



Llywodraeth Cymru  
Welsh Government

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

Welsh European Funding Office

European structural funds programmes 2014-2020

### Research Report

Ex-ante Evaluation of the European Regional Development Fund East Wales  
Operational Programme 2014-2020

Version: 2 FINAL

Date: March 2014

Gwyddor Gymdeithasol  
mewn Llywodraeth



Social Science in Government



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

Authored by:  
Huw Bryer  
Old Bell 3 Ltd.  
57a Rhosmaen Street  
Llandeilo, Carmarthenshire  
SA19 6LW  
01558 822 922  
huw@oldbell3.co.uk  
March 2014

Checked by:  
Gareth Williams



## 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 .....	30
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 .....	41
5.3 Priority Axis 3: Renewable Energy and Energy Efficiency.....	45
5.4 Priority Axis 4: Connectivity and Sustainable Urban Development.....	47
6.0 Indicators and Targets .....	50
7.0 Financial Allocations .....	56
8.0 Administrative Arrangements, Monitoring and Evaluation.....	58
8.1 Administrative Arrangements and Capacity.....	58
8.2 Monitoring and Evaluation Procedures.....	62
9.0 Horizontal Themes: Equal Opportunities.....	65
9.1 The Equality Impact Assessment.....	65
9.2 Equalities as a Horizontal Theme .....	66
10.0 Horizontal Themes: Sustainable Development .....	70
10.1 Strategic Environmental Assessment .....	70
10.2 Habitats Regulations Assessment .....	71
10.3 Sustainable Development as a Horizontal Theme.....	72
11.0 Conclusions .....	74

## 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 East Wales (EW) 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 set 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 (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 would strengthen the rationale for the size of the allocation to Priority Axis 4 (Connectivity);
- 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 remains 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;
- 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 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 East Wales (EW).

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;

---

<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 of 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

---

<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 over more than a year as it has been developed, and have undertaken two 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.

---

<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 divergent 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 EW 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 to be issued, with a particular focus on the extent to which they were compatible with the

---

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

Europe 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

---

<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 ERDF 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 (August 2013). At the same time, we undertook a full review of the parallel OP for WWV in the template required by the Regulations, with many of these comments also being relevant to, and reflected in further development work on, the EW OP;
- 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 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 (January 2014);
- 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 an audit trail. In total the team made some 480<sup>13</sup> comments on the first iteration, 469<sup>14</sup> and 249 comments on the final iteration. It is also important to note that during the course of our second iteration commentary on the WWV OP (it should be noted that we provided three separate iteration commentaries on WWV), a number of comments were made which also applied to and influenced the final iteration of the EW OP. Attention is drawn to the most significant of these comments throughout this report.

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

---

<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.

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);
- 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 which must be adhered to<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>.

For the 2014 – 2020 period, 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 EW 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. Inevitably, the remainder of this report relates closely to the content of the OP and should be read in conjunction with that document.

---

<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 EW OP

Priority Axis and Specific Objectives (SO)	Thematic Objective	Investment Priority	ERDF funding €m.
<b>Priority Axis 1: Research and Innovation</b>			<b>89.6</b>
SO1: To increase the success of Welsh research institutions in attracting competitive and private research funding.	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.	26.1
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.  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.	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.	45.2

<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>18.3</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><b>40.7</b></p> <p>15.4</p>
<p>SO3: To increase SME productivity through the provision of advice and guidance, in particular through encouraging ICT exploitation.</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>22.1</p>

<p>SO4: To increase the growth of those SMEs with growth potential, in particular through accessing new markets (both domestic and international).</p>			
<p>SO5: To address market failures in the availability of finance, in particular risk capital, for Welsh SMEs to undertake innovation and commercialise R&amp;D.</p>	<p>TO1: Strengthening research, technological development and innovation</p>	<p>(1b): Promoting business investment in innovation and research, and developing links and synergies between enterprises, R&amp;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.</p>	<p>3.3</p>

<b>Priority Axis 3: Renewable Energy and Energy Efficiency</b>			<b>22.4</b>
SO1: To increase the number of small scale renewable energy schemes established.	TO4: Supporting the shift to a low-carbon economy in all sectors	(4a): Promoting the production and distribution of energy derived from renewable sources.	4.5
SO2: To increase the energy efficiency of the existing Welsh housing stock, particularly in areas of fuel poverty.	TO4: Supporting the shift to a low-carbon economy in all sectors	(4c): Supporting energy efficiency, smart energy management and renewable energy use in public infrastructures, including in public buildings, and in the housing sector.	17.9
<b>Priority Axis 4: Connectivity</b>			<b>48.9</b>
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).	TO7: Promoting sustainable transport and removing bottlenecks in key network infrastructures	(7b): Enhancing regional mobility through connecting secondary and tertiary nodes to TEN-T infrastructure, including multimodal nodes.	37.1

SO2: To increase the access of Welsh businesses to high speed ICT networks in peripheral areas and strategic sites.	TO2: Enhancing Access to, and Use and Quality of, ICT infrastructures	(2a): Extending broadband deployment and the roll-out of high-speed networks and supporting the adoption of emerging technologies and networks for the digital economy.	11.8
<b>Technical Assistance</b>			<b>2.0</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.			
<b>Total Programme</b>			<b>203.6</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, although perhaps less well tailored to the specific situation of East Wales than its counterpart for 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 EW 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 considerable 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 EW and WWV, particularly in the SWOT analysis and greater focus on data relating specifically to EW.	Later versions show a clear effort to use EW 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 EW 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.



Overall, the final version of the socio-economic analysis received on 16 October 2013 appears to us to be 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 EW analysis and that of WWV 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 ERDF 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.

---

<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), and the need to explain and analyse more fully Wales' existing research strengths and capabilities to underpin the selections made under Priority Axis 1.

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. In general terms, therefore, we believe 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 two 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).

In addition to the points outlined in Table 4.1, a number of the comments we made on the WWV OP (during a second iteration in August 2013) also applied to the EW OP. In particular, we drew attention to the need for a clearer explanation of the way in which the OP was expected to contribute to tackling poverty since the focus on areas of opportunity 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. In response to this comment, some drafting alterations were made to the Strategy Section of the final OP which provided examples of how ERDF might be used to alleviate poverty (e.g. the 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 Axes and Tackling Poverty as a Cross Cutting Theme needs to be given.

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 and Second	The importance of clearer differentiation between the Strategy (and relative strengths and opportunities) for EW and WWV, given the different circumstances within the two and the far smaller resources likely to be available in EW.	Significant changes in subsequent drafts to focus more closely on data and issues pertinent to EW 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 (then) draft Regulations which required each priority to reflect no more than one of the eleven thematic objectives.	More recent drafts of the draft CPR Regulation allow the inclusion of activity from more than one Thematic Objective. As such, the OP authors have retained multiple TOs under some Specific Objectives.
First	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 and Second	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 the 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 for a more consistent use of EW data	This has been reviewed and NUTS 2 data relevant to EW

	<p>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 EW as compared to WWV .</p>	<p>used consistently where it is available (replacing in several cases statements about Wales as a whole). Some additional material has also been added (post second iteration) analysing the respective proportion of competitive research funds secured by HEIs in West Wales and the Valleys and East Wales.</p>
Second	<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.</p>	<p>This has been addressed to a significant extent by tighter definition of some of the Specific Objectives. In the case of R&amp;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&amp;D intensive to be targeted, engaged and supported.</p>
Second	<p>In our second iteration, while broadly endorsing the justifications for the financial allocations in EW, we drew attention to the fact that the proposed allocation for TO4 was marginally below the regulatory requirements.</p>	<p>Alterations were made to the financial allocations to bring the proposed allocations in-line with the regulatory requirements. The proposed allocation for Technical Assistance was also added after we had given our final iteration comments.</p>

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;
- 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. In our evaluation of the WWV OP, we commented (in the context of Priority Axis 4) that the rationale of focusing physical regeneration on a small number of areas of opportunity might lend itself to integrated delivery mechanisms such as Integrated Territorial Investments (ITIs). In this context, there are potential links and opportunities as part of the South East Wales City Region (which straddles both the WWV and EW Programme areas) which we feel could usefully be explored further. We are also concerned that the lack of any formal financial allocation for sustainable urban development may restrict opportunities for Welsh cities 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

---

<sup>19</sup> See Section 2

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, the UKCSR's and the Commission Position Paper (CPP) for the UK and its Funding Priorities, albeit that the strong focus in financial terms on infrastructure investment sits uncomfortably with the CPP.

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);
- 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.

---

<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)



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 and GVA (around 2% in each case) 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 generally robust intervention logic, we are confident that the OP should 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/CPP/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 markets, innovation 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 Axes 2 and 4</b> Maintain 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 SMEs.</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 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>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 five, and the number of Investment Priorities to nine (of a possible 37). Since the Regulatory requirements - for ensuring that a minimum of 20% of total ERDF resources in more developed regions are allocated to TO4 and that at least 80% of the ERDF resources in more 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).

It is also notable that the OP provides a somewhat narrower range of interventions than the parallel OP for WWV, with 14 Specific Objectives (compared to 17 in the WWV OP). In our view, this is sensible in view of the significantly lower level of resources available, and the areas of potential activity not included or given less emphasis in the EW OP (the specific focus on wave and tidal energy and infrastructure investment) are ones which we believe, on the basis of the evidence available, should be lower priorities.

### **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 subsequently also been given access to a full draft of the UK Partnership Agreement.

In our view, 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

---

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

the UK, albeit that – understandably - the UK Chapter clearly provides a larger ‘menu’ of potential interventions than is proposed in EW. 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 sectoral policy (albeit in the context of the UK Government’s Industrial Strategy, the relevance of which to Wales is moot) 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 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. In addition, we raised a point as part of the second iteration commentary on the WWV OP (which also applied to EW) highlighting the need for greater clarity in terms of whether the focus of the priority was 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 were being targeted. Later iterations of the Priority made it clear that there will be a focus on Grand Challenge areas in some parts of the Priority Axis, but that intervention on innovation will be available to all. We continue to feel however, that there remains scope to add further clarity about how resources will be concentrated given the broad nature of the Grand Challenge areas.

Overall, we feel that there are 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.

---

<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	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 flexible innovation across the economy thereby targeting firms that have not traditionally been involved in R&I activity. They also argued that this is consistent with Innovation Wales and further argued that this is consistent with the Investment Priority.
Second	We questioned the re-drafting of Specific	The authors re-instated a reference to HEIs but argued that



	Objective 3 which, in the final iteration we commented on did not contain a reference to HEIs.	the emphasis of SO3 should be on commercialisation through technology transfer – driven by SMEs rather than controlled by HEIs.
--	--	---

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

In terms of the second Priority Axis, SME Competitiveness, Table 5.2 outlines the main issues raised 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 as it stands 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 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.

In addition to the comments recorded in Table 5.2 below, a number of comments were made during the second iteration on the WWV OP which also applied to the EW OP. These included:

- The need to add clearer references to pre-start entrepreneurship support. This was later added to both the EW and WWV OPs.
- The need to clarify whether and to what extent support for social enterprises would form part of broader support mechanisms to SMEs or whether certain aspects would be customised. Subsequent drafting alterations clarified this issue.
- The need to strengthen references to the importance of access to finance to support the commercialisation of research emerging from

R&D and HEI facilities (given that this aspect had been moved across from Priority Axis 1). Subsequent amendments were made in response to this comment.

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	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 two 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	The need to clarify the strategy for targeting business support interventions – making clear what would be universally available and how some, more intensive interventions would 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 risked contradicting itself in a number of places relating to the targeting approach. In the final iteration,	Significant progress has been made in clearly explaining the rationale for the targeting strategy adopted in the final OP.

	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 use consistent terminology relating to 'universally available' interventions as opposed to 'non-targeted' ones.	Drafting altered in the final iteration with greater consistency.
Second	We noted the intention to use the same result indicators for social enterprises as for SMEs under Investment Priority 5 of PA2. We suggested that the text should explain that the reason for this is the lack of specific data relating to social enterprises.	Drafting was amended to reflect this point.

### **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 evaluation 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 as it stands is well aligned with Europe 2020.

In addition to the comments recorded in Table 5.2 below, a number of comments were made during the second iteration on the WWV OP which also applied to the EW OP. These included:

- A need for further work to develop a manageable set of key relevant indicators. The number of indicators was significantly reduced in the final iteration.
- A need to explain more clearly the rationale for providing capacity building support to SMEs engaged in the energy efficient supply chain and the nature of this support. Further clarification on this point was provided in the final iteration under SO3 of PA3.

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 was 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 put in place a more logical structure for the Priority Axis to facilitate a clearer explanation of the rationale for intervention. Specifically, the needs, opportunities and constraints identified needed 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	The need to consider whether including reference to nuclear energy was appropriate under potential actions to be supported given the emphasis on smaller scale renewables.	Alteration made to remove reference to nuclear energy in this context.

#### **5.4 Priority Axis 4: Connectivity**

In terms of the fourth Priority Axis, Connectivity, Table 5.4 outlines the main issues raised in the course of the three iterations and the response of the drafting team to each. It should be noted that the title for this Priority Axis was changed from 'Strategic Infrastructure' to 'Increasing the Commercial Attractiveness of Places' and then changed again to 'Connectivity' after our final iteration opinion was provided to WEFO.

The ex-ante team appreciate the full response by WEFO to the various comments made on the Connectivity Priority Axis. We consider the Priority to be robust and based on the socio-economic analysis and have no major outstanding issues to report on.

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



Table 5.4: Main issues raised on Priority Axis 4

Iteration	Comment	Action Taken in Response
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 additional detail was inserted. However, the authors argued that the WIIP did not, in isolation at least, represent a fully comprehensive mechanism for prioritisation of ERDF investments.
First	Clear and practical criteria by which the programmes target and select investments needed 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.
First	At the first iteration we pointed out that as the draft Regulations stood, there was a requirement (Art. 87 (2) CPR) for each ERDF Priority to cover only one of the thematic objectives (Art. 16 CPR) <sup>25</sup> .	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

<sup>25</sup> The Article numbers refer to the then extant version of the CPR: the equivalent articles in the final Regulations are Art 96 (2) and Art. 18

		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.
Second	The need to consider the appropriateness of the title for PA4 'Increasing the Commercial Attractiveness of Places' given the overt focus on transport connectivity (and improving access to jobs) within it.	The authors changed the PA title to Connectivity following our final iteration comments.
Second	The need to review the wording of the Specific Objectives as they would benefit from a clearer focus on economic outcomes rather than the means by which they were to be achieved.	The wording of the Specific Objectives has been amended following our final iteration comments

## 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 second and final 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 intended to support individuals as opposed to enterprises in Priority Axis 1.	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 should be 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.
Second	Need for clarification of distinction between enterprises receiving financial support other than grants and those receiving grants (Table 5 under Priority Axis 1)	Targets amended to reflect the fact that repayable finance unlikely to be used in this context and that the risk capital element was moved to the SME Competitiveness (Priority Axis 2).
Second	In relation to SME Competitiveness, an indicator (Table 3, SO1) relating to SMEs applying for	Authors accepted the point, stating that comparisons with UK survey results would be undertaken to contextualise the

	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.	indicator.
Second	In relation to SME Competitiveness, we commented that an indicator (Table 3, SO2) relating to the baseline count of new birth enterprises 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.
Second	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.
Second	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.
Second	In relation to Priority Axis 1, we questioned the target values relating to the number of enterprises receiving support and gave the view that the values provided seemed high in relation to the forecast outturn in the 2007-13 programme.	The authors justified a retention of the target values provided.
Second	In relation to Priority Axis 2, the need to consider whether the target values for employment increase in supported enterprises should be somewhat more ambitious given a gradually improving economy and labour market conditions.	The authors argued that the targets set for the 2001-2013 programme period were overly ambitious regardless of the recession that took place. An argument was made that the target values as set provide a realistic and achievable scenario given that despite signs of recovery, economic conditions continue to be fragile and unpredictable.

Second	The need to consider year on year data in relation to an indicator (Table 3, SO4) under Priority Axis 2 relating to the value of Welsh exports.	The indicator was subsequently re-structured.
Second	The need to consider an indicator relating to SMEs reporting use of internet for business (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.	Authors added additional data (around selling goods and productivity) to supplement the indicator.
Second	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.
Second	The need to consider that the nature of interventions under Priority Axis 3 (SO1) were unlikely to lead to large numbers of enterprises assisted (based on performance data from supported projects under the 2007-2013 Programme). As such, we commented in our final iteration that of the target value ranges supplied at that time, the lower end of the target scales provided were likely to be most realistic.	The authors agreed with this assessment and targets towards the lower end of the scales provided were included in the final OP.
Second	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 providing 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>26</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.

---

<sup>26</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, we nevertheless feel that the Performance Framework would benefit from additional specificity to justify the indicator selections made.

- 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 24% 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, we question whether the Implementation Step indicator (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 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

As with indicators and targets 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 EW and WWV) while detailed figures were provided 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.

Table 7.1: Main issues raised on financial allocations

Iteration	Comment	Action Taken in Response
First and Second	A concern that the financial allocation to Priority Axis 1 (R&I) was significantly 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 the increase in ERDF for East Wales, the level of funding to PA2 was appropriate.
Second	In relation to Priority Axis 3, it was not clear that the Regulatory requirement to earmark 20% for low carbon investments had been met.	The allocations were subsequently amended and the allocation for Technical Assistance included which changed the percentage allocations.
Second	In relation to Priority Axis 4 (Connectivity), we noted that the financial allocation section should highlight and justify a significant increase (both in proportional and monetary terms) as compared to the 2007-2013 OP.	Additional text was added to the financial allocation justification section for Priority Axis 4 following our final iteration comments. However, the altered text does not comment on the relative increase as compared to the current OP.

## **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>27</sup>. The Customer Insight Survey<sup>28</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.

---

<sup>27</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>28</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>29</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 final)

---

<sup>29</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>

iteration of the ex-ante evaluation. In reality, since this section is identical to that within the WWV OP, issues which were flagged up during the second iteration of that OP (in August 2013) had largely been addressed by the time the EW OP was submitted. These included issues around the role of the PMC in respect of monitoring and evaluation, the need to provide more evidence on the efforts already made to reduce the administrative burden on beneficiaries (leading to references to the Customer Insight Survey) and the need to provide details of the participants in the various Workstream Groups to demonstrate that they were appropriate. As a result, only a small number of issues were raised in the final iteration, as 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 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.
Second	The need to reference the number of responses to the consultation exercise received referring specifically to EW and to consider whether to provide more information on EW representation on the PMC.	A reference to the number of EW-specific responses has been added to the final OP. The drafting team has noted that representation on the PMC comes from across the whole of Wales, but has made no change to the 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

Iteration	Comment	Action Taken in Response
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	A view that further detail on how and when the monitoring and evaluation strategy should 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 Implementation Reports (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>30</sup>.

An EIA report, covering this OP and the ERDF OP for East Wales, is being published in parallel with this report<sup>31</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

---

<sup>30</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>31</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 the new 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 generic paper on the 'Cross-Cutting Themes' provided in late 2012 and then a review of

Section 11 of the OP template in October 2013. In this second iteration, we had no further points to make as changes made to the parallel section in the OP for the WWV in response to earlier comments about the need to review the equalities Objectives had already been carried over to the EW OP. 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

Iteration	Comment	Action Taken in Response
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	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.

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>32</sup>, particularly in the context of the ESP OP.

---

<sup>32</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>33</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>34</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>35</sup>. More specifically, the SEA report also concluded that:

- Overall, 17 potentially negative effects across six of the 13 SEA Objectives were judged to be of more than minor significance.
- Seven of the Specific Objectives were of concern.
- 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.

---

<sup>33</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>34</sup> See for example: <http://wales.gov.uk/docs/wefo/report/110331processevaluationen.pdf>

<sup>35</sup> Insert reference and page number when final draft completed.

## **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>36</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:

- 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.

---

<sup>36</sup> Natura 2000 is the term given to the network of European nature protected sites



- 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>37</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 iterations on OP content.

There was a significant change in the approach to setting sustainable development objectives in the final iteration (October 2013) compared to earlier iterations of the parallel WWV OP 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.

---

<sup>37</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 a stronger focus on 'selling' the benefits of adopting the Cross-Cutting Themes to projects.	Drafting amendments introduced to address this point.
Second	Need to reconsider whether to reinstate a statement of the Welsh Government's overarching key sustainable development objectives, as in earlier drafts of the WWV OP.	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 flagged up by the evaluators. It is important to note, however, that we have been required to work to a timetable which has not allowed us to have access at critical points to definitive versions of the Regulations and associated Guidance.

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 Axes (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 would strengthen the rationale for the size of the allocation to Priority Axis 4 (Connectivity);
- 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 remains 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;
- 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 on, 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.