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### Research Report

Ex-ante Evaluation of the European Regional Development Fund West Wales  
and the Valleys Operational Programme 2014-2020

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mewn Llywodraeth



Social Science in Government



## EX-ANTE EVALUATION OF THE EUROPEAN REGIONAL DEVELOPMENT FUND WEST WALES AND THE VALLEYS OPERATIONAL PROGRAMME 2014 – 2020

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## CONTENTS

Executive Summary .....	5
1.0 Introduction .....	8
1.1 Objectives of the Ex-ante Evaluation and of this Report.....	8
1.2 Approach and Methodology.....	11
1.3 Structure of the report.....	14
2.0 The Operational Programme.....	16
3.0 The Evidence Base and the Socio-economic Analysis.....	22
3.1 The Socio-economic Analysis .....	22
3.2 Other Use of Evidence .....	25
4.0 The Programme Strategy.....	26
4.1 The Strategy and the Socio-economic Analysis .....	26
4.2 Coherence with Europe 2020 .....	31
4.3 Thematic Concentration .....	35
4.4 UK Partnership Agreement.....	35
5.0 Consistency and Coherence of Programme Priorities.....	37
5.1 Priority Axis 1: Research and Innovation.....	37
5.2 Priority Axis 2: SME Competitiveness .....	40
5.3 Priority Axis 3: Renewable Energy and Energy Efficiency.....	44
5.4 Priority Axis 4: Connectivity and Sustainable Urban Development.....	48
6.0 Indicators and Targets .....	51
7.0 Financial Allocations .....	58
8.0 Administrative Arrangements, Monitoring and Evaluation.....	60
8.1 Administrative Arrangements and Capacity.....	60
8.2 Monitoring and Evaluation Procedures.....	64
9.0 Horizontal Themes: Equal Opportunities.....	67
9.1 The Equality Impact Assessment.....	67
9.2 Equalities as a Horizontal Theme .....	68
10.0 Horizontal Themes: Sustainable Development .....	72
10.1 Strategic Environmental Assessment .....	72
10.2 Habitats Regulations Assessment .....	73
10.3 Sustainable Development as a Horizontal Theme.....	74
11.0 Conclusions .....	76

## Glossary of Terms

BAME	Black Asian and Minority Ethnic people
CPP	Community Planning Partnerships
CSF	Common Strategic Framework
EAFRD	European Agricultural Fund for Rural Development
EIA	Equality Impact Assessment
EMFF	European Maritime and Fisheries Fund
EPPF	European Policy Partnership Forum
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European Structural and Investment
EU	The European Union
EU2020	Europe 2020
EW	East Wales
FTE	Full Time Equivalent
GVA	Gross Value Added
HRA	Habitats Regulation Assessment
ITIs	Integrated Territorial Investments
JAPs	Joint Action Plans
NUTS	Nomenclature of Territorial Units for Statistics
NRP	National Reform Programme
NRW	Natural Resources Wales
OP	Operational Programme
PMC	All-Wales Programme Monitoring Committee
PSED	Public Sector Equality Duty
RME	Research, Monitoring and Evaluation
R&D	Research and Development
SEA	Strategic Environmental Assessment
SMART	Specific, Measurable, Realistic and Time-bound
SMEs	Small and Medium Sized Enterprises
SO	Specific Objective
SWOT	Strengths, Weaknesses, Opportunities and Threats

TEN-T	Trans-European Transport Network
TO	Thematic Objective
TRL	Technology Readiness Levels
UKCSRs	UK Country-Specific Recommendations
WEFO	Welsh European Funding Office
WIIP	Wales Infrastructure Investment Plan
WWV	West Wales and the Valleys

## Executive Summary

This report provides an account of the ex-ante evaluation of the European Regional Development Fund (ERDF) Operational Programme (OP) for West Wales and the Valleys (WWV) for the period 2014 – 2020. The evaluation was commissioned in August 2012.

Ex-ante evaluations are required by European legislation as part of the process of developing OPs which provide the basis for the utilisation of European Structural and Investment (ESI) Funds. The evaluation is intended to provide assurance that the Programme

- Contributes appropriately to the EU's 2020 strategy;
- Is internally coherent and also fits with other relevant policies and programmes at EU, UK and Welsh Government level;
- Allocates funding appropriately to different interventions which address identified needs and sets out appropriate indicators and targets to measure the success of these interventions;
- Can be delivered effectively (in other words, that there is adequate administrative capacity and suitable monitoring and evaluation plans in place) and in a way that reduces administrative burden on those delivering projects;
- Puts in place suitable measures to promote equal opportunities, to prevent discrimination and to promote sustainable development;
- Meets the requirement of the Strategic Environmental Assessment (SEA) Directive.

Ex-ante assessments are *iterative*, in other words, they are intended to inform the OP as it is developed rather than simply being a critique of a final document. As such, the report is primarily an account of a process which has taken place over the last 18 months and a discussion of the relatively few remaining areas where the evaluation team and the Welsh European Funding Office (WEFO) have differing views.

The ex-ante evaluation process has been thorough as well as highly iterative. The drafting team has taken care both to address methodically and, where possible, respond to the wide range of issues highlighted by the evaluators.

Overall, we believe that the OP as now drafted:

- Is based on a very sound and thorough socio-economic analysis and uses the evidence base appropriately;
- Is internally coherent in terms of the flow from the socio-economic analysis to the Programme strategy and the Priority Axes, is consistent with other relevant policies and programmes and is based on a sound and explicit Intervention Logic;
- Is consistent with the EU 2020 Strategy, the Common Strategic Framework and the Country Specific Recommendations for the UK, and will make a proportionate contribution to the EU2020 targets relating to an increase in the employment rate, an increase in research and development investment, the economic and employment contribution of SMEs and an increase in renewable energy and resource efficiency;
- Uses appropriate indicators and has adopted a logical approach to the setting of targets and the performance framework;
- Has appropriate monitoring and evaluation processes in place;
- Is based on a justifiable allocation of budgetary resources;
- Is based on sound partnership working and builds on previous strengths in terms of programme management but is set in the context of efforts to improve implementation processes which have been perceived as problematic in the past;
- Is based on appropriate involvement of, and consultation with, individuals and bodies with expertise within the Horizontal Themes and has particular strengths in its approach to equal opportunities.

While generally endorsing the OP, there remain a small number of areas where we believe there is a case for further reflection:

- We feel that there is scope within Priority Axis 1 to define more clearly the balance between, on the one hand, targeted ERDF investment at specific competitive strengths, emerging strengths and R&D facilities, and on the other, investments that could span an extensive range of sectors and interventions;
- Whilst we have noted the risks and uncertainty around the deliverability of the proposed investment in wave and tidal technology and the associated benefits (and hence value for money), we suggest that these are assessed/monitored as the programme is implemented as part of a proactive strategy to manage risks;
- Whilst Specific Objective 4 under Priority Axis 4 has been strengthened, we continue to have some concerns relating to its broad nature. We believe further work to make it more specific in terms of the approach to targeting investments (relating to the forms of investments and types of locations) would be beneficial;
- We feel that in terms of the performance framework, the indicators selected do not fully reflect the diverse policy interventions set out in some of the Priority Axes (particularly 3 and 4). While recognising the advantages of having a manageable number of indicators, we feel that this requires some further consideration. We are also of the view that there may be an argument for differentiating the expenditure milestones for 2018 (rather than having a blanket milestone for all four Priorities) to reflect the different priorities and challenges involved with investing funds;
- While the OP states clearly the intention to ensure integration with other ESI Funds, much will depend on the implementation mechanisms put in place.

However, we accept that all these issues have been well rehearsed during the course of the evaluation and respect the counter-arguments that have been put forward. In our view, such remaining differences of view are legitimate and in no way undermine the quality of the work undertaken in developing the OP.

## 1.0 Introduction

### 1.1 Objectives of the Ex-ante Evaluation and of this Report

Old Bell 3 Ltd., working in association with Regeneris Consulting, Bangor and Cardiff Universities, Wavehill Consulting and Mott MacDonald, was commissioned by the Welsh European Funding Office (WEFO)<sup>1</sup> in August 2012 to undertake the ex-ante evaluations of the Welsh European Structural and Investment (ESI) Fund Programmes to be developed for the 2014 – 2020 period. The ESI Funds comprise of the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF) and the Cohesion Fund.

This report concerns the ex-ante evaluation of the ERDF Operational Programme (OP) for West Wales and the Valleys (WWV).

An ex-ante evaluation is required by European legislation as part of the process of developing Operational Programmes which provide the basis for the utilisation of ESI Funds. The formal requirements for ex-ante evaluation are laid down in Article 55 of the Common Provisions Regulation<sup>2</sup> which, in summary, requires such evaluations to appraise:

- (a) the contribution of the OP to the EU's 2020 strategy for smart, sustainable and inclusive growth;
- (b) the internal coherence of the OP and its relation with other relevant policies and programmes;

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<sup>1</sup> A part of the Welsh Government which is also the Managing Authority for the ERDF and ESF in Wales.

<sup>2</sup> Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006

- (c) the consistency of the allocation of budgetary resources with the objectives of the programme;
- (d) the consistency of the interventions envisaged with the EU's Common Strategic Framework for the ESI Funds and the Partnership Agreement between the UK and the EU<sup>3</sup>;
- (e) the relevance and clarity of indicators proposed to measure outputs and results;
- (f) how the expected outputs will contribute to results;
- (g) whether the target values for indicators are realistic;
- (h) the rationale for the form of support proposed;
- (i) the adequacy of human resources and administrative capacity for management of the Programme;
- (j) the suitability of the procedures for monitoring and evaluating the Programme;
- (k) the suitability of the milestones selected for the performance framework;
- (l) the adequacy of planned measures to promote equal opportunities between men and women and to prevent discrimination;
- (m) the adequacy of planned measures to promote sustainable development;
- (n) the adequacy of measures planned to reduce the administrative burden of beneficiaries.

The Regulation also requires the ex-ante evaluation to incorporate the requirements for the Strategic Environmental Assessment (SEA) Directive<sup>4</sup>, which requires the assessment of such plans and programmes on the environment. In addition, although not explicitly required by the Regulation, it was also agreed during the course of the evaluation that a Habitats

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<sup>3</sup> A document setting out the overall strategy for the use of the Funds in the UK, which is being developed in parallel with the Operational Programmes in Wales and elsewhere in the UK and which is also required by European legislation

<sup>4</sup> Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001

Regulations Assessment<sup>5</sup> was also needed and this was incorporated within the ex-ante evaluation work programme.

The ex-ante assessments are *iterative*, in other words, they are intended to inform the OP as it is developed rather than simply being a critique of a final document. This is stated clearly in the Guidance Document on Ex-ante Evaluation prepared by the European Commission<sup>6</sup>:

'It is good practice that the ex-ante evaluators work in close interaction with the authority responsible for the preparation of the programme. They should undertake work in stages, depending on when elements of the programme are available and give their feedback to the programmers.

As different elements of the evaluation are completed, they may cause programme planners to re-visit earlier stages. For example, this might lead to a reconsideration of the policy mix and a revision of the strategy, or to a new analysis of the external coherence once the Partnership Contract is finalised'<sup>7</sup>.

In the case of the current ex-ante evaluation, the evaluation team has been given the opportunity to comment on the OP for over more than a year as it has been developed, and in particular have undertaken no less than three separate iterations, providing detailed comments on each occasion, on the main elements of the Programme. Our comments have generally been given serious consideration and in many cases led to significant changes of approach, which have now been reflected in the OP which is ready for submission to the European Commission.

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<sup>5</sup> Council Directive 92/43/EEC on the Conservation of natural habitats and of wild fauna and flora

<sup>6</sup> The Programming Period 2014 – 2020: Monitoring and Evaluation of European Cohesion Policy: ERDF, ESF, Cohesion Fund: Guidance Document on Ex-ante Evaluation, European Commission, 2013

<sup>7</sup> Ibid., p. 19

This report is therefore primarily an account of the process followed, the main issues raised at different stages, and how they have been responded to, and a discussion of the relatively few remaining areas where the evaluation team and WEFO have differing views. While the evaluation process has involved the appraisal of all those elements required by Art. 55, the report itself is not intended as a comprehensive appraisal of these issues.

## **1.2 Approach and Methodology**

The main elements of the work undertaken by the team have been:

- An initial inception meeting with the Research, Monitoring and Evaluation (RME) team within WEFO and the production of an Inception Report (September 2012);
- An initial review and appraisal of the socio-economic analysis by an expert regional and labour market economist (September 2012);
- The production of a series of synthesis papers (literature reviews) relating to the Priority Axes<sup>8</sup> being considered by the Welsh Government for inclusion in the Programmes which were shared with the drafting teams to inform consideration of the evidence base (October 2012). Each paper considered the policy context (including the relevance to Europe 2020 strategy and targets, as well as current UK and Welsh Government policy frameworks), evidence relating to current challenges in Wales in general and WWV more specifically, and evaluation evidence on 'what works' in terms of tackling these challenges, drawing both on evaluations specifically related to the Welsh context (including previous and current Structural Fund Programmes) and the wider literature;
- Detailed scrutiny of a series of Priority Papers (on the Priority Axes and on the Cross-Cutting Themes) and a paper on Programme Strategy intended as the basis for a consultation document, with a particular focus on the extent to which they were compatible with the Europe

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<sup>8</sup> See Section 2 below

2020 policy framework, with the issues flagged up in the socio-economic analysis, and with the emerging ESI Funds Regulations and guidance, particularly with regard to thematic concentration<sup>9</sup> (November 2012);

- Attending meetings of the European Policy Partnership Forum (EPPF) and its workstreams and the Policy Group<sup>10</sup>, undertaking consultations with members of these groups and meeting with those directly involved in drafting the OP (autumn 2012);
- Undertaking a Screening Report in accordance with the SEA Directive, which concluded that a full Environmental Report was required in relation to the ERDF OP (December 2012);
- Preparing a draft Strategic Environmental Assessment (SEA) Report as the basis for public consultation (February 2013);
- Developing a draft Equality Impact Assessment (EIA) (jointly with the ERDF OP for East Wales) for the Programme as described in the Consultation document issued by WEFO<sup>11</sup> as the basis for public consultation (February 2013);
- Participating in a series of consultation events held across Wales (Spring 2013);
- Undertaking an analysis of the responses received to the consultation on the draft Programmes and on the draft SEA and EIA reports<sup>12</sup>;
- Undertaking a Stage 1 (Screening) (January 2013) and Stage 2 (June 2013) Assessment of the case for using Financial Instruments (FI): this

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<sup>9</sup> The Common Provisions Regulations and the ESF Regulation lay down a series of Thematic Objectives and Investment Priorities which may be the focus of interventions within OP and require (CPR Art. 18) Member-states to ‘concentrate support, in accordance with the Fund-specific rules, on **interventions** bringing the greatest added value in relation to the Union strategy for smart, sustainable and inclusive growth...’

<sup>10</sup> The EPPF is an external stakeholder group established by the Welsh Government to inform the development of the new Programmes and the Policy Group is an internal (to Welsh Government) group of senior officials convened to input into this process. See Section 7 of the OP.

<sup>11</sup> Consultation on European Structural Funds Programmes for West Wales and the Valleys 2014 – 2020, 14 January 2013

[http://wales.gov.uk/consultations/businessandtheconomy/130114walesandtheeu/?lang=en&utm\\_source=130114&utm\\_medium=wefoweb&utm\\_campaign=consultation\\_en](http://wales.gov.uk/consultations/businessandtheconomy/130114walesandtheeu/?lang=en&utm_source=130114&utm_medium=wefoweb&utm_campaign=consultation_en)

<sup>12</sup> <http://wefo.wales.gov.uk/news/latest/130115consultation/?lang=en>

concluded that there is scope to utilise FIs in a number of key areas relating to the ERDP OP;

- Receiving and commenting on an initial set of Intervention Logic tables, and proposals on financial allocations (August 2013);
- Receiving an account of action taken in response to our earlier comments and undertaking a full second iteration review of a draft socio-economic analysis and the OP in the template format required by the Commission (August 2013);
- Preparing a draft Habitats Regulation Assessment (HRA) Report as the basis for consultation with Natural Resources Wales (NRW) (October 2013);
- Receiving a revised draft of the OP after its consideration by Welsh Government Ministers and incorporating changes made in response to our previous comments, and providing a full third and final review of the draft (October 2013);
- Receiving a draft of the Welsh Chapter of the Partnership Agreement and commenting on this (October 2013);
- Preparing a final EIA (combined for West Wales and the Valleys and East Wales) on the basis of the final version of the OP (October 2013);
- Preparing a final draft SEA report on the basis of the final version of the OP (October 2013);
- Preparing a final HRA report on the basis of the final version of the OP (October 2013);
- Drafting this report (November 2013).
- Finalising the report, including considering further changes made to the draft OP after the final full iteration in the light of our comments and the final text of the regulations.

Where comments were provided on documents originated by WEFO, this was done using the Comments tool in Microsoft Word on the face of the document. All comments were also reproduced in a comments log (example provided at Annex 1) with a brief summary of the main concerns highlighted: this also

enabled the drafting team to explain how they had responded on each point, thus providing a comprehensive audit trail. In total the team made some 480<sup>13</sup> comments on the first iteration, 469<sup>14</sup> comments on the second iteration and 216 comments on the final iteration.

The process has been extremely thorough and has been grounded on excellent co-operation between the ex-ante evaluation team and key officials in WEFO. However, in order to meet the earliest possible submission deadline for the OPs, we provided final comments and presented our overall assessment at a somewhat earlier stage than we would ideally have wished, before the final Regulations had been agreed. In light of this we have continued to make further changes to the reports since the publication of final Commission texts, however we are content that the formalisation of the Regulations does not alter our comments.

### **1.3 Structure of the report**

In the remainder of this report, after briefly presenting (in Section 2) an overview of the OP as it now stands (after our three iterations) we report on our appraisal of:

- the socio-economic analysis and the evidence base underpinning the OP (Section 3);
- the Programme Strategy, the extent to which it flows from the socio-economic analysis and its 'fit' with Europe 2020 and the Common Strategic Framework, the requirement for thematic concentration and with the UK Partnership Agreement (Section 4);
- the four Priority Axes, including their internal coherence – with each other and with the Programme Strategy – their external coherence with UK and Welsh Government policy, and their consistency with the evidence base (Section 5);

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<sup>13</sup> Of which 204 related to the Priority Axes, 113 were on the socio-economic analysis which covered both ERDF and ESF, and 163 were on other corporate papers (indicators, programme strategy and cross-cutting themes) which also covered both ERDF and ESF.

<sup>14</sup> Of which 169 related to the Priority Axes, 84 were on the socio-economic analysis and 216 were on other corporate sections of the OP template.

- the indicators and targets proposed (Section 6);
- the financial allocations proposed (Section 7);
- the evidence on administrative capacity and monitoring and evaluation plans (Section 8);
- the extent to which the horizontal principle (or Cross-Cutting Theme) of equal opportunities has been taken into account in preparing the OP including a summary of the findings of the EIA (Section 9);
- the extent to which the horizontal principle (or Cross-Cutting Theme) of sustainable development has been taken into account in preparing the OP and the potential environmental impact of the OP (Section 10).

Finally in Section 11, we present a brief conclusion on the process and on the suitability of the OP as it now stands.

## 2.0 The Operational Programme

As noted in Section 1, Operational Programmes are the formal documents through which a Member State sets out its proposals for using part or all of the ESI Funds within its territory. Once agreed with the European Commission, they form the legal basis on which money is drawn down from the EU. The EU's requirements in terms of the content of Operational Programmes are laid down in legislation, and for the 2014 – 2020 Programmes, the European Commission has provided a template with strict word limits<sup>15</sup>.

All interventions supported by the ESI Funds must relate to one of the 11 Thematic Objectives established by legislation<sup>16</sup> and to one of the 37 Investment Priorities which are sub-divisions of the Thematic Objectives<sup>17</sup>.

The Operational Programmes must consist of one or more Priority Axes, which (with the exception of Technical Assistance) should comprise one or more Investment Priorities: where a Priority Axis includes several Investment Priorities, the OP must set out a separate financial allocation and a separate set of output and results indicators for each. Each Priority Axis should also consist of one or more Specific Objectives which express the policy intention of the interventions they will fund.

The Priority Axes and the Specific Objectives for the WWV ERDF OP are set out in Table 2.1, showing the relationship with the Thematic Objectives and the Investment Priorities set out in the legislation and the proposed financial allocation in terms of ERDF funding. The remainder of this report relates closely to the content of the OP and should be read in conjunction with that document.

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<sup>15</sup> Draft Template and Guidelines for the Content of Operational Programmes, version 3, European Commission 2013

<sup>16</sup> Common Provisions Regulation, Art. 9

<sup>17</sup> ERDF Regulation, Art. 5

Table 2.1 Priority Axes of the ERDF WWV OP

Priority Axis and Specific Objectives (SO)	Thematic Objective	Investment Priority	ERDF funding €m.
<p><b>Priority Axis 1: Research and Innovation</b></p> <p>SO1: To increase the success of Welsh research institutions in attracting competitive and private research funding.</p>	TO1: Strengthening research, technological development and innovation	(1a): Enhancing research and innovation infrastructure (R&I) and capacities to develop R&I excellence and promoting centres of competence, in particular those of European interest.	92.6
<p>SO2: To increase the level of innovation undertaken across all sectors of the Welsh economy, in particular within Welsh SMEs, leading to a growth in productivity.</p> <p>SO3: To increase the successful translation of research and innovation processes into new and improved commercial products, processes and services, in particular through improved technology transfer from HEIs.</p>	TO1: Strengthening research, technological development and innovation	(1b): Promoting business investment in innovation and research, and developing links and synergies between enterprises, R&D centres and higher education, in particular product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through Smart Specialisation and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in Key Enabling Technologies and diffusion of general purpose technologies.	138.9

<p>SO4: To increase the success of Welsh research institutions in attracting competitive and private research funding (related to low carbon research and innovation).</p> <p>SO5: To increase the successful translation of low carbon research and innovation processes into new and improved commercial products, processes and services, in particular through improved technology transfer from HEIs.</p>	<p>TO4: Supporting the shift to a low-carbon economy in all sectors</p>	<p>(4f): Promoting research in, innovation in and adoption of low-carbon technologies.</p>	<p>57.9</p>
<p><b>Priority Axis 2: SME Competitiveness</b></p>			
<p>SO1: To increase the amount of finance available to SMEs for both business start-up and for business expansion.</p> <p>SO2: To increase the number of SME start-ups through the provision of information, advice and guidance and support for entrepreneurship.</p>	<p>TO3: Enhancing the competitiveness of SMEs</p>	<p>(3a): Promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators.</p>	<p>85.7</p>
<p>SO3: To increase SME productivity through the provision of advice and guidance, in particular through encouraging ICT exploitation.</p> <p>SO4: To increase the growth of those SMEs</p>	<p>TO3: Enhancing the competitiveness of SMEs</p>	<p>(3d): Supporting the capacity of SMEs to engage in growth in regional, national and international markets, and in innovation processes.</p>	<p>107.4</p>

with growth potential, in particular through accessing new markets (both domestic and international).			
SO5: To address market failures in the availability of finance, in particular risk capital, for Welsh SMEs to undertake innovation and commercialise R&D.	TO1: Strengthening research, technological development and innovation	(1b): Promoting business investment in innovation and research, and developing links and synergies between enterprises, R&D centres and higher education, in particular product and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, clusters and open innovation through Smart Specialisation and supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production, in particular in Key Enabling Technologies and diffusion of general purpose technologies.	23.9
<b>Priority Axis 3: Renewable Energy and Energy Efficiency</b>  SO1: Increase the number of wave and tidal energy devices being tested in Welsh waters and off the Welsh coast, including multi-device array deployments, thereby	TO4: Supporting the shift to a low-carbon economy in all sectors	(4a): Promoting the production and distribution of energy derived from renewable sources.	133.8

<p>establishing Wales as a centre for marine energy production.</p> <p>SO2: To increase the number of small scale renewable energy schemes established.</p>			
<p>SO3: Increase the energy efficiency of the existing Welsh housing stock, particularly in areas of fuel poverty.</p>	<p>TO4: Supporting the shift to a low-carbon economy in all sectors</p>	<p>(4c): Supporting energy efficiency, smart energy management and renewable energy use in public infrastructures, including in public buildings, and in the housing sector.</p>	<p>47.0</p>
<p><b>Priority Axis 4: Connectivity and Sustainable Urban Development</b></p> <p>SO1: To address issues of peripherality and improve private investment in local areas through improvements to the functioning of the Trans-European Transport Network (TEN-T).</p>	<p>TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures</p>	<p>(7a): Supporting a multimodal Single European Transport Area by investing in the Trans-European Transport Network (TEN-T) network.</p>	<p>111.3</p>
<p>SO2: Increasing urban and labour mobility to and from key urban and employment centres.</p>	<p>TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures</p>	<p>(7b): Enhancing regional mobility through connecting secondary and tertiary nodes to TEN-T infrastructure, including multimodal nodes.</p>	<p>172.1</p>
<p>SO3: To increase the access of Welsh</p>	<p>TO2: Enhancing access</p>	<p>(2a): Extending broadband deployment</p>	<p>55.7</p>

businesses to high speed ICT networks in peripheral areas and strategic sites.	to and use and quality of ICT	and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy.	
SO4: To increase employment through investments in prioritised local or regional infrastructure supporting a regional or urban economic strategy.	TO8: Promoting employment and supporting labour mobility	(8b): Supporting employment friendly growth through the development of endogenous potential as part of a territorial strategy for specific areas, including the conversion of declining industrial regions and enhancement of accessibility to and development of specific natural and cultural resources.	167.1
<b>Technical Assistance</b>  SO1: To ensure the efficient and effective management of the 2014-2020 programmes.  SO2: To enhance the integration and the complementarity of investments with other ESI funds and wider Commission led and Sector based programmes.			12.05
<b>Total Programme</b>			<b>1,205.4</b>

### **3.0 The Evidence Base and the Socio-economic Analysis**

#### **3.1 The Socio-economic Analysis**

WEFO and the Welsh Government have worked hard to produce a coherent and comprehensive analysis of the underlying economic and social conditions in West Wales and the Valleys to inform the development of both the ERDF and ESF Operational Programmes.

Even the first draft of the Socio-economic Analysis, presented in September 2012, was a thorough piece of work, and our overall assessment was that it represented 'a comprehensive analysis of the socio-economic context of West Wales and the Valleys'. In particular, the structuring of much of the evidence around the Europe 2020 themes was felt to be helpful while the analysis of the Gross Value Added (GVA) per capita gap between WWV and the UK as a whole was very useful in helping to get to grips with the real underlying issues facing the region's economy. Nevertheless, the team was able to make a number of suggestions for improvements or further clarification: Table 3.1 summarises the most important of these and what action was taken as a result.

The second draft, reviewed in September 2013 was viewed as 'considerably stronger than the first version'. Comments and suggestions made during this iteration were more minor, though again the most important are summarised in Table 3.1, with subsequent action taken.

Table 3.1: Main issues raised on the socio-economic analysis

Iteration	Comment	Action Taken in Response
First	The need for more consideration of the differences between the two regions of WWV and East Wales (EW), particularly in the SWOT analysis and greater focus on data relating specifically to WWV.	Later versions show a clear effort to use WWV data where available and clearer differentiation in the analysis between WWV and EW in the second draft.
First	Limited analysis of economy by reference to sectors.	Location Quotient analysis was added in the second draft to give a clearer picture of those sectors over- and under-represented in the region by comparison with the UK as a whole.
First	Insufficient analysis of the impact of UK Government Welfare Reform on the WWV economy and labour market.	Additional and sufficient material was added in the second draft.
First	The need for a clearer recognition of and differentiation between shorter-term impacts from the recession and longer-term structural problems within the labour market and economy.	Clearer discussion of longer-term structural problems in the second draft.
First	The need for greater consideration of differential trends within the region e.g. in demography and labour market performance.	Additional data and analysis were added in second draft, within the constraint of needing to ensure an analysis of reasonable length.
Second	The need to ensure that all data quoted are the most recent available and that the analysis reflects this, given changes in performance of UK economy in the course of 2013 to date.	Some updated data have been included in final version, with confirmation that all data cited are (at time of drafting) the most up to date available.
Second	Potential to improve the ordering and flow of SWOT material.	Some changes have been made but the drafting team has argued that the ordering of the SWOT should reflect the order issues discussed in the text, rather than the relative importance of different factors.

The final version of the Socio-economic analysis received on 16 October 2013 is, in our opinion, fit-for-purpose and the vast majority of more detailed comments made on early iterations have also been addressed.

The underlying economic analysis is detailed, makes use of the appropriate statistical resources and is assisted by reference to government and academic research. The quality of the labour market analysis and the investigation of the causes of the GVA per capita gap are particularly useful and provide valuable context for the OP. There are clear limits on the selected statistical coverage at the NUTS 2 level, but the drafting team has attempted to use the most disaggregated and timely data possible. Where we have suggested that data can be updated this has been taken on board, and where we have suggested deepening the analysis this has either been undertaken or a justification given for maintaining the original material.

The analysis also makes an attempt to realistically examine how far the recession has had an effect on the key statistics. The analysis is objective – indeed these will become useful benchmarks for the state of the economy running up to the new programming period and will be useful reference for policymakers and the academic community. One issue that comes through from a comparative analysis of the material within the WWV analysis and that of EW is how far structural problems are common across both areas. This perhaps raises the question of whether it might have been more appropriate to develop one OP (albeit with ring-fenced budgets for each area) rather than two: our understanding is that this would be possible under the Regulations<sup>18</sup>. However, we understand the reasons why WEFO has preferred to put forward separate mono-fund ERDF and ESF Programmes for each region, as this is administratively neat and reflects an approach which has worked reasonably well in the current round of Programmes.

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<sup>18</sup> As we understand it, Priority Axes and hence OPs can relate to 'more than one category of region' 'Where appropriate and in order to increase the impact and effectiveness in a thematically coherent integrated approach' (CPR (96) (1)).

### **3.2 Other Use of Evidence**

We comment elsewhere (notably in Section 5) on areas within the OP where, during the course of the evaluation, we highlighted the potential for more comprehensive use of underlying evidence to strengthen the rationale for some of the policy choices made and how these concerns have been addressed.

This applied particularly to issues around the targeting of business support interventions (Priority Axis 2), the overt focus on marine energy in the context of investments in renewable energy sources (Priority Axis 3), the need to explain and analyse more fully Wales' existing research strengths and capabilities to underpin the selections made under Priority Axis 1 and the need for there to be a stronger, more robust evidence base for Specific Objective 4 (creating employment through local or regional infrastructure investments) under Priority Axis 4.

With the exception of a small number of outstanding issues, which are highlighted later on in this report, the OP as it now stands is soundly based on available evidence, with appropriate sources cited, particularly in the context of the descriptions of baseline and results in each of the Priority Axes.

Wherever we have made suggestions for specific evidence sources to be considered, these have been taken on board. Therefore, we conclude that the OP is built on a sound and considered evidence base.

## **4.0 The Programme Strategy**

### **4.1 *The Strategy and the Socio-economic Analysis***

The Programme Strategy as now drafted (particularly when read in conjunction with the Welsh Chapter of the UK Partnership Agreement) flows well from the analysis of the challenges facing the region's economy and labour market and provides a coherent response to those challenges. While the fundamental thrust of the Strategy has not changed significantly during the period of Programme development, it has undergone a significant process of challenge and consequent refinement, in part at least as a result of the ex-ante evaluation. In particular, the first draft (reviewed in November 2012) was a discussion paper which covered both ERDF and ESF and both WWV and EW, which was subsequently significantly redrafted and restructured, with elements being moved into the draft Welsh Chapter of the UK Partnership Agreement.

In Table 4.1 we present the main issues highlighted by ourselves during the three iterations on the Programme Strategy in respect of the overall direction of travel and its link back to the evidence of need provided (issues relating specifically to aspects of the individual Priority Axes are considered in Section 5).

Overall, the drafting team has made strenuous efforts to address our concerns, and has been careful to take on board more minor suggestions for improvements not covered in Table 4.1. The Intervention Logic tables (see Annex 2) which they have been developed to accompany the OP seem to us broadly robust and certainly now fit seamlessly with the OP text. At the same time, the drafting team has been (perhaps understandably) concerned not to close off options and flexibilities which, as Managing Authority, WEFO may wish to use in the future.

Table 4.1: Main issues raised on the Programme Strategy

Iteration	Comment	Action Taken in Response
First	The importance of clearer differentiation between the Strategy for WWV and EW, given the different circumstances within the two and the far smaller resources likely to be available in EW.	Significant change in subsequent drafts to focus more closely on data and issues pertinent to WWV as a region.
First	The need to review the high level summary of Opportunities and Challenges, which appeared highly selective compared to the SWOT in the socio-economic analysis.	This section was subsequently moved into the Welsh Chapter of the UK Partnership Agreement and significantly improved.
First	The need to consider the structure of the ERDF priorities in the light of the draft Regulations which required each priority to reflect no more than one of the eleven thematic objectives.	The final CPR Regulation allows the inclusion of activity from more than one Thematic Objective. As such, the OP authors have retained multiple TOs under some Specific Objectives.
First and Second	The need to review a list of Programme objectives not aligned to the Thematic Objectives/Investment Priorities/Specific Objectives.	The description of Programme aims and objectives in the Programme Strategy was significantly overhauled in the second iteration, with a much clearer inter-relationship between them and the Specific Objectives.
First, Second and Third	The need to provide a clearer justification of the approach to territorial development and the rationale for the decision not to use any of the tools available in the regulations.	The justification is addressed more comprehensively in the new Section 4 of the OP, and the OP suggests that use of tools in the regulations will be kept under review. There has, however, been no substantive change in approach to the use of those tools.
First and Second	The importance of providing greater detail on <i>how</i> integration between the ESI funds was to be achieved.	This issue is now dealt with much more satisfactorily in other sections of the OP (Section 2 on the Priority Axes and Section 8) and the Welsh Chapter of the UK Partnership Agreement, although the latter remains quite high level.
Second	The need to address weaknesses in the way in which the contribution of the OP to territorial and	This has been addressed much more coherently (if briefly) in subsequent drafts.

	social cohesion was explained.	
Second and Third	The need for a more consistent use of WWV data where it exists and the need to ensure a more consistent focus on the needs of the Programme area rather than Wales as a whole e.g. a clearer discussion around the importance of HEIs in East Wales to WWV .	This has been reviewed and NUTS 2 data used consistently where it is available. Some additional material has also been added (post third iteration) analysing the respective proportion of competitive research funds secured by HEIs in West Wales and the Valleys and East Wales.
Second	A view that more consistency in terms of the drafting approach and style between the ERDF and ESF OPs would be beneficial.	Detailed drafting alterations were since made and the consistency in terms of drafting approach and style is much improved in the final versions of the OPs.
Second and Third	<p>A view that while the strategy espoused the need for strict prioritisation, in practice the Priority Axes and some of the Specific Objectives were still very broadly drawn.</p> <p>For example, we identified a need to narrow the focus within the Research and Innovation priority on Wales' established research strengths and explaining what these are as well as the need for greater clarity in how different elements of the SME Competitiveness Priority Axis would be targeted. We also identified the need for much greater clarity relating to Priority Axis 4 (Connectivity and Urban Development) and the intentions (as set out in the strategy section) relating to area-based infrastructure investments.</p>	This has been addressed to a significant extent by tighter definition of some of the Specific Objectives. In the case of R&I the drafting team has argued for the importance of adopting an approach (for one of the Specific Objectives) that enables businesses that are not traditionally R&D intensive to be targeted, engaged and supported. At the same time after the final iteration a number of Specific Objectives were dropped (though the actions envisaged were retained albeit in other SOs).
Second and Third	The need for a clearer explanation of the way in which the OP is expected to contribute to tackling poverty since the focus on areas of opportunity	Some drafting alterations have been made to the Strategy Section of the final OP which provide examples of how ERDF might be used to alleviate poverty (e.g. the

	<p>appeared to fit somewhat awkwardly with tackling poverty being a CCT and the more explicit stance in the ESF OPs against reliance on trickle down effects.</p>	<p>importance of supporting the right environment for sustainable business growth which in turn will tackle poverty through sustainable employment). We still feel however that a fuller explanation of the inter-relationship between interventions receiving investment via the Priority Axis and Tackling Poverty as a Cross Cutting Theme needs to be given.</p>
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As a result there remain a few outstanding issues at the level of Programme strategy where we take a different view from WEFO, although in each of them we accept that WEFO's position is tenable within the Regulations. These are as follows:

- While the OP now generally states clearly the intention to ensure integration with other ESI Funds, much will depend on the implementation mechanisms put in place.
- Whilst the justification for the proposed focus of Priority Three Strategic Objective 1 (Thematic Objective 4a) on wave and tidal energy is now much clearer and robust, the nature of the technology means that it is a relatively high risk investment in the context of the WWV programme as a whole. Bearing in mind the risky nature of this investment area, there are significant uncertainties about the deliverability and nature of the benefits which could be secured.
- Whilst SO4 of Priority Axis 4 has been strengthened in response to our comments, we believe there is still merit in providing further clarification on the types and focus of investments within the two proposed investments strands and the basis for prioritising investment locations.
- We believe that a clearer explanation of Wales' pre-existing research strengths and capabilities needs to underpin the choices made in Priority Axis 1 (Research and Innovation), in particular in terms of investment in research infrastructure (SO1 and SO4).
- We believe that the spatial dimension of the OP (particularly Section 5) could be strengthened with fuller consideration of integrated delivery mechanisms such as Integrated Territorial Investments (ITIs). In our view, such mechanisms might make it easier to ensure that the benefits, not least in terms of employment opportunities for local people, from physical regeneration investments as envisaged in Priority Axis 4 are maximised. In this context, we are also concerned that the lack of any formal financial allocation for sustainable urban development may restrict Welsh cities' opportunity to participate in the Urban Development Network envisaged under Article 9 of the ERDF Regulation.

## 4.2 *Coherence with Europe 2020*

A key part of the process described in Section 4.1 has been to consider the consistency or 'fit' of the programme with the Europe 2020 strategy and its seven flagship initiatives, the Common Strategic Framework and the eleven Thematic Objectives of the Common Provision Regulations<sup>19</sup>, the Commission's assessment of the three funding priorities for the UK<sup>20</sup>, the UK Country-Specific Recommendations (UKCSRs)<sup>21</sup> and the National Reform Programme prepared by the UK Government<sup>22</sup>.

The OP explains the choice of Thematic Objectives and Investment Priorities (notably in Table 1 of the Programme Strategy) and each of these requirements is also considered comprehensively in the context of the socio-economic analysis. We conclude that there is overall consistency between the OP and the policy priorities of the Europe 2020 agenda (EU2020) and associated headline targets, relevant Thematic Objectives and the UKCSR's. We note however, that the Commission Position Paper (CPP) for the UK and its Funding Priorities does not include infrastructure within its priorities for ESI Funds in the UK.

We note specifically:

- The Welsh Government has required from the outset a strong emphasis of targeting resources on job creating growth in line with Europe 2020;
- There is intention to focus ESI Funds on results which tackle structural adjustments in the programme area, maximise value and achieve sustainable economic growth;
- The opportunities for complementarity across ESI Funds and other EU Programmes have been grasped (though much will depend on the implementation practices);

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<sup>19</sup> See Section 2

<sup>20</sup> Position of the Commission services on the development of the Partnership Agreement and programmes in the United Kingdom for the period 2014-2020, Ares(2012)1315758-08/11/12

<sup>21</sup> <http://register.consilium.europa.eu/pdf/en/13/st10/st10660-re01.en13.pdf>

<sup>22</sup> [http://ec.europa.eu/europe2020/pdf/nd/nrp2013\\_uk\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/nrp2013_uk_en.pdf)

- There is a strong performance framework; and
- The issues of Territorial Cooperation, the use of Financial Instruments and the application of the Horizontal Themes have been addressed systematically.

The OP includes a clear statement of Vision, Aims and Objectives, which is compatible with the content of the Priority Axes.

In table 4.2 below, we note the way in which key elements of the OP relate to Europe 2020 and other requirements.

Given the very small scale of the Programme area in population (around 3%) and GVA (around 2%) compared to the UK as a whole, we do not believe it is possible to provide quantified estimates of the contribution of the Programme towards the achievement of specific EU 2020 targets at the member state level.

Nevertheless, based on our knowledge of the region and the robust intervention logic, we are confident that the OP will make a positive and direct contribution to meeting the EU2020 targets for an increase in the employment rate, an increase in research and development and investment, the economic and employment contribution of SMEs and an increase in renewable energy and resource efficiency.

Table 4.2: Complementarity between key aspects of the OP and Europe 2020

OP Section/Proposed Investments	Complementarity with Europe 2020/CSF/PPP/UKCSR/NRP
<p><b>Priority Axis 1</b> Introduces a new comprehensive and coherent programme of investments and actions on the basis of a smart specialisation strategy, to improve and increase University and private sector structures for advanced research, innovation and development and the support available for R&amp;I in SMEs, with a clear focus on specific sectors and clusters including 'low carbon'.</p>	<ul style="list-style-type: none"> <li>- EU2020 Smart Growth '<i>Innovation Union</i>' flagship;</li> <li>- EU2020 headline target to increase R&amp;D investment as a % of GDP;</li> <li>- Horizon 2020;</li> <li>- CSF TO1; and</li> <li>- UKCSR's and CPP Funding Priority to increase RD&amp;I investment.</li> </ul>
<p><b>Priority Axis 2</b> Introduces a more systematic and targeted approach to increase the new business formation rate (including social enterprises), initial growth and further SME business development including enhanced access to business finance and business advice and guidance. The approach places specific emphasis on export market- and innovation-led growth and resource efficient growth to create and safeguard sustainable jobs.</p>	<ul style="list-style-type: none"> <li>- EU2020 Sustainable Growth '<i>Industrial policy for globalisation era</i>' and '<i>Resource efficient Europe</i>';</li> <li>- CSF TO3 and TO1; and</li> <li>- UKCSRs and CPP Funding Priority to increase the competitiveness of the business sector.</li> </ul>
<p><b>Priority Axis 2</b> Maintains an emphasis on the progressive development of the IT and broadband capacity and capability and competitiveness of the programme area and effective utilisation in particular by SME's.</p>	<ul style="list-style-type: none"> <li>- EU2020 Smart Growth '<i>The Digital Agenda for Europe</i>';</li> <li>- CSF TO2; and</li> <li>- UKCSRs and CPP Funding Priority for an improved business infrastructure.</li> </ul>
<p><b>Priority Axis 2</b> Maintains and enhances a systematic programme to nurture and assist the growth of 'home-grown' talent and entrepreneurship.</p>	<ul style="list-style-type: none"> <li>- EU2020 Smart Growth - '<i>Youth on the Move</i>' and Inclusive Growth - '<i>An Agenda for New Skills and Jobs</i>';</li> <li>- CSF TO3; and</li> <li>- UKCSRs and CPP Funding Priorities for investment to support a competitive business sector and increase labour market</li> </ul>

	participation.
<p><b>Priority Axis 3</b>                  Extends the focus on energy efficiency and renewable energy production and associated business opportunities, especially into the marine sector, and combines local and strategic development initiatives.</p>	<ul style="list-style-type: none"> <li>- EU2020 Sustainable Growth ‘ <i>Resource efficient Europe</i>’;</li> <li>- EU headline targets for energy use;</li> <li>- CSF TO4; and</li> <li>- UKCSRs and CPP Funding Priority for environment friendly and resource efficient investments.</li> </ul>
<p><b>Priority Axis 4</b>                  Introduces a new coherent programme of ‘place development’ involving tackling digital, road (TEN-T) and rail communications and selective investment in strategic places such as City Regions and Enterprise Zones. This includes an emphasis on investments to increase labour mobility.</p>	<ul style="list-style-type: none"> <li>- Europe 2020 Inclusive Growth;</li> <li>- CSF TO7; and</li> <li>- UKCSRs and CPP focus on improved business competitiveness environment and improved access to labour markets.</li> </ul>
<p><b>All Priority Axes</b>                  Contain a strong emphasis on the use of ERDF to support employment growth and to assist tackling poverty.</p>	<ul style="list-style-type: none"> <li>- EU2020 Inclusive Growth ‘ <i>An agenda for new skills and jobs</i>’ and ‘<i>Europe platform against poverty</i>’ ; and</li> <li>- EU headline targets to raise the employment rate and to reduce poverty.</li> </ul>

### **4.3 Thematic Concentration**

In terms of thematic concentration, we believe that the OP has met the requirements of the Regulations in restricting the number of Thematic Objectives directly supported through the Programme to six, and the number of Investment Priorities to 11 (of a possible 37). Since the Regulatory requirements - for ensuring that a minimum of 12% of total ERDF resources in least developed regions are allocated to TO4 and that at least 50% of the ERDF resources in least-developed regions are devoted to TOs 1,2, 3 and 4<sup>23</sup> - are set at Member State level we cannot verify that these have been met, but the OP is clearly consistent with this (Table 18C), with almost 20% of resources allocated to TO4 and 62% to TOs 1,2,3 and 4 combined.

However, as explored in more detail in Section 5, we continue to believe that some of the Specific Objectives (notably SO2 of Priority Axis 1 and SO4 of Priority Axis 4) are rather too broadly defined.

### **4.4 UK Partnership Agreement**

The evaluation team had the opportunity to review and comment on the draft Welsh Chapter of the UK Partnership Agreement at the same time as undertaking the final iteration on the text of the OP. We have also been given access to a full draft of the UK Partnership Agreement.

The strategy set out in the OP is consistent with the analysis and proposals for use of the ESI Funds set out in both the UK and Welsh Chapters of the UK Partnership Agreement. In particular, all of the interventions envisaged are consistent with the proposals for the use of ESI funds across the UK, albeit that – understandably - the UK Chapter clearly provides a larger ‘menu’ of potential interventions than is proposed in WWV. There do appear some slight differences of emphasis with the UK Chapter, for example, highlighting more strongly the growth of in-work poverty (though without any more definite proposals for how to use ESI funds to tackle this) and the importance of

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<sup>23</sup> ERDF Regulation Art. 4

sectoral policy (albeit in the context of the UK Government's Industrial Strategy, the relevance of which to Wales is questionable) and striking a more sceptical note about the role of the public sector in providing information, advice and guidance to businesses.

More generally, the socio-economic analysis in the UK Chapter highlights the scale of the challenge facing Wales in terms of addressing structural difficulties and reversing negative trends, in particular in terms of GVA.

## **5.0 Consistency and Coherence of Programme Priorities**

### **5.1 Priority Axis 1: Research and Innovation**

We now turn to consider the internal coherence of each of the four main Priority Axes (with each other and the Programme Strategy), the extent to which they are based on the evidence and the external coherence with other policies and programmes.

Turning first to Priority Axis 1, Research and Innovation, the view of the ex ante evaluation team is that the R&I priority is consistent with EU and Welsh strategic policy priorities and in particular the Europe 2020 priority of increasing investment in R&D. The team is also of the view that the proposed investment priorities are relevant to the challenges and opportunities identified in the socio-economic analysis. Moreover, we are also of the view that the priority is internally coherent with no obvious areas of duplication or conflict.

Table 5.1 outlines the main issues raised during the three iterations of the ex-ante evaluation and the responses of the WEFO drafting team. The ex ante evaluation team has been satisfied that a clear response has been provided on each of the comments made, with the majority having been accepted with corresponding alterations made to text.

Overall, we feel that there were no significant issues outstanding, although we continue to have some doubts as to the broad nature of Specific Objective 2<sup>24</sup>. In particular, we feel that the Programme will need to strike a balance between the broad focus of this Specific Objective and the need for specialisation and investment in Wales' R&D strengths.

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<sup>24</sup> To increase the level of innovation undertaken across all sectors of the Welsh economy, in particular within Welsh SMEs, leading to a growth in productivity.

Table 5.1: Main issues raised on Priority Axis 1

Iteration	Comment	Action Taken in Response
First	A view that the Priority could be clearer about the investment strategy and the scope of the Priority, structured around where investments are expected in relation to the innovation lifecycle and the Technology Readiness Levels (TRL) approach.	While the TRL approach has not been adopted in the Priority Axis, the rationale has been revised to add clarity to the investment strategy.
First	The need for specialisation in the context of research and innovation to be underpinned by intelligence about Wales' research and commercial strengths, including specific technologies, research centres, commercial R&D activity.	Some additional material included in relation to Wales' respective R&D strengths from an HEI perspective.
First	Greater use of data in relation to Wales' performance in securing R&D investment and the level of innovation within the Welsh SME base.	Drafting amendments made to emphasise that the R&I priority is broader than just technological innovation and that SMEs in Wales recognise and engage in innovation in broader ways.
First	A general weakness in the extent to which the priority presented the respective strengths and weaknesses of Welsh Higher Education Institutions in relation to R&D activity.	Some further evidence was included in this regard, including some references to the differential in performance between East Wales and West Wales and the Valleys HEIs in securing competitive research funding.
Second	A view that greater clarity is required in terms of whether the focus of the priority is general (i.e. universally available to all SMEs) or whether specific sectors and technologies (e.g. around the three Grand Challenge areas) as set out in Science for Wales.	Later iterations of the Priority have made it clear that there will be a focus on Grand Challenge areas and smart specialisation in some parts of the Priority Axis, but that intervention on innovation (under SO2) will be available to all. There remains scope to add further clarity about how resources will be concentrated between the Specific Objectives particularly in the context of the broad nature of

		the Grand Challenge areas.
Third	Continued concerns relating to the broad nature of Specific Objective 2 i.e. that there is no specific sectoral focus or a focus on specific types of SMEs relating to ERDF investments.	The authors argued that the approach adopted for SO2 is intended to encourage innovation across the economy through flexible support and targeting of non-innovators, consistent with Innovation Wales and further argued that this is consistent with the Investment Priority.

## **5.2 Priority Axis 2: SME Competitiveness**

In terms of the second Priority Axis, SME Competitiveness, Table 5.2 outlines the main issues raised in the course of the three iterations and the response of the drafting team to each.

Again, many more detailed points made in the course of the ex-ante process have been fully addressed and in many ways we feel that the Priority Axis is robust.

The evaluation team considers the approach to targeting support for SMEs (both financially and via support services to SMEs and social enterprises) has been strengthened substantially on the basis of available evidence through the three iterations we have commented on. In particular, we noted in our final iteration that the approach to targeting is more coherent taking into account the Welsh Government's strategy of priority sectors and a broader aspiration to identify and support growth potential in firms regardless of their sector.

We are also of the view that some internal inconsistencies have been resolved through the different iterations and feel that the Priority Axis is well aligned with Europe 2020 priorities.

Table 5.2: Main issues raised on Priority Axis 2

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
First	A need to focus more clearly on SMEs in particular throughout the Priority Axis.	Priority Axis re-named SME Competitiveness rather than the original title of Business Competitiveness.
First and Second	The need to draw more extensively on the underpinning evidence base, including more recently published materials.	Later versions of the Priority Axis contain numerous additional references, including to prior evaluations of SME support interventions which provide additional evidence on market failure characteristics.
First	The need to re-focus ICT elements within the priority as a business innovation and competitiveness tool, since the ICT elements were overly focused on e-skills which we felt should sit under the ESF OP.	Additional evidence inserted to justify the inclusion of ICT support (e.g. specifically on e-crime) within the SME Competitiveness Priority Axis. ICT elements re-focused in later iterations. References to e-skills removed.
First	The need to strengthen the level of analysis relating to the rationale for intervention, as the rationale section was mainly a description of the current situation in terms of SME support as opposed to making the case for future intervention.	Significant progress was made in relation to this, including numerous drafting alterations and additions which in our view have led to greater consistency between the Priority Axis and the Intervention Logic Table.
First and Second	The need to clarify the strategy for targeting business support interventions – making clear what will be universally available and how some, more intensive interventions are to be targeted at specific SMEs (e.g. by growth potential or sector etc.) to generate best returns on investment. We pointed out that in a number of places, the Priority Axis as it stood (in its first iteration) risked contradicting itself in a number of places relating to the targeting approach. While the second	Significant progress has been made in clearly explaining the rationale for the targeting strategy adopted in the final OP.

	iteration was a significant improvement in this respect, we still drew attention to the need to add further clarity to the targeting approach. In our final iteration, we noted that the approach to targeting was much improved and more cohesive.	
First	The need for greater clarity relating to how repayable and non-repayable forms of SME finance are presented within the document.	Some alterations made. The authors argued that the rationale explained clearly that grants would only be used in certain circumstances. Additional references to Economic Renewal Programme added in the context of repayable forms of finance.
First	The need to remove potential duplication by consolidating aspects of financial support to SMEs within the priority itself.	Drafting alterations (which re-structured the references to access to finance) addressed this point ahead of the second iteration. Reference to finance provision removed from the entrepreneurship theme to avoid duplication with other sections of the Priority Axis.
Second	The need to consider whether there should be clearer reference to pre-start entrepreneurship support, given evaluation evidence suggesting that previous interventions have been successful in Wales.	This was addressed (and references added) for the third iteration.
Second	The need to clarify whether and to what extent support for social enterprises will form part of broader support mechanisms to SMEs or whether certain aspects will be customised.	Drafting alterations made (including removal of the previous SO relating to social enterprises) which clarify that aspects of support to social enterprises will be consistent with and where appropriate, integrated into that available for SMEs, with some aspects of customised delivery likely only where there are evidenced gaps in mainstream provision.
Second	The need to strengthen references to the importance of access to finance to support the commercialisation of research emerging from	Amendments made to underpin the importance of access to finance for research commercialisation purposes.

	R&D and HEI facilities (given that this aspect had been moved across from Priority Axis 1).	
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### **5.3 Priority Axis 3: Renewable Energy and Energy Efficiency**

In terms of the third Priority Axis, Renewable Energy and Energy Efficiency, Table 5.3 outlines the main issues raised in the course of the three iterations and the response of the drafting team to each.

Our view is that the Priority Axis has developed well and detailed responses to the majority of ex ante comments have been made. We are also of the view that the Priority Axis is well aligned with Europe 2020.

The underpinning rationale for the focus of Specific Objective 1 on wave and tidal energy has been strengthened in successive drafts of the OP. Although some of this evidence is not contained within the OP itself, we are satisfied that there is a clear justification for the primary focus on this particular generating technology (and indeed it has been the focus of extensive research and assessment over the past 2-3 years). This is an important issue as wave and tidal energy generation is based on a nascent technology and the proposed investment focus can be considered as relatively high risk in the context of the overall WWV ERDF programme.

Changes have been made to the organisation of the suite of proposed investments in support of the Specific Objective in order to ensure a better fit with the overall programme strategy. Whilst Investment Priority 4a in Priority Three now focuses mainly on relevant infrastructure investment, R&I activity related to all renewable technologies is now located under Priority Axis One.

Whilst the ex-ante evaluation team are satisfied with the proposed investment focus on wave and tidal energy and the organisation of related activity across the priorities, we note a couple of particular areas of risk and uncertainty:

- *The deliverability and timing of the development and deployment of significant additional generating capacity and hence the timing of the anticipated benefits.* Whilst the benefits could be significant, the

development path is subject to a range of technology, financial and market uncertainties. The OP recognises these risks at a high level and also notes that many of the benefits may occur outside the programme period.

- *The scale of economic development and renewable generation benefits which could be secured given the substantial level of investment proposed.*

The main result target is an additional 20MW of installed generating capacity, whilst no economic development targets are included. Whilst we accept it is difficult for the programme authors to be precise about what the investment can deliver, on this basis it is difficult to judge whether the proposed level of investment is justified.

Table 5.3: Main issues raised on Priority Axis 3

Iteration	Comment	Action Taken in Response
First	A need to state more explicitly whether the primary driver for this Priority Axis is economic growth or environmental sustainability. We felt that a stronger statement was required in this regard to avoid investments under this Priority Axis potentially lacking strategic focus.	The Priority Axis aim was later amended to clarify that the main focus is on economic outcomes.
First	A need to more clearly structure the Priority Axis to facilitate a clearer explanation of the rationale for intervention. Specifically, the needs, opportunities and constraints identified need to link more clearly with the potential types of interventions described.	Structure revised to link rationale more clearly to selected themes.
First	The need to state more clearly how the low carbon transition theme links to other investment strands under the Priority Axis.	Existing references amended and further references added to other renewable energy sources to show clearer linkages to carbon transition theme.
Second and Third	The need to provide greater clarity as to why offshore wind and marine energy is the focus of renewable energy investment rather than other forms of renewable energy where Wales also has particular assets.	Drafting has been amended to make clear that the focus of SO1 is on wave and tidal energy (not offshore wind) and further text added to explain why this sub-sector should be the focus for investment, based on the comparative immaturity of the industry and relative advantages in Wales offering the opportunity to gain significant market share of an emerging industry. As noted above, some significant aspects of uncertainty remain, although there is scope to clarify these as the Programme is implemented.
Second	A need for further work to develop a manageable set of key relevant indicators.	The number of indicators was significantly reduced between the second and third iterations.
Second and	A need to explain more clearly the rationale for	Final draft OP has removed the previous SO relating to

Third	providing capacity building support to SMEs engaged in the energy efficient supply chain and the nature of this support.	this, though the potential for supporting capacity building for SMEs has been retained in the Priority Axis under SO3.
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#### **5.4 Priority Axis 4: Connectivity and Sustainable Urban Development**

In terms of the fourth Priority Axis, Connectivity and Sustainable Urban Development, Table 5.4 outlines the main issues raised in the course of the three iterations and the response of the drafting team to each.

The ex-ante team appreciate the full response by WEFO to the various comments made on the Connectivity and Sustainable Urban Development Priority Axis. In relation to Specific Objectives 1 - 3, we consider the Priority to be robust and based on the socio-economic analysis and have no major outstanding issues to report. We maintain that the specific wording of the objectives themselves could benefit from a clearer focus on economic outcomes rather than the means by which they are to be achieved.

Our overall view is that the Priority Axis is externally coherent (at a high level) with the Wales Infrastructure Investment Plan (WIIP).

However, our main concern relates to the broad nature of Specific Objective 4 which we believe requires further work to make it more specific (in terms of the approach to targeting investments) while recognising the need to retain sufficient flexibility to identify appropriate opportunities over the lifetime of the Programme.

Table 5.4: Main issues raised on Priority Axis 4

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
First and Second	The initial draft Priority Axis paper set out an extensive range of potential investment activity linked to the Wales Infrastructure Investment Plan (WIIP). We felt that there was a need to identify a more tightly defined and more clearly prioritised portfolio of potential investment activities.	The authors agreed that further prioritisation was necessary and further detail was added. However, the authors felt that the WIIP does not, in isolation at least, represent a fully comprehensive mechanism for prioritisation of ERDF investments.
First and Second	The land and property element of the Priority was less well developed than transport and ICT at the first iteration and we made the point that this would need to be strengthened.	Drafting alterations have since been made to clarify the rationale and focus of the SO. However, we believe there remains merit in providing further clarification around the scope of the intended investments and the basis for targeting and selecting investment locations.
First	Clear and practical criteria by which the programmes target and select investments need to be developed to help refine the focus of the Priority.	Drafting alterations made which have gone some way to outlining the conditions relating to which investments might be prioritised, though in practice, the ex ante team still considers Specific Objective 4 too broad.
First	At the first iteration we pointed out that as the draft Regulations stood, there was a requirement (Art. 96(2) CPR) for each ERDF Priority to cover only one of the thematic objectives (Art. 18CPR).	Later versions of the guidance were altered with multiple Thematic Objectives being permissible under a single Specific Objective.
First	The need to be more specific about the type of investments required in relation to TEN-T networks.	Later iterations specified anticipated investment activity more clearly.
First	The need to clarify the relationship between the Infrastructure Priority and the proposed inclusion of 'regeneration' as a cross cutting theme of the OP.	Cross cutting theme later revised to tackling poverty. The authors have made some alterations to strengthen linkages between this Priority and the poverty CCT, though we still feel that there is scope to strengthen this. The authors have strengthened the OP in respect of demonstrating the need

		for clear inter-linkages between ERDF investments aimed at improving infrastructure (by creating the right conditions for sustainable employment) with aspects of the ESF OP also specifically aimed at tackling poverty through creating employment.
First	The need to clarify the functional role of Enterprise Zones and City Regions in the context of the Infrastructure OP.	This was clarified in subsequent iterations.
Third	The need for further clarity regarding Specific Objective 2. We noted the potential confusion relating to the introduction of the term 'urban mobility' in relation to non-urban parts of the programme area.	WEFO authors argued that 'urban mobility' is a Commission priority and that an urban focus is expected in Programme documents (linked to potential targeting of investments to TEN-T routes). Drafting alterations made to also contextualise the importance of 'labour mobility' alongside 'urban mobility'.
Second and Third	On-going concerns that Specific Objective 4 needs further work to make it more specific, while accepting that WEFO wishes to retain a degree of flexibility in terms of how investments might be channeled. If this flexibility is to be retained, then the ex-ante team feels that the process for prioritising investments needs to be made clearer. This is especially the case given that the WIIP is not seen as an appropriate basis for prioritisation.	The OP authors have acknowledged our concerns relating to the breadth of SO4 as drafted and have responded to many of our concerns. As noted above, our main remaining concerns are around the specificity of the two types of proposed investments and the basis for prioritising locations. It is also not readily apparent how these investments will support SUD approaches, as little information is presented about the proposed approaches to integrated economic development and regeneration locally.

## 6.0 Indicators and Targets

There has been less opportunity for the ex-ante evaluation team to work with the drafting team over the development of indicators and targets. To some extent, this is a feature of the prescriptive nature of the European Commission's requirements in terms of core indicators, which WEFO is careful to respect, and in part due to timing, since targets in particular can only realistically be set once there is a clear indication of the likely funding available to the OP – which was not the case before early summer 2013.

A paper outlining potential indicators for each Priority Axis was received in May 2013 but it was only at the final iteration stage that proposed target values (for 2023) were included within the draft documents being reviewed. A paper explaining the methodology for calculating target values was also provided with the final version of the OP in October 2013. Full detail on the Performance Framework was made available in December 2013.

We summarise in Table 6.1 the main issues raised during the first iteration on the indicators (the initial Paper on the indicator structure) and the third iteration.

Table 6.1: Main issues raised on indicators and targets

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
First	A need to be clear about how far the Programme intends to support individuals as opposed to enterprises.	The indicators in question were later removed.
First	Need to consider counting number of researchers working in improved research infrastructure facilities as full time equivalent (FTE) jobs to be consistent with other indicators.	This was subsequently altered.
First	The need to clarify how products, processes or services registered would be defined and a suggestion that (process and product) registrations are collected separately.	Authors agreed to collect product, process and service registrations as separate categories.
First	The target indicators were almost exclusively quantity (rather than quality) focused.	Authors confirmed that quality will be assessed through project level evaluations.
First	The need to consider broader 'population level' results indicators.	Subsequent guidance has led to the development of specific results indicators but discussions on these are ongoing.
First	That sales and turnover benefits might more easily be developed than a profit indicator.	Authors feel that this would best be dealt with in the context of project level evaluation questions.
First	The need for some additional clarity concerning individuals financially assisted to start new enterprises.	Subsequent drafting alterations made to clarify.
Third	The need for a single target value for each indicator to be used in Table 5 for each Priority Axis instead of two (the draft OP contained two separate figures, one labelled 'achieved' and one labelled 'forecast' ).	Most recent version of the OP adopts single target values.
Third	Need for clarification of distinction between	Targets amended to reflect the fact that repayable finance

	enterprises receiving financial support other than grants and those receiving grants (Table 5 under Priority Axis 1).	unlikely to be used in this context and that the risk capital element was moved to the SME Competitiveness (Priority Axis 2).
Third	Table 6 (repeated for the four Priority Axes) did not contain target values.	These have since been completed.
Third	In relation to SME Competitiveness, an indicator (Table 3, SO1) relating to SMEs applying for finance but not being able to access any is accepted, though a cautionary note made in relation to potentially legitimate reasons for turning applications down.	Authors accepted the point, stating that comparisons with UK survey results would be undertaken to contextualise the indicator.
Third	In relation to SME Competitiveness, an indicator (Table 3, SO2) relating to the count of new birth enterprises – a comment that this baseline should also take account of the mortality rate.	Authors agreed that this should be a consideration and emphasised that this would be covered as part of project level evaluation plans.
Third	The need to revise an indicator relating to the number of enterprises receiving support (Table 5, SO2) under Priority Axis 2 which showed a target value that was too low.	This was corrected with the target value subsequently lifted accordingly.
Third	A number of points relating to the alignment of targets relating to access to finance (re-payable and grants) with the emphasis within Priority Axis 2 on grants only being available in exceptional circumstances.	No alterations made, but authors explained justifications for the target values attached to 'access to finance' indicators.
Third	The need to consider year on year data in relation to an indicator (Table 3, SO3) under Priority Axis 2 relating to the value of Welsh exports.	The indicator was subsequently re-structured.
Third	The need to consider an indicator relating to SMEs reporting use of internet for business	Authors added additional data (around selling goods and productivity) to supplement the indicator.

	(Table 3, SO6) under Priority Axis 2 that had a baseline of 90%. Given that the baseline was so high at 90% we commented that there was unlikely to be much scope for improvement.	
Third	The need to correct an indicator relating to employment growth within SMEs (table 3, SO7) of Priority Axis 2. The figure as presented in the target related to the total number of employees already employed by SMEs in Wales.	The target value was subsequently corrected.
Third	The need to consider an indicator relating to installed capacity in wave and tidal (Table 3, SO1) of priority Axis 3.	Authors considered this point but justified their selection.
Third	The need to consider an indicator relating to the number of sites generating electricity from renewables (Table 3, SO2). The indicator appeared to include domestic houses generating power from solar panels and we recommended that this should be excluded.	Authors amended the target value to remove solar panels installed on domestic houses.
Third	The need to consider the target values relating to numbers of enterprises assisted set in Table 5 (SO2 of Priority Axis 3). Evaluators felt that the numbers seemed ambitious given that the nature of interventions is unlikely to lead to large numbers of enterprises assisted.	Authors reduced target values.
Third	No target values were in place for a number of indicators under Priority Axis 4.	These have since been added.

We believe the indicator set used is broadly appropriate and that the methodology for deriving targets has been coherent and logical, although it is important to note that the paper we have seen details the approach followed rather than the precise workings.

At the time of drafting this report, Programme authors in WEFO were still working to populate and refine a number of result indicators and their target values across the various Investment Priorities. As such, further, specific comments may be provided on these prior to the OP being formally submitted. In some cases, the choice of specific result indicators may also require some more explicit focusing of the intervention to which they relate: for example, in relation to innovation (Specific Objective 2 of Priority Axis 1), if the overall objective is to increase the proportion of innovation active enterprises, then it would be as well to be more explicit that the intervention is expected to focus mainly on businesses not currently innovating, rather than on increasing the levels or intensity of innovation in businesses which are already innovation active.

Overall, we take the view that the other output and result indicators as presented are logical. There may be scope to simplify or clarify indicator descriptors in some instances (e.g. in relation to additional premises<sup>25</sup> and households with access to superfast broadband). There may also be scope to clarify proposed increases in levels (where percentage values are used) in some instances.

In terms of the Performance Framework, we think that the approach taken is broadly sound and welcome the efforts made to select result orientated indicators wherever possible. However, we have a number of comments to make:

- In terms of implementation step indicators, we feel that some of the explanations of the relevance of the indicators are too vague (e.g.

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<sup>25</sup> We presume this refers to businesses but this could be made explicit

‘required to provide milestone for output target’). While we accept that selecting and justifying result indicators can be challenging, particularly in relation to investments around new and largely un-tested technologies (such as tidal energy for instance) we nevertheless feel that the Performance Framework would benefit from additional specificity to justify the indicator selections made. In one case (relating to Priority Axis 3), the explanation column appears to be incomplete;

- For the SME Competitiveness priority the implementation step indicator selected seems logical (% of final target for enterprises supported already achieved by fully or partially completed projects) though for largely ‘tried and tested’ interventions such as those likely to be funded under Priority Axis 2, we question whether achieving 28% of this output orientated target as a milestone for 2018 (five years into the programme period) may be under-ambitious;
- In relation to Priority Axes 3 and 4, we question whether the indicators selected cover sufficiently the range of different policy interventions set out in the OP. For instance, the Implementation Step indicator for Priority Axis 4 relates solely to public transport while the Priority Axis itself is much broader than this. While recognising the need to have a manageable number of indicators within the Performance Framework, we would expect to see (for example) indicators relating to the deployment of broadband or improved infrastructure conditions which lead to creation of employment under Priority Axis 4. Similarly, we question whether the Implementation Step indicator for Priority Axis 3 (Renewable Energy and Energy efficiency) which relates to household energy consumption is sufficient to cover the breadth of policy interventions envisaged;
- In relation to the expenditure indicators, we question the logic as to why a blanket approach of applying a 27% indicator milestone for 2018 has been applied. We would have expected a more sophisticated approach here reflecting the different policy interventions and associated challenges of the different Priority Axes. So for instance, it may be reasonable to expect that the more mainstream interventions

which mostly are a continuation of current arrangements (such as business support) envisaged under Priority Axis 2 and infrastructure investments under priority Axis 4 might result in relatively higher levels of financial expenditure by 2018. In contrast, one might expect relatively lower levels of expenditure associated with higher risk intervention areas such as new technologies being explored under Priority Axis 1 (Research and innovation) and Priority Axis 3 (Renewable Energy and Energy Efficiency). We therefore suggest that there may be an argument for differentiation on the expenditure milestones to reflect the nature of the policy interventions contained in the different Priority Axes.

## 7.0 Financial Allocations

There has been less opportunity for us to engage extensively with those developing the OP over the financial allocations. An initial paper was provided in July 2013 setting out the broad proportions of ERDF to be allocated to the Priority Axes (in both WWV and East Wales) while detailed figures were provided at the third iteration stage in October 2013. Table 7.1 sets out the major issues raised in respect of the financial allocations and the responses from the drafting team.

We believe that the financial allocations are reasonable in the light of the evidence presented, but we continue to have some doubts about the size of the allocation to the Connectivity and Sustainable Urban Development Priority Axis, and in particular to SO4 within it given our view that there is a need for greater clarity on the intended use and targeting of the resources.

Table 7.1: Main issues raised on financial allocations

Iteration	Comment	Action Taken in Response
First and Third	A concern relating to the potential ability to absorb an increased level of expenditure without dilution in project quality particularly around higher intensities of R&I activity (as opposed to the volume of activity). This comment was made in the context of the performance of Priority 1 under the current programme period.	The drafting team, while not fundamentally disagreeing with the point made, argued that the increase in funding is not significant and that a more realistic approach to targeting and a balanced approach to risk in the project portfolio offers reassurances that the spending targets will be achievable.
First and Third	A concern that the financial allocation to Priority Axis 1 (R&I) is higher than that for Priority Axis 2 (SME Competitiveness) even after the finance for R&D commercialisation element (for an integrated JEREMIE scheme covering SME competitiveness and R&I actions) was moved from Priority 1 to Priority 2.	WEFO maintained that given certain de-commitments relating to SME support under the current programme period, the equivalent cash value would be appropriate for the SME Competitiveness Priority Axis going forward.
First	The need to consider the proposed budget allocation for Priority Axis 4 (Connectivity and Urban Development – formerly infrastructure) in light of potential question marks (raised and discussed during the first iteration) relating to the eligibility of investments in roads (and which were part of the TEN-T network).	The authors clarified the coverage of TEN-T network and the regulatory provisions allowing for schemes relating to such roads if included in Operational Programmes and national eligibility rules. It was confirmed that investment in the TEN-T network would be admissible under Priority Axis 4, subject to negotiation.
First and Third	The need to consider the overall scale of resources proposed for Priority Axis 4, given our view that SO4 in particular would be strengthened by adding greater detail about the intended use and targeting of resources.	WEFO argued that the allocation for SO4 under Priority Axis 4 is a reduction from the 2007-2013 allocation and that a further reduction would not be necessary.

## **8.0 Administrative Arrangements, Monitoring and Evaluation**

### **8.1 Administrative Arrangements and Capacity**

While the ex-ante evaluators are required to consider the adequacy of human resources and administrative capacity for the management of the OP, the OP template does not provide the opportunity for the Managing Authority to provide evidence on this, as the focus of Section 7 is on the implementation bodies and on the engagement of a wider partnership in developing and implementing the OP, while Section 10 concerns the administrative burden on beneficiaries. We therefore briefly consider the available evidence on administrative capacity before considering the content of these two parts of the OP.

WEFO has long experience as a Managing Authority, has implemented systems which have ensured a very low error rate by comparison with other Managing Authorities (0.41% compared to a threshold for corrective action of 2%), and has received a series of commendations from the European Commission for the standards of its management and administrative systems and processes, particularly since the introduction of the Programme and Project Information Management System (PPIMS) and WEFO on-line which has enabled projects to input financial and monitoring data using ICT rather than manual returns<sup>26</sup>. The Customer Insight Survey<sup>27</sup> undertaken in 2009 also shows that beneficiaries have generally appreciated these developments, although at that point concerns remained particularly around the speed of handling project proposals.

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<sup>26</sup> See for example Position of the Commission services on the development of the Partnership Agreement and programmes in the United Kingdom for the period 2014-2020, Ares(2012)1315758-08/11/12 p. 26

<sup>27</sup> <http://wefo.wales.gov.uk/publications/publications/monitoringevaluation/programmeevaluation/customerinsightsurvey2009/?lang=en>

The proposal within the OP is that the arrangements in terms of the Managing Authority, Certifying Authority, Audit Authority and the Payments body should be unchanged and therefore there is reason to believe that the good practice from the current Programmes can be retained and built on. The OP also contains a thorough explanation of the use of Technical Assistance, on which we have had no substantive comments to make.

At the same time, it is important to stress that in 2012 the Welsh Government commissioned a member of the Programme Monitoring Committee (PMC), Dr. Grahame Guilford, to review the administrative arrangements for the implementation of the ESI Funds for 2014-2020. Dr. Guilford published his report in March 2013, and this makes a series of 14 recommendations for improvements in the planning of Programme implementation (notably through developing an Economic Prioritisation Framework) and the actual implementation of the Programmes (including adopting a portfolio management approach, a review of guidance issued and a mobilisation phase for approved projects)<sup>28</sup>. While most of these recommendations will need to be implemented subsequent to the approval of the OP by the European Commission, all have been accepted by the Welsh Government and progress is being made on taking them forward.

We believe that there is evidence to suggest that WEFO as Managing Authority has experience and capacity to take forward the OP effectively and is seeking both to build on good practice and identify shortcomings in programme management during the previous programming period.

Turning to the questions of administrative arrangements and the measures planned to reduce the administrative burden on beneficiaries, the relevant sections of the OP have been considered during the second and third

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<sup>28</sup> An Independent Review of Arrangements for the Implementation of European Structural Fund Programmes 2014-2020, Dr. Grahame Guilford, March 2013.  
<http://wales.gov.uk/docs/wefo/publications/130314guilfordreporten.pdf>

iterations of the ex-ante evaluation and the more significant issues raised, with the responses received, are summarised in Table 8.1.

From our perspective, there are no outstanding issues to be dealt with, although clearly implementation arrangements will be critical here, particularly in relation to the assurance that Programme beneficiaries will have access to all legislative options in terms of simplified cost re-imbusement options.

*Table 8.1: Main issues raised on administrative arrangements and the administrative burden on beneficiaries*

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
Second	The need to demonstrate that representation on the Workstream Groups has been appropriate.	Membership lists provided and these demonstrate that the wider partnership has been appropriately represented.
Second	The need to reconsider the statement that the consultation process showed 'overwhelming support' for the proposed implementation arrangements.	Additional drafting changes made to address this issue.
Second	The need to make clear that overseeing evaluation will be a role of the PMC.	Reference to approving the Evaluation Plan added in the description of the PMC's role.
Second	The need to review references to social partners in order to make sure that they are consistent with the Regulations definition of the term.	Section redrafted to ensure this.
Second	The need to further evidence how efforts have been made in the current programming period to reduce the administrative burden on beneficiaries.	Additional material including references to the Customer Insight Survey added.
Second	The need to clarify ambiguity over whether Joint Action Plans (JAPs) are included in the commitment to make 'all legislative options' available to beneficiaries.	Clarification that JAPs are not regarded as relevant to this Section.
Second and Third	The need to consider if the issue of conflicts of interest within the PMC (where members also represent beneficiaries) should be more clearly addressed.	The drafting team argues that this should be dealt with in the Terms of Reference: a specific reference to this has been added to the OP text.

## **8.2 Monitoring and Evaluation Procedures**

While the OP template does not require Managing Authorities to provide information on Monitoring and Evaluation procedures, we have had the opportunity to comment on WEFO's Monitoring and Evaluation Strategy for all ESI Programmes and believe this is compliant with the requirements of the Regulations.

We gave two sets of comments on the Monitoring and Evaluation Strategy. The main issues raised and the way in which they have been responded to are highlighted in table 8.2 below.

Overall, we take the view that WEFO has an experienced Research, Monitoring and Evaluation (RME) team in place with a strong track record of managing monitoring systems and commissioning evaluation.

Following our first iteration comments, a series of revisions were made in a number of areas to the revised strategy. Where no alterations were undertaken in light of our recommendations, reasoned accounts as to why our comments could not be accommodated were provided.

As a result, only one relatively minor point of relevance to the OP remains outstanding: we believe it would be useful to elaborate further on how WEFO might invoke additional powers to ensure that project sponsors comply with monitoring data and information requirements.

Table 8.2 Main issues raised on monitoring and evaluation procedures

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
First	Further detail on the human resources and administrative capacity to be involved in monitoring and evaluating the programmes would be beneficial.	Further detail has been added to the revised strategy relating to the capacity and capabilities of the RME team at WEFO. These additions provide assurance that adequate provision has been made for the monitoring and evaluation of the programmes.
First/Second	Further detail on how the co-operation of project sponsors will be secured in terms of monitoring and evaluation activity would strengthen the strategy.	Additional material has been added which addresses this point, including details of additional powers WEFO will have to insist that project sponsors submit relevant information. This has strengthened the strategy considerably, although further detail how WEFO might invoke its additional powers would be useful.
First	Further evidence detailing consideration of previous experience and possible 'bottlenecks' which might impede monitoring and evaluation would strengthen the strategy.	A section has been added to this effect which discusses the experiences of monitoring and evaluating the 2007-2013 programmes to date. This has strengthened the strategy and makes clear that well-established monitoring and evaluation systems will be in place for the 2014-2020 period.
First	Point of clarification relating to when the monitoring and evaluation strategy should be submitted to the Programme Monitoring Committee for their approval i.e. at the first meeting.	The revised text clarifies that the strategy will be submitted to the first meeting of the PMC for their approval.
First	Further detail on how and when the monitoring and evaluation strategy will be reviewed would strengthen the document.	Further detail on how and when the strategy will be reviewed has been added i.e. that it will be reviewed on an annual basis by the PMC.
First	Recommended that additional detail be provided on the procedures for monitoring and collecting	Additional material has been provided which gives greater clarity as to how the RME team will support project

	necessary data to carry out evaluations to include reference to when appropriate advice, guidance and support might be provided to project sponsors.	sponsors to ensure adequate coverage and quality in terms of monitoring data.
First	Recommended that additional information on the scheduling of monitoring activities and the preparation of reports (including indicative budget allocation) should be provided to strengthen the strategy.	A timetable for the preparation of Annual (AIRs) has been added to the strategy, while WEFO argued legitimately that the timing of evaluations will predominantly be driven by activity measured by expenditure.

## 9.0 Horizontal Themes: Equal Opportunities

### 9.1 The Equality Impact Assessment

In this Section we first report on the findings of the Equality Impact Assessment (EIA) before turning to our review of the material within the OP.

As already noted, a core part of the ex-ante evaluation has been an EIA of all the ESI Programmes. Although not required by European legislation, the assessment supports the fulfilment of the Welsh Government's obligations under the Public Sector Equality Duty (PSED) to show due regard to characteristics protected under the Equality Act 2010<sup>29</sup>.

An EIA report, covering this OP and the ERDF OP for East Wales, is being published in parallel with this report<sup>30</sup>. The conclusions of the assessment are that:

- The way in which the development of the OP has been carried out demonstrates an integrated approach to equality on the part of WEFO and the Welsh Government and builds on a strong track record of integration of the Horizontal (or Cross-Cutting) Themes in the design of previous Structural Fund Programmes;
- Overall, the OP pays due regard to the protected characteristics. It should result in broadly positive impacts for people with protected characteristics and there are unlikely to be any disproportionate negative impacts on any protected characteristics;
- However, potential positive impacts will, in some cases, only be realised if measures are taken as part of Programme and project implementation to ensure appropriate focus and adequate accessibility;
- The OP has the scope to contribute in an important way to the achievement of European, UK and Welsh political and strategic

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<sup>29</sup> These are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race and ethnicity, religion or belief, sex, sexual orientation. The EIA also considered the Welsh Language, given legislative requirements in Wales.

<sup>30</sup> Ref

ambitions regarding equality – particularly the achievement of the aims of the PSED to tackle discrimination, promote equality of opportunity and (to a slightly lesser extent) foster good relations between social and demographic groups;

- A number of specific areas of intervention are specifically and appropriately targeted on equality groups, notably the scope for business support and finance opportunities (under Priority Axis 2) to be used to improve the numbers of women, disabled people, young people and some BAME and religious groups that are starting and growing businesses;
- ERDF funded transport and ICT projects need to have access issues at their heart (especially concerning disabled people and older people who may experience additional barriers to access and engagement) to reflect an integrated and inclusive approach;
- ERDF funded physical developments need to maximise the potential for positive equality impacts and as such should not limit equality considerations to mitigating adverse effects;
- While there is a strong track record of Programme level integration of equality, which is reflected in the OP, there still remains an acknowledged gap between the integration of equality considerations into Programme-level strategy and project-level implementation and delivery which will need to be addressed. A key next step will be for WEFO to work with projects and their sponsors to establish realistic and reliable mechanisms for monitoring and evaluating the impact of projects that are funded under this Programme to ensure that the objectives of the 'Equal Opportunities' Theme are achieved.

## **9.2 Equalities as a Horizontal Theme**

Besides the EIA, the ex-ante evaluation has also involved appraisal of the description of the Horizontal Themes in the OP documentation. This has involved first (at the time of the first iteration) commenting on a 'Cross-Cutting Themes' paper provided in late 2012 and then successive iterations on

Section 11 of the OP template. In Table 9.1 we summarise comments made relating to equal opportunities at these different stages.

Table 9.1: Main issues raised on equal opportunities

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
First	The need for greater clarification of the relationship between the equal opportunities Cross-Cutting Theme and the proposed poverty Cross-Cutting Theme; and whether socio-economic deprivation should be explicitly considered as part of the equal opportunities CCT.	The overall equality objectives have been redrafted to ensure stronger attention to poverty and socio-economic deprivation. The OP template does not allow for discussion of other Cross-Cutting Themes apart from those mandated by the Regulations, although the Welsh Chapter of the UK Partnership Agreement refers to Reducing Poverty and Social Exclusion as a Cross-Cutting Theme.
First	The need for greater evidence to support the claims for the effectiveness of approaches to integration in the current Programme.	This was provided in subsequent drafts.
First and Second	While recognising the different European legal bases in respect of gender equality and other equality issues, the need to ensure a seamless approach to equalities.	While the drafting team has worked hard to ensure these issues are addressed coherently, the format of the OP template precludes a wholly seamless approach.
Second	That there was considerable overlap between Sections 11.2 and 11.3 of the OP relating to gender equality and broader equality opportunities respectively.	Drafting alterations made for final iteration which reduce the amount of duplication.
Second	The need to review the key equality objectives to make them more specific and 'SMARTer'	Subsequent versions of the text have sharpened these considerably.

Overall, we have no outstanding issues. However, it is important to stress that the OP at present says nothing about the Reducing Poverty and Social Exclusion Cross-Cutting Theme, though this is largely due to the requirements of the OP template.

In this context, it is important to stress that the appropriateness or otherwise of this third Cross-Cutting Theme was a major subject of comment in the responses to the Consultation exercise: although there was general support for this, many respondents felt that tackling poverty needed to be a clearer focus of intervention in the Priority Axes<sup>31</sup>.

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<sup>31</sup> European Structural Funds 2014 – 2020: Consultation Analysis, p. 36

## 10.0 Horizontal Themes: Sustainable Development

### 10.1 Strategic Environmental Assessment

As noted in Section 1, the OP was subject to a screening exercise in accordance with the SEA Directive and on this basis, with the agreement of the relevant statutory bodies<sup>32</sup>, it was concluded that a full SEA was required because the potentially significant environmental effects of the ERDF Programme.

In this context, it is important to note that, as with equal opportunities, there is a significant track record of successful promotion by WEFO of the Cross-Cutting Themes (including environmental sustainability) particularly at the level of Programme strategy during the current Programmes<sup>33</sup>.

Subsequent to this, a full SEA report was prepared and consulted upon. The main conclusion of the full SEA Report is that 'the proposed ERDF Programme offers an opportunity to promote positive effects on the environment, particularly on energy conservation, carbon reduction, waste management, re-use of redundant land and local health and well-being issues'<sup>34</sup>. More specifically, the SEA report also concludes that:

- Overall, 27 potentially negative effects across seven of the 13 SEA Objectives were judged to be of more than minor significance.
- Two of the Specific Objectives were of concern in that the potential effects were considered to be both direct and significant. Priority Axis 3, Specific Objective 1 relates to the potential development of demonstration renewables in the marine environment, while Priority Axis 4, Specific Objective 1 relates to the upgrade of the strategic road network.

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<sup>32</sup> At the time these were the Environment Agency Wales, the Countryside Council for Wales and CADW, though the first two of these have subsequently merged to become Natural Resources Wales.

<sup>33</sup> See for example: <http://wales.gov.uk/docs/wefo/report/110331processevaluationen.pdf>

<sup>34</sup> Insert reference and page number when final draft completed.

- It will be critical to ensure that statutory measures are applied in order to avoid and mitigate, and where this is not possible, to appropriately compensate for any negative effects from the Programme.

## **10.2 Habitats Regulations Assessment**

In addition, a Habitats Regulations Assessment (HRA) Report was carried out for the ERDF OP. Articles 6(3) and 6(4) of the European Habitats Directive and section 61 of the Habitats Regulations (2010) require the relevant competent authority to carry out an assessment of the likely significant effects of plans or projects on 'European sites or offshore marine sites', either alone or in combination with other plans or projects.

The assessment undertaken (which was the subject of a formal consultation with Natural Resources Wales) went beyond the screening stage to consider in further depth, the vulnerabilities of the 'receptors' of any potential impact, namely the features that are cited in European site inscriptions.

It is important to note that given the strategic nature of the OP, the detail of where and how proposals are likely to be implemented had not been developed at the time the HRA was carried out. As such, the assessment identifies as far as is possible, any risks of significant effects that might result to features associated with European sites, as well as to the integrity of the Natura 2000 network<sup>35</sup>. The HRA must not be taken as an assessment of any plans or proposals that emerge and subsequent proposals (i.e. projects) should show how they have taken into account the issues raised in this assessment.

The HRA report concluded that:

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<sup>35</sup> Natura 2000 is the term given to the network of European nature protected sites

- The majority of potential risks of significant impact are associated with shoreline and marine infrastructure development and with the expansion or upgrading of the road network.
- Given the proximity of some European sites to settlements, some risk of impact from urban development is possible.
- There is a potential for positive effects from enhanced design and added value linked to some proposals, such as greening spaces and providing corridors and refuges, using natural systems for drainage, heating and cooling and flood and catchment management.
- Appropriate lower level HRAs (i.e. at project level) will, where appropriate, need to be carried out<sup>36</sup> to identify more precisely the nature, scale or location of development and its potential effects.

### **10.3 Sustainable Development as a Horizontal Theme**

Turning to the ex-ante appraisal, in Table 10.1 we summarise comments made relating to sustainable development during the three iterations on OP content. There has been a significant change in the approach between the second iteration (August 2013) and the final iteration (October 2013) and we are concerned that the environmental sustainability goals now lack specificity. We also consider that this section of the OP (as now drafted) is rather high level, though assurances are provided as to the processes to be undertaken in respect of Programme implementation. While reference has been made to the Welsh Chapter of the UK Partnership Agreement as providing important context, in our view this is also presented at a very generic level.

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<sup>36</sup> As specified by law in The Habitats Regulations Assessment of Local Development Documents (Final Draft) (p37-38) [Unpublished]

Table 10.1: Main issues raised on sustainable development

<b>Iteration</b>	<b>Comment</b>	<b>Action Taken in Response</b>
First	The need to consider carefully the tensions between the Welsh Government and the European Commission definition of and approach to sustainable development.	Drafting revised in subsequent versions to address this point which is also dealt with explicitly in the Welsh Chapter of the UK Partnership Agreement.
First	The need for greater evidence to support the claims for the effectiveness of approaches to integration in the current Programme.	This was provided in subsequent drafts.
Second	The need for greater clarity as to what is meant by recycling and zero waste.	The references to recycling and zero waste have been removed.
Second	The need to review the key sustainable development objectives to make them more specific and 'SMARTer'.	These objectives were removed at the third iteration, and the drafting team argued that they could not be changed because they were policy objectives set by the Welsh Government.
Second and Third	The need for a stronger focus on 'selling' the benefits of adopting the Cross-Cutting Themes to projects.	Drafting amendments introduced to address this point.
Third	Need to reconsider whether to reinstate a statement of the Welsh Government's overarching key sustainable development objectives.	The drafting team argues that the Welsh Chapter of the UK Partnership Agreement provides contextual information about the Welsh Government's overall approach to sustainable development and that such material is not needed within the OP.

## 11.0 Conclusions

The ex-ante evaluation process has been thorough as well as highly iterative. The drafting team has taken care both to address methodically and, where possible, respond to the wide range of issues highlighted by the evaluators. As noted in section 2, in order to facilitate the submission of the OPs by WEFO at the earliest opportunity, we and the drafting team have worked to a timetable which meant that the final full iteration took place somewhat earlier than we would have wished. As a result, we have continued to make refinements to the ex-ante documentation following the final iteration, in preparation for the submission of the final OPs.

Overall, we believe that the OP:

- Is based on a very sound and thorough socio-economic analysis and uses the evidence base appropriately;
- Is internally coherent in terms of the flow from the socio-economic analysis to the Programme strategy and the Priority Axis (and the choice of Thematic Objectives and Investment Priorities) and consistent with other relevant policies and programmes and is based on a sound and explicit Intervention Logic;
- Is consistent with the EU 2020 Strategy, the Common Strategic Framework and the Country Specific Recommendations for the UK, and will make a proportionate contribution to the EU2020 targets on the employment rate, an increase in research and development investment, the economic and employment contribution of SMEs and an increase in renewable energy and resource efficiency;
- Uses appropriate indicators and has adopted a logical approach to the setting of targets;
- Has appropriate monitoring and evaluation processes in place;
- Is based on a justifiable allocation of budgetary resources though we feel that further justification (around the intended use and targeting)

would strengthen the rationale for the size of the allocation to Priority Axis 4 and in particular Specific Objective 4 within it;

- Is based on sound partnership working and builds on previous strengths in terms of programme management but is set in the context of efforts to improve implementation processes which have been perceived as problematic in the past;
- Is based on appropriate involvement of, and consultation with, individuals and bodies with expertise within the Horizontal Themes and has particular strengths in its approach to equal opportunities.

While endorsing the OP, there remain a small number of areas where we believe there is a case for further reflection:

- We feel that there is scope within Priority Axis 1 to define more clearly the balance between, on the one hand, targeted ERDF investment at specific competitive strengths, emerging strengths and R&D facilities, and on the other, investments that could span an extensive range of sectors and interventions;
- Whilst we have noted the risks and uncertainty around the deliverability of the proposed investment in wave and tidal technology and the associated benefits (and hence value for money), we suggest that these are assessed/monitored as the programme is implemented as part of a proactive strategy to managing risks;
- Whilst Specific Objective 4 under Priority Axis 4 has been strengthened, we continue to have some concerns relating to its broad nature. We believe further work to make it more specific in terms of the approach to targeting investments (relating to the forms of investments and types of locations) would be beneficial;
- We feel that in terms of the performance framework, the indicators selected do not fully reflect the diverse policy interventions set out in some of the Priority Axes (particularly 3 and 4). While recognising the advantages of having a manageable number of indicators, we feel that this requires some further consideration. We are also of the view that there may be an argument for differentiating the expenditure

milestones for 2018 (rather than having a blanket milestone for all four Priorities) to reflect the different priorities and challenges involved with investing funds;

- While the OP states clearly the intention to ensure integration with other ESI Funds, much will depend on the implementation mechanisms put in place.

However, we accept that all these issues have been well rehearsed during the course of the evaluation and respect the counter-arguments that have been put forward including the importance of retaining flexibility given the time-horizon of the Programming period. In our view, such remaining differences of view are legitimate and in no way undermine the quality of the work undertaken in developing the OP.