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The response of the Welsh Government to the call for evidence as part of the review of the balance of competences between the UK and the European Union: Cohesion Policy.

How effective in your view have the structural funds been in addressing the tasks given to them under the various Treaties and what might be done to improve this?

Structural funds target two principal objectives: the 'convergence' objective which aims to assist lagging regions to catch up with more prosperous regions and the 'competitiveness' objective which aims to create jobs by promoting competitiveness and by making regions more attractive to businesses and investors.

Between 2000 and 2006, structural funds supported the creation of over 52800 net jobs and 3100 net SMEs in Wales. There were also over 886,000 interventions that benefitted individuals, with some 201,000 qualifications being gained by ESF scheme participants and over 78,000 beneficiaries either entering employment or further learning. To date[1], the 2007-2013 structural fund programmes have supported the creation of in excess of 23,500 gross jobs and 7,500 enterprises. Additionally, over 478,000 individuals have participated in ESF initiatives through which 157,000 qualifications have been gained and 53,000 participants have entered employment. The importance of structural funds and their impact upon the economy and people of Wales cannot therefore be stressed strongly enough.

From an employment perspective, the historic gap between the employment rates for Wales and the UK has narrowed since 2002: Wales maintaining an employment rate well above its historical average. This progress is set in the context of the global economic downturn that struck at the start of the current structural fund programme period. Regrettably, between 2004 and 2010, gross domestic product per head relative to the EU27 fell in both East Wales and West Wales and the Valleys: in East Wales by 17.7 percentage points and in West Wales and the Valleys by 6.3 percentage points. During the same period the UK economy suffered a deeper downturn than the EU27 with a decline of 12.2 percentage points% in GDP per head relative to the EU27. Therefore, despite the impressive outputs associated with structural fund investments in Wales to-date, West Wales and the Valleys remains one of the poorest regions in Europe and East Wales needs to draw upon EU funding to assist its continued economic transition.

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[1] Data as at end November 2013

Critics will undoubtedly argue that structural fund investments have failed to produce significant convergence and competitiveness effects in Wales. However, it is our strongly held view that this is in part due to long run weaknesses in the Welsh economy and the depressed nature of wider investment in the region. In fact, when taken in the UK context described above, we have seen real progress towards convergence in WW&V, with a closing of the gap with the UK as a whole in terms of both GVA per capita and employment rates. When seen in a European context, however, this progress has been masked by deterioration in the relative position of the UK as a whole. In addition, there is a need to be realistic about what could be delivered through structural funds, which, whilst very large in absolute terms remain modest in the context of the scale of the challenges faced by the economy as a whole.

The European Commission's explicit recognition of these long term challenges and its specific targeting of those challenges through the multi-annual financial nature of ESI programmes are vitally important to Wales. Structural fund programmes guarantee funding for a 7 year period and this certainty and transparency has had a strong and positive impact on strategic planning by the Welsh Government and its partners, whilst the annual nature of UK Government funding rounds make supporting multi-year investment programmes difficult.

The rules and processes associated with EU funding, whilst considered by many to be overly complex to an extent that can sometimes constitute a barrier to accessing the funds, do lead to very robust investment programmes that are firmly grounded in evidence and which demonstrate genuine and real partnership working. As a result, many of the processes associated with EU Structural Funds are fast becoming the norm across Welsh Government and the wider public sector in Wales, with progressive improvements evident as a result of better and more rigorous strategic and business planning, a sharper focus on the achievement of real impact through the realisation of key outcomes, the targeting of higher levels of investment return through the integration of interventions and funding streams, through enhanced monitoring and evaluation arrangements and through the more successful integration of the cross- cutting themes of Equal Opportunities and Environmental Sustainability. These improvements are helping to promote attainment of greater leverage from both structural fund and domestic investments in interventions targeted at economic growth and jobs.

In the 2000-2006 programme round, circa 3000 projects received structural fund support in Wales. In the current (2007-2013) programme period, a decision was taken to reduce significantly the number of projects supported, with closer to 300 projects likely to be funded overall. This more focussed and targeted approach has assisted Wales considerably during the recent global economic storm and has cast a foundation upon which Wales intends to build during the 2014-2020 programme period. The Welsh Government therefore very much supports the European Commission's view that, if structural fund investments are to produce enhanced and lasting benefits, a more strategic approach is required to the identification of interventions that link to key economic growth opportunities.

To what extent have UK places, companies and workers benefited or not benefited from EU structural funds?

The ‘headline’ benefits associated with structural fund investments are highlighted above. More detailed surveys provide further evidence of benefit, for example, our most recently published ESF Leavers Survey, which covered nearly 6000 participants in Priority 2 and 3 who completed ESF interventions in 2011 found that:

- The majority of respondents developed essential skills in organization, communication, team working skills and problem solving skills, with most feeling more confident in their own abilities.

- Almost three quarters of respondents to the survey had gained a qualification as a result of their participation in ESF training.

- Within 12 months of finishing their training, almost half of previously unemployed respondents and 30% of previously economically inactive respondents were in employment.

- Comparisons with the wider population suggest that unemployed participants are about 20% more likely to find a job than unemployed individuals who have not attended ESF training.

- The majority of respondents supported whilst in employment reported improvements in job satisfaction, future pay and promotion prospects and opportunities for training, following their participation in an ESF project, although a minority indicated that this could be directly attributed to their participation in an ESF project.

- Around 1 in 5 respondents employed in a different job before their ESF project participation, reported that ESF was vital to them gaining their current employment[2]

A survey of 780 businesses assisted by ERDF projects undertaken in 2011 found that:

- Approximately 35-40 per cent of respondents reported that ERDF support had a positive effect on turnover, profitability or productivity.

[2] 2011 *ESF Leavers Survey,* Cardiff University, 2013

- For every job that was created following ERDF assistance, approximately 1.25 jobs were also safeguarded.

- Half of those respondents who had received help with forming collaborative relationships with other organisations had gone onto consolidate these, with the vast majority reporting that these relationships were important to their business strategy[3]

These examples, drawn from a comprehensive and ongoing evaluation programme, provide clear evidence of the value derived from structural fund investments by business and individuals in Wales. The structural funds, and particularly ERDF, have played an important role in supporting business growth. ERDF interventions have focussed on areas such as ICT, advice related to starting a business, business finance and research and development activity, with businesses reporting increases in employment, the introduction of new or modified products or processes and increased turnover in the period following ERDF assistance.

Are the types of activity covered by the structural funds and the other funds outlined in this paper more appropriately funded at EU, national or regional/local level? Should all Member States or regions receive structural funds in future? If not, what should be the criterion?

Negotiation with the European Commission of EU funding falls to the UK Government as a Member State responsibility. The Welsh Government has engaged with and supported this process through Ministerial involvement with the Joint Ministerial Committee Europe and through the involvement of officials in the UK European Structural and Investment Funds (ESI) Programme Board. It also engages directly with the European Commission in developing and negotiating its operational programmes. Our relationships with the UK Government and the European Commission and European Parliament around the development of future ESI programmes have been both positive and productive.

The agreed UK negotiating position, in respect of the current UK/ EU negotiations, remains that Cohesion Policy support should be targeted at the poorest EU regions, irrespective of the relative wealth of the host Member State. However, it is recognised that the UK Government holds a longer term perspective that poor regions in richer Member States should not continue to qualify for EU aid. Equally, the Welsh Government position remains that support should continue to be made available to the regions with the weakest economic bases in Europe, irrespective of the wealth of the Member State in which they are located.

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[3] *ERDF Business Survey*, Old Bell 3, 2012

As demonstrated above, EU structural fund support is vitally important to Wales. In the absence of any assurance from the UK Government that alternative domestic funding mechanisms would become available to replace EU funding, the Welsh Government remains concerned that any change in the balance of competences should not render Wales incapable of benefitting from future rounds of EU assistance. In the absence of effective and robust UK regional mechanisms, able to provide similar levels of long term investment confidence to the European Commission's multi-year investment programmes, the Welsh Government sees structural fund support as vital to Wales' ongoing economic transition.

What is the right balance between strategic guidance at EU level, Member States management and control of the funds and regional or local identification of needs?

The Welsh Government welcomes the European Commission's acknowledgment of the devolved nature of government in the UK, whereby responsibility for some aspects of the management and control of funds rests at the regional level.

However, we believe there is potential for distinct regional challenges and needs to be better captured within the Commission's strategic guidance. For example, the Commission's Country Specific Recommendations (CSRs) do not always reflect sufficiently those regional differences, present within a Member State, that are often the cause of wide variations in economic performance. More regionally-nuanced CSRs would better reflect convergence objectives, assist the programme development process in less developed regions and reduce the potential for delays and tensions during the negotiation of regional investment programmes.

The European Commission's proposals for additional funding programmes late in the current planning round (e.g. the Youth Employment Initiative, the Fund for the Most Deprived and the SME Finance initiative) highlight further the tensions that can arise between EC, Member State and Regional strategic control of programmes. These recent initiatives, some of which are relatively small-scale in funding terms, are arguably ill-conceived as EC or Member State interventions and better suited to regional development, control and deployment.

A similar consideration attaches to how the Commission engages in setting ex-ante conditionalities for programmes. It would be preferable if the Commission, were to avoid linking these to the existence of Member State level strategies and policies. Instead, regional structural fund investment programmes should be required to align with the policies and priorities of the relevant regional authorities: the Devolved Administrations in the case of the UK. This consideration also applies to the setting of macro-economic conditions at Member State level given that devolved / regional governments may be unable to influence outcomes at the MS level. Further, it would helpful in the context of 'shared management' programmes, if programming, management, evaluation and controls were to pass to the appropriate tier of regional government.

How can the local or regional dimension best be reflected in EU policy-making?

The Welsh Government believes that it already has the ability to ensure that the needs of Wales are properly appreciated by EU policy makers, whether that is via UK Member state level engagement, through direct dialogue with the various EU institutions or via Welsh MEPs and the Committee for the Regions.

We believe that this is reflected, for example, in the decision by the European Commission to allow regional requirements to be captured and presented in a UK Partnership Agreement that respects the devolved nature of Government in the UK. In preparing its future ESI programmes, Wales has also welcomed the willingness of European Commission Directorates to engage in meaningful, informal, dialogue around our draft operational programmes. This early, iterative, engagement has helped the Wales European Funding Office, working closely with its partners and stakeholders in the identification of local needs, to shape Wales' future programmes in a manner that should ensure the earliest possible Commission agreement to their implementation.

How effective in your view is accountability and financial management of the funds outlined in the paper? What further steps if any might be taken to provide increased assurance for EU taxpayers?

An important consideration is how value for money, accountability and strategic benefits are evidenced as a result of EU supported investments. It is important that unreasonable administrative burdens are not placed on businesses wishing to access funding for business growth. Criteria surrounding access to EU structural funds needs to recognise priorities and strategies that are established at a regional level, and should not be determined by those set at the Member State level.

Whilst complex, current structures and processes for ensuring effective accountability and financial management of structural funds are considered robust if properly implemented. Wales has an established fund management capability that has ensured high levels of propriety and transparency, reflected in very low error rates in European Commission audits. However, as in any other realm of expenditure, the potential for inappropriate use of funds is ever present and much inevitably depends on the capacity of managing authorities and the adequacy of systems used to underpin delivery of EU funded programmes and projects.

Experience has shown that the development and retention of the skills base, present within Managing Authorities and within delivery partners, is a key requirement. Providing that Managing Authorities and delivery partners have properly resourced administrative arrangements in place, we see no need to take further steps to provide increased assurance to EU tax payers. We are however conscious that the extent to which this condition is met is variable across Member States and therefore the challenge remains to bring the poorest performers up to the standard of the best.

What are the main barriers to accessing EU funds? What might be done to overcome these?

Research suggests that it is the perceived complexity and administrative burden associated with EU funding that represent the key barriers to access. Complexity is caused by the numerous layers of Rules and Regulations which include several layers of EU Regulations (EU Financial Regulations, Cohesion legislation, Commission implementing regulations), Operational Programmes, national eligibility rules and horizontal EU compliance in areas such as sustainable development, state aid and public procurement. These layers can create anomalies, inconsistencies and misunderstandings that in turn can result in errors and loss of funds to projects and programmes.

This level of complexity and the specialist knowledge sometimes needed to apply for and implement an EU project can make it challenging for potential new project sponsors to apply for EU funds. This is particularly true of SMEs and the resultant lack of appetite from many private sector participants can be further compounded by EU rules that determine how projects that directly generate revenue must be treated.

In preparing for the next programme round, the Welsh Government has championed the need for greater harmonisation of EU regulations and we remain of the view that the most effective way of tackling problems associated with complexity is to eradicate issues at source if at all possible. However, despite some progress having been made against this objective, it is evident that complexity will continue to be a feature of future programmes. Much will therefore depend upon the ability of Managing Authorities to find ways to present funding opportunities to stakeholders in a more holistic way and to 'hide as much of the wiring as possible' whilst ensuring compliance with the requirements of the regulations. There are also opportunities to streamline and simplify associated processes, for example through harmonisation of audit approaches. The Welsh European Funding Office is well advanced with plans to achieve such improvements for the 2014-2020 structural fund programmes, as set out below.

The availability of the matched funding necessary to implement projects is also a key consideration and one that will continue to be a challenge for many project sponsors given the ongoing period of financial austerity. In Wales we have tried to be innovative in helping sponsors with this issue, for example though allowing the Third Sector to use volunteering time as a source of match funding. Additionally, the Welsh Government has maintained a Targeted Match Funding budget to ensure that good projects, that are unable to access the overall level of match funding required for their implementation, are able to proceed.

What practical steps could be taken to reduce the administrative burdens in getting funding from EU programmes?

European Commission proposals to integrate and simplify future ESI programmes have real potential to mitigate complexity concerns. In Wales, we are responding enthusiastically to the potential, created by the new EU regulations, to streamline and simplify the way in which potential project sponsors can access future ESI funds. This includes: the creation of a single online portal via which sponsors can submit project applications for funding via any of the ESI funds; no intermediary bodies; common Welsh eligibility rules, application process and selection criteria; common cross cutting themes; new operational teams focussed around thematic priorities; the adoption and deployment of simplified cost options; migration to a common (IT) programme management tool and better co-ordinated audit and evaluation arrangements. We have also established a single Programme Monitoring Committee to oversee the implementation of the ESI funds in Wales. Our programmes will also be underpinned by common evaluation and communication strategies. These improvements are all aimed at simplification and at improving the beneficiary experience. Over time, these improvements should help to modify the negative perceptions undoubtedly held by many would-be sponsors.

Additionally, we are targeting an improved approach to investment portfolio management through the development and adoption of an Economic Prioritisation Framework. This tool will help to provide clarity for project sponsors around future investment opportunities and assist alignment of EU funded interventions with wider investment strategies (in the public, private and third sectors) in pursuit of more integrated and concentrated programmes through which Wales can secure maximum added value from future investments.

What do you see as the major advantages or disadvantages of an EU-wide industrial policy approach?

Continued access to the Single Market is a central consideration for many companies and one that will continue to influence future investment decisions. The EU has an important role to play in providing a stable and clear framework in which business can succeed. Increased harmonisation of the structures relating to cohesion policy and funding should aim to create a level playing field in which business competes across the EU.

The principal advantage of EU engagement lies in the benefits associated with being part of the single market which allows business access to 500 million consumers. However, the impact of globalisation means that competition has never been fiercer and businesses must now compete not just in Europe but also globally. EU industrial policy aims to maximise the potential of the single market and supports the potential for business to break into new markets within the EU. Through that, businesses can develop their capacity in a way that helps them to be successful further afield. This is particularly important for a country like Wales which, in common with many other regions, has a business profile heavily dominated by SMEs: many focussed solely on the domestic UK market.

Access to the single market remains particularly important to Wales' manufacturing businesses, many of which owe their existence in Wales to successful FDI campaigns that linked investment opportunities in Wales to its status as a region within Europe. Continued access to the single market for those companies is a very serious ongoing consideration and one that will continue to influence their future investment decisions. Wales has already witnessed a significant out-flow of manufacturing operations as businesses relocate to lower cost production locations; some locating to other parts of the EU.

This reinforces the importance of upgrading Research, Development & Innovation investment within Wales' manufacturing base if we are to capitalise on opportunities linked to Wales' advanced manufacturing base. Wales is of course home to Airbus' wing manufacturing operations; with Airbus being an example of European collaboration on a scale capable of winning within world markets. Our aspiration must be to seek out similar collaborations.

Fulfilment of our economic potential is in part linked to the capacity of our businesses and academic institutions to identify, develop and ultimately compete within new markets. The opportunity for our businesses and institutions to benchmark against, learn from and form strategic alliances with their counterparts elsewhere in Europe is therefore important to the realisation of our economic vision. Wales therefore very much values the opportunity for engagement in Europe-wide Programmes, such as Horizon 2020, which provide exposure to such opportunities.

The European Commission, in advocating a more strategic and targeted approach to economic development investments, for example through the development and implementation of smart specialisation strategies, provides strategic challenge to individual Member States and Regions. Targeting investment at clear economic opportunities has become a distinct feature of devolved economic development policy in Wales and we therefore support the European Commission's approach. We also recognise that the rigour introduced into domestic policy making by the need to comply with European Commission requirements, such as the ex-ante conditions attaching to future programmes, can have a beneficial effect and can act as a catalyst for improvements that produce enhanced investment outcomes.

How can the EU approach and the strategies of individual member states be better aligned? Do you consider it appropriate that they are aligned?

In preparing for the 2014-2020 structural fund programme period, the degree of alignment between the economic development aspirations of the Welsh Government and the focus of the Europe 2020 strategy is striking. The Welsh Government very much supports the European Commission's endeavours to create conditions that can bring about smart, sustainable and inclusive growth. Consequently, there is considerable alignment between the EU2020 strategy and our draft structural fund operational programmes for the 2014-2020 period.

It is our view that, for the benefits of the single market to be maximised, it is important that there is strong alignment between EU, Member State and Regional strategies. It is equally important that those strategies reflect and respect the spatial dimension in which they are designed to operate and that there is sufficient flexibility to identify and respond to needs and challenges at whatever level they exist. It is our view that, notwithstanding the opportunities that exist to refine current strategic frameworks, current arrangements provide for sufficient alignment and nuancing of strategic interventions in a way that can reflect interests and needs at each spatial level.

However, alignment of economic strategies is of limited value if EU funding, in all its forms, is not properly identified, co-ordinated and deployed in pursuit of the implementation of those strategies. In Wales we have recognised that, if we are to optimise the value of EU funding, in driving improved leverage from future investments, a more holistic and co-ordinated approach to this task is required. The Welsh European Funding Office is therefore beginning to play a more central role in co-ordinating and linking strategically important project proposals to the most appropriate form of EU funding. As an example, we are keen to make better use of Horizon 2020 funding, alongside structural funding, to support different stages of strategic RD&I projects. We have also adopted a pioneering approach to the development and use of Financial Engineering Instruments through which to support investment priorities.

Where, in your opinion, have EU actions had a positive effect on UK industry? What leads you to this conclusion?

There have been many positive impacts upon industry arising from EU actions, though the nature of those impacts varies considerably by industry sector, region and type of intervention. It is beyond the scope of this response to articulate all of the positive effects that have accrued: the 'headline' benefits have already been set out in response to earlier review questions. Detailed evaluation provides a more granular appreciation of these benefits and this is perhaps best illustrated through an example. In Wales, the ESF funded 'Pro-Act' programme: co-designed with industry and launched in response to challenges wrought by the global economic downturn, is a good example of how EU funding has been used to tackle problems experienced by participant companies.

A detailed evaluation of this scheme confirmed that two thirds of participant companies had identified productivity improvements as a result of: re-organisation of the workplace (69%); improved monitoring of production lines or of product service and/or quality (69%); increased flexibility of the workforce (82%) and through enhanced levels of individual employee responsibility (79%).

Almost all companies (93%), reported that 'ProAct' support had produced a positive impact on staff morale. A substantial majority of participant companies highlighted examples of improved competitiveness resulting from training activities, with three quarters of those companies being able to identify cost savings through reduced wastage, an ability to bring more work in-house or to undertake internal training.

A similar proportion (76%) considered that ESF funded training had led to an improved ability to compete in their current markets and just under half in new markets – often as a result of senior management team having the confidence to delegate to newly trained subordinates while they focused on winning more orders.

The benefits highlighted above accrued to participant companies at a time when they were most needed: at the start of the economic recession. As a result, many people who might otherwise have found themselves redundant were able to retain their employment. The scheme is a good example of how EU funding facilitated a swift and meaningful response to an emerging crisis and illustrates the importance and value of targeted, multi-annual budgets in tackling problems of this kind.

In your view to what extent have the TENs supported or promoted cohesion, interconnection and interoperability of national networks and

access to networks across the EU? Has this been in the UK's national interest?

Although EU funding can only make a contribution to the costs of the TEN-T network, in terms of cohesion, interconnection and interoperability the TEN-T network has an important role to play in making places more connected and increasing accessibility.

With regard to TEN-T, the review which takes effect from 2014, refines the network into comprehensive and core routes; the core routes being strategic routes into which the comprehensive routes feed and which have to be completed/brought up to a particular standard by 2030.

Trade is an important component of economic growth and a strong, coherent European Transport Network is vital to securing these opportunities in allowing easier access to wider markets across the EU.