ 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

Deprivation and urban regeneration

2.34 The evidence²⁵ 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.

2.35 Evidence on the significance of 'place' shows that the overall attractiveness of a town or region can have a significant impact on the economic outcomes of the inhabitants²⁶. 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. Overall deprivation can therefore be important.

²⁰ HM Treasury/Small Business Service (2003), Bridging the finance gap: a consultation on improving access to growth capital for small businesses, HMSO.

²¹ 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).

²² DTI (2004a), *Competing in the Global Economy – The Innovation Challenge*, DTI Economics Paper No. 7, Department of Trade and Industry, London.

²³
²⁴ 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.

²⁵ See for example, GLAESER, E, 2004 Four Challenges for Scotland's Cities, Available at: <http://www.fraser.strath.ac.uk/Allander/AllanderPapers.htm>

²⁶ Dynamic Small Towns: Identification of Critical Success Factors. Report for the Economic Research Advisory Panel 2002.

2.36 The Welsh Index of Multiple Deprivation 2005 (WIMD)²⁷ 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 deprivation²⁸. Figure 10 summarises the overall scores of deprivation across Wales.

2.37 As highlighted in Figure 10, areas of the upper valleys have the highest relative concentration of deprivation across Wales as a whole²⁹. 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.

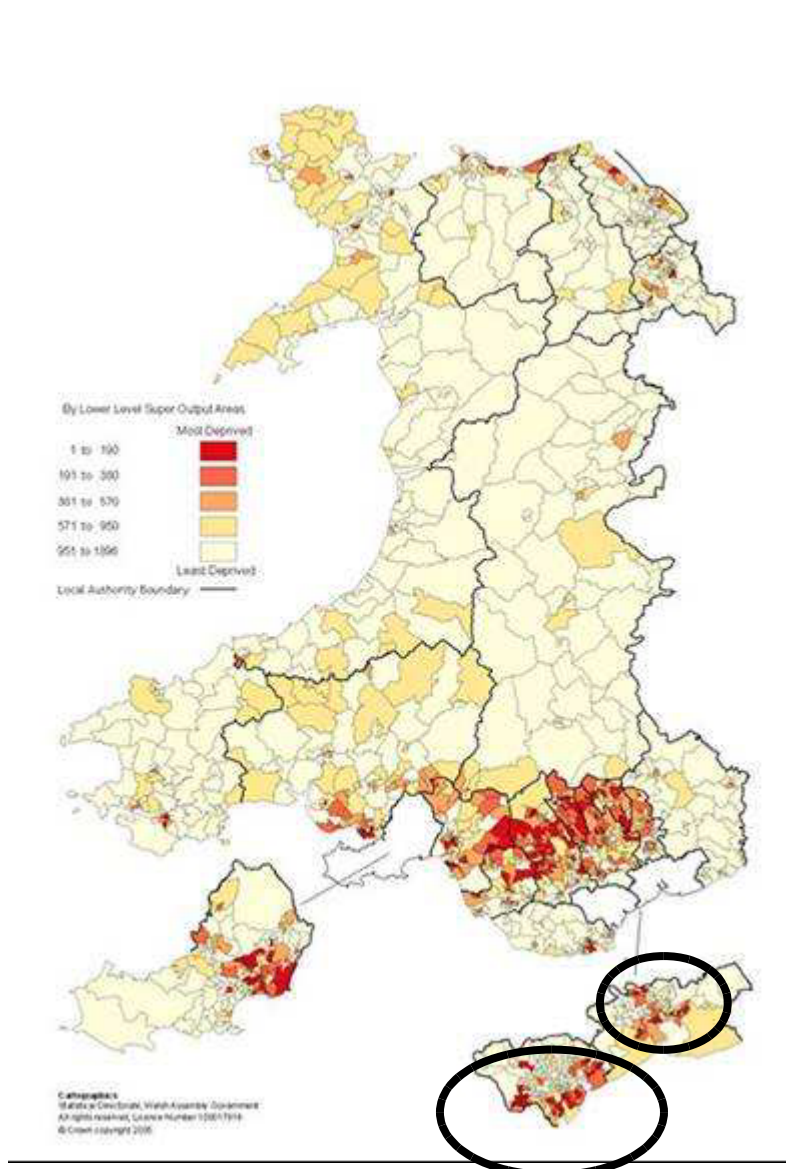
2.38 While rural deprivation is an issue in Wales, particularly in terms of access, overall the most deprived areas of East Wales are in urban areas. Within Powys (predominantly rural in nature) overall deprivation is low as shown by the light colours on Figure 10. The most deprived areas within Powys are actually urban in nature and are Newtown South and Welshpool Castle. Regeneration of urban areas in East Wales can not only help to alleviate current deprivation but can also act as a stimulus to attract individuals and investors.

Figure 10. Overall Index of Multiple Deprivation

²⁷ For further details see: <http://www.wales.gov.uk/keypubstatisticsforwales/wimd2005.htm>

²⁸ Income, employment, health, education, housing, access to services and environment.

²⁹ Although city wards of Cardiff, Newport and Swansea also suffer from high relative deprivation.



Source: Welsh Index of Multiple Deprivation 2005

Accessibility

2.39 The analysis of commuting provides interesting evidence to support the analysis presented in Figure 3 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.

2.40 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 survey³⁰ of the economically inactive in urban hot spots in Wales³¹ 43% of respondents agreed that transport problems make it difficult for them to find a job.

2.41 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.

The Environment

2.42 A number of less tangible factors can also be important in making East Wales an attractive place to invest in and work, notably quality of life, especially physical attractiveness. Aspects of community and culture may also play a role. The environment can therefore be an important driver of economic and social well-being, as well as being a public good in its own right. A high quality environment can stimulate the delivery of the growth and competitiveness agendas, as well as providing a public good. Preserving and enhancing the quality of the environment will be increasingly important for our economy and quality of life in the era of the knowledge economy.

2.43 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.

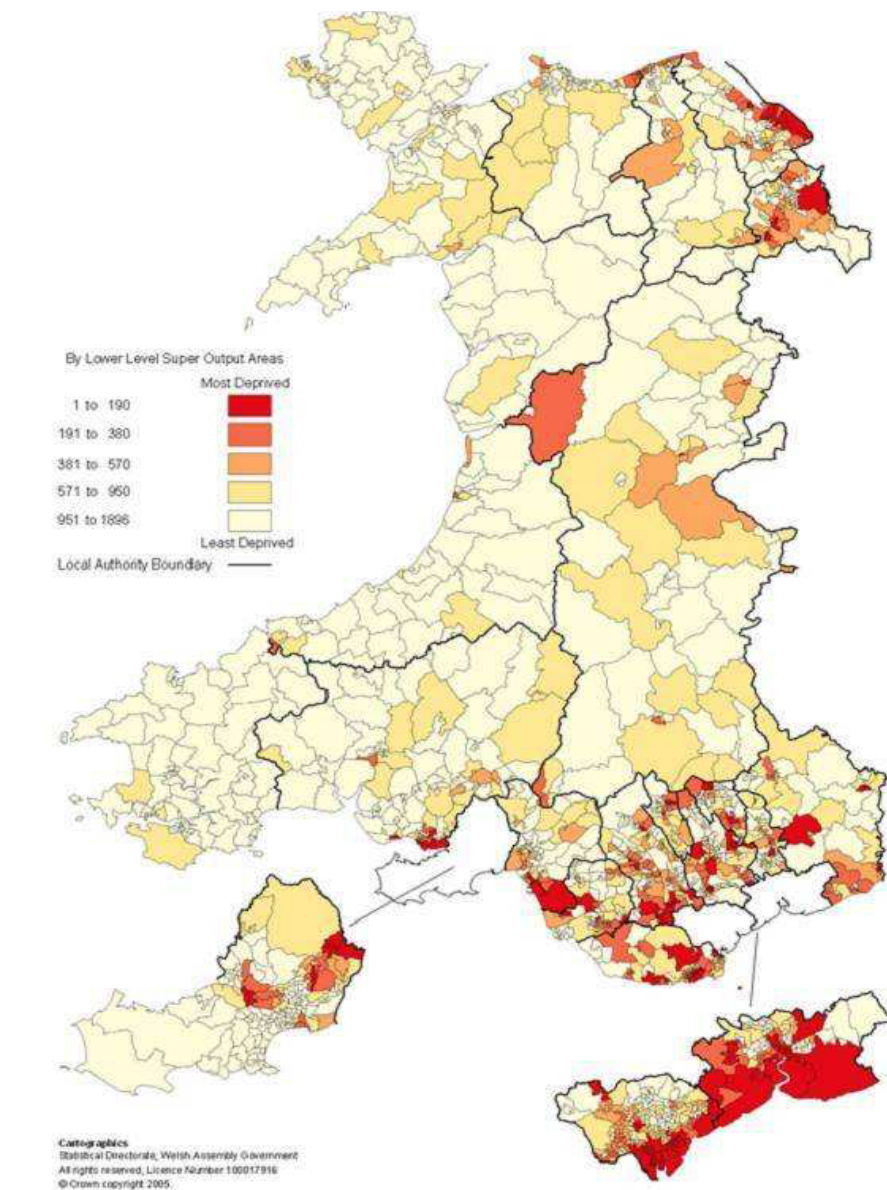
2.44 As shown in Figure 11 overall environmental quality as measured through the WIMD across East Wales varies considerably. Across Powys and Monmouthshire the general picture is one of relatively good environmental quality. In Cardiff and Newport however the relative environmental quality is

³⁰ 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>

³¹ Defined as Ringland (Newport), Ely (Cardiff), Townhill (Swansea);

lower. This is generally concentrated in the areas surrounding the docks of Cardiff and Newport and the heavy industrial areas.

Figure 11. Physical Environment Deprivation



Source: Welsh Index of Multiple Deprivation 2005

SWOT Analysis

2.45 The following summarises the socio-economic evidence in the form of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. This summary 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. A full SWOT analysis is presented following the full version of the socio-economic analysis for the Programme area.

Table 2. East Wales summary SWOT Analysis

Strengths	Weaknesses
<p>-Higher GVA per head than across Wales as a whole, explained by favourable labour market conditions and higher value-added per worker.</p> <p>-Higher employment rate and lower unemployment rate than the average for Wales as a whole.</p> <p>-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.</p> <p>-Higher self-reported product/service and process innovation than compared to the average for Wales and the UK as a whole.</p> <p>-Rise in income generated from collaborative research between higher education institutions and public and other organisations in Wales has been higher than across the UK as a whole.</p> <p>-Good quality natural environment and heritage in many areas of East Wales making the area attractive to individuals and investors with scope for increased tourism.</p>	<p>-Lower value added per job than the UK average, explained in part by a lower representation of employment in higher value added service sectors and a higher representation of employment in lower value added production and agricultural sectors.</p> <p>-Lower GVA per head across Powys than compared to Wales as a whole.</p> <p>-Higher economic inactivity rates than for the UK as a whole with more than 1 in 5 of the working age population economically inactive.</p> <p>-Higher long-term unemployment rate than for Wales and the UK as a whole.</p> <p>-Pockets of deprivation found in urban areas within Cardiff and Newport as reported in the Index of Multiple Deprivation</p> <p>-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.</p> <p>-Low R&D expenditure, especially in the business sector.</p> <p>-Lower rate of VAT registrations than compared to the average for the UK as a whole.</p> <p>-Difficulties in the take-up and accessibility of some ICT developments.</p> <p>-Lower rates of entrepreneurial activity as measured by the Global Entrepreneurship Monitor than the UK average.</p> <p>-Low levels of basic skills across Wales as a whole (sub-Wales data not available) than compared to England.</p>

Opportunities	Threats
<ul style="list-style-type: none"> -Potential for East Wales to benefit from agglomeration effects from South East Wales and proximity to large conurbations in England. -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. -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. 	<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. -Challenges posed by climate change.

CHAPTER 3: THE STRATEGY

Introduction

3.1 This chapter sets out the overall strategy for the East Wales ERDF Regional Competitiveness and Employment Programme. It considers the key challenges facing the region and reviews the progress made in addressing them, including with the support of the current Objective 2 Programme. The strategy sets out the Priorities, explaining how these will contribute to continuing and strengthening economic growth by raising the economic competitiveness and performance of the region. It has been developed in the context of both the European Commission's Integrated Guidelines for Growth and Jobs³² and the Community Strategic Guidelines for Cohesion 2007–2013³³. The strategy explains how the Programme will contribute to the UK's overall response to the Lisbon agenda for jobs and growth, as set out in the National Reform Programme³⁴ and the National Strategic Reference Framework (NSRF)³⁵ and in line with the principles agreed at the Gothenburg Council. It also explains how €72.452m of EU funds will be concentrated on maximising the potential for growth and jobs and adding value to the Welsh Assembly Government's strategies for supporting sustainable development.

3.2 This chapter provides justification for the thematic, geographical and financial concentration of the Programme in accordance with Article 37(3) of the General Regulation.

3.3 Finally, the strategy sets out the main principles that will guide the implementation of the new Programme, including the key role of national, regional and local partners. The development of the Programme will be taken forward reflecting the key principles of EU cohesion policy including partnership, transparency, co-financing, evaluation, proportionality, sustainable regional development, equal opportunities and added value.

Current EU Structural Funds 2000–2006

3.4 East Wales is benefiting from support of over £86m from the European Structural Funds Objective 2 Programme for 2000–2006. Coupled with match funding from the public, private and voluntary sectors, over 300 projects are receiving investment totalling some £280m, making a real difference to the futures of businesses, communities and individuals across the region. The Mid Term Evaluation Update (MTEU) of the Objective 2 Programme 2000–2006³⁶ estimated that up to 5,500 net new jobs and 500 net new SMEs will

³² Integrated Guidelines for Growth and Jobs (2005–2008)

http://ec.europa.eu/growthandjobs/pdf/COM2005_141_en.pdf

³³ Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013

http://ec.europa.eu/comm/regional_policy/sources/docoffic/2007/osc/050706osc_en.pdf

³⁴ Lisbon Strategy for Jobs and Growth: UK National Reform Programme, October 2005 http://www.hm-treasury.gov.uk/media/E60/3D/lisbon_jobs131005.pdf

³⁵ UK National Strategic Reference Framework: 2007–2013 consultation document

<http://www.dti.gov.uk/files/file26282.pdf>

³⁶ Mid-term Evaluation Update for Objective 2 Programme 2000–2006, Final Report, December 2005 by EKOS. Mid-term Evaluation Update for Objective 3 Programme 2000–2006, Final Report, December 2005 by Old Bell 3 for the Welsh Assembly Government:

have been created by the end of the programming period in 2009. Structural Funds have made a significant contribution to improving the region's economic prosperity in line with the Lisbon and Gothenburg reform agendas.

3.5 The new ERDF Regional Competitiveness and Employment Programme will build on this success and learn from the experience of past Structural Fund Programmes. Within the framework of priorities identified for 2007-2013, the new Programme will take forward existing interventions with a proven track record of success, while encouraging new and innovative approaches. It will not simply be more of the same but more of the best, with a strong focus on increasing business competitiveness and employment. The available funding will be devoted to building lasting economies and communities that will thrive and drive strong and sustainable economic growth. Investments will be made on the basis of future potential and this theme of long-term economic capacity building – essential for jobs and growth – will be the cornerstone of resource allocation.

3.6 As part of the Ex Ante Evaluation a review of previous evaluations of the 2000-2006 Structural Funds Programmes was undertaken in order to identify key conclusions and lessons learned. The review noted that:

- 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; and
- 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 the programmes to ensure that required changes are anticipated.

3.7 The key conclusions and recommendations are detailed in Annex D and the full report is included in the Ex Ante Evaluation Report at Annex E.

Key strategic challenges for East Wales

3.8 Chapter 2, the Summary Analysis, shows that East Wales performs well compared to the rest of Wales on almost all of the main economic indicators. Headline Gross Value Added per capita across East Wales is above the Welsh and UK average, driven by the success of Cardiff and the South-East Wales economy more generally. Across East Wales (and Wales as a whole) the labour market has improved significantly in recent years with rising employment and falling economic inactivity.

3.9 A more detailed analysis of the components that contribute to the GVA per capita level across East Wales highlights two key factors. Firstly, the high

<http://www.wefo.wales.gov.uk/default.asp?action=page&ID=1583>

jobs to employment ratio, which has a positive effect, and secondly, lower value added per job which has a negative effect.

3.10 The jobs to employment ratio essentially picks up commuting effects where individuals from outside East Wales commute into the Region for employment. South East Wales (and in particular Cardiff and Newport) acts as a hub for economic activity that supports employment opportunities for individuals outside the region including those from the less well off areas in the South Wales Valleys. This positive impact is diluted with distance, so that Powys doesn't benefit as much from the economic impact of the South East. Similarly, Powys is too distant from the employment centre of the North East to benefit from the more buoyant economies of the urban centres. Overall, Welsh towns and cities are relatively small, and much of Wales is sparsely populated and distant from major centres which reflects an inability to benefit fully from the strong agglomeration effects associated with such economic nuclei.

3.11 It should also be noted that despite higher GVA per capita, value-added per job (typically referred to as productivity) is lower in East Wales than across the UK as a whole. This feature is partly explained by the region's industrial composition and is not that Welsh workers are less productive than UK and EU counterparts. Despite East Wales having a more favourable industrial structure overall than Wales as a whole (in terms of higher representation of typically higher value-added sectors) the region is still under-represented in higher value-added service sector industries than compared to the UK average and the "average" obscures the extent of the diversity to be found across the Region.

3.12 While East Wales has seen a significant rise in overall employment it is important for the continued long term growth that the economy of East Wales continues to create higher value-added jobs as well as enhancing opportunities for those currently without work. The sub-region has a favourable skills profile with a higher proportion of its working age population at the upper end of the skills spectrum. However over one fifth of the sub-regions working age population is economically inactive and it will be important to improve employment prospects for these individuals. This is discussed further in the complementary ESF Operational Programme.

Table 3. East Wales challenges addressed by the Programmes

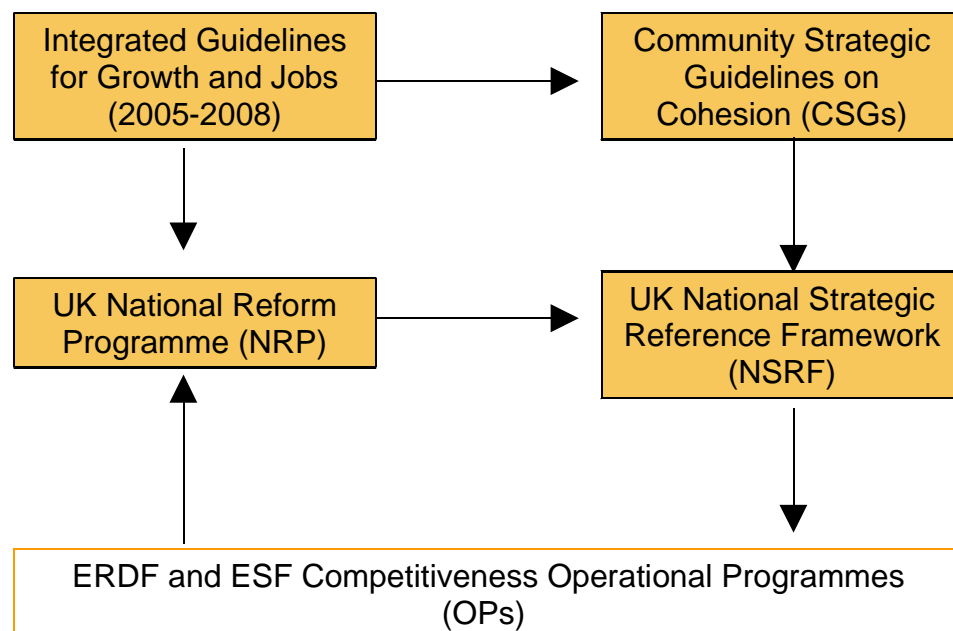
Challenges for East Wales	Intervention by the Programmes
<p>Value-added per job Lower value-added per job due to:</p> <ul style="list-style-type: none"> - adverse occupational or industrial mix; and - Sparsely populated areas within the region not the benefiting from the effects of agglomeration. 	<p>ERDF Priority 1 will help businesses to move up the value chain and will support investment in innovation and R&D.</p>

Knowledge and Innovation - Low R&D expenditure especially in the business sector	ERDF Priority 1 will support R&D in business and build capacity in Higher Education for the commercialisation of innovation
Enterprise - Lower rates of VAT registrations than compared with the average of the UK as a whole	ERDF Priority 2 will improve access to finance, information and support services to encourage business start-up and growth and by the development of clusters.
Transport There are a number of issues around - access to key services, particularly in the more rural parts of the Programme area, and - increasing concerns about the growing environmental impact of transport and congestion.	There is little scope for infrastructure in the ERDF Competitiveness Programme and this will be addressed through domestic programmes and policies. There is, however, scope for action is support of the small number of regeneration initiatives through ERDF Priority 4.
Environment - Good quality natural environment in many areas attractive to individuals and investors - Many parts need to improve its management of waste in response to stricter EU legislation	ERDF Priority 3 will support environmental protection and efficient utilisation of renewable energy and other resources. There will be scope to promote the Environmental Goods and Services Sector in ERDF Priorities 1 and 2.
Climate Change - Wales' CO ₂ emissions need to be reduced to meet UK's commitments under the Kyoto protocol.	ERDF Priority 3 will support actions to improve energy efficiency and the development of renewable and alternative technologies can be supported under ERDF Priority 1.
Social Deprivation – Pockets of deprivation found in urban areas within Cardiff and Newport, many with high concentration of residents from BME communities	ERDF Priority 4 seeks to address deprivation through a small number of integrated regeneration programmes to improve degraded urban environments.
Infrastructure Sites and premises: 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.	ERDF Priority 4 can provide for a small number of small scale sites and premises projects as part of integrated regeneration programmes.

Policy Response

3.13 The Structural Funds' Regulations anticipate a more strategic approach to programming in the 2007-2013 period, with a strengthening of the focus of EU Cohesion policy on the Lisbon and Gothenburg agendas for growth, jobs and sustainable development³⁷. Member States have approved a set of "Community Strategic Guidelines for Cohesion"³⁸ (CSGs), which provides a framework for helping to deliver the Lisbon objectives as defined in the Integrated Guidelines for Growth and Jobs. Not all elements of this framework are relevant to all regions of the EU and each region must select the most appropriate combination of investments to deliver the growth and jobs agenda, taking account of its particular strengths and weaknesses.

Figure 12. Links between Operational Programmes, CSGs and Integrated Guidelines



3.14 The CSGs establish that future Structural Fund programmes should address three main priorities:

- Enhancing 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

³⁷ Common Actions for Growth and Employment: The Community Lisbon Programme, 20 July 2005 (www.europa.eu.int).

³⁸ Community Strategic Guidelines on Economic, Social and Territorial Cohesion 2007-2013, Council of the European Union, 18 August 2006
http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/1180706_en.pdf

- Creating more and better jobs by attracting more people into employment, improving adaptability of workers and enterprises and increasing investment in human capital.

3.15 All three CSG objectives are relevant in shaping the Regional Competitiveness and Employment strategy for East Wales, where there is a need to focus investments on actions required to promote long-term competitiveness, job creation and sustainable development.

Figure 13. Link between CSG objectives and ERDF and ESF Competitiveness Priorities

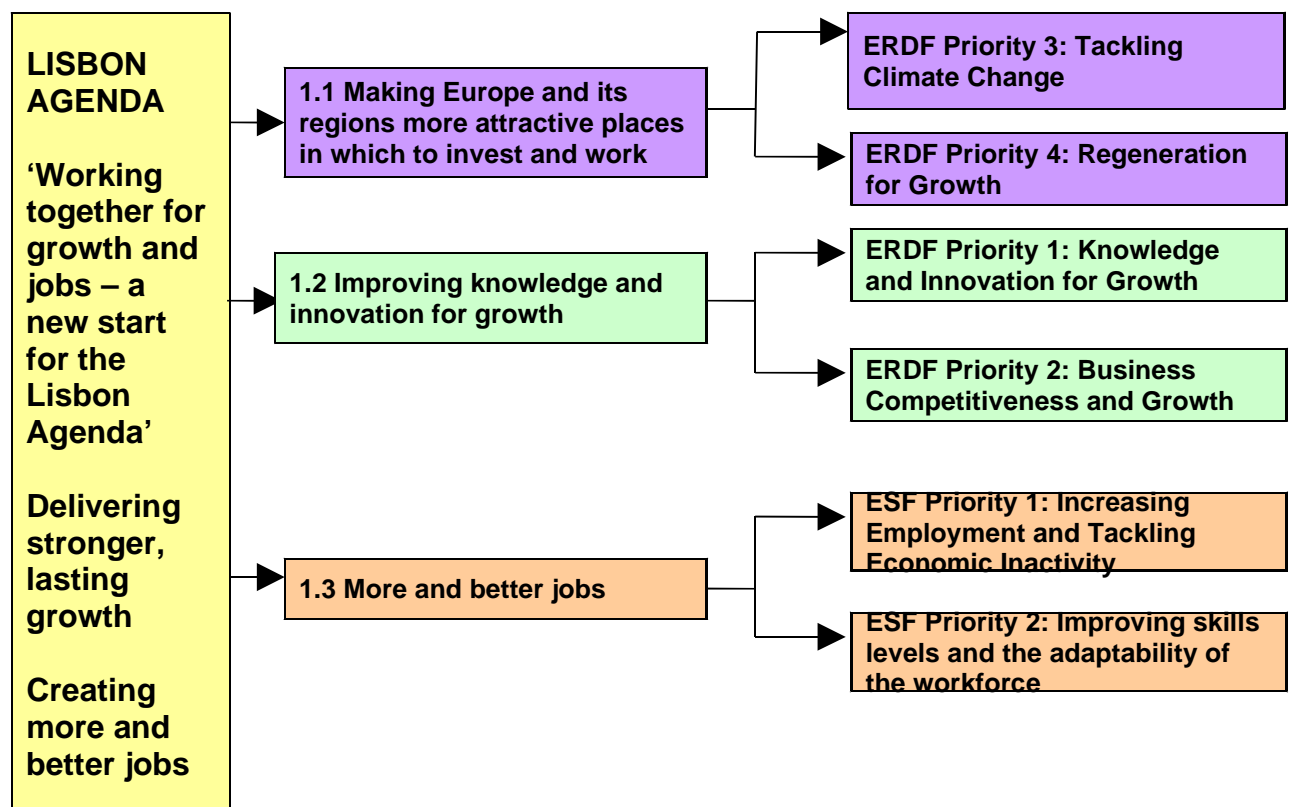


Table 4. Community Strategic Guidelines addressed by the Programmes

Guidelines	Addressed by the Programmes
1.1 Making Europe and its regions more attractive places in which to invest and work	
1.1.2. Strengthen the synergies between environmental protection and growth	ERDF Priority 3 aims to target a small number of measures to mitigate and adapt to climate change and support will be available under ERDF Priority 1 for innovation in the EGS sector

1.1.3. Address Europe's intensive use of traditional energy sources	Environmental Sustainability is a cross-cutting issue tackled throughout the programmes. ERDF Priority 3 will encourage businesses to reduce their resource consumption and consider alternative means of generation.
1.2. Guideline: Improving knowledge and innovation for growth	
1.2.1. Increase and better target investment in RTD	ERDF Priority 1 promotes a high value-added economy by fostering R&D.
1.2.2. Facilitate innovation and promote entrepreneurship	The region's capacity for Innovation is supported through ERDF Priority 1. Priority 2 promotes the growth and expansion of new and existing SMEs.
1.2.3. Promote the information society for all	The ERDF Programme will help the region's SMEs use ICT as part of integrated support for increasing innovation.
1.2.4. Improve access to finance	ERDF Priority 2 seeks to address areas of market failure in financial support mechanisms.

3.16 Guideline 1.3 More and Better Jobs is addressed by the ESF Operational Programme.

The UK National Reform Programme and National Strategic Reference Framework

3.17 The objectives and priorities of the East Wales Regional Competitiveness and Employment programmes are consistent with the Lisbon Strategy and will contribute directly to the overall UK National Reform Programme (NRP), which in turn responds to the Integrated Guidelines for Growth and Jobs. This response includes policies and actions to address the challenges of building an enterprising and flexible business sector, promoting innovation and R&D, widening opportunities for the acquisition of skills, improving employment prospects for the most disadvantaged and increasing innovation and adaptability in the use of energy and resources.

3.18 The contribution which the Structural Funds will make to this programme of reform is set out in the UK National Strategic Reference Framework (NSRF). The NSRF provides a policy framework to inform the preparation of Operation Programmes (OPs) at national and regional levels. It includes an analysis of the UK's economic strengths and weaknesses and specifies the strategy chosen for the Convergence and Regional Competitiveness and Employment programmes in each part of the UK. The UK NSRF includes a separate chapter setting out the strategy for regional economic growth in Wales and the Structural Fund priorities for both the Convergence and Regional Competitiveness programmes.

3.19 The ERDF Regional Competitiveness and Employment Operational Programme has four Priorities compared to the 2 Priorities described in the NSRF. This division was required so that the OP could be divided at a Priority level without the need for further Theme level splits. However, there remains a consistency between the strategies for both documents. The first two Priorities of the OP align with the “Building the knowledge-based economy” Priority of the NSRF. Priority 1 receives the majority of the resources to promote research, innovation and knowledge transfer and Priority 2 focuses on business support and business finance. The NSRF Priority “Environment for growth” has been split into Priority 3 of the OP which supports the energy and resource efficiency elements and Priority 4 which supports targeted approaches to regeneration.

Wales Policy Framework

3.20 The regional policy framework for supporting economic development has been developed in the context of *Wales: A Better Country*³⁹, the Welsh Assembly Government’s broader strategic policy agenda. In particular, actions to promote economic development must occur alongside other elements of this strategic agenda – namely improving quality of life for everyone by advancing social justice, improving the environment, health and education, in line with the *Wales Sustainable Development Scheme – Starting to Live Differently*⁴⁰.

3.21 The economic development strategy is set out in *Wales: A Vibrant Economy*⁴¹, reviewed in 2005 to set the strategic framework for the European Structural Funds programmes 2007–2013. Its vision is of a thriving, vibrant economy capable of delivering strong and sustainable economic growth by providing opportunities for all. The aims of *Wales: A Vibrant Economy*, which take forward the Lisbon Agenda, are:

- Increasing employment by supporting job creation;
- Investing in the regeneration of deprived communities;
- Helping businesses to grow and increase value-added per job, output and earnings by:
 - investing in transport, ICT networks and other economic infrastructure;
 - attracting more high value-added functions to Wales and supporting businesses and sectors with strong growth potential;
 - improving the skills base and delivering more demand-led training tailored to the needs of businesses;

³⁹ Welsh Assembly Government’s *Wales: A Better Country*.

<http://www.wales.gov.uk/themesbettercountry/index.htm>

⁴⁰ Welsh Assembly Government’s *Wales Sustainable Development Scheme*:

<http://new.wales.gov.uk/about/strategy/strategypubs/sustainscheme.jsessionid=FD3733C3E0866069FF7F44E3AE8B7870.www2?lang=en>

⁴¹ Welsh Assembly Government’s *Wales: A Vibrant Economy*.

<http://new.wales.gov.uk/docrepos/40382/4038231141/4038211251/403821125/4038211251/wave?lang=en>

- helping businesses to become more competitive by supporting the drivers to business growth: entrepreneurship, innovation, investment and trade; and
- Ensuring that all economic programmes and policies support sustainable development, in particular by encouraging clean energy generation and resource efficiency.

3.22 The Priorities of the ERDF Programme for have been designed to promote these common aims of the Lisbon Agenda and *Wales: A Vibrant Economy*, working within the framework of the Council Regulations, the resources made available, and reflecting the priorities in the East Wales region. The Programme has a strong focus on supporting the move towards a higher value added economy given the relative strength of East Wales. The Programme will mainly focus on Innovation and R&D, and also supports entrepreneurship, business growth and job creation, as well as limited interventions in sustainable development and the regeneration of deprived communities. Given the limited resources available investment in transport infrastructure is not planned whereas actions to improve skill levels are supported through the ESF Programme.

3.23 The ERDF Competitiveness Programme is supported and complemented by the ESF Competitiveness Programme and that programme will take a strategic lead from relevant policies such as the *Learning Country 2*⁴² and *Skills and Employment Action Plan 2005*⁴³ which takes forward Wales' lifelong learning agenda and demonstrates Wales' commitment to achieving the objectives of the *European Employment Strategy*⁴⁴. Alongside this, the Welsh Assembly Government strategies *Extending Entitlement* and *14-19 Learning Pathways*⁴⁵ specifically tackle the high proportion of 16-18 year olds with no qualifications and who are not in employment, education or training, and *Reaching Higher*⁴⁶, the Welsh Assembly Government's strategy for extending access to higher education.

3.24 The *Wales Spatial Plan*⁴⁷ provides the overall framework for future collaborative action between the Welsh Assembly Government and its partners to achieve sustainable economic growth and development in all parts

⁴² Welsh Assembly Government's *The Learning Country 2* consultation document, April 2006: http://new.wales.gov.uk/docrepos/40382/4038232/403821/the_learning_country_2/Learning_Country2_English.pdf?lang=en

⁴³ Welsh Assembly Government's *Skills and Employment Action Plan 2005*: <http://www.learning.wales.gov.uk/pdfs/c5104-seap-report-e.pdf - search='Skills and Employment Action Plan 2005 Welsh Assembly government'>

⁴⁴ European Employment Strategy: http://ec.europa.eu/comm/employment_social/employment_strategy/index_en.htm

⁴⁵ Welsh Assembly Government's *Extending Entitlement and 14-19 Learning Pathways*: <http://new.wales.gov.uk/docrepos/40382/4038232/4038211/40382121/extending-entitlement-makin1.pdf?lang=en> and http://new.wales.gov.uk/topics/educationandskills/policy_strategy_and_planning/learning_pathways/?lang=en

⁴⁶ <http://new.wales.gov.uk/docrepos/40382/4038232/4038211/40382121/reachinghigher-e.pdf?lang=en>

⁴⁷ Welsh Assembly Government's *Wales Spatial Plan*: <http://www.wales.gov.uk/themesspatialplan/content/spatial-plan-e.htm>

of Wales. It sets a 20-year horizon for development and for integrating the investment necessary for the sustainable development of communities throughout Wales. Economic development policies will take account of location differences and priorities and this requires co-ordinated action at national, regional and local levels. It also recognises the importance of cross-border and inter-regional, for example, between North East Wales and the areas of Merseyside and West Cheshire.

3.25 Spatial planning is the consideration of what can and should happen, and where. It investigates the interaction of different policies and practices across regional space, and sets the role of places in a wider context. It goes well beyond 'traditional' land-use planning and sets out a strategic framework to guide future development and policy interventions, whether or not these relate to formal land use planning control. The vision for the *Spatial Plan* is:

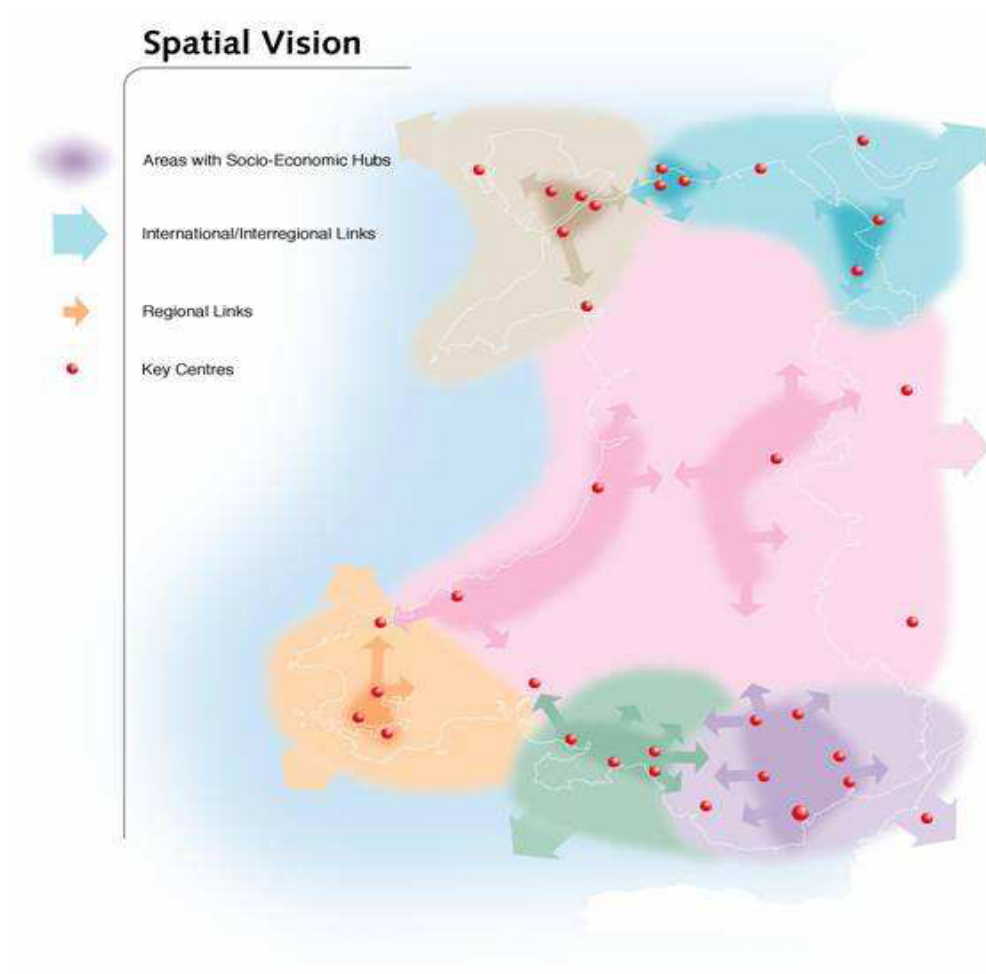
- *We will sustain our communities by tackling the challenges presented by population and economic change; we will grow in ways which will increase our competitiveness while spreading prosperity to less well-off areas and reducing negative environment impacts; we will enhance our natural and built environment for its own sake and for what it contributes to our well-being, and we will sustain our distinctive identity.*

3.26 There is recognition that 'one size' solutions do not fit all parts of Wales and distinctive local issues will require different approaches. East Wales includes the following *Spatial Plan* areas:

North East: An area harnessing the economic drivers on both sides of the border, where the challenges are to reduce inequalities and improve the quality of its natural and physical assets;

Central Wales: High-quality living and working in smaller-scale settlements set within a superb environment, providing dynamic models of rural sustainable development, where moving all sectors to higher value-added activities is a priority, and

South-East: An innovative skilled area offering a high quality of life – international yet distinctively Welsh. Its success lies in competing internationally by increasing its global visibility through stronger links between the Valleys and the coast and with the UK and Europe, helping to spread prosperity within the area and benefiting other parts of Wales.



3.27 The Welsh Assembly Government launched “*A Science Policy for Wales 2006*” for consultation in November 2006. This policy provides a framework for promoting scientific and technical research and the application of such research to business problems, products and services. It focuses on three areas – aspects of Health and Life Sciences, technologies for a low carbon economy and activities which support sustained economic and social renewal. The *Science Policy* will inform investments which boost science related R&D and its commercialisation as part of the Competitiveness strategy for Knowledge and Innovation for Growth. Exploitation and commercialisation will be further supported by a refreshed “*Wales Innovation Action Plan*”⁴⁸.

3.28 The new *Environment Strategy for Wales*⁴⁹ will provide opportunities for further development of the environment as a fast growing economic sector in its own right and will be used to ensure that the Structural Fund interventions are targeted so as to deliver economic and environmental progress in tandem and in line with the principles agreed at the Gothenburg Council.

⁴⁸ Welsh Assembly Government’s Innovation Action Plan:

⁴⁹ Welsh Assembly Government’s *Environment Strategy for Wales*:
www.countryside.wales.gov.uk/environmentstrategy

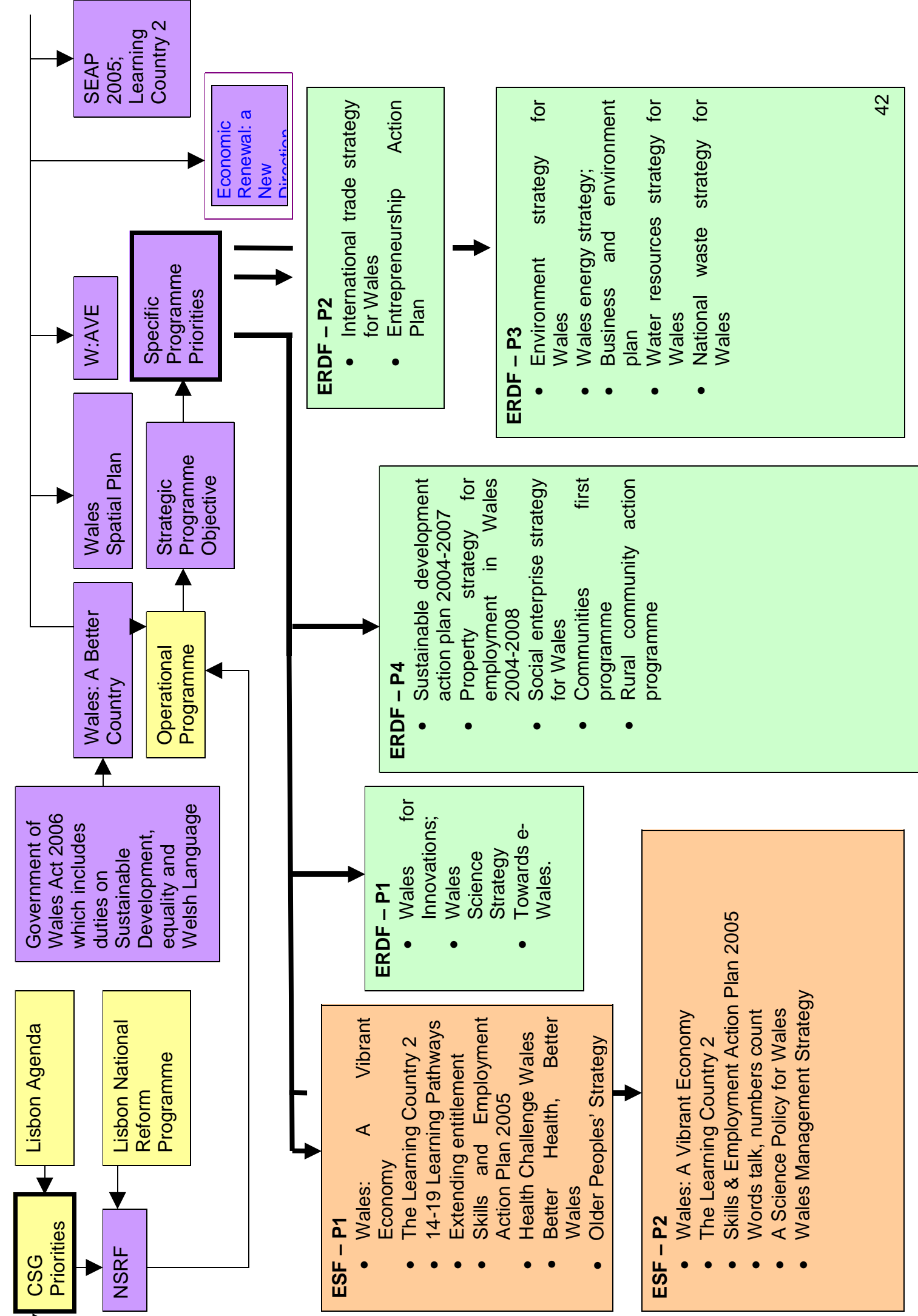
3.29 The Welsh Assembly Government is also developing a *Wales Transport Strategy*⁵⁰ to support its economic development strategy and the Wales Spatial Plan. The final Strategy, due to be published later in 2007, will provide a high-level framework for future transport plans and programmes, guiding investment to facilitate the development of a sustainable transport system. The Strategy will be based on three main themes, namely making effective and efficient use of the transport system, achieving greater use of the more sustainable and healthy forms of travel and minimising the need to travel.

3.30 In addition to the key policies outlined above, the Competitiveness and Employment Programme will be informed by a range of other thematic policies and strategies. These are highlighted in Chapter 4 in relation to the main Programme Priorities.

Figure 14. Wales Policy Map

(Overleaf)

⁵⁰ The Welsh Assembly Government's draft *Wales Transport Strategy – Connecting Wales*: <http://new.wales.gov.uk/consultations/closed/busandeconclocons/con-bus-transstrategy/?lang=en>



Objectives for the ERDF Competitiveness and Employment Programme

3.31 The priorities have been developed to give effect to the vision for creating a thriving, vibrant and competitive region that has a highly skilled, innovative workforce that can compete internationally. They are designed to:

- (a) promote a high value-added economy by improving knowledge and innovation for growth;
- (b) promote business competitiveness and growth;
- (c) tackle the challenges of climate change; and
- (d) encourage regeneration for growth.

3.32 These priorities will deliver the Lisbon objectives of improving economic growth and providing additional jobs for the people of East Wales with complementary relationships between economic, social and environmental policies.

PROGRAMME MODIFICATION 2010

3.35 In July 2010, following a comprehensive review, consultation and stakeholder engagement, the Welsh Assembly Government's Deputy First Minister and Minister for the Economy and Transport announced a fundamental change in the Assembly Government's approach to supporting economic development. A fresh approach to policy making and a reassessment of the role of government in shaping the economy and the conditions and environment for business to flourish was undertaken against the backdrop of a global recession.

3.34 Economic Renewal: a New Direction⁵¹ sets out the role for devolved government in shaping the economy and the most favourable conditions and framework to enable private and third sector growth and success in Wales. The five priority areas for delivering Economic Renewal: a New Direction are:

- investing in high quality and sustainable infrastructure;
- making Wales a more attractive place to do business;
- broadening and deepening the skills base;
- encouraging innovation; and
- targeting business support.

3.36 Economic Renewal: a New Direction focuses on concentrating public resources where they can add the most value i.e. as an enabler of growth for the economy. Key roles identified for government in order to underpin economic growth and wellbeing in Wales, are to provide high quality

⁵¹ <http://wales.gov.uk/topics/businessandconomy/help/economicrenewal/programmepapers/newdirection/?lang=en>

sustainable infrastructure and to make Wales a more attractive place to do business.

3.37 The Economic Renewal programme also advocates a reduction in direct support to business in favour of a targeted sector-based strategic approach and the promotion of an investment culture. Interventions should be better targeted in areas where Wales can gain a competitive advantage.

3.38 Innovation is also identified as a priority area and key driver of productivity, economic growth and long-term improvements in wellbeing. The role of R&D in stimulating innovation and the need to tackle barriers to investment are recognised.

3.39 On 3 March 2010, the European Commission launched the Europe 2020 Strategy to help the EU emerge stronger from the global economic crisis and move towards a more sustainable, more inclusive and more innovative economy in the next decade.

3.40 Building on the achievements and lessons learnt from Lisbon strategy, Europe 2020 put forward three mutually reinforcing priorities:

- Smart growth: developing an economy based on knowledge and innovation;
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy; and
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

3.41 The priorities of the Welsh Assembly Government's economic development strategy Economic Renewal: a New Direction, and the priorities contained within this Operational Programme are fully aligned with the aims of Europe 2020, sharing common goals of promoting a knowledge economy and of social and environmental sustainability.

3.42 In line with Articles 33 and 65 of Regulation 1083/2006, this Operational Programme was revised to take greater account of changes in Welsh Assembly Government policy and in consultation with, and with the agreement of, the All Wales Programme Monitoring Committee.

Concentration of Resources

3.43 The rationale for thematic, geographical or financial concentration within the Programme in accordance with Article 37(3) of the General Regulation is explained in the following paragraphs.

Thematic and Financial concentration

3.44 The aim is to focus on the investments that are required to increase long-term competitiveness, job creation and sustainable development. This is

particularly important because the new Programme is a relatively small programme, with European resource of €72.452million. The programme will focus on those interventions that contribute to the Lisbon growth and jobs agenda by addressing the main weaknesses and challenges identified for East Wales. This means more investment in research and development (R&D), innovation as well as entrepreneurship and aspects of the environment, compared to the current Objective 2 Programme. This concentration will be achieved by:

- Targeting 86% of the overall Competitiveness resources on categories of investment identified in Article 9 of Regulation (EC) 1083/2006 of 11 July 2006 as supporting the objectives of Integrated Guidelines for Growth and Jobs, compared with the minimum target of 75%. For the ERDF programme, the specific target will be 75%.
- Focussing the Priorities of the Programme on the policies contained within the Community Strategic Guidelines, the UK National Reform Programme and UK National Strategic Reference Framework Ensuring that the Competitiveness Programme contributes to relevant priorities identified in the UK's National Reform Programme.
 - Reflecting the Welsh Assembly Government's key policies and strategies, including *Wales: A Vibrant Economy*, which in turn is closely aligned with the Lisbon and Gothenburg strategies.
 - Using the framework of the *Wales Spatial Plan* to target resources on areas of need and opportunity.
 - Implementing key parts of the Programme in a way that maximises impact.
 - Fostering synergies with other EU and national policies on the ground.

Geographical concentration

3.45 With the exception of ERDF Priority 4, it is not proposed to target the Programmes spatially. The impact of the East Wales programmes will be enhanced by the ability to operate in synergy with the Strategic Framework structure which also covers the West Wales and the Valleys Convergence Programmes. This approach was also strongly supported by respondents to the public consultation on the Programmes.

3.46 The resources available through ERDF Priority 4 will be focussed on a small number of regeneration projects that will benefit the most deprived communities in East Wales. The specific geographical areas will be prioritised by the relevant Spatial Plan Area Groups which are well placed to consider local needs and prioritise resources.

Framework of Priorities

3.47 In line with the European Commission's agenda for simplification of Structural Funds programming and implementation, the new Competitiveness Programme will be implemented through a simplified structure, comprising separate ERDF and ESF Operational Programmes. There will be no 'measure level' programming. Rather than the Priorities and seven Measures under the 2000-2006 Objective 2 (Core) Programme, there will be four Priorities as identified below (plus the Technical Assistance Priority). The four priorities are:

Priority 1: Knowledge and innovation for growth

3.48 This Priority will focus on promoting economic growth through developing and encouraging the take-up of higher value-added products and processes, allowing businesses to grow and to improve their competitiveness and productivity through technological advances and process innovation.

3.49 Analysis of the factors that contribute to higher GVA per head across East Wales shows that the region benefits from having a larger number of jobs compared to the working age population. This reflects commuting patterns and shows that East Wales supports jobs from the rest of Wales and the sub-regions' economic performance has obvious implications for Wales as a whole. However, lower productivity across Wales (which accounts for 50% of the gap in GVA per head compared to the UK average) as a whole is explained by Wales' being over-represented in lower value-added industries, and an inability to benefit from strong agglomeration effects. East Wales is over-represented in declining industries (agriculture and production) and under-represented in higher value-added service sector industries. However, the Region has a higher proportion than the UK average of individuals with higher level skills indicating that there is the potential to move the economy up the value chain.

3.50 Therefore, it will be critical to drive up economic growth and value-added in the economy by the development, take-up, and improvement of products, processes and services, both in manufacturing and services. The successful exploitation of research, technology and innovation will be critical to achieving the ambition of a thriving competitive economy. With the low level of business R&D expenditure compared to other parts of the UK, businesses need to be encouraged to collaborate in order to create a 'virtual agglomeration effect'. Higher education, further education and business will be encouraged to work together in order to promote technological development, transfer and commercialisation. In line with the strategy set out in *Wales: A Vibrant Economy* and *Economic Renewal: a new direction*, sectors with potential for high growth will be targeted. One area where Wales is a market leader is in the environmental goods and services sector, and the active development of this sector will help Wales face up to the challenges of climate change, developing markets for alternative technologies and renewable energy. Targeted support for ICT can also assist here.

3.51 This Priority will focus on promoting research and technological development and the ability to commercialise, providing targeted ICT

infrastructure and promoting utilisation of ICT to support innovation and developing the capacity of businesses to take on improved products and processes.

3.52 The following table illustrates how this Priority will contribute to the EU and UK policy priorities.

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL7: Increase and improve investment in R&D GL9: Facilitate innovation and uptake of ICT GL10: To strengthen the competitive advantage of the European industrial base
Community Strategic Guidelines	GL 1.2.1: Increase and improve investment in RTD GL1.2.2: Facilitate innovation and promote entrepreneurship
UK National Reform Programme	Increasing business investment in R&D and innovation (3.45–3.53)
UK NSRF	Promoting a high value added Welsh economy (183)

Priority 2: Business Competitiveness and growth

3.53 While East Wales has a higher GVA per head than Wales as a whole, the region's lower value-added compared to the UK is explained by an over-representation of lower value-added industries, a lower proportion of individuals with high level skills and an inability to benefit from strong agglomeration effects. East Wales is over-represented in declining industries (agriculture and production) and under-represented in higher value-added service sector industries. The number of VAT registrations per head of working age population across East Wales (and Wales as a whole) is below the UK average, which, although resulting from the industrial structure, partly explains the GVA gap with the UK.

3.54 Business start-up and business growth will be encouraged through targeted business support and adequate access to business finance. There will be a particular focus on enabling businesses with high growth potential to maximise their potential opportunities and to be more responsive to market opportunities, recognising the crucial role of SMEs. Wales: A Vibrant Economy⁵² identifies ten sectors widely recognised as important for future economic growth. These are: automotive; aerospace; agri-food (not relevant for ERDF purposes); high-technology; pharmaceuticals / bio-chemicals; financial services; creative industries; construction; hospitality, leisure and tourism; and social care. However, there are a range of other sectors and clusters of importance to the development of a sustainable economy, including energy and environmental-related sectors. Further sectors may be identified following more detailed sectoral and structural analysis of change in

⁵² <http://new.wales.gov.uk/about/departments/dein/publications/wave?lang=en>

the Welsh economy, such as the environmental goods and services sector referred to above.

3.55 Following the publication of the Economic Renewal programme, business support in Wales is to focus upon 6 sectors: ICT; Energy and environment; Advanced materials and manufacturing; Creative industries; Life sciences and Financial and professional services. These sectors correspond to around one third of private sector employers in Wales in business turnover and employment terms. They have demonstrated above average growth at the UK level and are projected to perform well into the future. Particular weighting has been given to those sectors which are enablers within the wider economy, for example in providing opportunities for exploiting ICT, creating green jobs, resource efficiency and moving to a low carbon economy.

3.56 This Priority will support entrepreneurship and assisting the growth and expansion of businesses and support targeted improvements in access to business finance.

3.57 The following table illustrates how this Priority will contribute to the EU and UK policy priorities.

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL15: Promote a more entrepreneurial culture and create a supportive environment for SMEs GL10: Contribute to a strong European Industrial Base
Community Strategic Guidelines	GL 1.2.2: Facilitate innovation and promote Entrepreneurship GL 1.2.4: Improve access to finance
UK National Reform Programme	3.19–3.24 Promoting Entrepreneurship 3.25 Improving access to finance
UK NSRF	Creating a favourable business environment (184)

Priority 3: Tackling Climate Change

3.58 The choice of location of individuals and enterprises is often influenced by the attractiveness of the environment. East Wales has shown continued increases in population driven by net in-migration – based on the quality of the natural and physical environment in many parts of East Wales. However East Wales also suffers from relatively high levels of poor environmental quality, including air and water quality, and more can be done to encourage sustainable energy use and effective waste and environmental management. Preserving and enhancing this critical asset is an important driver for economic growth and building a sustainable economy, as well as quality of life. There is considerable potential to improve and promote the sustainable management of these resources in a way that will create job opportunities and improve the socio-economic conditions of local communities.

3.59 This Priority will help tackle the challenges of climate change through mitigation and adaptation measures. It will promote environmental protection

and help respond to environmental risk. This will include promoting the use of clean and renewable energy and encouraging energy and resource efficiency.

	Contribution of Priority to EU and UK Policy Priorities
Integrated Guidelines for Growth and Jobs	GL11: Encouraging the sustainable use of resources and strengthen the synergies between environmental protection and growth
Community Strategic Guidelines	GL 1.1.2: Strengthen the synergies between environment protection and growth GL 1.1.3. Address Europe's use of traditional energy sources
UK National Reform Programme	3.82–3.91 Protecting the environment through sustainable and innovative resource use
UK NSRF	Promoting a high value added Welsh economy (183)

Priority 4: Regeneration for growth

3.60 Despite the strong picture painted by the headline economic indicators there are still pockets of deprivation across East Wales. In fact, the variation between various parts of the region is greater than between the region and other parts of the UK and the EU. These severe pockets of multiple deprivation are particularly concentrated in the urban areas of Cardiff and Newport.

3.61 In order to address these issues, this Priority will focus on targeted approaches to tackling deprivation and improving local economies in an integrated way across the most deprived communities of East Wales. It will enable people living in our most deprived communities to contribute to, and benefit from, the achievement of the Lisbon objectives for growth and jobs.

	Contribution of Priority to EU and UK Policy Priorities
Community Strategic Guidelines	GL 2.1: Contribution of cities to growth and jobs GL 2.2: Supporting the economic diversification of rural areas
UK NSRF	Building sustainable communities (185)Wales

Technical Assistance Priority

3.62 A separate Technical Assistance (TA) Priority will provide support for programme management and implementation, including technical support, communications and publicity, research and evaluation and targeted capacity building actions. A brief outline of the strategy for utilising TA is provided in Chapter 6, Implementation Arrangements.

Approach to added value

3.63 The Programme will build on investments supported under current and previous programmes, drawing on the evaluation of their impact and the lessons learnt in their implementation. It is clear that the European Structural Funds are adding value to the implementation of national policies and programmes in Wales both in terms of substance and process. This emphasis on added value will be carried forward into the new programme period.

3.64 In terms of the Programme's overall aim and objectives, the Structural Funds will complement national policies and support a closer alignment with EU level policies for supporting economic development. Making the most of these synergies will help to ensure that maximum value is derived from the new Programmes. Multi-annual programming also provides a firm basis for longer term action aimed at addressing more fundamental or intractable issues and effecting transformational change.

3.65 In terms of actual investment, the Structural Funds will add value to current provision in a number of ways too. This includes introducing new services or extending the provision of existing services, for example by providing additional investments in the economic infrastructure that would not otherwise have been there or providing new R&D capacity. Value can also be added by improving the quality of services or infrastructures, for example, providing more sophisticated innovation support services to drive the knowledge economy. Furthermore, there is an opportunity to bring forward investments that might be planned for some point in the future, for example, taking forward regeneration activities identified by the Wales Spatial Plan Groups, or bringing forward investments in transport or waste infrastructure. The Structural Funds will also add value through increasing the focus on equal opportunities for all and environmental sustainability through implementation of the cross-cutting themes.

3.66 Value from the Structural Funds also comes through process. One key benefit is the interaction encouraged between partners at national, regional and local levels in the shared endeavour of promoting economic growth. Such partnership working has been a key feature of the preparatory phase of this new Programme and will be extended to include partnership at the Spatial Plan Area level and the arrangements for Strategic Frameworks. The Funds also promote the principles of transparency, fairness and equal opportunities and these principles will continue to be reflected in the arrangements for dispersing funds. Finally the Structural Fund programmes encourage innovation and provide a platform for working with other regions and a wide range of organisations to share best practice.

Market failure

3.67 Interventions under the programme will be designed only to counter market failures. In this regard market failure can manifest itself on both supply and demand side. In terms of supply, there is evidence of gaps in the provision for example of business finance where new or more risky type enterprises can struggle to raise commercial funds; banks and other lending

institutions may not wish to participate in businesses which are unproven, or the costs of providing services may be higher in a peripheral region such as East Wales than in other regions. On the demand side, businesses may lack knowledge and information to understand what their business needs are and where they should seek assistance. The public sector has a role to play in facilitating businesses capacity to access services in both the public and private sector.

Cross Cutting Themes

3.68 In addition to the priorities outlined above, two Cross Cutting (or horizontal) themes will be integrated into all aspects of the ERDF Competitiveness Programme in accordance with the requirements of EU Regulation 1083/2006 Articles 16 and 17. The strategy for implementing the two Cross Cutting Themes of equal opportunities and environmental sustainability is addressed in more detail in Chapter 5.

Environmental Sustainability

3.69 The growing evidence of climate change and its wider consequences emphasise the importance of decoupling economic growth from increasing demands on the environment. The Competitiveness Programme will add value by supporting actions that increase resource efficiency, improving the environmental performance of business and promoting innovation in clean and energy efficient technology.

3.70 The considerable potential of the environmental goods and services sector will be promoted by the Competitiveness Programme and the protection of the natural environment will help to maintain the attractiveness of the region.

Gender equality and equal opportunities for all

3.71 The Competitiveness Programme will add value by encouraging and promoting positive actions in respect of equal opportunities and so do not discriminate, actively or passively, against individuals and enterprises. Programmes should address issues linked to exclusion, prejudice, discrimination and inequality, to the extent that they interact with employment.

3.72 Assistance will be provided for actions that enable access to business support measures, including targeted interventions for previously excluded groups, particularly Black and Minority Ethnic people and disabled people. Activities will be encouraged that challenge gender stereotyping, support women and men into non-traditional areas of work, and encourage work life balance, along with approaches that actions in the ESF programme.

Complementarity between ERDF and ESF Programmes and other EU policies and funding instruments

3.73 The following text outlining complementarity and demarcation between the ERDF Programme, ESF Programme and other EU Programmes is supplemented by a matrix at Annex Q.

3.74 The Sustainable Development Strategy adopted by the Commission on the 15-16 June 2006⁵³ sets out the strategy on how the EU will meet the challenges of sustainable development. It states that “In order to ensure that EU funding is channelled and used in an optimum way to promote sustainable development, Member States and the Commission should co-ordinate to enhance complementarities and synergies between various strands of Community and other co-financing mechanisms, such as cohesion policy, rural development, LIFE+, research and development (RTD), the Competitiveness and Innovation Program (CIP), and the European Fisheries Fund (EFF)”.

ERDF and ESF

3.75 The ERDF and the ESF Competitiveness Programmes for East Wales have been developed together, ensuring that the priorities identified for the two programmes will complement and add value to each other. There are close linkages especially in promoting competition and raising the skills of the workforce and promoting adaptability, and also in the area of building sustainable communities, where getting people into sustained employment is recognised as critical for long-term well being of individuals, families and thriving communities. Increasing employment is a key driver of economic growth and one of the factors that will continue to raise productivity in East Wales. These programmes will work together to support the vision of vibrant Welsh economy.

3.76 The Competitiveness programmes will encourage joined-up approaches to implementation and project development by seeking to maximise synergies between ERDF and ESF interventions. In particular, use will be made of the provisions in Article 34(2) of Regulation (EC)1083/2006 of 11 July 2006 which allow up to 10% of the funds available within each Priority axis to finance, in a complementary manner, actions falling within the scope of assistance of the ERDF or ESF fund. The approach to deploying this flexibility is outlined in respect of each of the relevant Priorities in Chapter 4.

EAFRD and EFF

3.77 In line with Article 37(1) of EC regulation 1083/2006, strict demarcation criteria and mechanisms for co-ordination between the ERDF and ESF on the one hand and the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) on the other are set out below. This explains how the Welsh Assembly Government will ensure that there is maximum synergy and value for money, while avoiding duplication or double-funding.

⁵³ <http://register.consilium.europa.eu/pdf/en/06/st10/st10117.en06.pdf>

3.78 As a general principle, ERDF funded activities will primarily address rural issues as part of wider regional, sub-regional or national activity contributing to improved economic performance or as part of integrated employment and skills programmes. This will include interventions that help to develop the knowledge based economy at a strategic level, enable small and medium sized enterprises to become more competitive and more efficient in their use of natural resources, building sustainable communities, and increasing employment by supporting appropriate economic infrastructure investments.

3.79 RDP funding will be focussed on supporting diversification of rural economies at the local level. This includes interventions in agriculture, including supporting innovative farm diversification, food processing and woodland enterprises. More widely, it would also include enabling growth of existing micro-enterprises and encouraging start-ups, and offer targeted interventions to improve the quality of life in rural areas and encourage diversification of economic activity.

3.80 The EFF programme will provide the support to develop and manage viable and sustainable marine and inland fisheries, including aquaculture, as an integral part of coherent policies for safeguarding the environment. The overarching aims are for sustainable exploitation of fishery resources and to improve the sustainable development and competitiveness of aquaculture and the aquatic environment. The EFF will support the processing and marketing of fisheries products and of inland fishing, as well as carrying out the objectives of the Common Fisheries Policy and developing enterprises in the fisheries sector. It will also promote the sustainable development and the improvement of the quality of life of fisheries areas.

Demarcation and Complementarity

Priorities 1 and 2

3.81 Examination of the indicative activities under the ERDF Programme shows that there is no issue of demarcation for priorities 1 and 2. ERDF Funding will not be available for agriculture, forestry or fisheries, or the primary processing of agricultural, forestry or fisheries products. ERDF will not be used to support current initiatives such as Farming Connect, the Farm Advisory Service or new entrant's schemes as this support will only be available to farming / forestry enterprises. The ERDF will not support agri-food schemes or primary processing of agricultural and / or forestry products. This principle will apply equally to EFF in respect of fish and shellfish products.

3.82 The biggest scope for complementarity under these two priorities exists in the fit of specific business support and financing instruments for rural development, and in support for innovation. There is potential for joint working, in particular, with business support measures such as the Assembly Government's Business Eye. Under the RDP, support available under Axis 1 is very carefully targeted on agriculture forestry and food processing, as it is

for the development of fish and shellfish products through EFF, although innovative developments may facilitate co-operative working between funds.

3.83 Scope for complementarity also exists in actions to improve both the coverage of first generation broadband and access to next generation broadband to businesses and homes. The detailed demarcation criteria and guidance on complementarity is included in the eligibility rules and the relevant Strategic Framework

Priority 3

3.84 ERDF will target schemes that have potential economic benefits and environmental enhancement, including the use of innovative technologies to address the challenges of climate change. The provisions of 1698/2005 require all beneficiaries of Axis 2 of the RDP to be either registered agricultural and / or forestry businesses and support under the RDP will be limited to this target group. EFF will focus on marine protection issues.

3.85 There are opportunities for joint working on the achievement of wider environmental targets including climate change, water quality / quantity, air pollution, waste management etc. In addition, there is potential for synergy between the activities of different land owners on adjacent areas and links with community focused environmental and biodiversity improvements. Synergy with EFF is most likely in coastal areas where activities supported under ERDF Priority 3 could enhance marine focused activities.

Priority 4

3.86 There is scope for clear demarcation and complementarity between the RDP and the ERDF Competitiveness priority: Regeneration for Growth. The projects and priorities for funding under the ERDF will be agreed at the level of the Spatial Plan Area Group and will be detailed in the Integrated Regeneration Strategic Framework for that area. The RDP 2007-2013 funded activity will occur within a single local authority area or through similar projects taking place in adjacent local authorities using co-operative working. The RDP will set the principles and key areas for action and the exact activities to be undertaken will be determined through the local development strategies. The RDP local development plans will be agreed in conjunction with the Spatial Plan area group, and vice versa.

3.87 With regard to the EFF, actions specific to that sector or the sectoral interests of the beneficiaries and their families will be funded through the EFF. These will be outside the scope of the ERDF.

3.88 Given that ERDF funding is likely to be limited, the Spatial Plan Area Groups will focus on where the ERDF can best be concentrated to complement the RDP and EFF activity. These activities will form part of wider regeneration programmes.

Further guidance and appraisal mechanisms

3.89 The Welsh Assembly Government recognises the need to take account of the demarcation and complementarity set out above in the implementation of the ERDF programme. This will be done in three ways:

- Detail of the respective ERDF, RDP and EFF actions in the relevant 'strategic frameworks' in the areas where there is potential for overlap, primarily the integrated regeneration frameworks being put in place by the Spatial Plan Area Groups covering the physical regeneration aspects of Priority 4.
- A specific statement in the Structural Funds' eligibility rules that farmers and those engaged in primary processing of agricultural, fisheries or forestry products are not eligible for support from the ERDF for these activities.
- A guidance note for potential project sponsors, developed jointly with staff working on the RDP and the EFF programmes for Wales.

3.90 The scaled approach that has been adopted for implementation of the ERDF and the RDP is well founded on evidence. Further, this scaled approach is one of the key foundations of the Leader programmes and its strength lies in that it can access a range of support measures and deliver them in a single package rather than being limited to a set of designated target groups and / or activities.

3.91 To eliminate the potential for double funding and to maximise complementarity at a project level, further communication will be made between the respective teams at application stage. As part of the WEFO process, applicants will need to show how their project fits with the relevant strategies and programmes. Part of this will be the RDP and the EFF and WEFO appraisal officers will ensure that where any project has the potential to fit into the demarcation or complementarity areas as outlined above, the relevant officers will be consulted and rigorous appraisal will be carried out.

3.92 Post approval, projects will be subject to strict monitoring to ensure that the terms of the approval are adhered to and any subsequent request to amend a project will be given equally careful consideration.

3.93 A reciprocal arrangement will be introduced for projects submitted under the RDP and EFF.

Links with the Wales Spatial Plan

3.94 The Wales Spatial Plan is about reflecting honestly and clearly on the way a whole range of activities and investments occur across Wales. It aims to ensure the Welsh Assembly Government's policies and programmes come together effectively with the workings of local government, business and other partners across Wales to enable a truly sustainable future. This principle will also extend to the implementation of the ERDF Programme and is particularly

important in respect of the parts of the programme that will be included in the Spatial Framework and which link to the RDP 2007-2013, and the EFF programme, where a considerable degree of local determination is being introduced.

3.95 To ensure that the proposals put forward under the framework are commensurate with the proposals for each of the Local Development Strategies, it has been agreed that these will be shared with the relevant Local Action Groups prior to agreement with WEFO. In addition, the Local Area Groups will also be responsible for co-ordinating with the spatial Strategic Framework, and so will inform project selection under the RDP programme.

3.96 Co-ordination between the funding instruments will be ensured during implementation through ongoing close working between the Departments within the Welsh Assembly Government responsible for delivering the different funds.

Other European initiatives

3.97 The Welsh Assembly Government welcomes the European Commission's JESSICA and JEREMIE initiatives. Both of these initiatives are operated jointly between the European Commission (DG Regio), the European Investment Bank (EIB) and the European Investment Fund (EIF), and open up options for lending facilities to complement ERDF activities. **JEREMIE** (Joint European Resources for Micro to Medium Enterprises) is a micro-financing facility within the EIB drawing on resources from both Structural Funds and the EIB. The objective would be to create a new source of capital for the kind of businesses (e.g. start-ups) that often have difficulty accessing finance. **JESSICA** (Joint European Support for Sustainable Investment in Cities Areas) is an optional facility offering Member States and Managing Authorities the possibility to allocate funds from Operational Programmes to Urban Development Funds or Holding Funds.

3.98 The UK participated in a scoping exercise as part of phase 1 of JEREMIE. Carried out by the EIF and SBS, this took the form of a gap analysis and evaluation of venture capital instruments within the UK. A JEREMIE report for Wales is being produced in partnership between the EIF and the Welsh Assembly Government through Finance Wales, and its recommendations will be taken into account in determining any future Wales engagement in the programme. Similarly, opportunities to make use of JESSICA will be considered when they arise.

3.99 Other European policies and instruments such as the Research Framework programme 7⁵⁴ are dealt with under ERDF Priority 1, and the Employment and Skills and Lifelong Learning Strategies are discussed in the ESF Programme.

⁵⁴ European Commission's Research Framework programme 7 (FP7) for 2007–2013 'Building the Europe of Knowledge': http://ec.europa.eu/research/future/index_en.cfm

Monitoring and Evaluation of Progress

3.100 The Welsh Assembly Government considers high quality monitoring and evaluation to be essential for effective programme management and evidence-based policy decision making. Monitoring and evaluation made an important contribution to the management of the 2000-2006 Structural Funds Programmes in Wales and the lessons learned from monitoring and evaluation have been taken on board in the design of the 2007-2013 Structural Funds Programmes. Monitoring and evaluation will continue to have key roles to play in maximising the quality and effectiveness of the 2007-2013 Programmes.

3.101 The Welsh Assembly Government's approach to assessing the success of the Structural Funds Programmes is based around:

- tracking progress of a range of economic indicators, notably employment, earnings and GVA, in absolute terms and relative to other parts of the UK and EU;
- monitoring against the indicators set for individual priorities, grossed up to programme level;
- programme-level evaluation;
- strategic framework-level evaluation; and
- project level evaluation.

Tracking indicators

3.102 The high level tracking indicators set out in *Wales: A Vibrant Economy* have been developed to provide a broad and robust picture of the fundamentals of sustainable economic growth. The indicators will be used both to monitor progress over time against the baselines and to compare Wales against other countries and regions. Many of these tracking indicators are also available at NUTS II level and will therefore be used, in addition to other appropriate indicators, to provide a balanced assessment of progress in the East Wales economy. Where data are not available at NUTS II level, appropriate alternative indicators have been identified. Progress will also be tracked against selected Lisbon indicators, many of which overlap closely with the indicators set out in *Wales: A Vibrant Economy (W:AVE)*, but some of which are defined slightly differently.

3.103 It should be noted that performance against these indicators is dependent on other factors such as macroeconomic trends and global events. Nevertheless, the following high level economic development tracking indicators provide the overall context for assessing the progress of East Wales. The use of these tracking indicators will ensure that broader trends in the economy, including structural changes, are taken into account in the evaluation of the effectiveness of the Competitiveness Programme in Wales.

Table 5. Programme level tracking indicators⁵⁵

Category	Indicator		Wales	East Wales - Total	Date
High-level economic	1	GVA (£ per capita) ⁱ	13,244	16,993	2004
	2	Household disposable income (£ per capita) ⁱ	11,435	12,023	2005
	3	Employment rate (within working age population) ⁱ	69.1	72.0	2005
	4	Average earnings (£, weekly, full-time, including overtime) ⁱ	466	485	2006
Labour market	5	Economic inactivity rate (within working age population)	27.1	24.3	2005
	5a	Economic inactivity rate excluding students (within working age population)	24.5	21.1	2005
	6	Unemployment rate (within economically active population) ⁱ	5.2	4.8	2005
	7	Migration flows (net flow into area)	12,400	3,200	Avg mid-02 to mid-05
Value added per job	8a	GVA (£ per worker) ⁱ	29,984	33,667	2004
	8b	GVA (£ per hour worked) ⁱ	18.1	20.1	2004
Investment	9	Business investment as a percentage of GVA ^{i, ii}	13.6	..	Avg 2002 to 2004
Innovation	10	Gross domestic expenditure on research and development as a percentage of GVA ⁱⁱⁱ	1.2	..	Avg 2002 to 2004
	11	Business Enterprise Research and Development (BERD) expenditure (percentage of GVA)	0.6	..	2005
	12	Proportion of sales accounted for by new or improved products ^{iv}	17.5	..	Avg 2002 to 2004
Skills	13	Qualifications of working age population (percentage educated to at least NQF level 3)	45.0	49.0	2005
	13 a	Qualifications of 16-18 year olds (percentage educated to at least NQF level 2)	67.0	71.0	2005
	13 b	Qualifications of 19-21 year olds (percentage educated to at least NQF level 3)	51	58	2005
	14	Proportion of employees in professional, technical, managerial and scientific employment	36	40	2005

⁵⁵ Indicators are measurable at NUTS 2 level, except where noted.

Enterprise	15	Total entrepreneurial activity, as measured by the Global Entrepreneurship Monitor (a)	5.3	5.4	2006
	15 a	VAT /PAYE enterprise births per 10,000 of 16-64 population	58	62	2005
	15 b	VAT/PAYE enterprises per 10,000 of 16-64 population	473	508	1 Jan 2006
	16	Graduate business start-up rates	..	..	..
Competition	17	Exports as a percentage of GVA	21.3	..	2005
Social cohesion	18	Percentage of working age adults in workless households ^v	15.4	13.5	Spring 2006
	19	Percentage of children in workless households ^v	17.5	15.9	Spring 2006
Equal opportunities	20	Female earnings as a percentage of male earnings (hourly, full-time, excluding overtime)	88.0	86.8	2006
Sustainable development	21	Environmental Satellite Accounts	..	..	..
	22	Quantity of industrial and commercial waste produced per annum	..	..	..
	23	Carbon emissions as a percentage of Gross Value Added	..	..	..
	24	Renewable and waste energy consumption as a percentage of total energy consumption	..	..	..

.. not available

i Indicator similar to short listed Lisbon Structural Indicator.

ii Indicator not currently available at NUTS I or NUTS II level, may become available.

iii Indicator not currently available at NUTS II level, may become available.

iv Indicator not available at NUTS II level, unlikely to become available.

v Indicator not in W:AVE, alternative proposed. Data not currently available but expected to be available later in 2007.

vi Indicator not in W:AVE, alternative proposed

(a) Total early-stage entrepreneurial activity (TEA) is defined as the percentage of the adult working age population actively participating in the process of starting up a new business, or currently active in running a business that is less than 42 months old.

Programme level indicators and targets

3.104 Headline Programme level indicators and targets have also been selected by aggregating key Priority level indicators and their associated targets. Baseline information is also presented in the table below. All targets are to be achieved by 2015.

Table 6. Programme level indicators and targets

Indicator	Baseline	Target
Gross jobs created ⁵⁶	540,000 Workplace employment in EW 2005 (Workplace employment by industry in Wales – pub July 06, WAG)	5,340FTE
Enterprises created ⁵⁷	Number of new-starts in East Wales	510
Enterprises assisted ⁵⁸	69,700 Enterprises active in EW (2003 Size Analysis of Welsh Business, 2003 pub. Sept 2004, WAG)	1,750
Profit benefit ⁵⁹	-	£30,000,000
Investment induced ⁶⁰	£231 million All Wales 2005 Business R&D spend – UK Business Enterprise Research and Development, 2005, Nov 2006, Office for National Statistics	£115,000,000
New or improved products, processes or services launched ⁶¹	-	400
Collaborative R&D ⁶²	-	10

3.105 The Managing Authority is committed to reporting against Commission core indicators. Through monitoring indicators, management information and evaluation, the Managing Authority, as defined in Chapter 6, will be able to report against 19 of the 41 of these, as set out in Annex B. The frequency with which these can be reported against will be subject, in some cases, to the undertaking of ongoing evaluation during the Programme. The Managing Authority will also report against additional indicators selected in partnership; these are detailed under each Priority.

Strategic Implementation

⁵⁶ Gross number of full-time equivalent jobs directly created through a Structural Fund intervention.

⁵⁷ Gross number of enterprises started as a result of Structural Fund assistance or financial support.

⁵⁸ Number of enterprises assisted (consultancy advice, guidance or information) through a Structural Fund intervention.

⁵⁹ The amount of increased profit enterprises make from savings or productivity benefits, which have resulted from Structural Fund assistance or financial support.

⁶⁰ The amount of private sector investment, in tangible or intangible assets, levered in as a result of a Structural Fund intervention.

⁶¹ Number of new or improved products, processes or services developed to commercialization or internally implemented.

⁶² Number of collaborations between an enterprise and a research institution; the collaboration is an ongoing relationship spanning the length of an R&D project.

3.106 In addition, experience and lessons learned suggest that a more strategic approach to implementation will help ensure that the new programmes make an even stronger contribution to sustainable economic development. Evaluations of the 2000–2006 programmes have suggested that there are too many projects and that it is difficult to quantify the contribution of some of these to achieving the strategic aims and objectives of the programmes. There is much to be gained by bringing complementary projects together within the context of Strategic Frameworks to drive the delivery of key parts of the programmes.

3.107 The Welsh Assembly Government has agreed a set of principles to guide the development and implementation of future Structural Fund Programmes. These include ensuring that programmes are aligned with relevant Government policies and strategies that contribute to the Lisbon and Gothenburg strategies and that they are delivered through projects for which there is a demonstrated strategic need, based on hard evidence. The Government has also agreed that there should be fewer projects, but with ‘deeper’ interventions. There will be more emphasis on regional collaboration in the development of strategies and projects, taking account of the *Wales Spatial Plan* and simpler funding streams, through alignment of delivery with existing funding mechanisms and an emphasis on pre-match funding and on co-financing.

3.108 The *Wales Spatial Plan* will set the framework for choices both on policy priorities and for delivery. It provides the basis for how the Welsh Assembly Government works with its partners and will provide a framework for Structural Funds implementation and partnership arrangements. It also forms the basis for building links between urban and rural areas to support a sustainable future for communities and businesses. The *Wales Spatial Plan* will help ensure that resources are targeted on areas of need and opportunity. The Spatial Plan Area Groups will advise on the priorities for investment under Priority 4, Regeneration for Growth. The Spatial Plan Area Groups will also play a role in helping to ensure that other programme priorities are implemented in ways which take account of and respond to the needs of their areas. In taking forward this work, the area groups will need to work with relevant stakeholder groups.

3.109 In order to maximise the impact of the future Structural Fund programme and to ensure that strategic targets are met, proposals are set out to deliver the programme through ‘Strategic Frameworks’. It is anticipated that the majority of the programme might be delivered through these ‘Strategic Frameworks’. The frameworks will provide an overall context within which projects can be developed and implemented to support a specific part of the new programme. Further information on this more strategic approach to delivery and the principles which will guide the development of the new frameworks is provided in Chapter 6, Implementation Arrangements.

3.110 Successful delivery of the programme via strategic frameworks will be closely monitored through performance review of projects approved in the framework areas and through on-going evaluation at project and framework

level. Frameworks will be periodically reviewed with the involvement of the appropriate partners and any adjustments needed to these operational strategies will be made in the light of accumulated data and evaluation results in order to ensure optimum programme delivery. In addition, overall performance of the Programme will be monitored by the PMC.

Welsh Language

3.111 The Welsh Assembly Government wants Wales to be a truly bilingual nation where people can choose to live their lives through the medium of either Welsh or English or both and where the presence of the two languages is a visible and audible source of pride and strength to everyone. In order to fulfil that vision, the Welsh Assembly Government has made a commitment – in *laith Pawb*⁶³, the National Action Plan for a Bilingual Wales and its Welsh Language Scheme – to mainstream the Welsh Language across policy areas. The implementation of the Competitiveness programmes will reflect this commitment, including a focus on the Welsh language as an economic driver.

Mainstreaming of Community Initiatives

3.112 ERDF Priority 4 focuses specifically on integrated approaches to regeneration. The 2000-2006 programmes had a strong record of rural diversification and urban improvement, as well as the very successful URBAN II programme running in Wrexham and previously Swansea. The lessons of these programmes show that it is critical to gain community involvement in regeneration and a single priority is proposed to ensure that this integrated approach will be delivered.

3.113 The URBAN II programme in West Wrexham targeted a number of neighbouring communities with similar socio-economic conditions, encouraging collaboration across administrative boundaries to address common problems. Key lessons that have been learned from the URBAN II West Wrexham programme are being taken into account in the post-2006 programme. They include: defining outputs and results clearly and applying them consistently; being aware of the time and cost requirements of community involvement; avoiding the inflexibility of working within measures. The Strategic Framework implementation arrangements will allow future interventions to be part of integrated urban development concepts, comprising an analysis of the socio-economic situation, strategic objectives, concrete actions, allocation of finances and structures for implementation.

3.114 The West Wrexham programme demonstrated the potential for programmes to take a holistic approach to regeneration, which can include a range of interventions including promoting SMEs, training, social inclusion and physical regeneration. Such an approach will be built on, in particular, through ERDF Priority 4 of the Competitiveness Programme.

⁶³ Welsh Assembly Government's *laith Pawb*:

http://new.wales.gov.uk/about/departments/dlhc/publications/Welsh_language/laith_pawb?lang=en

Innovative Actions

3.115 The revised Lisbon strategy places a strong emphasis on activating knowledge and promoting innovation. This is reflected in the Community Strategic Guidelines which encourage the development of strategies with specific provision for experimentation to stimulate regional and local actors to innovate and the new regulatory requirements concerning the mainstreaming of innovative actions. Innovation in this context is broader than traditional 'technological innovation'. It is defined as the generation of new knowledge and its transformation into new products, processes or services that respond to a demand from citizens. It includes social innovations that support the modernisation of the economy, as well as the reform of employment and social inclusion policies and actions.

3.116 The Competitiveness Programme will encourage innovation through agreed Strategic Frameworks and will actively support the dissemination of outcomes and the sharing of best practice. Rigorous evaluation will be a core feature of all projects promoting innovation and the results of this experimental work will be used to inform both policy and delivery, with the lessons learned feeding into mainstream programme implementation and project development. A strategy to promote this mainstreaming will be developed in consultation with the Programme Monitoring Committee (PMC) as part of the arrangements for implementing all ERDF and ESF Programmes. The scope for innovative action will be identified in consultation with partners as part of the Strategic Frameworks and will subsequently be agreed with the Managing Authority (see Chapter 6 – Implementation). This will cover the potential for mainstreaming action. Innovative action projects will be subject to specific monitoring and evaluation and will operate under standard eligibility rules. All innovative action projects will be subject to external evaluation.

Transnational and inter-regional Co-operation

3.117 The new regulatory framework also provides for the mainstreaming of trans-national and inter-regional co-operation. This provides an exciting opportunity to add value to the implementation of the Competitiveness programmes by facilitating collaboration in areas of mutual interest with other European regions.

3.118 The emerging ***Regions for Economic Change*** initiative offers significant opportunities for East Wales in the area of mainstreaming transnational and innovative actions, as well as specific actions under the inter-regional cooperation aspect of the Territorial Cooperation Objective. *Regions for Economic Change* is aimed at exchanging best practice between Europe's regions.

3.119 The initiative provides opportunities for organisations in Wales to engage with regions in other areas of Europe around themes connecting European Union policies to the Lisbon agenda. It introduces a new vehicle for regions to share and test best practice for economic modernisation and

increased competitiveness and to disseminate results into mainstream programmes.

3.120 While projects involving partners from across the European Union will be considered, particular emphasis will be given to activities with Member States and regions with which the Welsh Assembly Government has formal co-operation agreements. These include Latvia, Brittany, Catalonia, Upper Silesia and Baden-Württemberg. It will also be possible to build upon successful trans-national co-operation arrangements established under the URBAN initiative and with other regions

3.121 In the framework of the Regions for Economic Change initiative the Managing Authority commits itself to:

- make the necessary arrangement to welcome into the mainstream programming process innovative operations related to the results of the networks in which the region is involved;
- allow in the Programme Monitoring Committee the presence of a representative (as an observer) of the network(s) where the Region is involved, to report on the progress of the network's activities;
- foresee a point in the agenda of the Programme Monitoring Committee at least once a year to take note of the network's activities and to discuss relevant suggestions for the mainstream programme concerned; and
- inform in the Annual Report on the implementation of the regional actions included in the Regions for Economic Change initiative.

Partnership

3.122 As set out in *Wales: A Better Country*, the Assembly Government cannot achieve everything alone. We value the links we have forged with local government, business, trades unions, the voluntary sector, education and training, environment and equal opportunities organisations, and we will continue to work in partnership in developing and implementing our Programme.

3.123 There is a strong track record in the current programmes of working closely with the private sector on programmes and projects. This is continuing through membership of the expert workstreams and the External Stakeholder Group. The private sector has been able to lever in significant amounts of match funding for projects, and we expect this to be an important part in the 2007-2013 programmes. Business will access support mainly through intermediaries, as part of strategic frameworks.

3.124 The five workstream groups that were established in 2005 have made significant contributions to the development of the programme. Papers prepared by members of the Operational Programmes Workstream were used

as the basis for early drafts of the programmes. While programmes have been revised following the consultation exercise, many of the fundamental interventions are those that were agreed with partners through the workstream process. The Programme Management Workstream is actively engaged in development of the implementation aspects of the programme and sub-groups have been established looking into detailed processes and guidance. The Monitoring and Evaluation Workstream has provided constructive input to the development of the indicators and the ex-ante process.

3.125 In accordance with Article 11, partnership arrangements will continue in place as programme activity is developed, prepared, implemented, monitored and evaluated. These arrangements will include the operation of the Programme Monitoring Committee, the development and implementation of Strategic Frameworks and the input of the Spatial Plan Area Groups. More detail of these partnership arrangements is provided in the Implementation Chapter (Chapter 6).

Consultation

3.126 The Wales chapter of the NSRF and the Regional Competitiveness and Employment programmes have been developed through an extensive process of engagement with partners. This has included an External Stakeholders Group, which brings together representatives of the main partner organisations and five workstreams which contain experts from across the private, public and voluntary sectors. These workstreams have supported the development of the new Operational Programmes and have advised on future programme management, evaluation and monitoring and audit and compliance arrangements.

3.127 The Competitiveness programmes consultation was launched by the First Minister on 1 December 2006 for a period of 8 weeks, and the consultation closed on 26 January 2007. Three events to complement the consultation were held in the region during January 2007 and were attended by 124 delegates. A total of 40 formal responses were received as part of the public consultation.

Table 7. Responses to the public consultation by sector

Sector	Number of responses
Voluntary & Community Sector	5
Economic Development / Training Partnerships	3
Private Sector	3
HE / FE organisations	3
Trade / Professional Associations	2
Local Authorities	10
Government Agencies	5
National Assembly for Wales	3
Environment, Culture & Heritage	6
Other	0

Summary of Comments

3.128 The consultation raised a number of key themes throughout:

- broad support for scope and content of the strategy, priorities and themes
- greater detail requested on the diversity between the sub-regions in the East Wales area in the Analysis;
- mixed views on the level of focus on the Lisbon agenda, strong support from some and concern about a reduced focus on some areas of activity from others;
- support for the role of higher education in economic development;
- more information requested on the role of the Wales Spatial Plan and its interaction with the proposed Strategic Frameworks;
- emphasis on the importance of transport;
- a perceived lack of emphasis on the tourism sector;
- support for the strategic frameworks' approach in East Wales – ensuring coherence with the Convergence Programmes;
- support for the use of the Wales Spatial Plan Groups to provide a focus for prioritising resources under ERDF priority 4;
- support for a single PMC, with recognition that the needs of East Wales should be ensured a fair coverage.

3.129 Details of the full range of comments received are given at Annex K.

Summary of Ex Ante Evaluation

3.130 In accordance with Article 45, Ex Ante Evaluations have been undertaken for the Competitiveness Programmes (ERDF and ESF) to ensure that resources are allocated optimally and to maximise the quality of plans for programme implementation. In April 2006, following a competitive tender process, DTZ Consulting and Research were contracted by WEFO to undertake these Ex Ante Evaluations.

3.131 The ERDF Competitiveness Ex Ante Evaluation 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 made by DTZ during the evaluation process have been implemented. Where recommendations have not been implemented it is because WEFO is concerned about the reliability of data (particularly with regard to forecast information) or of comparability of wider UK and EU(25) data with Welsh sources. However the overall conclusion is that the Analysis forms a robust foundation for the strategy of the Programme.

3.132 The appropriateness of the strategy in terms of the findings of the Analysis was assessed by DTZ. A number of recommendations were made in order to ensure that the needs for intervention were well-evidenced, and

that the link between the Analysis and the strategy was clear. Many of the recommendations were implemented and DTZ concluded that the process has made the OP a more coherent and valid document.

3.133 DTZ found a satisfactorily high level of internal consistency with very little in the way of overlap or conflict between Priorities. However, there is one area of potential conflict in the effect 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.

3.134 DTZ concluded that in the main the objectives and aims of the Programme are cohesive with related policies and programmes at EU, UK and Wales level and fit well with the Community Strategic Guidelines and the Lisbon priorities. The only recommendation in terms of consistency with European policies 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.

3.135 In terms of implementation arrangements it was concluded that almost all recommendations have been addressed although some recommendations (for example, the development of a high-level risk register, and provision of more detailed project selection criteria) are being implemented out with the OP.

3.136 In summary, the Ex Ante Evaluation has been characterised by a high degree of positive and productive interaction between the evaluators and WEFO. The vast majority of recommendations and suggestions made by DTZ have been accepted by WEFO and have been incorporated in the draft of the OP.

Summary of Strategic Environmental Assessment

3.137 As required under Directive 2001/42/EC, a Strategic Environmental Assessment (SEA) has been undertaken alongside the development of the ERDF Competitiveness Programme and Ex Ante Evaluation. The purpose of the SEA is to ensure that the Programme meets the high level of environmental protection expected of EU Structural Fund programmes. Royal Haskoning were sub-contracted by DTZ Research and Consulting (the contractors for the Ex Ante Evaluations) to undertake the SEA during 2006. The SEA has four stages: screening, scoping, consultation on the draft Environmental Report, and, finally, production of a finalised Environmental Report.

3.138 The dominant adverse environmental impacts identified in the SEA are seen to arise from the key economic driver of increased development and the associated use of primary materials, primary fuels and energy, and consequent emissions to land, air and water. However, it was found that the

environmental effects of economic growth due to the Programme would be considerably offset by the Programme's promotion of resource efficiency and conservation. 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.

3.139 A fuller summary of SEA findings is presented in the SEA Non-Technical Summary at Annex F, and in the Environmental Report at Annex G.

3.140 WEFO has taken a number of steps to ensure that potential adverse environmental impacts of the Programme are minimised, and to ensure that positive environmental effects are maximised. These steps are outlined below, along with a summary of how the specific issues raised through the SEA process have been taken into account.

3.141 The flood and coastal risk management branch of the Welsh Assembly Government has an emergency plan in place for Wales. Smaller scale flood management plans are managed by the Environment Agency.

Summary of how environmental considerations have been integrated into the Programme

3.142 The Programme is designed to ensure the strong complementary relationship envisaged under the Lisbon and Gothenburg strategies between economic, social and environmental issues. It also reflects the focus of the Community Strategic Guidelines in preserving the environmental potential of the region.

3.143 During the 2000 – 2006 programming period, independent research found that environmental sustainability had been integrated well into the Objective 1 Programme. A similar approach is being adopted for the 2007 – 2013 programming period: horizontal and vertical activities addressing environmental sustainability objectives, with indicators used to encourage projects to address those objectives and to measure progress.

3.144 In terms of vertical actions, the ERDF Competitiveness Programme will add value by supporting SMEs in the environmental goods and services sector and funding actions that increase resource efficiency by improving the environmental performance of business and promoting innovation in clean and energy-efficient technology.

3.145 There is also increasing evidence of the potential benefits of the environment as an economic driver, on which East Wales has the potential to build. The sustainable use of the natural environment and other interventions that will help rural regeneration will be supported under the Programme. There will also be support for actions that reduce greenhouse gases through greater energy efficiency and micro-generation of renewable energy. There

will also be an emphasis on improved management of environmental risks and resources.

3.146 As well as vertical provisions for environmental sustainability, environmental sustainability is a key horizontal theme. At a project level, all projects will be expected to address relevant environmental issues at the design stage, and environmental sustainability will be a key theme of all project-level and Programme-level evaluations.

3.147 Research has indicated that project-level guidance on environmental sustainability has been useful in the current programming period; this guidance is being revised and extended for the next programming period, and 'good practice' examples of integration included. Specialist advice will be made available to projects either from WEFO or through the partnerships involved with developing and implementing projects. Specialist input will be provided at an early stage in the process to maximise take-up of opportunities to promote environmental sustainability. The involvement of key environmental organisations in the region, including the Environment Agency and the Countryside Council for Wales, will be important in establishing an effective network of specialist support.

3.148 Environmental sustainability will be a key theme of project-level and Programme-level evaluations. A full Strategic Environmental Assessment of the Programme has been carried out, to ensure that the Programme meets high standards of environmental protection and that the Programme takes advantage of positive environmental opportunities.

3.149 More detail on the implementation of environmental sustainability is given in Chapter 5 of the Operational Programme, Cross Cutting Themes.

Response to Environmental Report recommendations

3.150 The Environmental Report provides an in-depth review of the environmental situation in the region which supports the issues identified in the Operational Programme. The SEA objectives and the Environmental Sustainability objectives contained within the Operational Programme were found in the Environmental Report to demonstrate good compatibility apart from an objective that related to the historic environment. This will be addressed by strengthening the coverage of this issue within the environmental sustainability guidance that is being prepared by WEFO.

3.151 The report also provided an analysis of actions that could be taken to mitigate potential environmental impacts. This analysis is a useful reference for the guidance that is in preparation. A number of project selection criteria are suggested in the Environmental Report, and these will be integrated as appropriate into the finalised project selection process. The Report recommends that projects should make use of a climate change adaptation tool to inform the project design, and accordingly an appropriate tool will be identified and used by projects.

3.152 A variety of monitoring indicators are proposed in the Environmental Report. A selection of these, together with those already proposed in the Operational Programme, will form the basis for monitoring environmental effects (see Chapter 6 below).

Response to consultation on the Environmental Report

3.153 The relevant statutory bodies (Environment Agency Wales, Countryside Council for Wales, and Cadw) were actively involved in the scoping of the SEA during the five-week scoping period. A scoping report was produced to facilitate discussions, a meeting held with the statutory bodies, and comments returned by the statutory bodies. Based on these reports, the Environmental Report was produced to underpin a public consultation on the SEA.

3.154 At the start of the public consultation period, a wide range of interested organisations were notified of the consultation. In addition, the report was made available on the Welsh Assembly Government [Welsh Assembly Government website](#)⁶⁴ and the [WEFO website](#)⁶⁵. This public consultation commenced shortly after the consultation on the draft ERDF Competitiveness Programme began. Public consultation on the draft Environmental Report ran for eight weeks. In total, responses were received from six organisations.

3.155 A number of issues were raised by the consultees. The key areas are summarised in Table 1, with an indication of the action taken as a result. Except where identified, these issues and actions relate to the Environmental Report. More detail is given in the Environmental Report.

Table 8. Summary of responses to the Environmental Report and actions undertaken

⁶⁴ <http://new.wales.gov.uk/consultations/?lang=en>

⁶⁵ <http://www.wefo.wales.gov.uk/>

Comment summary	Response
Concern as to whether the appropriate alternative options were selected against which to assess the proposed Programme assessment.	In selecting the alternative options for assessment, care was taken to identify alternatives that were realistic proposals which fitted well with the needs and strengths of the region as identified in the Analysis. The alternative options to be assessed were agreed with the statutory consultees during the scoping phase. Additional text clarifying the reasons behind the selection of options has been added to the Environmental Report.
Concern that the monitoring indicators proposed in the Environmental Report will not fully reflect the environmental effects of the Programme.	The indicators suggested have been selected to provide an indirect measure of environmental impacts of the Programme. Due to the low probability of direct or indirect impacts on the environment as a result of the Programme, as well as the influence of all other economic and social activities that occur within the area, exact quantification of environmental impacts of the Programme could only be achieved by auditing every individual project. This would be unduly burdensome, and the results would be unlikely to show significant or noticeable impacts at the regional level.
The SEA was not 'early and effective' enough to influence the development of the plan.	The Programme was formulated in tandem with the SEA process, and SEA recommendations have fed into Programme development throughout.
Concern that there is no apparent consideration of the environment at the project level and that there is no detail of how project selection will avoid adverse environmental impacts	The Programme implementation arrangements identify plans for evaluation against the Programme's sustainability objectives. Checking criteria such as those identified in Section 8 of the Environmental Report will be used for project selection to ensure that significant environmental impacts do not arise from the Programme.

Reasons for choosing Programme over the alternatives identified

3.156 Four options were considered in the SEA alternative options assessment: the Proposed Programme option, the Do Nothing option, and

two alternative funding scenarios: Option 1 and Option 2. Options 1 and 2 were derived 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%, 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%, with a corresponding increase across the rest of the Programme.

3.157 The Do Nothing scenario could not be compared quantitatively against Option 1 and Option 2, due to the very different nature of Do Nothing from those funding options. However, it was compared qualitatively against the Proposed Option. 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). 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.

3.157 The Proposed Option was also assessed against Option 1 and Option 2. 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 compared with the other two options. The reasons for this conclusion are discussed in detail within the Environmental Report.

CHAPTER 4: PRIORITIES

PRIORITY 1: KNOWLEDGE AND INNOVATION FOR GROWTH

Objective

4.1 This Priority aims to promote a high value-added economy by improving the utilisation of knowledge and innovation for growth, fostering the commercialisation of research, development and technology and increasing its take-up by firms.

Rationale

4.2 Although East Wales overall has a higher gross value-added per job than the average for Wales, it is still below the average for the UK as a whole. Despite past improvements, the strategic challenge will be to continue to raise productivity even further and to promote a long-term economic growth agenda and increase earnings. One of the key drivers to establishing a competitive advantage in the global economy of the 21st Century is for all sectors, especially new and existing businesses, to take-up the results of research and innovation to make product and process improvements⁶⁶. There is good evidence that demonstrates links between innovation and R&D and business growth. Encouraging the development of innovative, high value-added, internationally tradable products, processes and services will lead to improvements in productivity and longer-term growth.

4.3 These lower levels of R&D investment⁶⁷ are one of the region's key weaknesses. In part it is due to the relatively adverse industrial mix of the region's economy, characterised by an over dependence on declining traditional industrial sectors. Related to this, there are relatively low rates of innovation in public administration, education and health.

4.4 Alongside the need to strengthen the business research base is the need to continue to increase the value-added at a firm level, both by commercialising outputs of research activity and by increasing the capacity of firms to take on improved products and processes. In support of this it will be critical to ensure consistency with the Welsh Assembly Government's commitment to support the high value-added sectors that are important to the future economic growth of Wales⁶⁸.

⁶⁶ For example, review Prof. Michael Porter's work on 'clusters and the new economics of competition': <http://www.oregoneconomy.org/Porter%20Clusters%20New%20Economics%20Of%20Competition.pdf>

⁶⁷ For example, in 2003 only 55% of R&D expenditure was within the business enterprise sector in Wales, which is below the target set in the Lisbon Strategy of 67% and below the 68% average for the UK as a whole. Information from ONS 2003: http://www.statistics.gov.uk/downloads/theme_economy/ET621.pdf

⁶⁸ The Welsh Assembly Government's *Wales: A Vibrant Economy* identifies ten sectors widely recognised as important for the future economic growth. These are: automotive; aerospace; agri-food; high technology; pharmaceuticals / bio-chemicals; financial services; creative industries; construction; hospitality, leisure and tourism; and social care. However, there are a range of other sectors and clusters of importance to the development of a sustainable economy, including energy and environmental-related sectors. The Welsh Assembly Government's forthcoming *Science Strategy* also identifies several important sectors including healthcare and low carbon energy.

4.5 Moreover, although East Wales has some company head offices and R&D units, most expenditure and investment in research and innovation still takes place outside Wales, even where companies have a presence in Wales. Smaller towns and cities generate less agglomeration effects and also lead to reduced competitive pressures and technological spillover effects, again impacting on the lower levels of research and innovation⁶⁹. In particular, rural areas such as rural Powys and the nearby South-East Valleys have benefited less from the advantages of investment in R&D and innovation than the larger urban areas of the south-east and the North-East.

4.6 The evidence shows that an important starting point to increase innovation at firm level will be to develop strong management capacity at the firm level as well as a strong innovative culture which raises demand from businesses, communities, and educational institutions for improved innovation, technology and R&D.

4.7 In 2010 the Welsh Assembly Government's economic development policy Economic Renewal: a new direction identified 4 priority areas for R&D: Digital Economy; low carbon economy; health and biosciences; and advanced engineering and manufacturing. This focused approach recognised that these are areas where Welsh universities have the best opportunity to maximise their research performance and economic impact.

4.8 Future wealth creation will also depend on maximising the region's scientific research base and building and retaining world-class academic talent within our higher education (HE) institutions⁷⁰. Encouragingly, East Wales has a higher number of students at HE institutions per head of population than the UK average. The number of researchers in HE institutions is also above the average for the UK. East Wales needs to build further on this research and innovation capacity and to foster greater collaboration between academic institutions. In addition, East Wales is close, geographically, to several English Regions offering excellent higher education institutions and opportunities for collaboration are significant.

4.9 Through its participation in the European Commission's Innovative Actions Programme 2000-2006, Wales has identified some future technologies, particularly the future convergence of technologies that are most likely to benefit the economy over the next two decades and beyond. It will be important to ensure businesses are aware of, and adopt, emerging technologies and exploit the opportunities to be gained. For example, support for SMEs in the environmental goods and services sector can be a source of

⁶⁹ 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':

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.

⁷⁰ Welsh Assembly Government's report *Knowledge Economy Nexus: Role of Higher Education in Wales*, 2004: <http://www.wales.gov.uk/subitradeindustry/content/known-econ-nexus-e.pdf>

entrepreneurship and innovation, as well as providing new skills and services that can aid growth and competitiveness.

4.10 ICT is an essential medium for modern business. It can be utilised to improve the innovative capabilities of SMEs and Social Enterprises through the benefits of e-Business. The real benefits accrue when the technologies are adopted and used successfully to transform business processes, products and services. ICT has already revolutionised and will continue to revolutionise the way a large number of businesses and sectors work – increasing access to new markets, customers, suppliers, services and training and employment opportunities. At the more advanced level, access to and use of ICT can be used to take forward the outcomes of R&D and innovations that are regarded as the catalyst for the future development of the region's economy.

POLICY CONTEXT

European

4.11 The orientation of this Priority is on the key objectives set out in the Community Strategic Guidelines of making the region a more competitive place in which to invest and work and thus to contribute effectively to a strong and dynamic European economy. The European thematic policies and programmes relevant to this Priority include, for example:

- The EU's Research Framework programme 7 (FP7) for 2007–13 'Building the Europe of Knowledge' and "Regions of Knowledge";.
- The European Commission's 'key technologies group' foresight report, September 2005.
- The European Spatial Development Perspective's themes include dynamic attractive and competitive cities and urbanised areas. The approach recognises that efficient transport and adequate access to telecommunications are a basic prerequisite for strengthening the competitive situation of peripheral and less favoured regions and hence for the social and economic cohesion of the EU.
- The EU's Competitiveness and Innovation programme 2007–2013⁷¹ supports measures to strengthen competitiveness and innovation capacity, particularly encouraging the use of information

⁷¹ European Commission proposal:

http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

⁷⁰ The Barcelona European Council of March 2002 set the objective of increasing investment in research and technological development and bridging the gap between Europe and its main competitors. R&D investment should rise from 1.9% to 3% of GDP by 2010, with two thirds coming from the private sector. To achieve this, the public sector and companies must increase their expenditure on research from 6.5% and 9.5% respectively on average each year.

technologies, environmental technologies and renewable energy sources

- The European Commission's i2010: A European Information Society for Growth and Employment recognises the role of ICT as a driver of economic growth. It includes an ICT Policy Support Programme to promote the adoption and use of [information and communication technologies](#) (ICT), the backbone of the knowledge economy. The uptake of ICTs by both the private and public sectors helps to stimulate European innovation performance and competitiveness.

- Europe 2020 focuses on "Smart growth" i.e. developing an economy based on knowledge and innovation and has a headline target that 3% of the EU's GDP should be invested in R&D. The flagship initiative A Digital Agenda for Europe aims to deliver sustainable economic and social benefits from a Digital Single Market based on fast and ultra fast internet and interoperable applications, with broadband access for all by 2013, access for all to much higher internet speeds (30 Mbps or above) by 2020, and 50% or more of European households subscribing to internet connections above 100 Mbps. The Commission has indicated that it will propose digital literacy and competences as a priority for the European Social Fund regulation 2014-2020 and that at national level, Member States will need to target public funding, including structural funds, on areas not fully served by private investments. Europe 2020 also recognises that Member States need to develop smart upgraded and fully interconnected infrastructures and make full use of ICT.

- Communication from the Commission of September 2006 "Putting knowledge into practice: A broad-based innovation strategy for the EU";

- Communication from the Commission of August 2007 entitled "Competitive European Regions through Research and Innovation – A contribution to more growth and more and better jobs" which advocates consistency in the use of the various sources of European funding and the effective combination of cohesion policy programmes with the 7th RTD Framework Programme and the Framework Programme on Competitiveness and Innovation in order to ensure synergy.

- Communication from the Commission of October 2006 - An innovation-friendly, modern Europe, to promote innovation and research in Europe based on future strategic technologies, closer collaboration between universities, researchers and business, and the creation of European Technology Platforms and a European Institute for Technology. Closer collaboration between the

universities and the business world would enable the EU research investment target to be realised.

4.12 In particular, this Competitiveness Programme will be complementary to the EU latest Research Framework Programme 7. This is designed to help Wales' research base, companies with in-house research capacity, and those with previous experience of undertaking research to engage with FP7's four component parts: Co-operation, Ideas, People and Capacities. With these four key components also linking strongly to Wales' priority sectors, there is a great opportunity to build on these to help East Wales move further forward to a more innovative, sustainable economy.

National

4.13 *Wales: A Better Country*, the Welsh Assembly Government's strategic agenda, recognises that Wales cannot and should not try to compete on cheaper labour costs; skills and innovation are critical if Wales is to compete on adding value and improve on relative GDP figures in a modern, global economy. The vision in *Wales: A Vibrant Economy* focuses on delivering strong and sustainable economic growth by helping more people into work and helping to raise earnings for those in work. To achieve this and to help support business productivity and value creation across a range of sectors, *Wales: A Vibrant Economy* draws on key actions, several of which have clear links to this Priority. Specifically, these are supporting innovation, making the most of university research and technological know-how whilst encouraging the successful adoption and use of ICT.

4.14 This Priority also supports the aspirations in *Wales for Innovation*⁷². The Plan emphasises the importance of communicating the benefits of innovation to business, as well as better equipping people to innovate. It also focuses on maximising the capabilities of HE and FE institutions in Wales, in particular through encouraging technology development, transfer and commercialisation, and closer links between academia and businesses.

4.15 The *Wales Science Strategy*, which has a key bearing taking forward the objectives of *Wales for Innovation*. It signposts areas considered as important to Wales' economic development; namely, low carbon energy systems, healthcare and the physical and social / cognitive sciences that underpin sustained economic and social renewal.

4.16 The *Wales Spatial Plan* will guide the Welsh Assembly Government's work with partners in respect of actions that support companies relocating or investing in Wales; investments in knowledge transfer initiatives; achieving a critical mass of businesses in key economic areas; and building on Wales' distinctive economic advantages and potential, from tourism to specialist high-tech industries.

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4.17 A number of other thematic, national strategies and programmes of the Welsh Assembly Government are also relevant to this Priority which include:

- *Wales for Innovation*
- *e-Wales Strategy and Action Plan*
- *Knowledge Bank for Business*⁷³

4.18 In 2010, Economic Renewal: a New Direction outlined a new role for the Welsh Assembly Government in supporting the economy, primarily through acting as an enabler and shaper of the conditions for business to flourish. This new approach to supporting Innovation and R&D and the increased emphasis on ICT infrastructure necessitated a revision of this Priority in order to ensure alignment.

4.19 Economic Renewal recognised that Wales faces a number of barriers and challenges preventing it from realising its full R&D and innovation potential. In comparison to many other developed economies, Wales continues to lack a large R&D base in either the public or private sectors, yet R&D plays an important role in stimulating innovation, which is a key driver of productivity, economic growth and long-term improvements in wellbeing.

4.20 A more focused approach to research and development and the commercialisation of knowledge in Wales was introduced focusing on four priority areas where Welsh universities would have the best opportunity to maximise their research performance and economic impact. These are: Digital economy (ICT); Low carbon economy (including climate change mitigation and adaptation); Health and biosciences; and advanced engineering and manufacturing.

4.21 Economic Renewal highlighted the need to develop UK and global recognition of Welsh research. Businesses in Wales are operating in an ever more competitive global marketplace and Wales must exploit its advantages as a small country. Key players in industry, academia and government must work together to develop strong networks between institutions engaged in research activity and commercialisation. The Economy & Transport Ministerial Advisory Group has identified R&D and innovation as key to the future performance of the Welsh economy.

⁷³ Welsh Assembly Government's *Knowledge Bank for Business*:
<http://new.wales.gov.uk/topics/businessandconomy/help/businessadvice/KB4B/?jsessionid=E510C4213122F8746A4AA66E3CA2ABBA.www2?lang=en>

4.22 Another key aim of Economic Renewal: a New Direction was to facilitate a modern, sustainable infrastructure to provide the opportunity for, and underpin economic growth and improve access to services for people, businesses and communities. Wales has specific demographic and geographic challenges in relation to infrastructure and investment in ICT infrastructure is necessary to ensure that Wales is at the forefront of the digital economy and to create the right conditions to enable businesses to locate and flourish.

4.23 The Assembly Government would seek to encourage the ICT market to invest in areas where there is a strong commercial case to do so, and target government intervention in areas where there was a genuine requirement in order to accelerate the deployment of next generation broadband infrastructure and expand coverage across Wales. Economic Renewal reflects the importance of digital communications to Wales and the benefits digital technologies hold for the well-being of the people of Wales and economic growth. Investors and indigenous businesses must be able to rely on 21st century ICT infrastructure and communities and citizens need to be well-connected. ERDF will not support the main core infrastructure, but be used to facilitate connectivity and access to 21st century broadband infrastructure.

DESCRIPTION

4.24 This Priority will seek to build business capacity to develop and take up new and improved products, processes and services. This will be done by developing domestic research, technology and innovation capacity and the ability to commercialise and exploit research. Participation of both SMEs and larger companies in the programme is welcomed, as benefits to SMEs come both directly and through supply chain and other networks. This aim will be achieved by:

- embedding a culture of innovation and improvement in firms and demonstrating the benefits of innovation and science;
- helping businesses to invest in R&D and develop new market led processes, products, technologies and services, particularly those with high growth potential;
- developing management capacity to better equip firms to develop product and process improvements;
- 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 research, and encouraging the development of innovative technologies; and
- facilitating connectivity and access to 21st century broadband infrastructure; encouraging businesses to fully utilise ICTs to exploit innovation for product, process and service improvements.

Indicative Activities

4.25 Possible activities to be supported may include

- Targeted support services to assist firms to utilise the outcomes of R&D, and to develop new or improved products processes and services;
- management training to enable managers to understand how to take up innovations in product and process improvement;
- support to encourage the commercialisation of research and collaborative research initiatives between HE institutions and firms including help for businesses to find the right partners;
- boosting the region's research capacity by assisting institutions to maximise funding opportunities available under Framework Programme 7 where the region has a strategic interest;
- stimulating the innovative use of advanced and integrated ICT solutions; and
- facilitating connectivity and access to 21st century broadband infrastructure.

Indicators

Table 9. Priority 1 Indicators and Targets

Indicator		Baseline	Target
Outputs			
Enterprises (90%SMEs)	assisted	69,700 Enterprises active in EW (2003 Size Analysis of Welsh Business, 2003, pub Sept 04, WAG)	400
Enterprises assisted:		-	166
to utilise ICT to promote innovative capacity			
Enterprises supported	financially	69,700 Enterprises active in EW (2003 Size Analysis of Welsh Business, 2003, pub Sept 04, WAG)	50
Collaborative R&D		-	10
Innovation centres and R&D facilities developed			1,500m ²
Open access infrastructure points		-	50
Results			
Gross jobs created		540,000 Workplace employment in EW 2005 (Workplace employment by	1,200 FTE

industry in Wales – pub July 06, WAG)		
Enterprises created	-	10
Profit benefit	-	£18m
Enterprises adopting or improving equality and diversity strategies and monitoring systems	-	50% of firms assisted and financially supported
Enterprises adopting and implementing Environmental Action Plans	-	20% of firms assisted and financially supported
Products, processes or services registered	116 All Wales applications for patents granted, UK Patents Office, 2004 The Patent Office Facts and Figures 2004-05	80
New or improved products, processes or services launched	-	400
Investment induced	£231 million All Wales 2005 Business R&D spend – UK Business Enterprise Research and Development, 2005, Nov 2006, Office for National Statistics	£16m
Impacts		
Net jobs created	-	-
Increase in turnover	-	-
Sales of products, processes or services	-	-
Net enterprises created	-	-
Increase in company-level GVA	-	-

Added Value

4.27 R&D and innovation activity is often been relegated to second place in terms of SMEs' priorities where more immediate issues tend to drive day to day business. The effort and resource required to be more outward looking and build relationships with local research institutions can seem daunting and perceived as potentially risky. For local research institutions, the ability and capacity to engage in their local business communities can be constrained by lack of funds.

4.28 By giving investment in R&D and innovation in particular headline status in the Programme and backing this up with the allocation of a significant proportion of Programme funds, the Priority provides the impetus to assist in addressing these shortcomings. There is a particularly high degree of

complementarity within this Priority between the European and declared policy objectives of the Welsh Assembly Government for instance the read across from Research Framework 7 to the Science Policy for Wales. The funds under this Priority will, therefore, increase the amount of R&D and innovation activity but also add further value by stimulating new and allied investment. In particular, the types of activities envisaged for support under this Priority have the potential to encourage spin-outs and bring real added value to the region through the multiplier effect.

Beneficiaries

4.29 These may include the private sector, public sector bodies, Local Authorities, Voluntary sector bodies, Community organisations, Training Organisations, Institutes of Higher and Further Education, Non-governmental organisations (NGOs), social enterprise and social partners.

Flexibility facility

4.30 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

4.31 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training to promote the take-up and utilisation of innovations in products and processes linking or complementary to the successful implementation of ERDF funded activities, for example in relation to the exploitation of R&D by SMEs; and
- training of research personnel in businesses and HE/FE institutions involved in ERDF funded technology transfer actions.

4.32 Relevant ESF indicators will be used, for example:

Table 10. ESF Indicators for Priority 1

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

Transnational and inter-regional co-operation

4.33 One of the main outcomes of the interventions proposed under this Priority is to encourage businesses in the region to make far greater use of R&D in order to move up the value chain and support sustainable economic growth. However, given the current size of the existing R&D resource, the ability for businesses and the opportunity for researchers to tap into other regions' research and innovation expertise will be critical in helping to develop capacity and expertise. The opportunity to engage in collaborative projects under the Translational and Inter-regional programmes is one which will be particularly valuable in achieving the objectives of this Priority and will therefore be encouraged with the use of ERDF as appropriate.

Global grants

4.34 We do not envisage the use of global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

PRIORITY 2: BUSINESS COMPETITIVENESS AND GROWTH

Objective

4.35 To assist the growth and expansion of new and existing business ventures, particularly enterprises with the capacity for high growth.

Rationale

4.36 An important variable affecting total economic output is the level of entrepreneurial activity⁷⁴. East Wales enjoys a higher level of entrepreneurship than that of Wales as a whole although this is lower than for other parts of the UK. VAT registration rates (VAT registrations per 1,000 working age population) are 9% higher than the Welsh average yet 15% lower than across the rest of the UK. Most of this difference can be accounted for by structural issues within East Wales, for example there is a higher representation in sectors such as production and agriculture that tend to have lower VAT registration rates. Surveys also suggest that attitudes to entrepreneurship across Wales are as strong as elsewhere in the UK, with Wales accounting for 15% of all UK graduate business start-ups established from HE institutions across the UK as a whole⁷⁵. There are, however, variations in rates of self-employment between areas within the region. Rural areas of Powys and Monmouthshire benefit from what appears to be high rates of self-employment and business start-ups principally due to the high prevalence of agricultural and related businesses which have a large number of individuals self-employed. In contrast, the urban areas of South and North East Wales have lower rates of self employment and business start up rates, but higher rates of employment.

4.37 The *Welsh Entrepreneurship Action Plan* funded under the 2000-2006 Objective 1 Programme included a number of projects to address these imbalances. It will be critical to build on these initiatives and also ensure consistency with the Welsh Assembly Government's desire to support sectors or activities that will add most value and show strong growth potential. This includes, for example, businesses that can sustain and maximise the potential of the region's natural and cultural resources, as the natural environment is recognised as one of the region's most valuable commodities.

4.38 Higher levels of business investment are strongly associated with increased labour productivity since investment that increases the physical capital available to workers is likely to enable them to be more productive. Where there is market failure in financial support mechanisms, for example, when businesses cannot obtain risk capital from conventional banks due to location or the nature of the business and perceived degree of risk of enterprise⁷⁶, public sector intervention will be required. This Priority will also focus on tackling some of these

⁷⁴ OECD, 2002 Competition, Innovation and Productivity Growth: A Review of Theory and Evidence. [http://www.ois.oecd.org/olis/2002doc.nsf/linkto/eco-wkp\(2002\)3](http://www.ois.oecd.org/olis/2002doc.nsf/linkto/eco-wkp(2002)3)

⁷⁵ Higher Education Funding Council for England, 2005, Higher Education Business and Community Interaction Survey: http://www.hefce.ac.uk/Pubs/HEFCE/2005/05_07/#exec

⁷⁶ Graham Review of the Small Firms Loan Guarantee Scheme, 2004

key financial access constraints that can hamper business start-ups, productivity and value creation across a range of sectors, particularly businesses with strong growth potential as well as existing viable businesses threatened by failures in succession management.

- 4.39 Economic Renewal: a New Direction promotes a move from a grant to an investment culture and a sector-based focus to better target intervention in areas where Wales can gain a competitive advantage. In order to ensure the alignment of the programme with national policy, business support was focus mainly on 6 sectors: ICT; Energy and environment; Advanced materials and manufacturing; Creative industries; Life sciences and Financial and professional services. These sectors correspond to around one third of private sector employers in Wales in business turnover and employment terms. They have demonstrated above average growth at the UK level and are projected to perform well into the future. Particular weighting has been given to those sectors which are enablers within the wider economy, for example in providing opportunities for exploiting ICT, creating green jobs, resource efficiency and moving to a low carbon economy.

POLICY CONTEXT

European

- 4.40 European thematic policies and programmes relevant to this Priority include, for example:

- The EU's Competitiveness and Innovation programme 2007-2013⁷⁷
- The EU Entrepreneurship Action Plan⁷⁸.
- EU2020 includes a flagship initiative : "An industrial policy for the globalisation era" which will draw up a framework for a modern industrial policy, to support entrepreneurship, to promote the competitiveness of Europe's primary, manufacturing and service industries and help them seize the opportunities of globalisation and of the green economy. The Smart Regulation agenda looks at improving the business environment, particularly for SMEs, and supporting entrepreneurship.
- Communication from the Commission in June 2008, "Think Small First" A "Small Business Act" for Europe 2008, which cements the needs of SMEs at the heart of the Lisbon Growth and Jobs Strategy and aims to make the EU a world-class environment for SMEs.

⁷⁷ European Commission proposal:

http://ec.europa.eu/enterprise/enterprise_policy/cip/index_en.htm

⁷⁸ EU Entrepreneurship Action Plan:

http://ec.europa.eu/int/enterprise/entrepreneurship/action_plan.htm

National Policies

4.41 Wales: A Vibrant Economy recognises the importance of creating a strong culture of enterprise to encourage business start-ups; the growth of existing ones and international trade together with investing in businesses through a range of focused advice and financial services. This Priority also supports its core principles for building a stronger competitive advantage by focusing on businesses with growth potential, understanding and supporting the needs of strategic sectors alongside maximising the benefits of cluster development and agglomeration.

4.42 *The Wales Spatial Plan* forms a key part of promoting a sustainable, innovative and high value economy for Wales. In relation to this Priority the work includes: achieving a critical mass of businesses in key economic areas; economic advantages and potential, from tourism to specialist high-tech industries.

4.43 A number of other national strategies and programmes of the Welsh Assembly Government are also relevant to this Priority. These include:

- *Entrepreneurship Action Plan*
- *e-Wales Strategy*⁷⁹
- *Knowledge Bank for Business*
- *Business and Environment Action Plan*
- *International Trade Strategy for Wales*⁸⁰

4.44 The Welsh Assembly Government's approach to economic development and to business support in particular, was fundamentally reviewed in 2010. The new approach, set out in *Economic Renewal: a New Direction*, established that resources should be concentrated where they can add the most value and act as an enabler of growth for the economy as a whole. The approach will reflect the continued move from a grant to an investment culture and a sector-based focus to better target intervention in areas where Wales can gain a competitive advantage. Six sectors are identified:

- ICT
- Energy and environment
- Advanced materials and manufacturing
- Creative industries
- Life sciences
- Financial and professional services.

⁷⁹ Welsh Assembly Government's *e-Wales Strategy*:

http://new.wales.gov.uk/topics/businessandconomy/broadbandandict/policy_and_programme/ewales/?sessionId=FDCB7FBFAB511AFDB0E50F4A8AAC1489.www2?lang=en

⁸⁰ Welsh Assembly Government's *International Trade Strategy for Wales*, March 2003:

<http://www.walestrade.com/news/pdf/World%20of%20opportunity%20Eng.pdf>

4.45 Reflecting the change in policy in July 2010 and with the agreement of the All Wales Programme Monitoring Committee, resources for this Priority were reduced. Activities that support the key sectors and provide finance in the form of re-payable grants, debt finance and venture capital where there is evidence of market failure will be the focus of interventions from this point forwards, in line with Economic Renewal. Direct delivery of business support services will no longer be a priority unless specific and evidenced gaps in the market are identified or specific policy objectives need to be met.

DESCRIPTION

4.46 This Priority aims to strengthen the environment for enterprise by supporting new and existing business ventures, particularly enterprises with the capacity and potential to grow. This will be achieved by:

- supporting the start-up of new enterprises;
- supporting the growth of existing enterprises, particularly those with the capacity to grow;
- promoting opportunities to grow the sectors in which East Wales is strong, or those seeking to develop;
 - building the sustainability of community and social enterprises by increasing their contribution; and
 - providing targeted debt finance and venture capital to address market failures in financial support mechanisms required to create new SMEs and develop existing ones.

Indicative activities

4.47 Possible activities to be supported may include:

- improving the capacity of SMEs and social enterprises to purchase business support services intelligently from the open market and to make best use of private provision;
- where there are gaps in the market, putting in place targeted business support including any specific sectoral requirements arising from particular emerging sector strategies;
- ensuring the accessibility of support and providing targeted support for under-represented groups that have the capability to be entrepreneurs;
- focussed business and development support for social enterprises which might include marketing and awareness raising campaigns that improve access to support and finance, promote best practice, research new opportunities and help lead to a culture of financial sustainability, delivered to link in with mainstream business support where possible;
- providing public/private venture capital investments within the context of Welsh Assembly Government initiatives;

- provision of flexible support for identified barriers for business, which may include start-up costs and growth thresholds: and
- marketing and business support initiatives for sustainable tourism which increase the value added contribution of the sector to the Welsh economy. The value of the ERDF contribution to this activity will be limited to around €500 thousand.

Indicators

Table 11. Priority 2 Indicators and Targets

Indicator	Baseline	Target
Outputs		
Enterprises assisted (100% SMEs)	69,700 Enterprises active in EW (2003 Size Analysis of Welsh Business, 2003 pub. Sept 2004, WAG)	1,250
Enterprises financially supported	69,700 Enterprises active in EW (2003 Size Analysis of Welsh Business, 2003 pub. Sept 2004, WAG)	125
Individuals assisted to set up a new enterprise	-	3000
Individuals financially assisted	-	75
Social enterprises assisted	-	35
Social enterprises financially supported	-	12
Destination Marketing Campaigns		2
Results		
Gross jobs created	540,000 Workplace employment in EW, 2005 (Workplace employment by industry in Wales. Pub July 2006, WAG)	4,000 FTE
Enterprises created	2,640 VAT registrations in EW 2005 (DTI Small Business Service)	500
Profit benefit	-	£12m
Enterprises adopting or improving equality and strategies and monitoring systems	-	50%
Enterprises adopting and implementing Environmental Action Plans	-	20%
Investment induced	£2,817m All Wales, net capital expenditure, 2004 (Annual Business Inquiry. Pub Sep 2006, Office for National Statistics)	£90m
Number of new and lapsed visitors		85,000
Spend by new/lapsed visitors		£14,000,000

Impacts		
Net jobs created	-	-
Increase in turnover	-	-
Net enterprises created	-	-
Increase in company-level GVA	-	-

Added Value

4.48 The main thrust of this Priority is to address market failures in the provision of advice, information and finance that have been barriers to the creation of new and expansion of existing SMEs. Some progress has been made in the life of the current programmes with a growing recognition amongst businesses that they should look to the private sector for the majority of the services they need to operate effectively. However, services businesses needs are not always available locally. At the same time, new and less traditional enterprises, and especially those run by women and under-represented groups, face additional hurdles in persuading investors to participate in their ventures.

4.49 The use of Structural Funds will enable the services that the public sector can offer to be made more widely available and offer more in depth support as well as encouraging businesses to access better the private market. This in turn will accelerate the rate of business birth and growth and the resulting impact on jobs and growth will lead to additional demands for goods and services in the region bringing about long term added value.

Beneficiaries

4.50 These may include the Private sector, public sector bodies, Local Authorities, Voluntary sector bodies, Community organisations, Training organisations, Institutes of Higher and Further Education, Non-Governmental Organisations (NGOs), Social Enterprises and Social Partners.

Flexibility facility

4.51 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

4.52 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training to promote business start-up and business development which is complementary to the successful implementation of the

ERDF funded activities, for example in relation to the start-up of new enterprises in the 10 target sectors listed in *Wales a Vibrant Economy*.

4.53 Relevant ESF indicators will be used, for example:

Table 12. ESF Indicators for Priority 2

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

Trans-national and inter-regional co-operation

4.54 The Region has been at the forefront of actions to encourage entrepreneurship and has some expertise in assisting the growth and expansion of business by improving access to business support, advice and finance on which this Priority will help it build. However, maintaining this success will depend on being alive to developments elsewhere and having access to the outcome of evaluation and research findings of similar interventions elsewhere. These are areas where there is considerable scope to engage in projects designed to distil best practice but also to take advantage of novel and innovative ideas and processes used in other regions. The same applies in the case of interventions to develop international trading capacity: in an increasingly global market it will be important to share best practice and learn from the experiences of other Regions. While it is not possible at this stage to determine exactly the types of activities that will be funded there is an opportunity for trans-national and inter-regional collaborative projects to be funded under the ERDF.

Global grants

4.55 We do not envisage use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

PRIORITY 3: TACKLING CLIMATE CHANGE

Objective

4.56 To support the development of clean and renewable energy, encourage greater energy conservation and resource efficiency, and manage environmental risks and constraints.

Rationale

4.57 For all Regions the challenges of climate change, mitigating the causes and adapting to the impacts, are becoming increasingly important to future economic growth. Helping businesses to tackle these challenges is increasingly a pre-requisite for a modern, thriving economy. At the same time it is important to drive forward an integrated approach to slow the growth of greenhouse gas emissions and support a move towards a low carbon economy. It is evident that the efficient use and effective management of energy and resources are becoming ever more important drivers for improving businesses competitiveness and is critical in efforts to protect our environment. The implications of climate change will, therefore, add to the broader economic challenges faced by the Region already.

4.58 As a consequence, this Priority has a number of related aims. In the first instance it will be necessary to encourage a more sustainable pattern of consumption across all sectors including business and the wider community. An initial step is to raise awareness of the issues and the implications in terms of cost to both the economy and the environment. Key to this will be placing greater emphasis on efficiency.

4.59 The next element includes addressing some of the direct effects of climate change that are expected to arise. For example, to take additional measures to prevent flooding, and adjust to the anticipated changes in weather patterns such as increased storm activity. One such measure is to remove sources of contamination to help ensure that the harmful economic and environmental result of the spread of pollutants is avoided or minimised.

4.60 Finally, there is considerable scope within the region to build on the opportunities allied to climate change. For instance, the Region has significant natural potential for small scale clean energy generation. This goes hand in hand with actions that help reduce the Region's dependency on traditional sources of energy. This also provides opportunities for innovation and R&D as well as developing the concept of eco-design whereby the embedded carbon content of goods and services can be minimised. Taken together, the actions under this Priority will help build up the resilience of the built and natural environment to the impacts of climate change while enabling the Region to take advantage of new opportunities for business development.

POLICY CONTEXT

European

4.61 This Priority addresses the two closely linked Community Strategic Guidelines relating to strengthening the synergies between environmental protection and growth as well as addressing the use of and dependency on traditional sources of energy. European thematic policies and programmes relevant to this Priority include:

- the EU's 6th Environmental Action Programme⁸¹
- the EU's Environmental Technologies Action Plan⁸²
- the Green paper on Secure, Competitive and Sustainable Energy for Europe⁸³ (2006), with six lines of action for public consultation that could form the basis for a new comprehensive European energy policy;
- the Green paper on Energy efficiency – Doing more with less⁸⁴ (2005), which discusses how the EU can curb rising energy use and arrive at a reduction of 20% by 2020;
- the Seventh Framework Programme (FP7) for Research and Technological Development, which includes funds for energy research, demonstration and dissemination with a focus on clean energy and energy efficiency;
- the Intelligent Energy for Europe II programme⁸⁵, which promotes further market penetration of sustainable energy technologies and funds relevant dissemination and awareness raising activities; and
- the Waste Framework Directive⁸⁶ and the new thematic strategy being proposed (2006/12/EC)⁸⁷. Other waste Directives may also be relevant within this Priority⁸⁸.
- EU2020 includes as a headline target that "20/20/20" climate/energy targets should be met and proposes sustainable growth – promoting a more resource efficient, greener and more competitive economy as a priority. The strategy advocates the spread of innovative technological solutions and the decoupling of growth from energy use.

National

⁸¹ The Sixth Environment Action Programme of the European Community 2002–2012:

<http://ec.europa.eu/environment/newprg/index.htm>

⁸² European Union Environmental Technologies Action Plan:

http://ec.europa.eu/environment/etap/index_en.htm

⁸³ European Commission. COM(2006) 105 final.

http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

⁸⁴ European Commission. COM(2005) 265 final.

http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_text_en.pdf

⁸⁵ http://ec.europa.eu/energy/intelligent/index_en.html

⁸⁶ The Waste Framework Directive (75/442/EEC).

http://europa.eu.int/eur-lex/en/consleg/pdf/1975/en_1975L0442_do_001.pdf

⁸⁷ The codified version of the Waste Framework Directive (2006/12/EC).

http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/L_114/L_11420060427en00090021.pdf

⁸⁸ Landfill of Waste (1999/31/EC), Hazardous Waste Directive (91/689/EEC), Waste Electrical and Electronic Equipment (2002/96/EC).

4.62 *Wales: A Vibrant Economy* highlights the important roles that renewable energy and energy conservation and efficiency have in creating and shaping a sustainable economic future.

4.63 The *Environment Strategy for Wales* and associated action plan provides a framework for achieving a diverse and healthy environment that contributes to the economic, social well being and health of the people of Wales. The strategy sets out the challenges facing the environment over the next 20 years, the areas of priority that will need to be addressed and actions for delivering the proposed outcomes. The priorities outlined in the strategy include:

- minimising greenhouse gas emissions and adapt to the impacts of climate change;
- encourage more sustainable use of resources; and
- minimising the risks posed by pollution and other environmental hazards.

4.64 A number of thematic, national strategies and programmes of the Welsh Assembly Government are also relevant to this Priority including:

- *Sustainable Development Action Plan* whose overall aim is to develop an economy that responds to sustainable development opportunities, minimises the demand on the environment and maximises the distribution of benefits.
- *Business and the Environment Action Plan*⁸⁹
- *Wales Energy Strategy*⁹⁰
- *National Waste Strategy for Wales 'Wise About Waste'*⁹¹
- *Water Resources Strategy for Wales*⁹²
- *Wales Spatial Plan*
- *Economic Renewal: a New Direction* reaffirmed the Assembly Government's support for tackling the challenge of climate change by improving resource productivity and decarbonising energy supply.

DESCRIPTION

4.65 This Priority aims to support the mitigation of, and adaptation to climate change. It will promote the development of clean and renewable energy and

⁸⁹ Welsh Assembly Government's Business and the Environment Action Plan for Wales:

<http://www.businessenvironment.wales.gov.uk/>

⁹⁰ Welsh Assembly Government's Energy Strategy:

<http://new.wales.gov.uk/topics/businessandconomy/help/sectors/energy/?lang=en>

⁹¹ Welsh Assembly Government's National Waste Strategy for Wales 'Wise About Waste':

http://new.wales.gov.uk/topics/environmentcountryside/epq/waste_recycling/?lang=en

⁹² Water resources for the future: a water resources strategy for England and Wales 2001:

<http://www.environment-agency.gov.uk/subjects/wateres/137651/?version=1&lang=e>

encourage greater energy and resource efficiency primarily by businesses in East Wales by:

- energy conservation and efficiency measures to reduce demand;
- encouraging the adoption of micro-generation and use of renewables;
- encouraging the efficient use, re-use and recovery of natural resources across all sectors of the economy;
- measures to reduce green house gas emissions; and
- removing sources of contamination and building small scale flood defence.

Indicative Activities

4.66 Possible activities to be supported may include:

- supporting micro-businesses, SMEs and social enterprises to develop renewable energy and energy efficient technologies and promoting the take-up of micro-generation technologies;
- encouraging businesses to become more energy efficient through the development of energy efficient technologies or the adoption of energy efficient production methods;
- the dissemination of best practice on energy efficiency through, for example, publicity campaigns, and the sharing of best practice through networks and cluster developments and across other sectors;
- enabling businesses to become more resource efficient through adopting environmental management systems and adopting more resource efficient production methods and technology; and
- the development of new resource efficient product design technologies.

Indicators

Table 13. Priority 3 Indicators and Targets

Indicator	Baseline	Target
Outputs		
Enterprises assisted	Number of enterprises in EAST WALES	100
Environmental Risk Management Initiatives	-	5
Results		
Enterprises adopting and implementing Environmental Action Plans	-	80
Renewable energy	1,233 GWh	12 GWh

generated	Renewable energy generated in all Wales 2005 (Energy Trends, pub Sep 2006, Dept for Trade and Industry)	
Reduction in greenhouse gasses	Greenhouse gasses produced in EAST WALES	7 KtC
Investment induced	£2,817m	£9m
	Private sector investment in EW (All Wales, net capital expenditure, 2004)	
Gross jobs created	Number of jobs in EAST WALES	100 FTE
Enterprises adopting or improving equality and diversity strategies and monitoring systems	-	50%
Energy saved		45 GWh
People benefiting from flood protection measures		700
Impacts		
Increase in turnover	-	-
Net Reduction in greenhouse emissions	-	-
Net jobs created	-	-
Increase in company-level GVA	-	-

Added Value

4.67 The potential value of the environment as a resource and stimulus for economic growth is an important area and one where the Programme has the potential to make an impact. This Priority has, therefore, an especially strong resonance with the aims of both the Lisbon and Gothenburg agendas.

4.68 The Programme will encourage investments that will give the region a competitive advantage in terms of directly encouraging greater energy efficiency hand in hand with supporting initiatives that may be marketable beyond the region. Additionally, there is an emphasis on anticipating and confronting the challenges that natural and economic activities generate. The funds designated for this Priority will support higher levels of spend on these areas.

Beneficiaries

4.69 These may include the Private sector, Public sector bodies, Local authorities, Voluntary Sector bodies, community organisations, Social enterprises, Social partners, training organisations and Institutes of Higher and Further education and Non-governmental organisations (NGOs).

Flexibility facility

4.70 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 5% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

4.71 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training to promote the take-up and utilisation of innovations in the energy and resource efficiency fields by SMEs so that this contributes to a more successful outcome under the ERDF funded activities;
- training of businesses in energy and resource efficiency.

4.72 Relevant ESF indicators will be used, for example:

Table 14. ESF Indicators for Priority 3

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

Trans-national and inter-regional co-operation

4.73 The Managing Authority will encourage in particular Framework Partnerships to bring forward projects which fall within the scope of the provisions for trans-national and inter-regional co-operation. The Region's considerable expertise in the environmental goods and services sector in particular provides considerable scope to engage in projects designed to distil best practice but also to take advantage of novel and innovative ideas and processes used elsewhere. While it is not possible at this stage to determine what activities will emerge, where appropriate ERDF resources will be utilised to support such joint and collaborative projects.

Global grants

4.74 We do not envisage the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

PRIORITY 4: REGENERATION FOR GROWTH

Objective

4.75 To provide carefully targeted support for integrated approaches to the long-term regeneration of the Region's most deprived communities.

Rationale

4.76 Future economic success will depend on the vitality of the region's communities as attractive places in which to live and work. Indeed, research⁹³ on the significance of a sense of place illustrates that the overall attractiveness of an area can have a significant impact on economic performance. Issues such as the quality of the urban environment and economic infrastructure and the vitality of the local community all have a role to play in creating an attractive and sustainable business environment.

4.77 Over the last few years the economy of East Wales has enjoyed significant improvements boosted by high levels of employment and higher average earnings that are in line with the UK average. However, the region still suffers from higher rates of inactivity than the UK as a whole whilst a range of other indicators⁹⁴ illustrate that there remain pockets of deprivation across the region. Three of the 10 most deprived wards in Wales assessed on the Index of Multiple Deprivation, are in the Region namely Butetown 1 and 2 in Cardiff, and Queensway in Wrexham. Butetown 2 is rated as the most deprived ward in all Wales. Additional challenges exist in ensuring meaningful engagement with the diverse communities in many of these areas.

4.78 Although a feature of the larger cities in the region, evidence of social and economic deprivation is also to be found in the urban centres serving the more rural parts of the region with characteristics of social and economic deprivation, most notably in relation to standards of amenity, including more restricted access to services and opportunities. For example, where smaller communities are not linked into transport networks, alternative sustainable transport services could be promoted. A critical strategic challenge will be to build on the work already done under the Objective Two Programme to create economically competitive, socially inclusive and sustainable communities where people will want to invest, live and work in both now and in the future.

4.79 Successful urban areas and local towns in urban and rural areas can create huge economic opportunities. As has been illustrated through the support provided through the URBAN initiative in Wrexham, urban areas have an important role to play in encouraging greater collaboration with surrounding areas, and in contributing to improvements in the region's overall performance. However, many of the region's urban and rural towns and communities still suffer from derelict landscapes and run down centres that

⁹³ Rice, P and Venables, A 2004 'Spatial determinants of productivity analysis for the regions of Great Britain' CEP Discussion Paper No 642: <http://cop.lse.ac.uk/pubs/download/dp0642.pdf>.

⁹⁴ The Welsh Index of Multiple Deprivation 2005 has indicators for income, employment, health, education, housing, access to services and the environment

are characterised by a general appearance of neglect. Activities such as town centre renewal, refurbishing and bringing back into use run down buildings along with support to help bring small pockets of contaminated land back into productive use and to develop brown-field sites will improve the built environment to the benefit of both businesses and communities.

4.80 Areas with weaker local economies hold little incentive for the private sector to invest in the physical fabric of an area because the costs involved in site remediation and the development and /or use of redundant/run down buildings is usually greater than the market value in the long term. In such areas carefully targeted public sector intervention may be needed to facilitate high quality business sites and premises. An important objective of this support will be to achieve high levels of environmental performance through a requirement for BREEAM building standards, and incorporation of site facilities to maximise resource efficiency, and minimise pollution risk.

4.81 While physical enhancements can help create an environment more conducive to economic development and business investment, the longer term success of such initiatives is dependant on the extent to which they engage the local community and secure their commitment to building on the improvements. This needs to be addressed on a number of levels. In some instances, particularly in the areas which have seen social and economic decline, this may require investment in re-building a lost sense of community. In other areas, there may be a case for selected integrated and community investments which complement the physical regeneration activity. Access to green space and semi-natural environments is an important aspect of urban renewal that has significant benefits to the attractiveness of an area and developing a sense of well being within the community. Such investments can have positive benefits that go beyond the immediate physical and economic improvements. For example, in addition to having a direct impact on economic activity, they can raise levels of expectation and ambition which together with widening opportunities for work can help tackle social exclusion and the related problems such as youth crime including that directed at run-down property and help break the cycle of offending and re-offending.

4.82 Accordingly, interventions will be selected that develop and sustain economic activity in deprived communities that is linked to wider markets and provides opportunities for all parts of the community.

POLICY CONTEXT

European

4.83 The European Commission's Bristol Accord Highlights eight characteristics that constitute a sustainable community and that are relevant to this Priority. These are: active; inclusive and safe; well run; well connected; well served; environmentally sensitive; thriving; well designed and built; and fair for everyone.

4.84 This Priority also reflects the European Spatial Development Perspective which presents a policy framework for member states and their regions, local authorities and European Community in their respective spheres of responsibility and sees co-operation as key to its application. Its broad themes include; dynamic, attractive and competitive cities and urbanised areas, indigenous development, diverse and productive rural areas; urban-rural partnership; parity of access to infrastructure and knowledge; and the wise management of the natural and cultural heritage. In summary, thematic policies and programmes relevant to this Priority include, for example:

- European Commission's Bristol Accord⁹⁵
- *European Spatial Development Perspective*⁹⁶
- The EU's 6th Environmental Action Programme⁹⁷
- The EU's Environmental Technologies Action Plan⁹⁸

4.85 Other relevant EU policy reflected by this priority includes:

- The Communication from the Commission to the Council and Parliament of 13 July 2006 - Cohesion Policy and cities - The urban contribution to growth and jobs in the regions; reflects the possibilities for intervention in urban areas by the Structural Funds under the following headings: making cities more attractive; supporting innovation, entrepreneurship and the knowledge economy; the creation of more and better jobs; managing disparities within cities; governance. financing urban renewal.
- The Leipzig Charter on sustainable European cities emphasises the importance of cities in the formulation of future EU policies and the integration of the urban dimension in different policies. It advocates creating and ensuring high-quality public spaces; modernizing infrastructure networks and improving energy efficiency; proactive innovation and educational policies, and supporting deprived neighbourhoods.
- The Territorial Agenda of the EU expands the policy guidelines of the ESDP to six priorities for spatial development measures: strengthening of polycentric development and innovation through networking of city regions and cities; new forms of partnership and territorial governance between rural and urban areas; promotion of regional clusters of competition and innovation; strengthening and extension of trans-European networks; promotion of trans-European risk management including the impacts of climate change; strengthening of ecological structures and cultural resources as added value for development

⁹⁵

⁹⁶ European Commission's European Spatial Development Perspective, 1999 available at: <http://ec.europa.eu/regionalpolicy/sources/docoffic/official/reports/som.en.htm>

⁹⁷

⁹⁸ European Union Environmental Technologies Action Plan: http://ec.europa.eu/environment/etap/index_en.htm

- The Thematic Strategy on the Urban Environment on 11 January (2006) builds on existing European policy initiatives for improving the quality of the urban environment. It sets out new measures to support and facilitate the adoption of integrated approaches to the management of the urban environment by national, regional and local authorities.

National

4.86 *Wales: A Better Country* sets out a vision for a fairer, more prosperous, healthier and better educated country. Particularly relevant to this Priority are actions in the built environment that enhance pride in the community and promotes local employment.

4.87 The *Wales Spatial Plan* clearly recognises the need to encourage the vitality of communities as attractive places to live and work and to reduce inequalities between communities whilst retaining their character and distinctiveness. It stresses the need for regeneration to be achieved in a coherent, integrated way, to take the social, economic and environmental needs of communities into equal account. It promotes regeneration through both the development of competitive urban spaces in Wales whilst ensuring that interventions are spatially targeted for the maximum benefit of the wider communities to both create and spread prosperity. The *Spatial Plan* recognises the importance of integrating this work with local initiatives such as community strategies and ensuring that these reflect the visions for how the wider areas of Wales will develop. Particularly relevant to this Priority are actions to tackle deprivation with a focus on inactivity; improving degraded urban environments and reflecting and sustaining the physical character of places in planning and development.

4.88 This Priority also addresses important elements of *Wales: A Vibrant Economy* and provides an opportunity to ensure that economic development activities dovetail closely with action undertaken in line with the aims of the *Sustainable Development Action Plan 2004–2007*. The economic framework recognises that a favourable and stable business environment is fundamental to encouraging sustainable economic growth. Priorities for action include making communities attractive to businesses and skilled workers; ensuring the supply of high quality business sites and premises where private sector provision is weak and encouraging greater efficiency and conservation in the use of energy and other resources that can contribute to business competitiveness and help tackle the major challenge of climate change.

4.89 A number of thematic, national strategies and programmes of the Welsh Assembly Government are also relevant to this Priority including:

- *Property Strategy for Employment in Wales 2004 – 2008*.
- *Communities First Programme*

- *Rural Community Action Programme*⁹⁹

4.90 Economic Renewal: a New Direction, published in 2010, and setting out the Assembly Government's new approach to economic development, re-emphasised its support for investment in Regeneration Areas in partnership with local stakeholders. The investment would help to deliver improved quality of life and quality of space for Wales' most deprived communities and stimulate investment and economic activity.

DESCRIPTION

4.91 This Priority aims to support the regeneration of communities as part of an integrated regeneration strategy and where it can be demonstrated that focussed intervention will produce sustainable economic outcomes coupled with sustainable environmental and social benefits.

4.92 The Priority will be implemented largely through the Wales Spatial Plan Area Groups which are well placed to consider local needs and to select activities from within the scope of the Priority based on the range of stakeholder views in the sub-region. Success under this Priority will be achieved through a small number of targeted projects which support the integrated regeneration of the most deprived communities by:

- physical improvements to the urban fabric and the wider natural and built environment; and
- developing and delivering effective ways of engaging local communities and developing local networks with the aim of finding and implementing regeneration activity.

Indicative Activities

4.93 Possible activities to be supported, where part of an integrated regeneration strategy may include:

- landscape and access improvements to towns and villages including the rehabilitation of public spaces, and possible associated reduction of pollution risks, to bring them into economic use and social / community use, this may exceptionally include the provision of road and parking facilities where these are ancillary to a development or will allow the proper functioning of the town centre, forming part of an integrated regeneration scheme;
- development of small-scale sites and premises or the provision of infrastructure for development sites for economic and community development. Ensuring all sites and premises meet environmental standards (e.g. BREEAM) and the needs of disabled staff and customers; and

⁹⁹ Welsh Assembly Government's Rural Community Action Programme.

- encouraging access to services for local communities, where gaps in provision can be clearly evidenced, building in the community engagement as described above.

Indicators

Table 15. Priority 4 Indicators and Targets

Indicator	Baseline	Target
Outputs		
Regeneration schemes	-	4
Results		
Premises created or refurbished	-	2,000 m ²
Jobs accommodated	-	30
Enterprises accommodated	-	10
People accessing services	-	2,000
Gross jobs created	Number of jobs in social enterprises in EAST WALES	40 FTE
Impacts		
Occupancy rates	-	-
Net jobs created	-	-

Added Value

4.94 It is envisaged that where this Priority will make an impact is in those communities which are starting from a particularly low base and do not have currently the capacity to benefit from the opportunities that will be stimulated from the interventions supported by the other Priorities. The value of this part of the Programme is that it will support and encourage the development of more holistic remedies of the type that the Welsh Assembly Government is developing under national programmes such as the Heads of the Valleys Initiative.

4.95 The coordination of expenditure that will be achieved will result in the overall impact from this Priority being far more valuable than the sum of the component parts. Partnership and local focus will be the hallmarks of this Priority and it is anticipated that the Structural Funds will have a particular role to play in pump-priming initiatives and activities stimulated and managed by the new local Spatial Plan partnerships.

Beneficiaries

4.96 These may include the Private Sector, Public sector bodies, Local authorities, Voluntary Sector bodies, Community Organisations, learning infrastructure, Institutes of Higher and Further Education, Social enterprise, Social Partners, and Non-governmental organisations (NGOs).

Flexibility facility

4.97 Article 34 (2) of Council Regulation (EC) No 1083/2006 provides for the ERDF to fund interventions which fall within the scope of the ESF (and vice versa), provided such interventions are necessary for the successful implementation of an operation and have a direct link to that operation. In order to promote coherent implementation of actions under this Priority, a maximum of 10% of the EU contribution to the Priority can be used to fund such complementary investments. Justification for using this flexibility will be provided at operation/project level and the resources used in this manner will be separately identified in project applications and expenditure declared.

4.98 Examples of where cross-financing under this Priority can promote coherent implementation include:

- training for community organisations and individuals to enable them to engage effectively with ERDF funded activities to improve the physical infrastructure of deprived towns and villages; and
- training and employment activities that are directly linked and integral to the success of regeneration operations and projects.

4.99 Relevant ESF indicators will be used, for example:

Table 16. ESF Indicators for Priority 4

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

Transnational and inter-regional co-operation

4.100 One of the main outcomes of the interventions proposed under this Priority is the development of integrated approaches to long-term regeneration in the Regions most deprived communities and to support the development of vibrant local economies, including improved access to jobs, services, markets and facilities. Within this context there is the opportunity to engage in collaborative projects and gain an understanding of best practice under the trans-national and inter-regional programmes with the use of ERDF funding as appropriate.

Global grants

4.101 We do not envisage use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006 of 11 July 2006.

PRIORITY 5: TECHNICAL ASSISTANCE

Objective

4.102 To ensure the efficient and effective management of the Programme.

Rationale

4.103 Technical Assistance (TA) is an essential resource for supporting the effective delivery of the Programme. Well-supported and robust administration systems which build on those utilised for previous Programme will be needed to ensure that the new Programme operates smoothly and effectively. TA will be used alongside the resources of the Welsh Assembly Government and its' partners and will focus on supporting key parts of the implementation process.

4.104 Technical assistance will be utilised to support the development of capacity at the Spatial Plan Area level to engage with a range of local partners and stakeholders to develop and support the implementation of relevant Strategic Frameworks.

4.105 Article 46 of Council Regulation (EC) No 1083/2006 of 11 July 2006 allows the use of technical assistance to finance the preparatory, management, monitoring, evaluation, information and control activities of operational programmes together with activities to reinforce the administrative capacity for implementing the funds.

4.106 Building on experience in 2000-2006 the Managing Authority proposes to use TA both to improve the implementation of the programme (strengthening governance and compliance) and enhance its effectiveness in creating jobs and growth (developing our delivery capacity to increase impact). To take this forward, the Managing Authority aims to use TA to support a range of eligible activities undertaken by partner organisations and the Managing Authority itself, as set out in Article 46.

Management

4.107 The following indicative activities will help improve strategic implementation and strengthen programme support and development:

Indicative Activities

- Enhance capacity, including, under the framework of the Wales Spatial Plan to support development and implementation of Structural Funds Strategic Frameworks;
- Strengthen co-ordination and liaison mechanisms with partnerships and promote partnership working;
- Encourage and facilitate collaborative projects and approaches;
- Support for operations linked to the management of innovation, trans-national co-operation, sharing of good practice and mainstreaming;
- Improve external expertise and technical advice;

- Develop and enhance bespoke IT systems;
- Advise and support projects on cross-cutting themes integration; and
- Training for project managers and support for networks.

Monitoring

4.108 A single Programme Monitoring Committee (PMC) will be established to oversee the effectiveness and quality of the four programmes in Wales. Its work will be enhanced by the improvement in monitoring and management information flowing from the investment in IT identified above. Technical Assistance will be used to support the duties of the PMC, as defined in Articles 65 and 66, and its sub-committees and the costs will be divided between the four Convergence and Regional Competitiveness and Employment Programmes on a proportionate basis. Experts appointed to the PMC based on merit will be remunerated in line with the Welsh Assembly Government's normal practice, with payment from domestic sources of funding; Technical Assistance will not be used for the payment of PMC members.

Indicative Activities

- Expenditure on monitoring and sub-committee meetings, including expenses; and
- Strengthening significantly aspects of WEFO's Programme Management function. This will include a number of technical and expert functions as well as to provide better internal programme management, enhanced support to the PMC and improved reporting to the European Commission.

Research and Evaluation

4.109 During the 2000-2006 programming period, research and evaluation is playing a central role in helping WEFO to manage programmes effectively. WEFO set up a specialist Research, Monitoring and Evaluation (RME) team to design, carry out or manage programme-level evaluations.

4.110 Technical Assistance will be used to meet the requirements for evaluation as set out in Articles 47 and 48 of Council Regulation (EC) 1083/2006. Indicative activities follow.

Indicative Activities

- Programme level research and evaluation, including research into the Cross Cutting Themes;
- Research and evaluation related to Strategic Frameworks;
- Provision of evaluation advice and guidance to sponsor organisations;
- Research and evaluation dissemination and workshop events; and
- Management of research and evaluation exercises, for example through the Evaluation Advisory Group.

4.111 Further detail on these planned activities is available in Chapter 6.

Information and Publicity

4.112 The success of the programme depends to a large degree on a wide understanding among the sponsors and partners of its contents, governing regulations, and aims and objectives. Actions must be taken to ensure that potential sponsors and administrators of the programme are aware of how the programme works and of the funding opportunities available. It is also essential that the benefits and achievements of the programmes are widely publicised to highlight the value added by the EU working in partnership with the Welsh Assembly Government and its partners.

Indicative Activities

- Dissemination of information, publicity and communication including guidance for partners and sponsors; seminars/workshops;
- WEFO website development and maintenance;
- Diversity and accessibility initiatives; and
- Operation of Helpline.

Control Activities and Reinforcing Administrative Capacity

4.113 The Managing Authority has developed and improved its control systems throughout the period of the 2000-06 programmes. It wishes to build on this to become a structural funds exemplar across the range of its functions. Indicative activities to be financed by TA in support of this include:

- enhanced audit arrangements to ensure that the successor to the A10/A15 arrangements work effectively, improving quality and timelines;
- improve irregularity monitoring and reporting; and
- establishment of a guidance unit within the MA developing and providing continuing and consistent advice to sponsors and partners.

CHAPTER 5: CROSS CUTTING THEMES

INTRODUCTION

5.1 In accordance with Articles 16 and 17 of regulation (EC) No 1083/2006 and Article 6 of regulation (EC) No1081/2006, the cross-cutting themes of equal opportunities and environmental sustainability will be built into the ERDF Competitiveness programme. The aim is to build on the substantial progress made in integrating these cross cutting themes into the delivery of the European Structural Funds programmes 2000 -2006.

5.2 This chapter sets out the rationale, outlines the current policy context and defines the operational strategy for both themes. The ways in which the themes will be implemented, monitored and evaluated are covered in Chapter 6, along with the lessons learned from the current programme 2000-2006 in Annex P.

ENVIRONMENTAL SUSTAINABILITY

Rationale

5.3 Inclusion of environmental sustainability as a cross-cutting theme will help to ensure that economic development will not adversely impact on the environment. It will also promote the potential of the environment as an economic driver. This is identified in the Integrated Guidelines for Growth and Jobs, particularly in relation to the sustainable use of resources.

5.4 A healthy environment is essential for the quality of life of the people of Wales and for a healthy economy. A high quality, attractive environment will play a key role in attracting and retaining people to live and work in Wales. It underpins Wales' tourist industry with its turnover of £2.3 billion and the 117,000 full time equivalent jobs in Wales associated with the use, management and appreciation of the natural environment¹⁰⁰. The direct and indirect effect of this employment and other spin-off jobs generates goods and services worth £8.8 billion to Wales each year, and 9% of Welsh GDP¹⁰¹. The environment is inextricably linked to the economic health of Wales.

5.5 The key environmental issues affecting the region are identified in *A Living and Working Environment for Wales: The State of the Welsh Environment 2003*¹⁰². They are:

- Climate change caused largely by the burning of fossil fuels which will increase sea levels and cause an increase in extreme weather events;

¹⁰⁰ Valuing our environment: http://www.rspb.org.uk/Images/Wales%20valuing%20full_tcm5-31051.pdf

¹⁰¹ Ibid.

¹⁰² A living and working environment for Wales: The state of the Welsh Environment 2003 <http://www.wales.gov.uk/subienviroment/content/reports/environment2003/summary-pt1-e.pdf>

- A relatively poor transport infrastructure with a corresponding reliance on private vehicles;
- A high dependency on fossil fuels as an energy source and low level of renewable energy;
- Low rates of reuse and recycling of waste and an inadequate waste management infrastructure;
- Potential deficits in some water supply zones;
- Diffuse pollution from agriculture, acid precipitation and other sources;
- Threats to fisheries from pollution and unsustainable fishing practices;
- A high quality landscape although some areas are blighted by historic industry;
- Extensive areas designated for nature conservation although biodiversity and habitats are under threat from a variety of causes; and
- A rich historic environment.

A fuller picture is provided in the Strategic Environmental Assessment (Annex G).

Policy context

5.6 The National Assembly for Wales' *Sustainable Development Scheme* sets out how it will promote sustainable development through all its functions. Key actions have been identified relating to climate change, helping business to develop new opportunities related to sustainable development, embedding sustainable development into education and citizenship, working with others to raise awareness of the issues, and gearing organisational structures and processes to deliver sustainable development.

5.7 The Environment Strategy for Wales forms a key element of delivery of the Assembly's sustainable development duty. It sets out how the specific challenges in relation to the environmental 'leg' of sustainable development (the other 'legs' being social and economic) will be met. Building on the *Wales Spatial Plan*, the Environment Strategy for Wales considers the specific pressures facing different parts of Wales. It sets out the strategic direction for the next 20 years and is supported by an Action Plan aimed at delivering the vision and outcomes set out in the strategy. The five key environmental themes identified in the Action Plan are addressing climate change, sustainable resource use, distinctive biodiversity, landscapes and seascapes, the local environment and environmental hazards. The strategy recognises the role the Welsh environment plays in improving economic and social conditions, contributing to the Lisbon agenda. Other policies and programmes such as the Competitiveness Programme will have a role in delivering the priorities set out in the Environment Strategy for Wales.

5.8 A key part of *Wales: A Vibrant Economy* is to ensure that programmes and policies support sustainable development. The more efficient use of resources is emphasised, together with encouragement of innovation and technological development that is crucial in shaping a sustainable future. More efficient resource use, reducing environmental risks and promotion of

sustainable procurement are key elements of *Making the Connections*, which aims to deliver better public services in Wales.

5.9 Although there are densely populated areas around the major conurbations of Cardiff and Newport, the region is predominantly rural with agriculture being the dominant land use. The successor *Rural Development Plan for Wales* will have a key role in addressing land management activities consistent with promoting sustainable farming and forestry. It will also support community-based environmental measures as part of the priorities agenda identified by Local Action Groups. Collaboration between Welsh Assembly Government departments is taking place to ensure complementarity between both programmes including their environmental strategies. A collaborative approach will be necessary to promote sustainable land use and to meet the requirements of environmental directives such as the Water Framework Directive.

5.10 The 6th EU Environment Action Programme 2002–2012 sets out the environmental objectives and priorities that are an integral part of the European Community's strategy for sustainable development. Objectives are defined in the programme for tackling climate change, protecting biodiversity, promoting environment and health, the sustainable use of natural resources and the management of waste. The EU action programme is under-pinned by Community legislation and directives aimed at improving the environment.

5.11 In common with many other Member States, Wales faces major challenges in meeting the requirements of some European environmental directives. The Directives relating to reducing land-filling of waste will require major investment and improvement to the waste management infrastructure. The Water Framework Directive will present new challenges for the control of pollution in catchment areas to meet ecological quality standards. Wales has to play its part in contributing to the UK's targets for meeting Directive requirements, and also the reductions in CO₂ emissions relating to the Kyoto agreement.

Environmental Sustainability objectives

5.12 There is a clear opportunity for the Competitiveness Programme to make a significant contribution to the outcomes identified in Wales and Europe's environmental strategies. This can be achieved within the overall framework of the Lisbon and Gothenburg strategies because of the clear link between a healthy environment, social welfare and a thriving economy.

5.13 The overall environmental sustainability aim and objectives of the Competitiveness Programme are set out below. These are in line with the environmental themes and outcomes identified in the *Environment Strategy for Wales*. They are also consistent with the:

- lessons learned from current Structural Funds programmes 2000–2006 (see Annex P);
- interventions which will be supported by the programme; and

- objectives defined in the European Community's 6th Environmental Action programme.

5.14 The overall aim is to enhance environmental assets, while promoting the sustainable use of the environment for social and economic benefit. This will be achieved through the following six objectives:

(1) Reducing emissions of greenhouse gases to help limit the extent of climate change and help to adapt to its effects

5.15 CO₂ emissions will be reduced through increasing the efficiency of energy use and promoting energy conservation. Micro-generation utilising renewable energy sources will be supported and more efficient use of fossil fuel through Combined Heat and Power (CHP) generation.

(2) Promoting sustainable transport

5.16 Improvements to transport infrastructure will be outside the scope of the Programme. However, integration of the principle of sustainable transport into project proposals will be encouraged. This would include the location of premises close to public transport and the development of green transport plans.

(3) Promoting the efficient use of resources

5.17 Actions to encourage efficiency in the use of resources such as energy and water, and improvements in the management of waste.

(4) Promoting biodiversity and the sustainable management of the land, sea and inland waters

5.18 A high level of protection will be provided for designated conservation areas and a formal undertaking is given that no sites protected under Natura 2000 will be harmed by projects funded under the Competitiveness Programmes. Sustainable management of other areas will be promoted ensuring an appropriate balance between social, economic and environmental factors. Actions to enhance degraded habitats will be promoted as elements within projects which have a strong focus on economic benefit. Examples include improving the habitat and wildlife resources in an area to increase its interest for visitors and tourism, with accompanying economic benefit.

(5) Improving the quality of the local built environment and opportunities to access green space

5.19 High standards of environmental performance will be promoted for new and refurbished premises. Greenfield site development and building on flood plains will be discouraged. Provision of access to green space will be encouraged.

(6) Minimising the risk of pollution and other environmental hazards thereby safeguarding the health of communities and the environment.

5.20 The remediation of contaminated land sites and the prevention of pollution emanating from them will be promoted. Sustainable Urban Drainage systems will be promoted at sites developed for business to reduce the risk of diffuse pollution.

Operational Strategy

5.21 Each project that will be supported by the programme will have to contribute to the relevant environmental sustainability objectives. The environmental sustainability targets that have been integrated into the Priorities (Chapter 4) will be a strong lever to encourage projects to contribute to the environmental sustainability objectives. Specific activities to support the implementation of the environmental sustainability theme will include:

- specialist advice available at an early stage to ensure that opportunities to contribute to the environmental sustainability objectives are integrated into project plans;
- guidance available to show project sponsors how they can integrate the appropriate activities into project plans. The range of activities that can be integrated to counter negative impacts, protect the environment and achieve environmental benefit is summarised in a matrix (Annex I). There is a strong emphasis on energy and material resource efficiency and development and use of environmental technology which will assist progress towards a low carbon economy;
- support will be provided to project sponsors by the environmental sustainability advisers within WEFO and the competent environmental authorities (Environment Agency and Countryside Council for Wales) will participate within partnerships; and
- monitoring of environmental sustainability indicators and targets and the provision of annual reports to the PMC on progress in achieving the environmental sustainability objectives.

EQUAL OPPORTUNITIES AND GENDER EQUALITY FOR WOMEN AND MEN

Rationale

5.22 The principles of equal opportunity for all citizens and ensuring that no groups are excluded from society are central to Welsh Assembly Government and UK Government Policy, not least in relation to the labour market. The integration of equal opportunities in the Structural Funds is important not only for legal reasons, but also because overcoming inequalities between men and women contributes to the overall effectiveness of the Structural Fund programmes. A commitment to treating equal opportunities as one of the two cross-cutting themes within Structural Fund programmes in the UK is made in the National Strategic Reference Framework (NSRF) 2006.

5.23 The aim is to promote equal opportunities for all within the context of the opportunities offered by the Competitiveness programme and to prevent any discrimination on the grounds of gender, disability, ethnic origin, religion or belief, age, sexual orientation and with regard to the bilingual nature of many of the region's communities.

5.24 Promoting equal opportunities for all will contribute to the objectives of the programme by:

- reducing injustice and thus promoting social cohesion with a wide range of benefits including an improved environment for economic development;
- seeking to ensure that all people living in East Wales have the opportunity to use their skills and abilities to best effect; and
- raising the levels of GDP per head and addressing the imbalance in earnings of women and men.

5.25 These are key challenges, and the analyses contained in Chapter 2 and Annex A provide supporting evidence of the relatively disadvantaged positions of women, disabled people, older people and Black and minority ethnic people, clearly evidenced in measures of economic inactivity.

Policy context

5.26 In line with the equality principles enshrined within the Amsterdam Treaty, the National Assembly for Wales has a duty to promote equality of opportunity, as stipulated under Section 120 of the Government of Wales Act 1998:

'The Assembly shall make appropriate arrangements with a view to securing that its functions are exercised with due regard to the principle that there should be equality of opportunity for all people.'

5.27 The commitment to equality of opportunity has also been re-enforced in several Welsh Assembly Government key strategy documents, including *Wales: A Vibrant Economy*. One of its four key priorities is to increase employment supporting job creation and helping individuals to tackle barriers to labour market participation and the world of work.

5.28 *The Wales Spatial Plan* takes forward the Welsh Assembly Government's commitment to tailor its policies to the differing needs of the different parts of Wales, in which equality will be an integral part to delivering a sustainable future.

5.29 The Welsh Assembly Government's *Sustainable Development Action Plan 2004–2007*, *Skills and Employment Action Plan 2005*, *Making the Connections* and strategies such as *Extending Entitlement* and *14–19 Pathways* all highlight the importance of equality in its approach to policy delivery.

5.30 The Welsh Assembly Government is committed to mainstreaming the Welsh language. The second Annual Report on Iaith Pawb (National Action Plan for a Bilingual Wales) and the Welsh Language Scheme¹⁰³ highlighted the good progress made during 2004–2005, but recognised that more needs to be done to ensure that mainstreaming the Welsh language occurs among all new projects and initiatives.

Current and Future Legislative Framework

5.31 There is a range of legislation¹⁰⁴ that underpins the equality agenda. There are also several new pieces of legislation in development. The Equality Act and related legislation places all aspects of equality on a more common footing, and make it easier to mainstream equality as a whole in the business of Government. The Act sets out plans to establish a new body, in October 2007, called the Commission for Equality and Human Rights (CEHR). The body will have wide-ranging powers to tackle discrimination and prejudice, and to promote equality.

¹⁰³ The Welsh Language Scheme:

<http://www.wales.gov.uk/subculture/content/standards/language-scheme-e.pdf>

¹⁰⁴ Equality Acts – Race Relations Act 1976/Race Relations (Amendment Act) 2000

http://www.opsi.gov.uk/actsen2000/2000en34.htm#muscat_highlter_first_match

Welsh Language Act 1993:

http://www.opsi.gov.uk/acts/acts1993/Ukpga_19930038_en_1.htm#tcon

Sex Discrimination(Gender Reassignment) Act 1999:

<http://www.opsi.gov.uk/si/si1999/19991102.htm>

Gender Recognition Act 2004: <http://www.opsi.gov.uk/acts2004/20040007.htm>

Civil Partnership Act 2005: <http://www.opsi.gov.uk/si/si2005/20052114.htm>

Employment Equality (Sexual Orientation) Regulations 2003:

http://www.opsi.gov.uk/si/si2003draft/20036454.htm~muscat_highlter_first_match

Equal Pay Act 1970: <http://www.eoc.org.uk/PDF/epa.pdf>

Disability Discrimination Act 1985: <http://www.opsi.gov.uk/act/acts2005/20050013.htm>

Employment Equality (Religion and Belief) regulations 2003:

http://www.opsi.gov.uk/si/si2003/20031660.htm#muscat_highlter_first_match

The Human Rights Act: <http://www.opsi.gov.uk/acts1998/19980042.htm>

5.32 The CEHR will bring together, in a single body, the work of the Commission for Racial Equality (CRE), the Disability Rights Commission (DRC) and the Equal Opportunities Commission (EOC). It is planned that the CEHR will be established in October 2007. The CEHR will also have responsibility for the new equality areas of age, religion and belief, and sexual orientation, and will work to promote Human Rights.

5.33 The Equality Act 2006 outlaws discrimination on the grounds of religion and belief in relation to goods and services: it also creates a duty on public authorities to promote equality of opportunity between men and women and prohibit sex discrimination in the exercise of public functions. The Act also provided a power which allowed the introduction of the Equality Act (Sexual Orientation) Regulations 2007, which prohibit discrimination on grounds of sexual orientation in relation to goods and services. All these provisions came into force in April.

5.34 An Equalities Review has been undertaken and the Discrimination Law Review is taking place, with a view to bringing forward a Single Equality Bill at the earliest possible opportunity.

Equal Opportunities Objectives

5.35 The four cross-cutting equal opportunities objectives for the Competitiveness programme are set out below. These have been developed using evidence from the Summary Analysis in Chapter 2 and Full Analysis in Annex A. A summary of the lessons learned from implementing the cross-cutting themes in the 2000-2006 Programmes is at Annex P. An analysis has also been carried out of the potential impact of supported activities on the Programme's equal opportunities objectives. This is represented in the form of a Matrix and is available at Annex H.

5.36 There is a clear opportunity for the competitiveness programme to make a significant contribution to improving equal opportunities. The framework laid down in the Lisbon and Gothenburg Strategies and in the Treaty of Amsterdam¹⁰⁵ link a thriving economy with social welfare, gender equality, provision for disabled people and tackling barriers to work-life, balance and developing integrated approaches to assisting people who face barriers to participation.

5.37 The Equal Opportunities Objectives for the programme are:

(1) Increase the number of individuals who have multiple disadvantages accessing employment and self employment

5.38 The creation of the right opportunities and support for individuals is crucial if they are to play an active role in the labour market. Positive action is necessary to ensure particular groups are able to take advantage of opportunities for work and training and in many cases a variety of actions may be needed involving a multi agency approach. Those targeted for specific

¹⁰⁵ Amsterdam Treaty: <http://europa.eu/scadplus/leg/en/s50000.htm>

action should have the opportunity to influence the design of proposed activities.

(2) Increasing the numbers of women, BME people and disabled people securing training and employment in higher paid and higher skilled sectors and self-employment

5.39 Sustained economic advances can only be achieved if previously excluded groups secure access to higher level training and ultimately higher level jobs. This can partly be achieved by ensuring equal access to business support measures and entrepreneurial training, access to funds and advice, home reconciliation strategies by employers, equality training for providers and a supportive physical environment that offers ease of access, safety and childcare.

(3) Challenging occupational segregation by increasing the numbers of women and men training or retraining in non-traditional areas, focusing on areas where there are skill shortages.

5.40 Women still face both horizontal and vertical segregation. It is as important to facilitate women's entry into non-traditional sectors, as it is to promote men's presence in sectors traditionally occupied by women. Particular emphasis will be placed on promoting women's entry into science, engineering, construction, ICT and management.

(4) Increasing the numbers of employers and training organisations that have equality and diversity strategies, including monitoring systems and methods for feeding in improvements.

5.41 The development of good equality structures and practices will increase the ability to harness and develop the skills and talents of all those able to enhance the economic wealth of the region. For example, employers, training and education providers, and business advisers should develop their own diversity strategies and training that recognises the need to develop flexible work and training delivery methods, child and elder care support, and accessible environments. It will also be important to drive forward the recognition that work-home reconciliation applies equally to men as it does to women. Monitoring of equal opportunities and diversity strategies are crucial, as is a formal mechanism to build in improvements.

Operational Strategy

5.42 The Managing Authority is committed to ensuring that gender equality and equal opportunities are promoted in the preparation, implementation, monitoring and evaluation of the Operational Programme. Equally, the Managing Authority will strive for a balanced participation of women and men in the management and implementation of the operational programme at local, regional and national level. Gender and equality mainstreaming i.e. ensuring the integration of the gender perspective at all stages will be promoted alongside specific actions for women and other groups.

Accessibility for disabled persons shall be considered in defining the operations to be supported by the Funds and in the various stages of implementation.

5.43 Each project supported under the programme will be expected to contribute to the relevant equal opportunities objectives and to adopt the relevant indicators of equality of opportunity set out in Chapter 4 in respect of each Priority. Specific activities to support the implementation of the Equal Opportunities theme will include:

- specialist advice, including equal opportunities assessments, will be available at an early stage to ensure the integration of equal opportunities objectives into project plans;
- specialist advice to projects on equal opportunities mainstreaming issues, provided at early and ongoing stages in the process;
- activity level guidance together with best practice case study examples that will provide specific information on how sponsors can address equal opportunities within their project plans;
- equal opportunities targets integrated into priorities acting as a lever to encourage projects to contribute. See Chapter 4 for specific priority targets;
- regular monitoring of progress, allowing for early intervention if necessary (see Chapter 6);
- update reports to PMC and other stakeholders;
- continued involvement of the external Cross Cutting Themes Group; and
- WEFO encouraging key organisations to be involved in supporting an effective network of specialist support.

Chapter 6: IMPLEMENTING PROVISION

INTRODUCTION

6.1 This chapter sets out the implementation provisions for the East Wales Regional Competitiveness and Employment ERDF Operational Programme. Information is provided in accordance with Council Regulation (EC) No 1083/2006 of 11 July 2006, which lays out the general provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. Further information is provided in accordance with Regulation (EC) No 1080/2006 on the ERDF and Regulation (EC) No 1828/2006 setting out the implementation rules.

6.2 The following text does not substitute EC Regulations 1083/2006 or 1080/2006 and in instances of uncertainty or conflict, the Council Regulation prevails over the Implementing provisions. The provisions will be supplemented by any decisions, rule and guidance adopted pursuant to Council Regulation (EC) No 1083/2006¹⁰⁶.

DESIGNATION OF AUTHORITIES

6.3 The programme will be managed in accordance with the principle of sound financial management. Responsibilities for management of the programme by the Welsh Assembly Government give full recognition to this principle and the need for appropriate separation of functions. In particular:

- appropriate separation between the functions of the Managing Authority, Certifying Authority and Audit Authority in accordance with Article 58 of Council Regulation 1083/2006; and
- appropriate separation between the verification functions identified in Article 13 of Commission Regulation 1828/2006 and the Welsh Assembly Government as a beneficiary under the Programme.

6.4 The Welsh European Funding Office (WEFO) is part of the Welsh Assembly Government (WAG) and, as Managing Authority, has overall co-ordination responsibility for management and control issues for the 2007-2013 EU funded programmes. The WEFO Director reports through the Director of Economy and Transport (DE&T) to the Permanent Secretary of WAG. The WEFO Director is responsible for the Managing Authority and Certifying Authority. The Audit Authority reports through an independent line through the Internal Audit Services to the Finance Director of WAG. In order to address any conflict of interest arising from the fact that the WEFO Director reports to the Director of a WAG Department which is also a Structural Funds beneficiary (i.e. DE&T), it has been agreed that the WEFO Director will have an independent reporting line to the Permanent Secretary of WAG on issues where arbitration is necessary. The organogram at Annex J provides an

¹⁰⁶ All Articles referred to relate to Council Regulation (EC) No. 1083/2006 of 11 July 2006 – General Provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, except where otherwise stated. In terms of legal basis, this text does not substitute the above regulation.

overall picture of the key responsibilities and reporting lines within the Welsh Assembly Government.

Managing Authority

6.5 The Managing Authority for the East Wales ERDF programme will be the Welsh Ministers. It is anticipated that the management functions of the Managing Authority will be exercised by staff of the Welsh European Funding Office (WEFO) under the authority of the relevant Welsh Minister.

6.6 There is a clear separation of functions within WEFO; Organisational charts can be found on the WEFO website¹⁰⁷. Within twelve months of the approval of the Operational Programme a description of the systems, organisation and procedures of the Managing Authority will be produced in accordance with Article 71.

6.7 In accordance with Article 60, the Managing Authority will be responsible for:

- ensuring that operations are selected for funding in accordance with the criteria applicable to the operational programme and that they comply with applicable Community and national rules for the whole of their implementation period;
- ensuring that, for the purposes of the selection and approval of operations under Article 60 (a), beneficiaries are informed of the specific conditions concerning the products or services to be delivered under the operation, the financing plan, the time-limit for execution, and the financial and other information to be kept and communicated. It shall satisfy itself that the beneficiary has the capacity to fulfil these conditions before the approval decision is taken;
- carrying out verifications under Article 60 (b), to cover administrative, financial, technical and physical aspects of operations, as appropriate. Verifications shall ensure that the expenditure declared is real, that the products or services have been delivered in accordance with the approval decision, that the applications for reimbursement by the beneficiary are correct and that the operations and expenditure comply with Community and national rules. They shall include procedures to avoid double-financing of expenditure with other Community or national schemes and with other programming periods. Verifications shall include the following procedures:

administrative verifications in respect of each application for reimbursement by beneficiaries;

on-the-spot verifications of individual operations.

- ensuring that on-the-spot verifications are carried out on a sample basis for an Operational Programme. The Managing Authority shall keep records describing and justifying the sampling method and

¹⁰⁷ Link to organisational charts: <http://www.wefo.wales.gov.uk/default.asp?action=page&ID=84>

identifying the operations or transactions selected for verification. The Managing Authority shall determine the size of the sample in order to achieve reasonable assurance as to the legality and regularity of the underlying transactions, having regard to the level of risk identified by the managing authority for the type of beneficiaries and operations concerned. It shall review the sampling method each year;

- establishing written standards and procedures for the verifications carried out and keeping records for each verification, stating the work performed, the date and the results of the verification, and the measures taken in respect of irregularities detected;
- ensuring adequate separation of functions in accordance with Article 58 (b) for arrangements for the verifications, where the body designated as Managing Authority is also a beneficiary under the Operational Programme;
- ensuring that there is a system for recording and storing in computerised form accounting records for each operation under the operational programme and that the data on implementation necessary for financial management, monitoring, verifications, audits and evaluation are collected;
- ensuring that beneficiaries and other bodies involved in the implementation of operations maintain either a separate accounting system or an adequate accounting code for all transactions relating to the operation without prejudice to national accounting rules;
- ensuring that evaluations of the operational programme are carried out according to Article 47;
- setting up procedures to ensure that all documents regarding expenditure and audits required to ensure an adequate audit trail are held in accordance with the requirements of Article 90;
- ensuring audit trails are adequate in line with the Implementing Regulation. For the purposes of Article 60 (f), an audit trail shall be considered adequate where, for the Operational Programme concerned, it complies with the following criteria:
 - it permits the aggregate amounts certified to the Commission to be reconciled with the detailed accounting records and supporting documents held by the Certifying Authority, Managing Authority and beneficiaries as regards operations co-financed under the Operational Programme;
 - it permits verification of payment of the public contribution to the beneficiary;
 - it permits verification of application of the selection criteria established by the Monitoring Committee for the Operational Programme;
 - it contains in respect of each operation, as appropriate, the technical specifications and financing plan, documents concerning the grant approval, documents relating to public procurement procedures, progress reports and reports on verifications and audits carried out.
- ensuring that the Certifying Authority receives all necessary information on the procedures and verifications carried out in relation to expenditure for the purpose of certification;

- the reporting and monitoring procedure for irregularities and for the recovery of amounts unduly paid in accordance with Article 58 of Regulation (EC) 1083/2006. This will ensure the protection of the European Communities financial interests (Regulations (EC) No.'s 2988/95 and 2185/96);
- guiding the work of the Programme Monitoring Committee and providing it with the documents required to permit the quality of the implementation of the operational programme to be monitored in the light of its specific goals;
- drawing up and, after approval by the Monitoring Committee, submitting to the Commission the annual and final implementation reports;
- ensuring compliance with information and publicity requirements laid down in Article 69; and
- providing the Commission with information to allow it to appraise major projects.

Certifying Authority

6.8 The Certifying Authority for the Wales programmes will be the Welsh Ministers. It is anticipated that the management functions of the Certifying Authority will be exercised by staff of the Welsh European Funding Office (WEFO) under the authority of the relevant Welsh Minister.

6.9 There is a clear separation of functions within WEFO. Within WEFO, the functions of the Managing Authority and Certifying Authority will be functionally separate, with a clear division of responsibilities and management arrangements. Within twelve months of the approval of the Operational Programme a description of the systems, organisation and procedures of the Certifying Authority will be produced in accordance with Article 71.

6.10 In accordance with Article 61 the Certifying Authority will be responsible for:

- drawing up and submitting to the Commission certified statements of expenditure and applications for payment;
- certifying that:
 - the statement of expenditure is accurate, results from reliable accounting systems and is based on verifiable supporting documents;
 - the expenditure declared complies with applicable Community and national rules and has been incurred in respect of operations selected for funding in accordance with the criteria applicable to the programme and complying with Community and national rules;
- ensuring for the purposes of certification that it has received adequate information from the Managing Authority on the procedures and verifications carried out in relation to expenditure included in statements of expenditure;

- taking account for the purposes of certification of the results of all audits carried out by or under the responsibility of the Audit Authority;
- maintaining accounting records in computerised form of expenditure declared to the Commission;
- keeping an account of amounts recoverable and of amounts withdrawn following cancellation of all or part of the contribution for an operation. Amounts recovered shall be repaid to the general budget of the European Union, prior to the closure of the operational programme by deducting them from the next statement of expenditure; and
- sending to the Commission a statement by 31 March each year as from 2008, in the format in Annex XI of the Implementing Regulation, identifying for each priority axis of the Operational Programme:
 - the amounts withdrawn from statements of expenditure submitted during the preceding year following cancellation of all or part of the public contribution for an operation;
 - the amounts recovered which have been deducted from these statements of expenditure; and
 - a statement of amounts to be recovered as at 31 December of the preceding year, classified by the year in which recovery orders were issued.

Audit Authority

6.11 The Audit Authority for the East Wales ERDF Competitiveness programme will be Welsh Ministers. It is anticipated that the management functions of the Audit Authority will be exercised by staff of the Internal Audit Service (IAS) under the authority of the relevant Welsh Minister.

6.12 IAS is functionally independent of WEFO and will be responsible for verifying the effective functioning of the management and control system. The IAS will give an opinion on the compliance of the system description. IAS staff work to internationally accepted audit standards and consist mainly of qualified or part qualified auditors or accountants. Within twelve months of the approval of the Operational Programme a description of the systems, organisation and procedures of the Audit Authority will be produced in accordance with Article 71.

6.13 In accordance with Article 62, the Audit Authority will be responsible for:

- ensuring that audits are carried out to verify the effective functioning of the management and control systems of the operational programme;
- ensuring audits are carried out on operations on the basis of an appropriate sample to verify expenditure declared;
- presenting to the Commission within nine months of the approval of the programme an audit strategy covering: the bodies which will perform the audits referred to in the two bullets above; the methods to be used; the sampling method for audits on operations; and the indicative planning of audits to ensure that the main bodies are audited and that audits are spread evenly throughout the programming period;
- by 31 December each year from 2008 to 2015:

submitting to the Commission an annual control report setting out the findings of the audits carried out during the previous 12 month period ending on 30 June of the year concerned in accordance with the audit strategy of the operational programme and reporting any shortcomings found in the systems for the management and control of the programme. The first report to be submitted by 31 December 2008 shall cover the period from 1 January 2007 to 30 June 2008. The information concerning the audits carried out after 1 July 2015 shall be included in the final control report supporting the closure declaration;

issuing an opinion, on the basis of the controls and audits that have been carried out under the responsibility of the Audit Authority, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of expenditure presented to the Commission are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular;

submitting, where applicable, a declaration for partial closure assessing the legality and regularity of the expenditure concerned;

- submitting to the Commission at the latest by 31 March 2017 a closure declaration assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which shall be supported by a final control report; and
- ensuring that audit work takes account of internationally accepted standards

Intermediary Bodies

6.14 The Managing and Certifying Authorities will carry out all tasks as outlined in the above sections and no Intermediary Bodies will be employed as described in Article 59(2).

PARTNERSHIP

The Partnership principle

6.15 Sustainable and effective solutions to the challenges facing Wales are increasingly reliant on the direct and active participation of all stakeholders at national, regional and local levels. The Managing Authority is committed to working through good-quality partnerships and networks to rally key stakeholders behind the Lisbon reform agenda so that resources are genuinely focused on growth and jobs.

6.16 In accordance with Article 10, the Managing Authority will work in close co-operation with both the Commission and representative partners at national, regional and local level, including representatives in the economic, social and environmental spheres. This partnership engagement will cover the preparation, implementation, monitoring and evaluation of the Operational Programme.

(a) Preparation of Operational Programme

6.17 The Wales chapter of the National Strategic Reference Framework (NSRF) and this Operational Programme have been developed in partnership with key stakeholders across all relevant sectors including social partners, equality bodies, higher and further education sector, environment agencies, local authorities, the voluntary and community sector, public and private sectors. The main representative partnership input has been provided through the Post-2006 External Stakeholders Group. This is a broad-based partnership forum which brings together representatives of all the key sectors. Expert input has also been provided through five workstream groups comprising partners from a wide range of organisations in the public, private and voluntary sectors. In particular the Operational Programmes Group advised on the preparation of the programme and contributed to the drafting; the Monitoring and Evaluation Group advised on the development of the monitoring and evaluation strategy, including programme and priority level indicators, and provided oversight of the ex-ante evaluation process; and the Programme Management Workstream supported the development of the implementation strategy, including the arrangements for Strategic Frameworks. In line with the principle of transparency, notes of the meetings of the Post 2006 External Stakeholders Group and the various workstream groups have been published on the WEFO web site¹⁰⁸.

6.18 A public consultation on the Regional Competitiveness and Employment programmes took place over the period 1 December 2007 to 26 January 2007, supported by regional events. A full list of consultees is given at Annex K. A short summary of the consultation responses is provided as part of the Strategy Chapter (Chapter 3) and a more detailed analysis prepared by CRG Research Ltd has been published, alongside individual consultation responses, on the WEFO web site.

(b) Implementation of Operational Programme

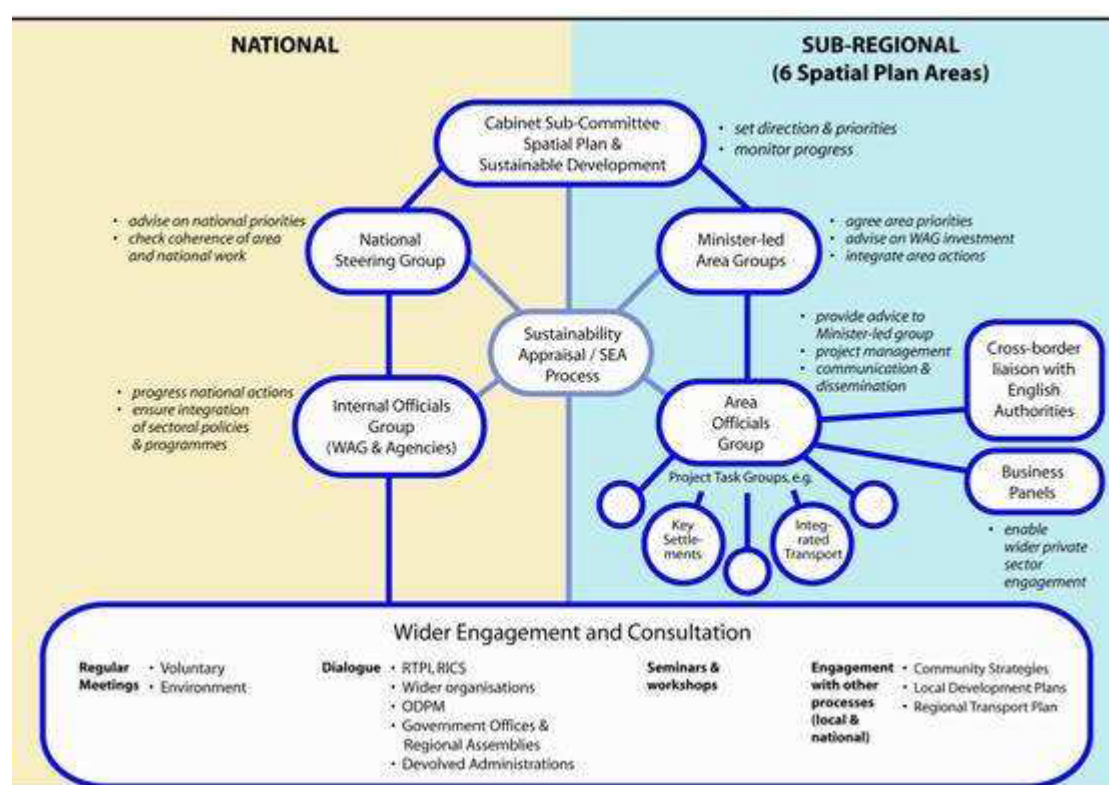
6.19 The active involvement of partners in the implementation of the programme is a cornerstone of the overall implementation strategy. The Programme Monitoring Committee (see paragraphs 6.24–6.29 and 6.32–6.35) will work with the Managing Authority to ensure the effectiveness and quality of the implementation of the Operational Programme. In accordance with Article 10, the Programme Monitoring Committee will be appointed by the Managing Authority and include representative and expert partners at national, regional and local level in the economic, social, environmental and other spheres.

6.20 The detailed planning of operations for this Programme will be focused by means of a number of “Strategic Frameworks” (see paragraphs 6.36 to 6.49). These frameworks are operational strategies for delivering on the various themes within the Operational Programme. They will be used, along with any other selection and prioritisation criteria established by the

¹⁰⁸ At www.wefo.wales.gov.uk

Programme Monitoring Committee in line with Article 65(a), to guide the Managing Authority in the selection of projects. All the frameworks will cover the spatial aspects of delivery and a number of them will be spatially-driven, linked to the *Wales Spatial Plan* areas and developed through partnership at a local and sub-regional level. These groups are chaired by a Minister of the Welsh Assembly Government and include leaders of local authorities, representatives of business, trades unions, equality organisations, the voluntary sector, environmental organisations, Higher Education and Job Centre Plus.

Figure 15. Wales Spatial Plan Collaboration and Implementation Structures



6.21 The thematic Strategic Frameworks will be developed and implemented in consultation with a wide range of partnerships. Many of these will be existing, well-established partnerships (e.g. the Wales Waste Forum, Regional Transport Partnerships, the Wales Employment Advisory Panel, Future Skills Wales Steering Group, Skills for Business Network etc), whereas for some frameworks there will be a need to establish new bespoke arrangements. The arrangements for partnership engagement will provide an open, efficient and effective means of gathering stakeholder views on and input into the development and future refinement of Strategic Frameworks, including facilitating genuine constructive challenge.

6.22 Strategic Frameworks will also be made available in draft form on the WEFO website for comment prior to their agreement, allowing for the widest

possible engagement of stakeholders at all levels. This website will also allow potential project sponsors to publicise brief details of their project ideas with a view to encouraging partnership and collaboration at a project level.

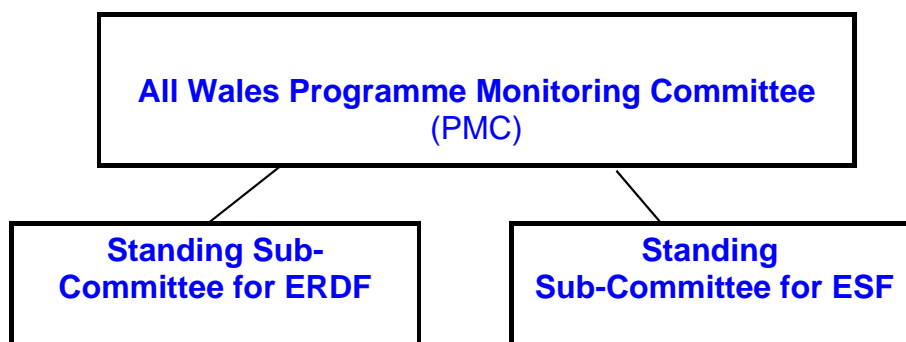
6.23 The Managing Authority will ensure that each Strategic Framework is developed and kept under review in partnership with relevant stakeholders. The partnership arrangements for each framework will require the agreement of the Managing Authority and will be described clearly within the framework documents for the information of all stakeholders.

(c) Monitoring of the Operational Programme

6.24 In accordance with the provisions of Article 63, a single Programme Monitoring Committee (PMC) will be established for the two Convergence (ERDF and ESF) and the two Regional Competitiveness (ERDF and ESF) programmes in Wales. This will help to maximise the synergies between the respective programmes and promote complementary action across programme boundaries. The single PMC will support the effective transfer of best practice and lessons learned and facilitate a coherent all-Wales approach to issues such as information and publicity, research and evaluation, cross-cutting themes, territorial co-operation and the promotion of innovation. The PMC will have two standing sub-committees responsible for monitoring and advising the main PMC on the performance of each of the ERDF and ESF funds. Membership of these standing committees will be drawn from amongst the membership of the PMC and may also include advisers as appropriate.

6.25 The PMC, at its first meeting, will be invited to discuss and agree the membership and functions of the two standing committees and decide the level at which its responsibilities will be discharged to them in accordance with the European Regulations. During the programming period 2007–2013, the PMC may also be invited to consider and agree the establishment of other sub-groups, either of a task and finish variety or on a more permanent basis. Where necessary the Committee may propose to the Managing Authority that other experts or stakeholder groups may be appointed to advise such sub-committees. The proposed model is given in Figure 15.

Figure 16. Proposed structure for PMC and standing sub-committees



6.26 The PMC shall comprise 24 Members plus a Chair. The Chairs of the PMC and Standing Committees will be representatives of the Managing Authority. The European Commission, staff of WEFO and, where appropriate, the EIB and EIF shall participate in an advisory capacity in the PMC and its committees.

6.27 In line with the provisions of Article 11, the majority of members will be drawn from principal regional partners and statutory bodies as follows:

Table 17. PMC Membership by Sector Organisation

Sector Organisation	Members
Local Government (1 West Wales and the Valleys; 1 East Wales)	2
Welsh Assembly Government: Enterprise, Innovation and Networks	1
Welsh Assembly Government: Education and Lifelong Learning	1
Welsh Assembly Government: Environment, Planning and Countryside	1
Higher Education	1
Further Education	1
Jobcentre Plus	1
Trade Union Cymru	1
Private Sector - Business	1
Voluntary Sector	1
Social Economy	1
Environment Agency/Countryside Council for Wales	1
Commission for Human Rights and Equality	1
Total	14

6.28 The balance of the PMC will be made up of 10 experts selected by the Welsh Assembly Government following an open competition subject to independent scrutiny. These experts will bring a range of abilities, experiences and qualifications to the functions of the PMC which will complement the qualities of the partnership representatives. These experts

will be remunerated in line with the Welsh Assembly Government's normal practice, with payment from domestic sources of funding and not from the Structural Funds.

6.29 We are proposing a minimum target of 40% representation of men and 40% women on the All-Wales PMC, with flexibility over the remaining 20%. We are looking to partner organisations to support this target. Appropriate procedures will also be put in place to ensure complementarity between the ESF and ERDF programmes and the RDP and EFF.

(d) Evaluation of the Operational Programme

6.30 The Managing Authority will build upon the good practice of the 2000-06 Programmes by setting up an Evaluation Advisory Group (EAG). The EAG will be chaired by a senior Managing Authority official. Membership will consist of experts drawn from partner organisations including the European Commission and other stakeholders. The group will also include technical specialists from the Office of the Chief Social Researcher, Economic Advice Division and the Statistical Directorate within the Welsh Assembly Government.

6.31 EAG will advise and assist in designing the Monitoring and Evaluation Plan; agreeing research designs; quality controlling final reports; and ensuring that findings are disseminated widely. EAG will have responsibility for engaging technical specialists when required to assist with their work.

DUTIES OF THE PROGRAMME MONITORING COMMITTEE

6.32 The Managing Authority will provide the secretariat function for the PMC and its meetings. The PMC will draw up its own rules of procedure and agree them with the Managing Authority. The PMC's duties are defined in Articles 65 and 66 of Regulation (EC) 1083/2006.

6.33 At its first meeting, the PMC shall approve detailed provision for the proper and efficient discharge of the duties assigned to it, including the frequency of its meetings (with a minimum requirement of two meetings per year) and the membership and functions of its two standing sub-committees. These provisions shall include particularly:

- the criteria for selecting the operations submitted for Community assistance and any revision of those criteria in accordance with programming needs; and
- arrangements for reviewing progress towards achieving the specific objectives and targets of the Operational Programmes on the basis of documents submitted by the Managing Authority.

6.34 The PMC and its subcommittees as appropriate shall satisfy itself as to the effectiveness and quality of the implementation of all the Operational Programmes. To this end, and in addition to the above functions, it shall:

- monitor progress towards achieving the physical and financial indicators and targets set for the Operational Programme and each Priority axis and examine the evaluations referred to in Article 48(3).
- consider and approve the annual and final implementation reports on implementation referred to in Article 67 before these reports are submitted to the European Commission;
- be informed of the annual control reports and of any comments the Commission may make after examining these reports or relating to these reports;
- propose to the Managing Authority any revision or examination of the Operational Programme aimed at improving their management, including financial management;
- consider and approve any proposals to amend the contents of the approved Operational Programme.

6.35 To assist the PMC and subcommittees where appropriate in discharging its statutory responsibilities as identified above the Managing Authority will also ensure that the Committee:

- receives information on commitments, expenditure and outputs (planned and realised) for each theme within the individual Priorities, at least on an annual basis;
- agrees the use of Strategic Frameworks by the Managing Authority as part of the criteria for the selection of operations. Advises on the alignment of individual Strategic Frameworks with the objectives and targets in the Operational Programme, including any subsequent modifications, prior to their approval by the Managing Authority;
- considers the Monitoring and Evaluation Plan of the Managing Authority, and any amendments to the Monitoring and Evaluation Plan, as referred to in Article 48(1);
- is consulted on the Innovative Actions Strategy; and
- receives annual reports on the progress of the Cross-Cutting Themes.

IMPLEMENTATION ARRANGEMENTS

Strategic Frameworks

6.36 Programme evaluations have identified that overall impact can be improved by ensuring more 'joined up' approaches to project activity and stronger links to headline programme objectives. They have also suggested the need for a stronger emphasis on sub-regional collaboration and a simplification of programme structures and implementation arrangements.

6.37 The Managing Authority will promote more strategic approaches to implementation, including through the introduction of *Strategic Frameworks*. These frameworks will be operational strategies and will ensure that project activity is more coherent and better co-ordinated, avoiding duplication of effort. The frameworks will also help to ensure balanced implementation of programme priorities. The Managing Authority will also monitor, manage and mitigate the risks associated with the implementation of these new approaches.

6.38 A Strategic Framework is defined as “a plan to achieve a particular strategic purpose by means of a number of project interventions that are strategically linked”.

6.39 Strategic Frameworks will be planning rather than financial instruments. Projects will be the “currency” within the Operational Programme and responsibility for project selection, prioritisation and approval will rest with the Managing Authority. Frameworks will be drawn up in accordance with guidance issued by the Managing Authority and will be used by them in the process of selecting and prioritising projects.

6.40 The Frameworks will provide a clear strategic overview and guidance on the Fields of Intervention and the kinds of projects and delivery arrangements that will best deliver on the relevant Theme and Priority. They will identify important strategic connections with other Frameworks and, where there is potential for perceived “overlap”, they will explain clearly, for the benefit of prospective sponsors, which kinds of project should be covered by which Framework. They will also identify the scope within their field for Innovative Actions and for Transnational Co-operation (see paragraph 6.50). An indicative list of Strategic Frameworks for the Programme is provided at Annex L:

6.41 The development of Strategic Frameworks will be co-ordinated by Welsh Assembly Government Departments and the *Wales Spatial Plan* (WSP) Area Groups. They will ensure a good alignment between the EU policies for Growth and Jobs and relevant National policies and strategies including the *Wales Spatial Plan*.

6.42 Dedicated Spatial European Teams (SETs) will be established to support the work of the Spatial Plan Area Groups in co-ordinating the spatially-driven Strategic Frameworks. They will also assist thematic Strategic Framework co-ordinators with partnership engagement at a local and sub-regional level. Strategic Framework co-ordinators will also have a role to play, alongside Spatial European Teams and others involved in supporting prospective sponsors, in discussing early ideas with potential project applicants and giving them “without prejudice” views on their likely fit within a framework. The views of Framework Co-ordinators, along with other experts, will be sought by the Managing Authority whenever needed during the course of considering project submissions; but the Managing Authority will make decisions on projects independently on the basis of published Framework content and other PMC-approved selection and prioritisation criteria.

6.43 In agreeing the Strategic Frameworks, the Managing Authority will ensure that the partnership arrangements set out within them provide for a substantial level of “challenge” from the partners and stakeholders engaging in the framework development. As the programme progresses, the results of monitoring and evaluation may highlight the need for adjustment to the framework strategies; therefore it will be necessary to periodically review, adjust and refine their content in consultation with the relevant partnerships.

Framework Co-ordinators will remain responsible for co-ordinating this ongoing maintenance of the Frameworks throughout the life of the programme period, which they will continue to do with the active engagement of their partnerships. The responsibilities of Framework Co-ordinators are set out at Annex M.

6.44 Once a Framework is deemed by the Co-ordinator and by the Managing Authority as fit for use, it will be presented to the PMC. Subject to the PMC's advice on its alignment with the Operational Programme and their agreement that it is fit for use as one of the project selection and prioritisation criteria, the Framework will then be agreed by the Managing Authority. Project fit with the Framework will be one of the project selection and prioritisation criteria; other criteria will be approved by the PMC along with the general eligibility criteria to apply to all projects. Figure 16 and Figure 17 illustrate the role of the PMC in this respect and the way in which all criteria will be applied in the selection and prioritisation of projects for approval of grant.

Figure 17. Setting selection and prioritisation criteria

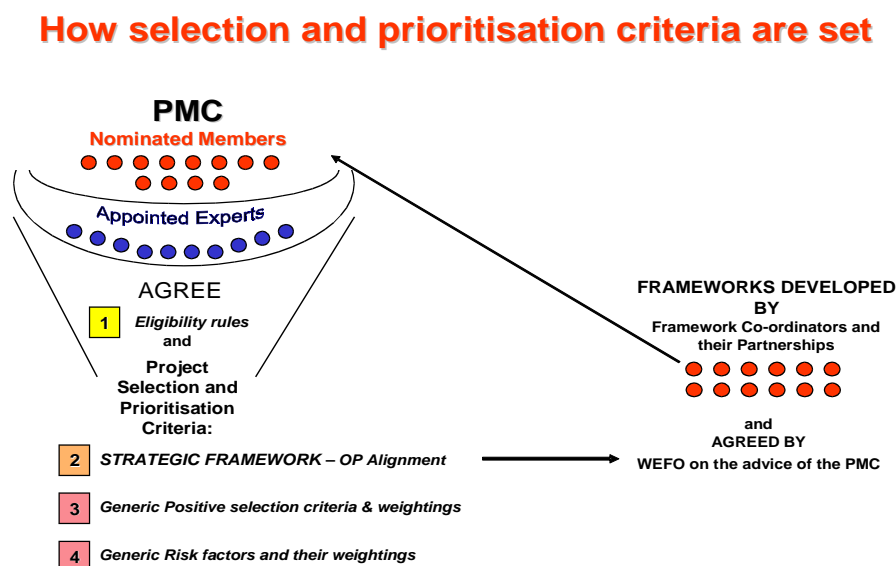
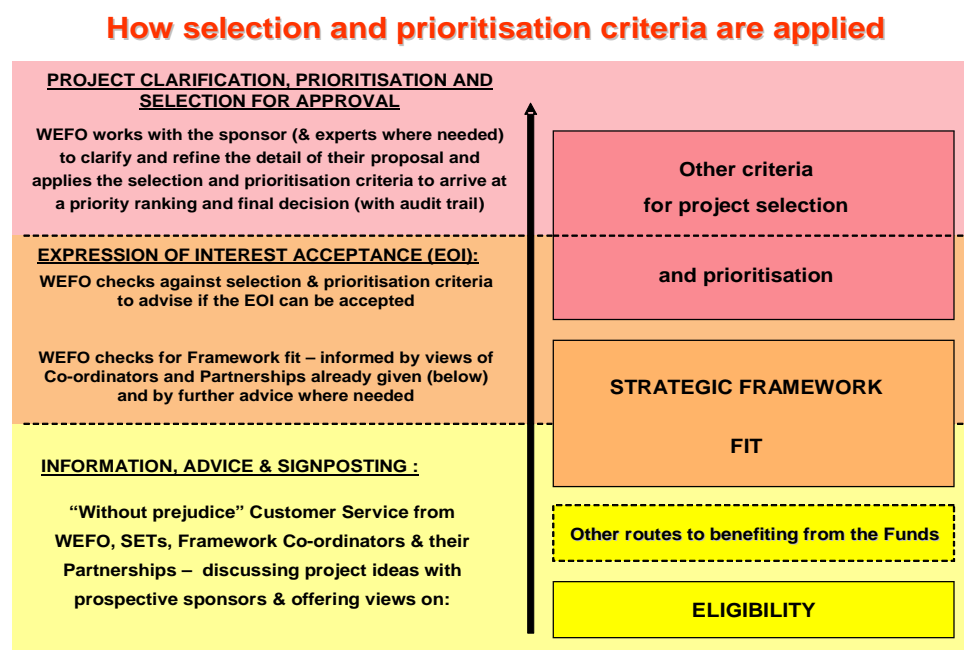


Figure 18. Applying selection and prioritisation criteria



6.45 Once agreed by the Managing Authority, a Framework will be posted on the website, as “AGREED”, for the information and guidance of prospective sponsors and other stakeholders. It will also be used by the Managing Authority Project Development Officers and Priority Controllers in their consideration of Expression of Interest (EOI) requests and in the subsequent selection and prioritisation of projects.

Project handling, selection and prioritisation arrangements

6.46 The Managing Authority will ensure that organisations interested in benefiting from funding through the Operational Programme understand the nature of the programme and the route they need to follow in order to secure a grant. The Managing Authority will provide interactive website facilities to enhance the engagement with stakeholders and prospective sponsors and to enable sponsors to submit their project proposals and their claims electronically.

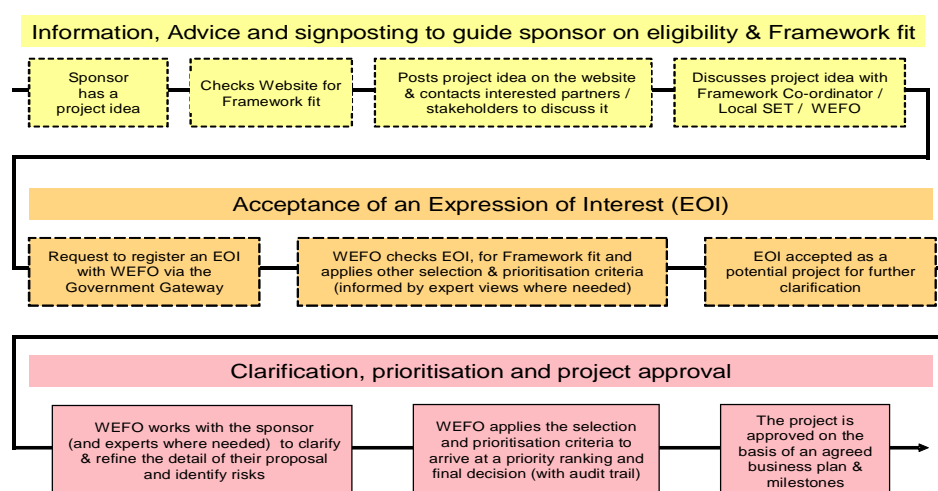
6.47 The Managing Authority will maintain a Helpline to handle enquiries from prospective sponsors and other stakeholders and to provide initial information, advice and signposting. This will be an important enhancement to previous arrangements and will ensure a good quality of customer service for prospective sponsors and other stakeholders.

6.48 The arrangements for the delivery of the Operational Programme will be straightforward. Strategic Frameworks will provide Operational Strategies to guide the nature of interventions, which will be delivered through projects. The Managing Authority will approve those projects directly and does not envisage

the use of Global Grants as defined by Article 42 of Regulation (EC) 1083/2006.

6.49 In addition to the fundamental criteria of eligibility under the rules and the criterion of Framework fit, criteria for the selection and prioritisation of projects, covering important aspects of both benefit and risk, will be approved by the PMC. Figure 18 illustrates the route that a prospective project sponsor will take to secure a Structural Fund grant:

Figure 19. Route for securing Structural Funds grant



6.50 Innovative action projects and projects proposing trans-national or inter-regional action will be specifically identified by the Managing Authority at the stage of submission of an Expression of Interest and sponsors will be given specific advice and guidance in relation to their implementation, evaluation and dissemination. The Managing Authority will separately monitor these projects and will report on them to the Programme Monitoring Committee. National eligibility rules will apply to all such projects. In the case of all approved projects, the sponsor will be responsible for delivering and spending against profile to achieve the projected outputs and results.

6.51 If a project of any kind is found at any time to be in breach of any of the following conditions then that project sponsor will be liable to have its funds clawed back by the Managing Authority:

- a. EU Regulations;
- b. the National rules set to govern the delivery of the Operational Programme;
- c. State Aid rules; or
- d. the specific terms and conditions applied to the project by the Managing Authority in their offer of grant letter.

IMPLEMENTATION OF THE CROSS-CUTTING THEMES

6.52 The Cross-Cutting Themes (CCT) form an integral part of management of the Operational Programme and projects. Each Priority within the programme will use the CCT objectives within the context of the activities to be funded. Activity level guidance will be prepared together with best practice case study examples that will provide specific information at an early stage to show project sponsors how they can address Environmental Sustainability and Equal Opportunities within their project plans. Specialist advisers in Environmental Sustainability and Equal Opportunities work within WEFO and will provide support to framework coordinators, project sponsors and partnerships. Specialist advice will also be available through the involvement of key organisations in the region including the Environment Agency, the Countryside Council for Wales and the Commission for Equality and Human Rights. A key objective will be to provide the specialist input at an early stage in the process to maximise take up of opportunities to promote the themes.

6.53 CCT targets set at the level of the activities to be supported by the Regional Competitiveness and employment Programme provide an important driver for encouraging projects to address the Programme's environmental sustainability and equal opportunities objectives. The horizontal integration of both themes will be viewed as an eligible activity for funding support so that it can offset any potential negative impacts (for example negative environmental externalities) or to maximise the opportunities for integration (for example in a more diverse workforce). Matrices have been prepared that show the detailed activities that will be supported under the Priorities and Themes to achieve horizontal integration (see Annexes H and I).

PAYMENT BODIES

Payments from the Commission

6.54 The National Assembly for Wales will receive Structural Funds payments from the European Commission. Payments will be made to the nominated bank account which will be controlled by Finance Division, National Assembly for Wales. WEFO will liaise with Finance Division to ensure Structural Funds payments from the European Commission are correctly accounted for and are separately identifiable.

6.55 Shortly after the elections for the National Assembly for Wales in May 2007 the functions of the National Assembly for Wales will be transferred to the Welsh Ministers of the National Assembly for Wales (collectively known as the Welsh Assembly Government). At this point the Finance Division of the Welsh Assembly Government, acting on behalf of the Welsh Ministers will receive payments from the Commission.

Payments to Beneficiaries

6.56 The Managing Authority will pay the beneficiaries (projects) on receipt of valid claims in accordance with Article 80. WEFO will be responsible for

making payments to beneficiaries. The WEFO Payments Branch will work in partnership with Project Development Officers in the Programme Management Division on project monitoring issues but will be wholly responsible for authorising payments, thereby ensuring a separation of duties between those that approve and those that pay. The branch will also be separate from the Certifying Authority which will be responsible for making expenditure declarations to the EC. A structure chart for WEFO is available on the WEFO website¹⁰⁹.

6.57 Beneficiaries will be expected to submit claims at regular intervals to report actual expenditure and project activity. Claim intervals will be either monthly or quarterly, to enable close monitoring of projects against approved activity. The claims process will allow sponsors to report progress on the project and to provide revised spending plans which will be essential for monitoring at both project and programme level for N+2 purposes.

6.58 Applicants will generally claim on-line through WEFO's Programme and Project Information Management System (PPIMS) database which it is planned will be introduced through 2007 to 2008. This will provide automatic claim invitation and validation prior to submission. This will ensure all fields in the claim form are fully completed and undertake arithmetic calculations. It will also identify and seek explanations behind any breaches of tolerance where the project is not delivering as approved. This will not only improve the quality of claims submitted, resulting in less having to be returned, but will ensure close project monitoring alerting both WEFO and beneficiaries to issues as soon as they arise. Pre-printed paper claim forms will be available for those sponsors who do not have access to on-line functionality. These will undergo the same validation checks at the point of input into PPIMS by WEFO staff.

6.59 All projects will be subject to grant retention (normally 10%) subject to satisfactory submission of a final claim and external audit certificate.

ELIGIBILITY OF EXPENDITURE

6.60 The Managing Authority for the Operational Programme will draw up rules on the eligibility of expenditure in accordance with Article 56(4). These rules will take account of the provisions and exceptions as set out in the ERDF Regulation (EC) 1080/2006, the General Regulation (EC) 1083/2006, the Implementing Regulation (EC) 1828/2006, the ESF Regulation (EC) 1081/2006, and the existing (and updated) guidance and operational manuals issued by each the Managing Authority.

6.61 The Managing Authority will provide the Commission with information on the national rules for eligibility established and applicable to the Operational Programme at the latest by the date of the submission of the description of the management and control systems and the report on the compliance of the systems in accordance with Article 71 of Regulation (EC) 1083/2006.

Monitoring of specific allocations

¹⁰⁹ www.wefo.wales.gov.uk

6.62 Where the flexibility facility allowed by Article 34(2) of Regulation (EC) 1083/2006 of 11 July 2006 is to be used it will be limited to a maximum of 10% at Priority level. WEFO will monitor individual project expenditure to ensure that actions falling within the scope of assistance of the European Regional Development Fund remain below this threshold.

INTEREST GENERATED

6.63 Any interest generated by payments from this Operational Programme to funds as defined in Article 44 shall be used in accordance with the provisions of Article 78(7). For example, interest generated from payments to financial engineering instruments will be reinvested for the benefit of small and medium sized enterprises.

6.64 In accordance with Article 83, any interest generated by the pre-financing shall be posted to the Operational Programme concerned, being regarded as a resource for the Member State in the form of a national public contribution, and shall be declared to the Commission at the time of the final closure of the Operational Programme.

AUDIT ARRANGEMENTS

6.65 Project sponsors are required to provide independently verified audit certificates as part of their own project management and in support of payment requests to WEFO. These certificates will need to be provided every 12 months during the life of a project and also at the end of the project. These audits will be undertaken by a suitably qualified auditor external to the organisation claiming the grant.

6.66 Each audit certificate will cover the period from the last audit (or from the start of the project), to the date of the last claim.

6.67 All audit issues will be followed up and decisions fully documented. The presumption will be that any amounts subjected to audit qualification will not be paid until the issue is resolved. If audit issues are raised WEFO will seek assurances from sponsors and auditors for future claims that any amounts disallowed have also been excluded. All audit issues will be recorded on PPIMS to allow common issues to be identified and followed up.

6.68 WEFO is looking to directly commission an external firm(s) of auditors to undertake project audits for the 2007–2013 Programme. This will ensure greater control and assurance and will provide for a consistent approach across all projects and funds.

USE OF THE EURO

6.69 In accordance with Article 81, certified statements of expenditure, applications for payment and expenditure in the annual and final reports will be denominated in euro. The sterling amounts will be converted to euro using the monthly accounting exchange rate of the Commission in the month during which the expenditure was registered in the accounts of the certifying authority.

STATE AIDS

6.70 Any public support under this programme must comply with the procedural and material EC State Aid rules applicable at the point of time when the public support is granted. It is the Member State, and in particular the Managing and Certifying Authority who are responsible for the compliance with State Aid rules of all Structural Funds operations within the programme.

6.71 In planning for the new programme, early consideration will be given to ensuring that any aid awarded has the necessary Commission approval, either by ensuring that it complies fully with an existing approved scheme or a block exemption or by notifying the aid separately. In developing Strategic Frameworks, lead organisations will be required to identify the relevant State Aid cover for activities planned, ensuring that there is a thorough assessment of State Aid issues at an early stage of development, reducing the risk of problems during implementation.

6.72 WEFO, as the Managing and Certifying Authority, will work closely with the Welsh Assembly Government's State Aid Unit and with lead organisations to address State Aid issues identified in relation to the Strategic Frameworks, ensuring that the appropriate level of cover is in place for the various activities proposed under the Strategic Framework. This, in turn, will provide WEFO with robust assurance of State Aid compliance. Building on the experience gained during the existing programme, WEFO will ensure that appropriate systems and procedures are established for dealing with State Aid matters.

6.73 These will include:

- provision of clear guidance to partners, applicants and staff;
- specific support and guidance during the development stages of projects under a Strategic Framework;
- robust methodology for assessing State Aid in relation to single projects and commissioned proposals; and
- procedures for ensuring State Aid compliance at reporting and monitoring stages.

6.74 In recognition of the ongoing reform of the State Aid rules, WEFO will liaise closely with the Welsh Assembly Government's State Aid Unit to ensure that any changes are built into the practical delivery of the Structural Funds Operational Programme, while ensuring that the full scope of the rules are applied in support of the key priorities identified.

PROCEDURE FOR FINANCIAL FLOWS

6.75 The Certifying Authority will make all payment claims to the European Commission. Interim and final claims will be derived from declarations of expenditure submitted by beneficiaries. A diagram illustrating these financial flows and the associated financial controls is at Annex N.

6.76 The Managing Authority will maintain systems to identify all receipts from the Commission and individual payments to beneficiaries. Procedures will be in place to ensure that EU regulations on prompt payments are complied with. The Managing Authority will be responsible for ensuring that the payments systems used have robust financial controls. Standards of probity and propriety consistent with those used for UK Government expenditure will be applied to the management of Community funds. As required in Article 37(1) (g)(iv), transparency in the mobilisation and circulation of financial flows will be maintained through defining the procedures used. An outline of how Community funds will flow is as follows:

- The Managing Authority input to WEFO's grants administration system, Programme and Projects Information System (PPIMS), the interim claim expenditure declared by the beneficiaries.
- The Certifying Authority submits requests for payments to the Commission at programme level.
- The Commission makes payments to the Managing Authority's account.
- The Managing Authority certifies and authorises payments to beneficiaries and carries out any recovery action necessary.
- The Managing Authority makes payments to beneficiaries through its BACS account.

Where the European Commission requests a refund, the Managing Authority will make the necessary payments.

6.77 The Managing Authority will bear the responsibility for investigating irregularities and making financial corrections as required. Within 2 months following the end of each quarter, the Managing Authority will inform the Commission of any irregularities which have been subject of a primary administrative or judicial finding and with references to irregularities previously reported any significant changes.

PROGRAMME AND PROJECT INFORMATION MANAGEMENT SYSTEM (PPIMS)

6.78 The WEFO Grants project is developing new ways of working via a web-enabled integrated to fully comply with Commission compliance requirements, and to better enable beneficiaries to conduct their business with WEFO.

6.79 The web-enabled system being delivered is called PPIMS (Programme and Project Information Management System). The online functionality is being delivered via the Government Gateway, used across government to provide online services.

6.80 The system offers simple secure access to key documents and enables information to be shared across all WEFO offices in an efficient cost-effective way. Within PPIMS all data will be held in one place so access to information on each project will be more readily available than via current systems.

6.81 Sponsors themselves will be able to interact with WEFO online at a number of stages during the project lifecycle. Each sponsor will need to register with the Government Gateway and be given a unique user ID and password which will be used when they need online access. Sponsors will then be able to interact with WEFO online to carry out a number of actions, for example:

- Completing Expression of Interest forms;
- Completing pre-populated claim forms;
- Seeing the latest Business Plan;
- Submitting supporting documents; and
- viewing any Article¹¹⁰ 13 or 17 reports.

6.82 Benefits for sponsors include:

- The use of standard forms/documents for all Programmes;
- An online claim form which will be pre-populated with data;
- Being alerted via email when there is information on the website for attention and action;
- All information on the project being held in one place; and
- Use of the Government Gateway provides a high level of security; all sponsors will be verified against 'known facts' held by WEFO.

6.83 Monitoring data will be collected at the point of submission of the pre-populated claim forms. This data constitutes a mandatory field in the claim. Therefore, monitoring data will need to be provided as part of the claim in order for it to be accepted by PPIMS as a valid claim. The Managing Authority also has the ability to withhold payment for those beneficiaries not providing monitoring data

6.84 Additionally, WEFO will be able to access management information for Commission reporting more readily, with a clear audit trail being held in one place. The processes that are being designed will be compliant with EU requirements and will be supported by an IT system that will also conform to these same requirements.

COMPUTERISED EXCHANGE OF DATA

6.85 The Commission will establish a computer system to permit the secure exchange of data between the Commission and WEFO. WEFO will be involved in the development, and any major redevelopment, of that computer system. The computer system will be used to exchange information about the Operational Programme as set out in the Commission's Implementing Regulation and noted in Article 37(1)(g)(vi).

¹¹⁰ In reference to the Implementing Regulation (EC) 1828/2006

6.86 The Commission and WEFO will ensure that the Community and national provisions on the protection of personal data are complied with. Information exchanged shall be covered by professional confidentiality and be protected in the same way as similar information is protected by the national legislation of the United Kingdom.

6.87 In addition, information may not be used for any purpose other than that agreed between the WEFO and the Commission, unless WEFO has given their express consent, and provided that the provisions in force in Wales do not prohibit such use.

6.88 The computer system shall contain information of common interest to the Commission and WEFO. An agreement will be reached with the Commission on the core data and the categorisation data that will be provided. The categories will not change during the life of the programme.

6.89 Exchange of data and transactions shall be signed electronically in accordance with Article 37(1)(g)(vi) and the Implementation Regulation. The Commission shall specify the arrangements for use of electronic signatures.

6.90 A document shall be regarded as having been sent to the Commission once it has been signed by WEFO in the computer system. The Commission acknowledges that the date of receipt by the Commission shall be the date on which WEFO sends the documents.

6.91 In cases of *force majeure*, particularly the malfunction of the computer system or the failure of a lasting connection, WEFO may forward information and documents to the Commission in hard copy.

6.92 The Commission will provide the technical specifications for the exchange of data and WEFO will develop its computer systems to meet those specifications.

6.93 WEFO will develop its computer systems to retain the data required for an audit of its accounts. WEFO will set up reliable accounting, monitoring and financial reporting computerised systems in accordance with the general principles of the management and control systems in Article 58.

6.94 WEFO has developed a new computer system PPIMS (Programme and Project Information Management System) and this will contain all the data relating to the financial transactions and monitoring information.

6.95 Extracting data from the PPIMS system will enable WEFO to exchange data with the Commission satisfying Article 66(3) and Article 37(1)(g)vi. WEFO will utilise the standard Web-Application provided by the Commission's newly developed SFC2007 system. Accessing the Commission's web site will be via the Internet (https) using Internet Explorer and entering the data via the menu driven options and screens.

MONITORING AND EVALUATION

Monitoring and Evaluation Plan

6.96 Detailed plans for monitoring and evaluation will be set out in a Monitoring and Evaluation Plan, as detailed in Article 48(1). The plan will be published on the WEFO website and will be updated regularly. A summary of the Monitoring and Evaluation Plan is set out in paragraphs 6.96 to 6.120 and Annex O.

Monitoring

6.97 Article 66 states 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 OP under the Priority Axes (Chapter 4).

6.98 The Operational Programme contains both high-level tracking indicators (also referred to as context indicators) and programme indicators (at Priority level and aggregated to programme level).

6.99 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* (see Strategy – Chapter 3). They are used to monitor changes in the socio-economic context of the programme and will be updated where appropriate in the Annual Implementation Report.

6.100 Programme indicators relate to the effects of the intervention. They fall into three categories: output (activity); 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. Monitoring against these indicators will allow Programme progress to be assessed, thereby assisting the management of the Programme. Targets have been set against the Priority level indicators where meaningful targets can be set.

6.101 Projects will be required to report against all the relevant indicators and, where relevant, provide participant level information required under Article 66(2) of the General Regulation 1083/2006 and Annex XXIII of the Implementing Regulation 1828/2006. Projects will agree with the Managing Authority the timescales for reporting the monitoring data when the project is being developed.

Reporting

6.102 Output and result data will be regularly collected from project managers by the Managing Authority using its grants administration system, PPIMS, to

give an up-to-date picture of forecast and actual achievements. These data will be analysed regularly by the Managing Authority and will be reported, as appropriate, to the PMC. These analyses will underpin the need, should it occur, to undertake evaluation under Article 48(3) – see 6.111. Progress for the impact indicators will be assessed through evaluation and be informed by the output and result data.

6.103 Article 9(3) sets targets for expenditure for specified priorities. Annex IV contains categories of expenditure to help ensure spend towards those targets. These categories will be used to report on how the programme is targeting assistance at the EU priorities of creating jobs, including meeting the objectives of the Integrated Guidelines for Growth and Jobs (2005 to 2008).

6.104 The Managing Authority will make reports available to the PMC for it to be able to satisfy itself as to the effectiveness and quality of the implementation of all the Operational Programme.

Annual Implementation Reports

6.105 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 Report will be considered and approved by the PMC and its subcommittees where appropriate; in accordance with Article 65(d) The first report will be due by 30 June 2008.

6.106 The Annual Implementation Report is essential for reviewing Programme progress. In accordance with Article 67 it will contain details of:

- progress in implementing the Programme and its Priorities together with a quantification of the indicators referred to in Article 37(1)(c) at Priority level;
- the financial implementation of the Programme, detailing for each Priority:
 - the expenditure paid out by the beneficiaries included in applications for payment sent to the Managing Authority and the corresponding public contribution;
 - the total payments received from the Commission and quantification of the financial indicators referred to in Article 66(2); and
 - the expenditure paid out by the body responsible for making payments to the beneficiaries;
- for information purposes only, the indicative breakdown of the allocation of Funds by categories, in accordance with the implementation rules adopted by the Commission referred to in Article 103(3);
- the steps taken by the Managing Authority and the Programme Monitoring Committee to ensure the quality and effectiveness of implementation. This includes monitoring and evaluation, and arrangements to collect data, details of any major problems

- encountered in implementing the Programme and the action taken in response and the use made of Technical Assistance;
- the measures taken to provide information on and publicise the Programme;
- details of any problems relating to compliance with Community law which have been encountered in the implementation of the Programme and the measures taken to deal with them;
- the progress and financing of any major projects;
- the use made of Technical Assistance;
- the use made of assistance released following financial corrections required in connection with individual or systemic irregularities in the implementation of the Programme, in accordance with Article 98(2); and
- cases where a substantial modification has been detected under Article 57.

Annual Review

6.107 On receiving an Annual Implementation Report as noted above, the Commission and WEFO as Managing Authority will examine the progress made in implementing the Programme including the main results achieved over the previous year, financial implementation, and any other issues.

6.108 The Commission may wish to comment on the implementation of the Programme to WEFO, which will report the comments to the Programme Monitoring Committee, and provide a response to include action taken in response.

Final Implementation Report

6.109 A Final Implementation Report, as required under Article 67(1), will be submitted to the Commission by 31 March 2017. The same content and procedure (submission to the Commission by the Managing Authority after examination and approval by the Programme Monitoring Committee) as for Annual Implementation Reports apply to this final report. However, for the Final Implementation Report on an Operational Programme, the time limit shall be a maximum of five months from the date of receipt of an admissible report. If the Commission does not respond within the time limit, the report shall be deemed to be accepted.

Evaluation

6.110 There are three key areas for evaluation of the Operational Programme. These are: Programme level; strategic framework; and project level.

Programme level Evaluation

6.111 The Managing Authority will ensure (Articles 47 and 48) that evaluations of the Operational Programme are carried out through a series of

'on-going evaluations', responding to policy and programming needs. 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.

6.112 Programme level evaluations will consider the following issues: Relevance; Effectiveness; Efficiency; Utility; Sustainability; and Synergy. In accordance with Article 48(3) the results of these evaluations will be sent to the PMC and the Commission. Annex O contains a summary of the indicative Programme level evaluations.

6.113 The Ex-Ante Evaluations (Article 48) for the Regional Competitiveness and Employment Programme (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 iterative process, with the consultants (appointed in accordance with the public sector procurement requirements) commenting on early drafts of programme documents and revisions being made in light of these comments.

6.114 The Ex-Post Evaluation, Article 49(3), will be undertaken by the European Commission in close co-operation with the Managing Authority.

Strategic Framework and Project Level Evaluation

6.115 The programme level evaluation activity will be complemented by Strategic Framework and project level evaluation. Reporting against the monitoring indicators provides part of the assessment of project progress and impact. For this reason, all project sponsors will be required to undertake or commission evaluations of their projects. The intensity of the evaluation activity will be proportionate to the size or risk of the project and will be agreed with the project at the development stage. Costs associated with undertaking evaluation will be deemed an eligible cost. 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, will be required to have the project externally evaluated by independent contractors.

6.116 Evaluation of the effectiveness of Strategic Framework strategies will be essential to inform any framework reviews undertaken during the programme period.

6.117 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. Throughout the programming period the Managing Authority will ensure that the quality of a sample of project level evaluations is assessed to ensure that evaluations are of a suitably robust quality.

Managing Monitoring and Evaluation

6.118 External evaluations will be carried out by experts or bodies, internal (for example the Office of the Chief Social Research Officer, Economic Advice Division or Statistical Directorate) or external, functionally independent of the Managing, Certifying and Audit Authorities.

6.119 The Managing Authority will have overall responsibility for programme-level monitoring and evaluation and for ensuring that advice and guidance and assistance on monitoring and evaluation of Strategic Frameworks and projects is provided.

6.120 Evaluation will be undertaken in the spirit of partnership so the work will be overseen by an Evaluation Advisory Group (see 6.30–6.31: Evaluation of the Operational Programme).

6.121 The Monitoring and Evaluation Plan will be presented to the Programme Monitoring Committee for their consideration. Final reports of all research undertaken and commissioned to fulfil the requirements of the plan will be presented to PMC and its subcommittees where appropriate, and to the Commission.

Measures for Monitoring the ERDF Competitiveness Programme in relation to the SEA

6.122 In accordance with Article 10 of Directive 2001/42/EC, WEFO will monitor the significant environmental effects of the ERDF Competitiveness Programme in order to identify unforeseen adverse effects so that it is able to undertake appropriate remedial action. This monitoring will be undertaken at three levels.

6.123 Firstly, the Strategic Environmental Assessment (SEA) has suggested a selection of tracking indicators that can be used to monitor the environmental performance of the Competitiveness area. As noted in the SEA, it is unlikely that any significant adverse effect identified by these indicators would be the result of activities supported by the Competitiveness Programme. However, WEFO will monitor against these indicators, where appropriate, *to determine changes that occur and potential relationships with programme activities*. As stated in the SEA, data for the majority of these indicators can be obtained from readily available sources. Performance against these indicators will be reported in the Annual Implementation Reports (AIRs).

6.124 Secondly, the effectiveness of mainstreaming Environmental Sustainability as a Cross Cutting Theme will be assessed through the relevant Priority-level indicators. Progress against the Priority level indicators will also be reported in the AIRs. Furthermore, progress against these indicators will be discussed at meetings of the Programme Monitoring Committee.

6.125 Thirdly, the SEA proposes checking criteria to appraise the appropriateness of individual supported activities where they would result in a physical development. These criteria will be used, where appropriate, at project development stage so that potential adverse effects of supported activities are appropriately managed. Projects that have significant negative effects that can not be mitigated for and outweigh positive benefits will not be supported by the Programme. Procedures will be in place to detect any project with a potential negative effect on Natura 2000 sites and other sites designated for nature conservation. These would be scrutinized by WEFO in consultation with the competent Environmental Authorities to ensure that no activities will be supported that will cause damage to designated sites. The appraisal process will also cover opportunities to strengthen the environmental aspects of projects and the guidance that is being developed will advise on how this is to be done and how it will be monitored.

PUBLICITY AND INFORMATION

6.126 Information and publicity measures to be carried out by the Member States and Managing Authorities concerning assistance from the Structural Funds shall conform to the provisions of Article 69 and any rules adopted under it, and Chapter II of the Implementing Regulations.

6.127 The Implementation Regulations put forward a common methodology and approach for persons responsible for carrying out information and publicity measures, which takes account of the specific situation of each Member State. The Managing Authority responsible for implementing the programme will be responsible for publicity on the spot. Publicity will be undertaken in co-operation with the European Commission, which will be informed of measures taken for this purpose.

6.128 The information and publicity measures put in place will be presented in a structured form ('Communication Plan'), clearly setting out the overall aims and target groups; a programme of information and publicity activity; indicative budget and methods of delivery; the responsibility for delivering the activity and ways in which the activity will be monitored and evaluated. The Communication Plan will be published on the WEFO website following the European Commission's assessment of the Plan. The Communication Plan will be submitted to the Commission for examination within four months of the Operational Programme being adopted.

6.129 Communication activity will explain the funding opportunities offered by the programmes, together with raising awareness of how they will benefit and provide added value for East Wales, and the role of the EU in regional development in Wales. WEFO will ensure transparency in the assistance provided by the funds in its communication activity.

6.130 WEFO will ensure that adequate publicity guidelines are available for project sponsors and that project sponsors meet the requirements to publicise the funding received from the Structural Funds programmes placed on them by the Commission Rules (Article 69(1) and the Implementation Regulations).

6.131 The amounts set aside to support the Managing Authority's work on the dissemination of information, publicity and communications for information and publicity are specified in the Technical Assistance Priority.

6.132 The Managing Authority will designate one or more persons to be responsible for the implementation of information and publicity measures, and will inform the Commission of those designated.

CHAPTER 7: FINANCIAL PROVISIONS

7.1 The Community Strategic Guidelines emphasise the importance of concentrating resources both thematically and geographically on the investments that are fundamental for increasing long-term competitiveness, job creation and sustainable development. In deciding how best to allocate resources to support the Competitiveness programmes, a range of issues have been considered. Amongst these are:

- the priorities of the programmes and how the Structural Funds can best contribute to addressing these in ways which interface with domestic programmes and how the relatively small-scale Structural Funds programmes can add value to domestic interventions, policy priorities, current strategies and actions;
- the requirement to 'earmark' resources against priorities which support the Lisbon agenda;
- the ability to absorb available resources within the N+2 timeframe required under the regulations;
- the availability of match funding;
- the responses from the public consultation on the draft operational Programme;
- lessons learned from previous experience of the effectiveness of the Objective 2 Programme;
- state aid requirements, and
- the interface with other European programmes such as the European Agricultural Fund for Development and the European Fisheries Fund.

7.2 The Welsh Assembly Government's policies for economic development as set out in *Wales: A Vibrant Economy* are very much in line with the Lisbon agenda. This calls for an increased concentration of resource and a higher proportion of spend in areas such as R&D and innovation, sustainable use of resources, and skills. At the same time the Government recognises that pockets of deprivation exist in East Wales – for example, the area with the highest deprivation score in Wales, as measured by the Index of Multiple Deprivation¹¹¹ is in Cardiff – and has decided to continue to support investments linked to aspects of urban and rural regeneration, even though they will not contribute directly to the Lisbon earmarking targets as defined in the General Regulation.

7.3 The Financial Tables below show how programme spend will be allocated across the various priorities. In preparing these tables, the Welsh Assembly Government has taken account of the Integrated Guidelines for Jobs and Growth, as well as the Community Strategic Guidelines, both of which emphasise the importance of focussing spend on areas that will drive forward a competitive, knowledge driven economy. The Assembly Government has also taken account of the European Commission's assessment of the UK's National Reform Programme as set out in the 2006 Annual Progress Report on Growth and Jobs: "Time to move up a gear". This

¹¹¹ www.statswales.wales.gov.uk

concluded that the UK needed to give more attention to the following priorities:

- Boosting R&D and innovation;
- Improving transport infrastructure;
- Addressing skills challenges; and
- improving employment prospects for the most disadvantaged.

7.4 In overall terms, compared to the current Objectives Two and Three Programmes, there is a shift in the proportion of resources spent on areas that directly support the Lisbon agenda – this is at the very heart of the vision of the programme to continue the transformation of the East Wales economy. Thus, the decisions to focus investment as indicated in the individual Priorities are based on the Analysis which highlights where it is most likely to have a transformational and long lasting impact. To summarise:

7.5 **Priority 1: Knowledge and Innovation for Growth.** This Priority has been allocated a larger share of the Structural Funds than any on the others within this Programme because the key to the Region's future economic development is to move up the value chain by making the most of the innovative capacity of the business sector. This will be achieved by strengthening the commercially orientated research base of the Region's institutions and investing in businesses to enable them to take forward emerging goods, services and processes to market. The Region is particularly well placed to use the funds, for within it are several highly rated research facilities and a varied business stock. Together they represent considerable potential to move the economy forward. This will be complemented by some targeted support to better align ICT take up with business needs.

7.6 **Priority 2: Business Competitiveness and Growth:** There remain gaps in the supply of pertinent business advice and finance which, without some targeted interventions, will continue to act as a barrier to the creation and growth of some businesses. Given the constraint on funds allocated under this Priority, they will be used to complement other domestic expenditure to address those gaps in the market where they will provide the best return on investment.

7.7 **Priority 3: Tackling Climate Change:** As elsewhere, the Region and its businesses face many challenges arising from the implications of climate change both in terms of addressing the consequences as well as taking steps to slow its progress and developing commercially viable measures to ameliorate its impact. While it is expected that the market will lead much of the activity, particularly in relation to the latter there is a role for the Structural Funds to help to raise awareness, pump-prime some initiatives and take forward some public investment.

7.8 **Priority 4: Regeneration for Growth:** This Priority accounts for the smallest share of the Structural Funds and their impact will best be achieved by using the resources to concentrate on specific locations. This will provide a basis for those areas to benefit from the wider investment in jobs and

growth and when aligned with national funds and strategies, this Priority is expected to yield significant and visible results.

7.9 A table indicating the allocations by category of intervention is also attached.

Programme Modification 2010

7.10 In 2010, Economic Renewal: a New Direction outlined a new role for the Welsh Assembly Government in supporting the economy. This new approach was consistent with the aims of Europe 2020, which built on the achievements and lessons learnt from Lisbon strategy.

7.11 The proposed allocations by category of intervention at table 20 were revised. Codes 2,11,39,40,41 and 42 were added.

East Wales ERDF Regional Competitiveness and Employment Programme 2007-2013
Operation Programme Reference (CCI Number): 2007UK162PO012
Table 18. Priority axes by source of funding (in euros)

	Community Funding (a)	National Counterpart (b) = (c) + (d)	Indicative breakdown of the national counterpart		Total Funding (e) = (a) + (d)	Co-Financing rate (f) = (a) / (e)	EIB contributions	Other Funding
P1			National Public Funding (c)	National Private Funding (d)				
Priority 1 - Knowledge and Innovation for Growth	32,201,650	39,142,546	31,294,532	7,848,014	71,344,196	45.1356%	6,291,032	
P2								
Priority 2 - Business Competitiveness and Growth	14,076,400	17,110,491	11,884,497	5,225,994	31,186,891	45.1356%	5,225,994	
P3								
Priority 3 - Tackling Climate Change	14,076,400	17,110,516	15,187,223	1,923,293	31,186,916	45.1356%		
P4								
Priority 4 - Regeneration for Growth	10,647,271	12,942,122	9,546,916	3,395,206	23,589,393	45.1358%		
P5								
Priority 5 - Technical Assistance	1,450,000	1,175,025	1,175,025	0	2,625,025	55.2376%		
TOTAL	72,451,721	87,480,700	69,088,193	18,392,507	159,932,421	45.3015%	11,517,026	

East Wales ERDF Regional Competitiveness and Employment Programme 2007-2013

Operation Programme Reference (CCI Number): 2007UK162PO012

Table 19. Year by source for the programme (in euros)

	Community Funding
2007	9,745,623
2008	9,940,535
2009	10,139,346
2010	10,342,133
2011	10,548,975
2012	10,759,955
2013	10,975,154
Grand Total 2007-2013	72,451,721

Table 20. Proposed allocations by category of intervention

Code	Description	Community Amount (€)
1	R&TD activities in research centres	3,440,330
	R&TD infrastructure (including physical plant, instrumentation and high speed computer networks linking research centres) and centres of competence in a specific technology	3,000,000
2	Technology transfer and improvement of cooperation networks ...	9,660,495
3	Assistance to R&TD, particularly in SMEs (including access to R&TD services in research centres)	9,660,495
4	Advanced support services for firms and groups of firms	7,038,200
5	Other measures to stimulate research and innovation and entrepreneurship in SMEs	7,038,200
9	Information and communication technologies (access, security, interoperability, risk-prevention, research, innovation, e-content, etc.)	3,000,000
11	Other measures for improving access to and efficient use of ICT by SMEs	3,440,330
15	Renewable energy: wind	1,000,000
39	Renewable energy: solar	1,000,000
40	Renewable energy: Biomass	1,000,000
41	Renewable energy: hydro-electric, geothermal and other	1,000,000
42	Energy efficiency, co-generation, energy management	4,061,000
43	Mitigation and adaptation to climate change	6,015,400
49	Integrated projects for urban and rural regeneration	10,647,271
61	Preparation, implementation, monitoring and inspection	725,000
85	Evaluation and studies; information and communication	725,000
86		
Total		72,451,721

Table 2 CODES FOR THE FORM OF FINANCE DIMENSION

Code	Description	Community Amount
01	Non-repayable aid	65,413,521
03	Venture capital (participation, venture-capital fund)	7,038,200
Total		72,451,721

Table 3 CODES FOR THE TERRITORIAL DIMENSION		
Code	Description	Community Amount
00	Not applicable	72,451,721
Total		72,451,721

Table 4 CODES FOR THE ECONOMIC ACTIVITY DIMENSION		
Code	Description	Community Amount
00	Not applicable	72,451,721
Total		72,451,721

Table 5 CODES FOR THE LOCATION DIMENSION		
Code	Description	
UKL2	EAST WALES	